An Analysis of Key Success Factors of MSEs: a Comparative Study of Bahir Dar City and Bahir Dar Zuria (Rural) District, Ethiopia

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An Analysis of Key Success Factors of MSEs: a Comparative study of Bahir Dar City and Bahir Dar Zuria (Rural) District

M.A. Thesis

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DECLARATION

I, Asnake Asrat Abebe, hereby declare that the Dissertation entitled

AN ANALSIS OF KEY SUCCESS FACTORS OF MICRO AND SMALL ENTERPRISES: A COMPARATIVE STUDY OF BAHIR DAR CITY AND BAHIR DAR ZURIA (RURAL) DISTRICT.

Submitted by me for the partial fulfillment of the M.A. in Rural Development to Indira Gandhi National Open University, New Delhi is my own original work and has not been submitted earlier either to IGNOU or to any other institution for the fulfillment of the requirement for any course of study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any earlier work done by me or others.

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which he is submitting, is his genuine and original work .

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DEDICATION

This thesis is dedicated to my families, particularly my beloved wifeTiruwork Kubie, my children Agapie Asnake, Ebenezer Asnake and Semayawi Asnake, to Mihret Fikadu and Rachel Hagos and to my parents, particularily my mother Mersha Alemitu, my brother Abinigus Sintayehu and my Sister Abebech Asrat and my uncle Teshome W/Thadik and his families whose contributions were essential in all my career.

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ACRONYMS

ANRS	Ahmara National Regional State
BOFED	Bureau of Finance and Economy Development
CEO	Chief Executive Officer
HRM	Human Resource Management
MFI	Micro Finance Institution
MSE	Micro and Small Enterprise
MSEDA	Micro and Small Enterprises Development Agency.
SME	Small and Medium Enterprise
TEVT	Technical and Vocational Education

Abstract

In spite of their importance as social and economic functions, every business exposed to the risk of failure as well as to the possibility of success when operating in the business environment. The current study aims to answer the factors behind the success and challenges of micro and small enterprises(MSEs) in Bahir Dar Zuria (rural) district and Bahir Dar City.

From the total enterprises running in the two localities, 120 samples were taken (80 from Bahir Dar City and 40 from Bahir Dar Zuria district). Correlation analysis along with T-TEST and Z test was utilized to assess the authenticity of the data.

Except for enterprise operation years, age, the correlation between characteristics of enterprises and enterprise success were significant in Bahir Dar city whereas in Bahir Dar Zuria district they were insignificant for all characteristics of enterprise (< 0.05).

Of the eleven success factors treated in this study only family support was insignificantly (< 0.05) associated with success of MSEs in Bahir Dar city whereas in Bahir Dar Zuria district HRM, business plan and networking were insignificantly associated. The comparison of the correlation coefficient of each success factors with success of MSEs had shown no significant difference between Bahir Dar Zuria district and Bahir Dar city.

Of the fourteen challenges facing MSEs, lack of sufficient capital, unfavorable business laws, strong competition, and high cost/shortage of premise were the most pressing ones common to both localities.

Key words: success; success factors/contextual variables; entrepreneur characters; enterprise characters, MSEs; challenges

CHAPTER ONE

Introduction

1.1 Background

Bahir Dar city is located in north-western Ethiopia approximately 578 km north-northwest of Addis Ababa. It is the capital city of the Amhara Region. The city is part of Bahir Dar Special Zone that consists Meshenti, Tis Abay and Zege towns and eight rural kebeles (the smallest administrative division the country) in addition to the mega city (Bahir Dar) at the centre. Based upon the 2007 Population and Housing Census of Ethiopia, projected population size of Bahir Dar special zone as of July, 2012 was estimated to be 267,350. Of which 45,074(16.86%) of the inhabitants live in the rural kebeles (eight) of the Special Zone. Of the total urban population (222,276) of the special zone 191747 (86.3%) reside in Bahir Dar city whereas 5268, 21429 and 3832 reside in Meshenti, Tis Abay and Zegie towns respectively (BOFED, 2011).

Bahir Dar Zuria Wereda (national naming for a district) is a rural district that engulfs the immediate rural kebeles of the Bahir Dar city and has 32 rural kebeles (the smallest administrative division). The total projected population of Bahir Dar Zuria district (rural) was estimated to be 196,962 as of July 2012. All the inhabitants of the district are rural residents (BOFED, 2011).

Different countries use different parameters of one type or another depending on their socio economic growth level in general and that of business enterprises in particular to define small business. In connection with this, Weston and Copeland (1998, cited in Abor and Quartey, 2010) hold that definitions of size of enterprises suffer from a lack of universal applicability. In their view, this is because enterprises may be conceived of in varying terms. Size has been defined in different contexts, in terms of the number of employees, annual turnover, industry of enterprise, ownership of enterprise, and value of fixed assets. To cite an example, López and Aybar (2000, cited in, Abor and Quartey, 2010)) considered companies with sales below €15 million as small while the European Commission (EC) defined SMEs largely in terms of the number of employees. Abor and Quartey (2010), after reviewing various definitions used by developed and developing countries as well as by different authors, finalized their discussion by stating that there has not been a general consensus over what constitutes an SME. Definitions vary across industries and also across countries. Likewise, in Ethiopia, enterprises were defined formerly based on enterprise's paid up capital (SARDP III, 2006); whereas, currently on employees number and total asset excluding the value of building (FDRE, 2011).

Businesses, small or big, regardless of their size and type are ways by which common needs and wants are fulfilled. They combine resources_ financial, human, talents and material, and produce and/or distribute products that are needed for basic survival as well as for better comforts. All

the enterprises that we encounter on a daily basis to obtain what we need are all business enterprises. Besides, business as socio- economic activity provides an opportunity to live better by earning income by which individuals fulfill their requirements. Society and individuals highly depend on business enterprises for their survival, and hence influence individual as well as social life. Business enterprises are also social and institutional as they comprise of human groups working towards common goals (Ministry of Education, 2006).

Business enterprises in general and that of small businesses in particular serve important social as well as economic functions such as acting as a sources of income, employment, government revenue, accelerate economic growth, etc apart from providing profit and other benefits to owners. For instance, small business sector hires almost 9 out of 10 workers even in the slow United States economy of the 1990's (Corman and Lussier, 1996). From 1980 through 1986, 31.8 million jobs were created by start-ups, from 1986 through 1988, the economy created 6.17 million new jobs and small business contributed over 45% of these jobs.

Not only in the U.S.A. but also in other developed and developing nations of the world there are evidences that small businesses have been contributing a lot as sources of employment generation and income rise. To cite an example, small and medium level enterprises generate 78% of all jobs in Japan and 69% of all jobs in Korea. In India the unorganized sector represents 92% of India's employment. That is why in India the unorganized

sector including small and medium enterprises supposed to play a major role (SOCE, 2005).

About 85% of manufacturing employment of Ghana (Steel and Webster, 1991; Aryeetey, 2001, cited in Abor and Quartey, 2010) was provided by small enterprises while SMEs believed to contribute 70% to Ghana's GDP and account for about 92% of businesses in Ghana (Abor and Quartey, 2010). Small, medium and micro enterprises contribute between 52 and 57% to GDP and provide about 61% of employment in the Republic of South Africa (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry *et al.*, 2002, cited in Abor and Quartey, 2010).

Small and medium enterprises (SMEs) seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000, cited in Abor and Quartey, 2010). SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995, cited in Abor and Quartey, 2010). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued that small-scale production units can promote a more

equitable distribution of income than large firms. They also improve the efficiency of domestic markets, productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000, cited in Abor and Quartey, 2010).

Because of the pivotal role played by small businesses, they are getting-now-a-days more attention than ever. As small businesses have a paramount role in the national economy and in the livelihood of a society, their success and/or failure has a paramount importance. Therefore, it is convincing to assess the factors that influence the performance of small and micro business enterprises.

1.2 Statement of the Problem

Every business is exposed to risk of failure as well as the possibility of success when operating in the business environment. Many enterprises fail every year while so many new ventures created as well. Of those operating, some grow rapidly, while others grow slowly. Businesses should be competitive in their day- to- day operation in order to be successful. There is no magic solution that guarantees a business success, as different factors influence it. Several studies have been conducted to identify factors influencing the performance of businesses or/and operators. To cite an example, a study conducted by Wijewardena and Zoysa (2005, cited in Al-Mahrouq, 2010) shows that there are a set of six separately identifiable factors that have positive and significant impact on the success of the

sample firms. These factors are: customer orientation, product quality, efficient management, supportive environment, capital accessibility and marketing strategy.

Generally, factors determining the success of business can be grouped into external and internal factors. The internal factors are those factors which can be under the control of the enterprise while the external factors are those that are outside of enterprise's management i.e. factors beyond the control of the business. The efficiency of the business in exploiting external opportunities and maximizing its internal qualities; and the safety and well designed approaches and decisions taken to minimize/control the external treats and internal weaknesses influence the fate of the business. In light with internal and external factors, the United States national annual reports under the Bankruptcy Act stated that internal factors relating to the quality of management are reported as major or contributing causes of failure at least as twice often as factors external to the firm (Williams, 1986 & McMahon, et. al, 1993, cited in Mason, 2010).

Understanding the reasons of business successes would help in promoting enterprises. That is why so many studies have been conducted to identify those factors that influence the performance of business enterprises worldwide. However, most studies on business success factors or performance determinants are conducted either abroad or, if locally conducted, they are limited to urban areas. Studies on rural enterprises are rarely reported both at national and/or international level.

Thus, the current study is intended to fill this research gap by assessing factors that determine the success of both rural and urban enterprises.

Therefore, the study tries to address the following basic research questions;

- ✓ What are the major characteristics of operators and MSEs running within Bahir Dar City and Bahir Dar Zuria District?
- ✓ What kind of relationship does exist between entrepreneurs/managers characteristics (sex, age, education and experience) and perceived enterprise success?
- ✓ What are the influences of operational factors (size, length of operation, legality, capital source and premise ownership) on perceived enterprise success?
- ✓ What are the major challenges/constraints facing MSEs existing within Bahir Dar City and the surrounding rural areas?
- ✓ What are the major perceived factors/contextual variables that influence the success of MSEs operating within Bahir Dar City and the surrounding rural areas? Is there any similarity or difference among enterprises operating at the two localities in terms of the perceived success?

1.3 Objectives of the Study

The general objective of this study was to examine and compare the major success factors and identify challenges facing micro and small enterprises

(MSEs) operating within Bahir Dar City (urban centre) and Bahir Dar Zuria District (rural district).

Accordingly, the specific objectives of the study were to:

- ✓ Identify the major characteristics of MSEs and their operators in Bahir Dar city and Bahir Dar Zuria (rural) district;
- ✓ Examine the relationship between MSEs operators and types of business in the success of their enterprises;
- ✓ Indicate the major challenges of MSEs operation in Bahir Dar city and Bahir Dar Zuria (rural) district.
- ✓ Identify and prioritize the major factors/contextual variables associated with perceived success level of MSEs in Bahir Dar city and Bahir Dar Zuria (rural) district;
- ✓ Compare the relative importance of major success factors/contextual variables associated with MSEs success between Bahir Dar city and Bahir Dar Zuria (rural) district; and
- ✓ Make recommendations on intervention measures that can help to improve the performance and development of MSEs operating within Bahir Dar city and the surrounding rural area.

1.4 Significance of the Study

- ✓ It could help to differentiate factors that influence the performance of rural and urban based enterprises;

- ✓ It could pinpoint the prevailing challenges that may affect the operation of MSEs and provide specific remedial that could address problems;
- ✓ It may serve as preliminary source of information for business operators, supportive institutions and others in the study area ; and
- ✓ It could serve as a springboard for further similar studies in the area by other researchers.

1.5. Scope of the Study/Delimitation

Though the external business environment has its own influence on success/failure of business, in this study it is the internal system of the enterprise that has been given due attention. Though it appears that there is a reverse relationship between factors of success and factors of failure, the study does not independently treat factors leading to business failure. The geographical limit of the study area is Bahir Dar City and the surrounding rural district (Bhir Dar Zuria District). Bahr Dar City, the capital city of the Amhara Region, has 9 urban kebeles while Bahir Dar Zuria district (a rural district) comprises 32 rural kebeles.

1.6 Operationalization of terms

Enterprise: It can be defined as a socio-economic activity that satisfies human needs and wants by providing goods and services for profit to maintain and improve quality of life (Ministry of Education, 2006). Any activity which is conducted for the purpose generating profit is called

business. Business, enterprise and business enterprise are words/ phrases that alternatively used with no change in meaning at least in this study.

The definitions used to categorize enterprises in this study are based on the current National Micro and Small Enterprises Development Strategy (FDRE, 2011), and the subsequent Regional Regulation No. 87/2011(ANRS, 2011).

Accordingly;

Micro enterprises: are enterprises which employ at least 5 people, including the owner and members of his/her family, and having a total asset (excluding the value of building):

- ✓ The value of which is not more than 50,000 birr/$3000 US Dollar/ where the enterprise engaged in service sector; and
- ✓ The value of which is not more than 100,000 birr/$6000 US Dollar/ for the enterprise engaged in the industrial sector.

Small enterprises: are enterprises which employ 6-30 people, including the owner and members of his/her family, and having a total asset (excluding the value of building):

- ✓ The value of which is more than 50,000 birr/$3,000 US Dollar/ but not exceeding 500,000 birr/ $ 30,000 US Dollar where the enterprise engaged in service sector; and

- ✓ The value of which is more than 100,000 birr/$6,000 US Dollar/ / but not exceeding 1,500,000 birr/ $ 90,000 US Dollar for the enterprise engaged in the industrial sector.

Success: Business enterprise success is the achievement of the enterprise's objectives and the associated reward gained by the owner of an enterprise. The reward may be associated with psychological satisfaction, experience gained, financial benefit, pride, etc. or combination of these and others depending on the intention/goal of the owner and/or the enterprise.

Success factors: Are reasons contributing to the success of an enterprise. These factors could be associated with the nature of the enterprise, character of the entrepreneur/manager or other contextual variables/business strategies or any other factor contributing to the success of an enterprise.

Success measures: The type of measure used in this study is primarily concerned with the performance of firms relative to their own expectations or assessments relative to the competitors. It is the success of the enterprise as perceived by the business owner/manager.

Urban center: The definition for an urban center is based on the Amhara National Regional State's the Revised Cities' Organizational Category Determination and Establishment. Regulation No. 65/2009. Accordingly, urban centers of the region are categorized into three levels namely city administration level city, municipality city and emerging town. A given

agglomeration of people to be considered/qualified as a town it has to score 6.857% out of the following evaluation criteria; minimum of 2000 population size, annual revenue of 25,000 (excluding land lease), 20% 0f residents occupation of non-agricultural type and strategic importance whose share is 40%, 30%, 5% and 25%, respectively.

CHAPTER TWO

Review Literature

2.1. Definition of concepts

The word success has several dimensions. Of which social, economic and political aspects are some of them. The Dictionary of Business (Collin, 1994) defines success as doing something well and /or as doing what was intended. Whereas the Oxford Advanced Learners Dictionary of Current English (Lowie, 1989) defines success as the achievement of a desired end, or fame, wealth or social position. In an attempt to achieve such objectives and seeking for its rewards different individuals starts and/or manages an enterprise. Each enterprise has its own set objectives for which it comes into existence. The reward for the achievement of such objectives may be gaining of fame/social status, or prosperity/wealth or any other thing. Thus business enterprise success can be considered as the achievement of the enterprise's objectives and the associated reward gained by the owner of an enterprise though entrepreneurial success can be defined in many different ways. The reward may be associated with psychological satisfaction, experience gained, financial benefit, proud, etc. or combination of these and others depending on the intention/goal of the owner and/or the enterprise.

Comparison of the levels of success achieved by enterprise and/or owner is not an easy task. The difficulty arises when one tries to measure the achievement or performance of such variously defined success indicators. One may use some quantified performance indicators like financial performance, awards won or intangible measures like happiness, satisfaction etc. that may be difficult to quantify. Business success or performance have been viewed in the researches from different perspectives and have been measured through different measures e.g. long term vs. short term and accounting vs. strategic perspectives, subjective vs. objective measures and financial vs.non financial. The subjective measures are primarily concerned with the performance of firms relative to their own expectations or assessments (Pelham and Wilson, 1996, cited in Dornberger, Nabi and Linh, 2010) or relative to the competitors (Verhage and Waarts, 1988; Golden, 1992, cited in Dornberger, *et al.,* 2010). Objective measures are based on the absolute performance measure (Chakravarthy, 1986; Cronin and Page, 1988, cited in Dornberger, , *et al.,* 2010,), which include mainly the measurement of the financial performance indicators generated through accounting process of the firm e.g. return on assets (ROA), return on equity (ROE), return on investments (ROI), growth in sales, and growth in profit, etc. The absolute measures seem finance specific and accurately measurable/quantified if there is data availability while the subjective measures are more of general (financial as well as non-financial) and based on individual's perception. The research conducted on small business owners-managers in Western Australia by Walker and

Brown (2004) shows that both financial and non-financial lifestyle criteria are used to judge business success, with the latter being more important. Personal satisfaction and achievements, pride in the job and a flexible lifestyle are generally valued higher than wealth creation. Personal factors such as age and also business characteristics influenced perception on the importance of these factors.

The current study will use the subjective measures of business performance, that based on personal assessment of firms' owners/managers that may be financial or non financial, considering the intention of the paper, identifying success factors of enterprises, and resources availability.

2.2. Success factors

Small and medium enterprises considered as a vital component of the socio-economic development of both developed and developing countries, representing more than 90 percent of all firms in the world (Wijewardena and Zoysa, 2005, cited in Al-Mahrouq, 2010). Small business sector hires almost 9 out of 10 workers even in the slow United States economy of the 1990's (Corman and Lussier, 1996). Small and medium level enterprises generate 78% of all jobs in Japan and 69% of all jobs in Korea. In India the unorganized sector represents 92% of India's employment. That is why in India the unorganized sector including small and medium enterprises supposed to play a major role (SOCE, 2005). About 85% of manufacturing

employment of Ghana (Steel and Webster, 1991; Aryeetey, 2001, cited in Abor and Quartey, 2010) was provided by small enterprises while SMEs believed to contribute 70% to Ghana's GDP and account for about 92% of businesses in Ghana (Abor and Quartey, 2010). Small, medium and micro enterprises contribute between 52 and 57% to GDP and provide about 61% of employment in the Republic of South Africa (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry *et al.*, 2002, cited in Abor and Quartey, 2010).

So, it is important to identify factors that influence the performance of small and micro business enterprises whose findings are useful for development planners, individual entrepreneurs, non government organizations supporting entrepreneurship development, etc.

Every business is exposed to risk of failure as well as to the possibility of success when operating in the business environment. Many enterprises fail every year while so many new ventures created as well. Of those operating, some grow rapidly, while others grow slowly. In line with this a study conducted by Acquah and Mosimanegape (2007) with a purpose of identifying factors contributing to the performance of small business enterprises in Botswana and environs revealed that Only about 20 percent of the sample businesses included in the survey indicated that their businesses were successful, 16 per cent failing and the rest (about two third) were hovering between success and failure.

Wijewardena and Zoysa (2005, cited in Al-Mahrouq, 2010) attempted to analyze the main factors that are perceived to have contributed to the progress or success of SMEs. Their analysis was based on the perceptions of owner/managers who responded to a questionnaire survey conducted on a sample of manufacturing enterprises in Sri Lanka. The study result showed that there were a set of six separately identifiable factors that had positive and significant impact on the success of the sample firms. These factors are: customer orientation, product quality, efficient management, supportive environment, capital accessibility and marketing strategy.

As to the study conducted by Acquah and Mosimanegape (2007) businesses that were successful indicated that they had enough customers and they could afford to sell at lower prices to attract customers. Some of the successful businesses felt that they were still growing and they had good business on weekends. Businesses that considered themselves to be failing indicated that some customers bought on credit and did not pay on time; they faced competition especially from the Chinese people buy their stock but there is lack of financial management, there was low level of customers especially during weekends, they were not in the business full time, and some were currently making a closing-down sale. Some of the businesses that were hovering between success and failure indicated that people did not buy in large volumes these days; sometimes the businesses had profits and at other times they made losses; they had insufficient sales; and they took a long time to sell all the stock.

A comparative Study by Ghosh and Kwan (1996) among the Singapore/Malaysia and Australia/New Zealand SMEs reported that factors contributing to successful SMEs were closely tied to having a good customer relationship, effective management and marketing while constraints to success were found mainly in the high cost of doing business and competition.

According to Duncan (1991, cited in Ghosh and Kwan, 1996) a key ingredient for business success is the skills of an entrepreneur who can identify a market niche and develop a venture for that niche. Likewise a study by Steiner, Michael and Solem (1988, cited in Ghosh and Kwan, 1996), also suggested that developing a competitive advantage through specialization in products, markets or customers was a key factor in the success of small manufacturing firms. Prescott (1986, cited in Ghosh and Kwan, 1996) also reported that developing a specialty or a niche could be vitally important for small business.

A study conducted by Indarti and Langenberg, (2010) analyzed that capital access, marketing, and technology were determinants of business success, while legality was burden of business success among the small and medium businesses operating in Indonesia.

In Taiwan, Lin (1998, cited in Al-Mahrouq, 2010**)** within the framework of structure, technology and people a case survey was conducted to reveal the success factors of 43 SMEs in Taiwan. This study was adopted Leavitt's

model which states that an organization can be changed by altering its structure, technology and people. Major findings include that the people related issues are more emphasized than those of structure and technology in the SMEs success. Also, she found that the business founders management skills, customer focus and resources creations are more important than their technical skills. In addition, the soft attitudes, skills and operating methods were more important in small and medium enterprises success than for hard equipment.

According to Schilit (1986, cited in Ghosh and Kwan, 1996), some guidelines to a successful business venture were amongst other things, to develop a common value system, ensure adequate capitalization (by using debt and equity financing), develop a formal business plan, monitor the business environment continually, retain a marketing orientation, encourage entrepreneurial thinking throughout the company and not to be afraid to delegate authority.

Rose, Kumar and Yen, (2006, cited in Al-Mahrouq, 2010**)** identified the success factors of founding entrepreneurs in Malaysia contributing to their companies' venture growth. They specifically examined the relationship between venture growth and the following factors; namely personal initiative, human capital, areas of focus on competency and government support programs. The study found that the entrepreneurs educational level, working experience and weather their parents own business have a positive relationship with their success.

A research done by Duchesneau and Gartner (1990, cited in Ghosh and Kwan, 1996) lead entrepreneurs in successful firms were shown more likely to have been raised by entrepreneurial parents, have had broader business and start-up experiences, and believed that they had less control of their success in business.

Bruerderl and Preisendoerfer (1998, cited in Rose, Kumar and Yen, 2006) found in their research that social network support is related to both survival and growth of newly founded companies. Other studies (Pollock, 1989 and Barkham, 1989 (unpublished PhD thesis), cited in Ghosh and Kwan, 2010) identified factors such as skill, attitudes and the gathering of market information as factors contributing to the success of an enterprise.

2.3. Challenges of MSEs

Businesses face variety of constraints that challenges their operation especially from the external business environment. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2002, cited in Abor and Quartey, 2010). Lack of credit has been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko & Dondo, 1992; Kiiru, 1991 cited in Bowen M., *et al., 2009*). Lack of capital, lack of skills, and problems in business development are of problems faced by Indonesian SMEs (Kementerian KUKM & BPS, 2004,

Cited in Indarti and Langenberg, 2010). This is also the case for Vietnamese SMEs. Internal limitations, including capital shortage, old equipment and outdated technology have hindered the development of SMEs (Swierczek & Ha, 2003, Cited in Indarti and Langenberg, 2010). Lack of adequate financial resources places significant constraints on SME development. Cook and Nixson (2000, cited in Abor and Quartey, 2010) observe that SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker *et al.*, 1995, cited in Abor and Quartey, 2010).

The lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in Africa, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SMEs' efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs. Besides, despite the numerous institutions providing training and advisory services, there is still a skills gap in the SME sector as a whole (Kayanula and Quartey, 2000, cited in Abor and Quartey).

Howard (1989, cited in Ghosh and Kwan, 1996) reported that more CEOs perceived problems facing their businesses to be increasing. The biggest concerns were difficulty in finding qualified, motivated employees, anxiety about a cash-flow squeeze, keeping cost under control, too much government regulation and increased competition. In his research study in assessing the most important problem in running a business, Liebtag (1986, cited in Ghosh and Kwan, 1996) found that 41 per cent of the respondents mentioned difficulties with employees or partners. Recurring problems were noted with recruiting and motivating employees and many owners ran their businesses without a strategic plan. Steck (1985, cited in Ghosh and Kwan, 1996) found that common errors start-up businesses are likely to make represent failures to take advantage of marketplace success.

Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in some sense more fundamental to running a small enterprise than is finance (Green *et al.,* 2002, cited in Abor and Quartey, 2010).

A study conducted among Small and Micro Enterprises in Nairobi-Kenya **(**Bowen M., *et al., 2009) indicated* Competition, insecurity, debt collection, lack of working capital and power interruptions were the top five challenges facing businesses in Nairobi. Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo & Mutiso, 1999, cited in Michael B., *et al., 2009*).

As to another study (Mead & Liedholm, 1998; Swierczek & Ha, 2003, Cited in Indarti and Langenberg, 2010) the main problem for SMEs in developing countries is not their small size but their isolation, which hinders access to markets as well as to information, finance and institutional support. Dessai (2000) when discussing the importance of enterprise location, he stated that location determines the ultimate success or failure of small scale unit. He also forwarded management deficiency, inadequate and timely available, out dated technology, and marketing problems as the most prominent reasons for their sickness.

Among the Singapore entrepreneurs, the four most important problem areas were shortage of capital, obtaining sources of financing, strong competition, and lack of skilled/ trained workers while marketing, shortage of capital, obtaining sources of financing, and understanding of financial issues were the four most important problems among Australian entrepreneurs (Ghosh and Kwan, 1996).

The situation of the national business enterprises was not different from those discussed above. To cite a few of them, Hailay (2003, 41) while discussing small business problems in Ethiopia he listed out financial, production and marketing are the major handicaps to small business development. He emphasized the problem of finance stating that " lack of adequate finance and credit has always been the major problem of Ethiopian enterprises." A study conducted by Mersha (2007) among Bahir

Dar city entrepreneurs and small business persons indicated that the four major challenges of running businesses are problems related to finance, marketing, managerial deficiency, and personnel in order of importance.

2.4. Conceptual framework

Previous studies investigating factors influencing small business performance have employed different approaches. Some focused on the entrepreneur personality traits (Rauch and Frese, 2007), others on social aspect (Fairlie and Robb, 2008) while most used comprehensive approach such as Cragg and King (1988, cited in Gadenne, 1998), Storey (1994, cited in Indarti and Langenberg, 2010), etc. For its convenience and simplicity the researcher of this study selected the framework introduced by Storey (1994, cited in Indarti and Langenberg, 2010) as adapted and used by Indarti and Langenberg (2010). The framework consists three components that influence the performance of small businesses namely entrepreneur character, enterprise character and the type of strategy associated with growth. The third component, business strategy, is adopted as contextual variables. From the discussion on literature, the researcher identified 10 contextual variables and one variable observed important during the pilot survey to be examined in this study. These variables are greatly associated with internal strategies of a business which are believed to play a significant role in influencing the performance of a business.

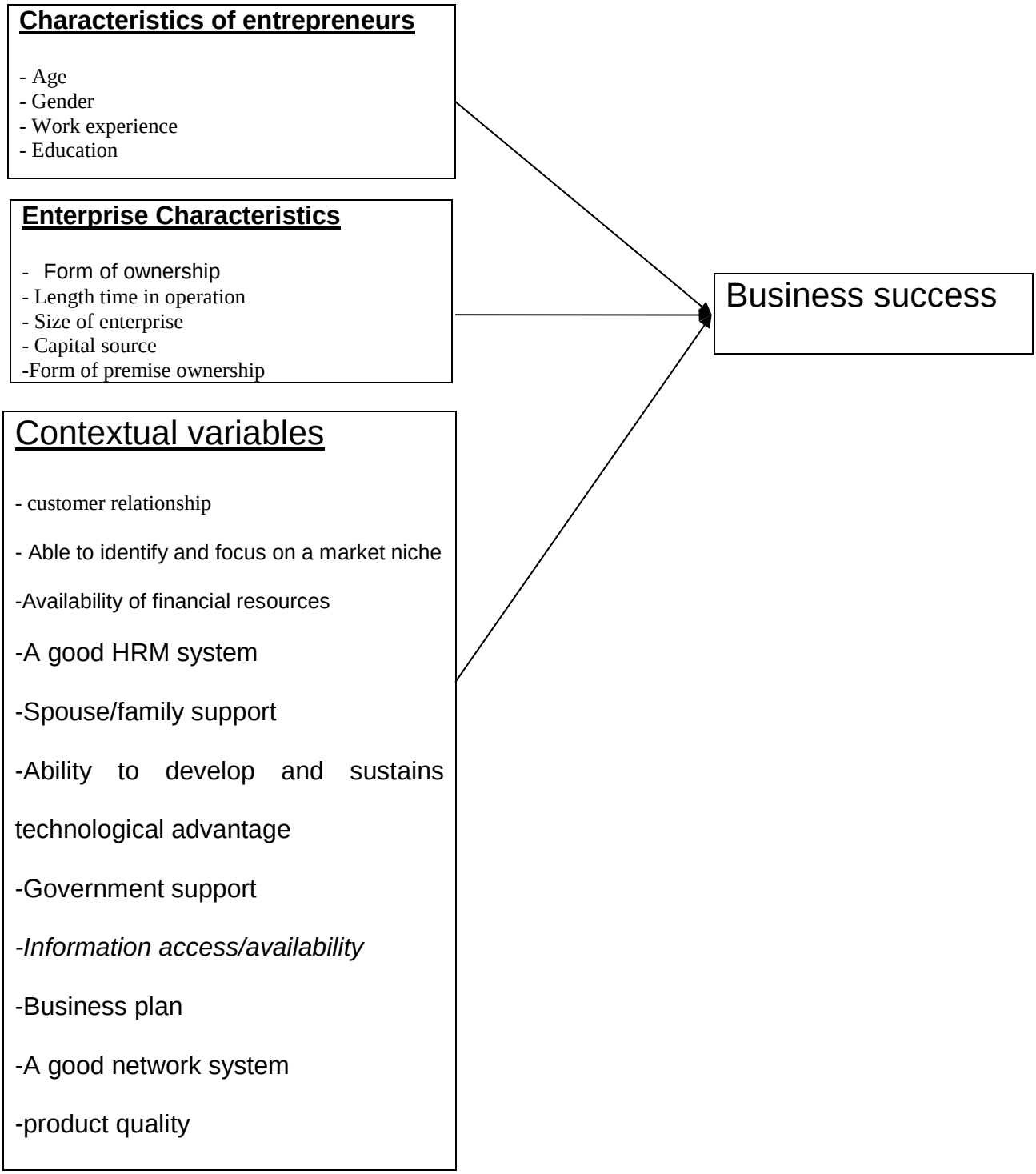

Fig2.1. Research framework

The other two components of the study model, entrepreneur and enterprise characteristics are precisely presented in the subsequent part. Few of previous studies on enterprise and entrepreneur characteristics and business success are presented as follows.

Entrepreneur/manager characteristics

Age: Individuals learn not only from formal education but also from their walks of life. That is why different studies indicated that there is an association between individual age and business success. Reynolds et al. (2000, cited in Indarti and Langenberg, 2010) found that individuals aged 25-44 years were the most entrepreneurially active. A study conducted by Anteneh (2011) among MSEs owners in Addis Ababa showed that individuals with the age of 30 to 45 experienced higher average capital growth than those enterprises owned by individuals with age 29 and below and those individuals with age above 45 years old. Praag (2003, cited in Tiruneh, 2011), in his study indicated that younger small business starters have a lower success and survival probabilities than older starters. Conversely Indarti and Langenberg (2010) found that there was no significant relation between business success and individual age.

Gender: Kolvereid (1996, cited in Indarti and Langenberg, 2010) found that males had significantly higher entrepreneurial intentions than females where as Indatri and Langenberg (2010) found that there was no differences in terms of business success between female and male entrepreneurs.

Education: Thapa, Goswami and Joshi (2008, cited in Tiruneh, 2011) in their study found that education of owners has positive effect on entrepreneurial and small business success. A study conducted by Bowen et.al,(2009) to determine if there was a relationship between business performance and level of education, did not provide conclusive results. However, they further examined whether there was a relationship between business performance and level of training in the line of business indicated that there was a negative relationship between lack of training and business performance.

Work experience: As to the study by Indarti and Langenberg (2010) neither previous employment nor industry experience had any significant effect on determining business success. Conversely, Kolvereid (1996, cited in Indarti and Langenberg, 2010.) found that individuals with prior entrepreneurial experience had significantly higher entrepreneurial intentions than those without such experience. Conversely Mazarrol et. al. (1999, cited in and Langenberg, 2010) found that respondents with previous government employment experience were less likely to be successful founders of small businesses.

Enterprise characteristics

Form of ownership: A study conducted by Tiruneh (2011), supports the fact that enterprises owned by more than one owner perform better in total capital growth compared to those possessed by only one owner.

Length time in operation: A conducted by Indarti and Langenberg (2010) indicated that there was no significant relationship between time length in operation and business success. Kristiansen, Furuholt, & Wahid (2003, cited in Indarti and Langenberg, 2010) found that length time in operation was significantly linked to business success. Longenecker *et al.,* (2006, cited in Bowen et. al, 2009) stated that entrepreneurial burnout may lead to entrepreneurs losing interest in one business venture and instead look out for other opportunities. As there are numerous challenges facing new start-ups, it seems that almost all researchers believed that there is high failure risk in the first year and declines later on. However, as reported by Bowen et al. (2009) most businesses that are more than 5 years and above consider their businesses as being in the process of failing that may associated with entrepreneurial burnout. Corman and Lussier (1996) indicated that small business failure rates as 24.1%, 40.1%, and 91.7% by the end of the 1^{st}, 5^{th} and 10^{th} year of operation after their initial start up. It can be argued that failure rate is very high at the first year and starts to decline up to the fifth year and again increases later on.

Size of enterprise: Most studies indicate that enterprise size (usually employment number and startup capital) significantly linked to better business performance. Larger enterprises were found to have a higher level of success McMahon (2001cited in). Few studies however indicated that there was no significant relationship between business success and size (Indarti and Langenberg, 2010)

Capital source: A study conducted by Indarti and Langenberg (2010) found that entrepreneur who took advantage of family investment was significantly (p<0.05) more successful than those with other sources of capital.

CHAPTER THREE

Methodology of the study

3.1. Design of the Study

The researcher used survey research design which is convenient for examining particular practices and useful in collecting valuable data in a short period of time. It provides an opportunity to utilize numeric descriptive statistics such as percentiles, averages, etc.

3.2. Data collection methods

While conducting the study, both primary and secondary data types were used. Secondary data were obtained from books, electronic documents, websites, journals, published and unpublished documents, etc, sources. Whereas primary data sources extensively used while data relating to enterprises and their operators gathered from enterprise owners or managers through interview.

3.2.1 Data gathering instruments

Due to lack of information about MSEs in general and its performance in particular, in order to follow-up the factors that affect their successes, the only feasible source of such information are from the entrepreneurs themselves (Lin, 1998, Wijewardena and Zoysa, 2005 and Poisson, et.al

2002, cited in AL-Mahrouq, 2010). Semi-structured questionnaires were used to collect the primary data about enterprises and enterprise operators characteristics, and other issues related to enterprise's operation. In filling the questionnaire, personal interviews were deployed. In case such an interview was impossible practically, "drop and collect" procedure was employed especially in Bahir Dar city so as to get a high response rate. Data collection was administered by the researcher himself assisted by one trained/oriented data collector. A few days before the collection of the actual data, pilot survey was conducted. The actual data collection was conducted from august 22, 2012 to september1, 2012.

The questionnaires consist of four parts. The first part comprises questions on demographic and characteristics information of the respondents as well as the enterprise. The variables were sex, age, maximum education attained and work experience of the MSEs operators; and finance sources, size, length in operation, form of ownership/legality and form of premise ownership of the micro and small enterprises.

In the second part, respondents were asked to rate their enterprise's success level on five-point Likert scale, based on their own perception varying from very unsuccessful-1 to very successful-5. Similarly respondents also provided with eleven factors believed to determine or influence business success to rate based on each factors importance/role to the performance of their enterprises. The factors are a good customer relationship, able to identify and focus on a market niche, availability of financial resources, a good HRM system, family/spouse support, ability to

develop and sustain technological advantage, government support, *Information access,* business plan, a good network system and product quality.

The third part consists of challenges believed to affect the functioning of enterprises in the study area. Respondents were provided with fourteen potential challenges from which to select only five of the most pressing ones which they encountered when operating in the business environment. The challenges from which to select are competition, insecurity, debt collection, lack of capital, input cost, product marketing, unfavourable business laws, high cost/absence of premises, understanding financial issues, lack of management skills, understanding industry trends, inadequate manpower, isolation/infrastructure inaccessibility and technology gap.

The final part has open ended questions where business operators were asked to give their comments on factors influencing business success/part three/ as well as challenges/part four/ of running businesses on the study as a whole.

To ensure easily understandable nature of the instruments and to avoid errors that would have been possibly entered the data collection; a pilot survey was conducted a few days before the actual data collection. Editorial works and inclusion of new variables such as premise ownership and product quality were made after the pilot survey.

3.2.2. Population, Sample and Sampling Techniques

The target population of the study was those MSEs operating in Bahir Dar City and Bahir Dar Zuria district. Based on the information obtained from Bahir Dar City Administration Trade and Transport Office, the number of licensed enterprises operating in the city as of July 7/2012 was 15,140 while there were 517 in Bahir Dar Zuria district (rural) based on the information obtained from the district's Trade and Transport Office. Thus, there were 15,657 licensed enterprises operating in the study area as of July 7/2012. This number includes medium and large enterprises which were beyond the scope of the study. The exact number of MSEs was not known in the region. However, the expertise suggested that the lion's share of the enterprises would be that of micro and small enterprises. Of the total enterprises running in the study area, 120 samples were taken as sample size, 80 from Bahir Dar city and 40 from Bahir Dar Zuria district (rural). Samples were selected on accidental bases in both localities. The rural villages from where samples taken, however, were either those accessible by transport routes or those which were close to the city.

3.3. Data Organization and Analysis method

Collected data was edited, coded and entered into computer. The collected data was organized and analyzed using Microsoft excels in line with the basic questions of the study and/or the research objectives. To address the

research objectives and /or the research questions, correlation analysis was intensively utilized. T-TEST was used to test the significance of independent samples correlation coefficients. Moreover, Z-TEST was also used for comparing correlation coefficients of success factors and success correlation coefficients of MSEs between Bahir Dar City and Bahir Dar Zuria district (rural) group of samples. As much as possible efforts were made to use 5% and 1% level of significances when conducting significance tests of T-TEST and Z-TEST. The characteristic of the entrepreneur/managers and their enterprise was examined if they had any relationship with the success of MSEs as different studies indicate different results. Whereas the contextual variables/success factors/ are tested to examine their role/importance for the success of MSEs.

CHAPTER FOUR

RESULTS AND DISCUSSION

Among the one hundred and twenty micro and small enterprises (MSEs) contacted both at Bahir-Dar City (urban centre) and Bahir-Dar Zuria Woreda (the surrounding rural district) Bahir-Dar City accounted 66.7% (80) and the balance (33.3%-40) by Bahir-Dar Zuria district.

The enterprises in the two areas were engaged in manufacturing (40%), in commerce (39%) while the rest (21%) in catering services. In looking at the profile of each group, of the total 80 MSEs contacted in Bahir-Dar city 46% were engaged in manufacturing, 39% in trading and the remaining 15% to service provision sectors. However, out of the total 40 MSEs contacted in Bhir-Dar Zurial district, only 27.5% were engaged in manufacturing, 40% in trading and the rest 32.5% in service provision (Table 1).

The number of years businesses in operation in an environment in Bahir Dar city was dominated by those MSEs whose operation age ranges between 1and 3 years (45%) followed by new starters of less a year (32.5%) and by those whose operation age ranges between 4 and 6 years (16.25%). In Bahir Dar Zuria district (rural) in terms of enterprise age most of the enterprises (40%) were new starters followed by those whose

operation age ranges between 4 and 6 years (27.5%) and by those operating between 1and 3 years (20%)(Table 1).

Legally most of the MSEs operating in Bahir Dar city were characterized by 65% sole proprietary, 27.5 % partnership and 7.5% cooperatives. In Bahir Dar Zuria district, however, 95% of MSEs were sole proprietary whereas only 5% were cooperatives (Table 1).

In Bahir Dar city the major sources of finance for MSEs investment were personal saving (35%), family investment (25%), MFI (17.5%), joint partnership with friends (12.5%), bank loan (6%) and other sources (4%). However, in Bahir Dar Zuria district the most important sources were 47.5% personal saving, 32.5% family investment, 7.5% MFI, and 7.5% joint partnership with friends and 5% from others, implying the fact that the lion's share was obtained from personal saving and family support (Table 1).

In size of employees in Bahir Dar city (including the owner) 83% of MSEs had 5 or below employees, 11 % had 6-10 and 5% with 11-20 employees. In Bahir Dar Zuria district, however, almost all of the MSEs (92.5%) had employees 5 or below (Table 1).

Similarly in terms of capital size (total asset) 80% of Bahir Dar Zuria district entrepreneurs had 50,000 and below while 81% in Bahir Dar city belong to this category (Table 1). Based on the classification of the current National Micro and Small Enterprises Development Strategy (FDRE, 2011), and the subsequent Regional Regulation No. 87/2011(ANRS, 2011), that used employment number and total asset, except the 8 MSEs (7%) which

belonged to small enterprise type, all others belonged to micro enterprise category. Among the small ones 5 were in manufacturing business, 2 in trade and the remaining were in service sector (Table 1).

About two third (64 %) of MSEs in Bahir Dar city and 82.5% in Bahir Dar Zuria district were operated by male entrepreneurs. The involvement of female business operators was relatively higher among the urban enterprises than the rural. This might be associated with cultural bottlenecks prevailing in the rural areas than in urban settings (Table 1).

The study on educational level of MSE owners/managers had shown variable results. The majority (46%) of Bahir Dar city business operators/owners had high school level of education and 25% had elementary and 13% technical and had vocational education (TEVT). In the surrounding rural district, however, 45% had elementary, 30% high school, and 17.5% were illiterate. The education level of the urban entrepreneurs is better than the rural ones (Table 1).

In Bahir Dar city, 59% MSE owners/managers had prior business related experience before starting the current business whereas in Bahir Dar Zuria rural the figure was 67.5% (Table 1).

The lion's share (62.5%) of business owners/managers age was ranging between 21 and 30 years, followed by those with ages between 31 and 40 years (22.5%) in Bahir Dar city. Whereas in the surrounding rural district, 62.5% were between 21-30 years old, followed by age ranging between 31 and 40 years (17.5%) (Table1).

The other data gathered on MSEs was premise ownership where entrepreneurs operate. In Bahir Dar, city 45% of MSE operated in rental premise, 24% governmental and 21% personal while in In Bahir Dar Zuria district (rural) 65% in own property, 30% rental and 5% family possessed premises(Table1).

Table 1. Profiles of entrepreneurs and enterprises

Entrepreneur character	**Rural**	**Urban**	**Total**	**Rural**	**Urban**	**Total**
Sex	**Frequency**			**Percentage**		
Male	33	51	84	82.5	64	70
Female	7	29	36	17.5	36	30
Total	40	80	120	100	100	100
Education						
Illiterate	7	1	8	17.5	1	7
Elementary	18	20	38	45	25	32
High school	12	37	49	30	46	41
TVTE	3	10	13	7.5	13	10
Diploma	0	9	9	0	11	7.5
First degree & above	0	3	3	0	4	2.5
Total	40	80	120	100	100	100
Experience						
yes	13	39	52	32.5	49	43
No	27	41	68	67.5	51	57
Total	40	80	120	100	100	100
Age						
20 years & below	6	4	10	15.0	5.0	8
21-30 years	25	50	75	62.5	62.5	62.5
31-40 years	7	18	25	17.5	22.5	20
41-50 years	1	6	7	2.5	7.5	6
51-60 years	1	2	3	2.5	2.5	2.5
Total	40	80	120	100	100	100
Enterprise character						
Sector						
Manufacturing	11	37	48	27.5	46	40
Trade	16	31	47	40	39	39
Service	13	12	25	32.5	15	21
Total	40	80	120	100	100	100

Premise ownership						
Personal	26	17	43	65	21	36
Family	2	8	10	5	10	8
Governmental	0	19	19	0	24	16
Rental	12	36	48	30	45	40
Total	40	80	120	100	100	100
Enterprise age						
Less than a year	16	26	42	40	32.5	35
1-3 years	8	36	44	20	45	37
4-6 years	11	13	24	27.5	16.5	20
7-9 years	2	4	6	5	5	5
10 & above	3	1	4	7.5	1	3
Total	40	80	120	100	100	100
Employment						
Up to 5 employees	37	66	103	92.5	83	86
6-10 employees	1	9	10	2.5	11	8
11-20 employees	1	4	5	2.5	5	4
21-30 employees	0	0	0	0	0	0
31-100 employees	0	1	1	0	1	1
>100 employees	1	0	1	2.5	0	1
Total	40	80	120	100	100	100
Total asset/Birr						
50,000 & below	32	65	97	80	81	81
>50,000 upto 100000	6	10	16	15	13	13
>100,000 upto 500000	2	5	7	5	6	6
Total	40	80	120	100	100	100
Form of ownership						
Sole trader	38	52	90	95	65	75
Partnership	0	22	22	0	27.5	18
Cooperative	2	6	8	5	7.5	7
Total	40	80	120	100	100	100
Source of finance						
Personal saving	19	28	47	47.5	35	39
Family investment	13	20	33	32.5	25	28
Joint with friends	3	10	13	7.5	12.5	11
Bank loan		5	5	0	6	4
MFI	3	14	17	7.5	17.5	14
Others	2	3	5	5	4	4
Total	40	80	120	100	100	100

Source: own survey

Narrative analysis

Success levels of MSEs that rated by enterprise owners/managers using a Likert scale (5=very successful, 1=very unsuccessful) was evaluated. In terms of perceived success level, of the total MSEs (120) in the whole study area (rural and urban together) 43% were successful, 39% slightly successful and the remaining 18% were failing. When the data for each group was disaggregated, looks like at Bahir Dar city 43.5%, 37.5% and 19% were successful, slightly successful and unsuccessful, respectively. Similarly in Bahir Dar Zuria district, 40% were successful, 42.5% slightly successful while the rest (17.5%) were failing. In general, most enterprises in the two localities were performing well i.e. MSEs were successful with more or less similar performance.

Of the total manufacturing MSEs (37) in Bahir-Dar city 84.5% were successful, 27% slightly successful and only 8% were failing. Among the trading sector enterprises, however, 26% were successful, 42% slightly successful and the remaining 32% were failing. Of those in service caterings, 25% were successful, 58% slightly successful and 17% of them were failing. As can be seen from the percentile share the performance of MSEs in the manufacturing sector was higher than the service and the trading sectors. The success profile of the rural MSEs had shown that 45% of the manufacturing enterprises were successful and the balance 55% slightly successful. On the other hand, 31%, 44% and 25% of the trading enterprises were successful, slightly successful and failing, respectively. In

other instances, 46%, 31% and 23% of service sector rural enterprises were performed as successful, slightly successful and failing, respectively. Like their counterparts in the urban areas, manufacturing sector of MSEs in the rural settings had registered higher performance than the other sectors.

From family based premises in Bahir Dar Zuria district (rural) 50% were successful and 50% moderately successful whereas, in Bahir-Dar city, 62.5% were successful and the remaining 37.5% moderately successful.

In Bahir-Dar city, those operating in government provided premises, 84% were successful, 10.5% moderately successful and the rest 5.5% unsuccessful. There was no government provided premises in Bahir Dar Zuria district (rural).

When it comes to MSEs operating in personal premises in Bahir Dar Zuria district (rural) 42% were successful, 50% moderately successful and 8% unsuccessful. Similarly in Bahir-Dar city 35% were successful, 35% moderately successful and the remaining 30% unsuccessful. Of the total MSEs operating in rental premises in Bahir Dar Zuria district (rural) 33.3% were successful, 33.3% moderately successful and 33.3% unsuccessful. Likewise in Bahir-Dar city 22% were successful, 53% moderately successful and the remaining 25% unsuccessful. In general the smallest success rate obtained among all premises was the rental premise at both locations.

In looking into financial sources, 40% of MSEs, whose major source of finance was bank loan, were successful and 60% moderately successful in

Bahir-Dar city but no bank loan in Bahir Dar Zuria district (rural) was available to the entrepreneurs. All (100%) MSEs operating using MFIs source of finance were moderately successful in Bahir Dar Zuria district as well as in Bahir-Dar city. MSEs whose investment source were friends, 60% successful, 30% moderately successful and 10% unsuccessful in Bahir-Dar city while in Bahir Dar Zuria district all were successful. In Bahir Dar Zuria district MSEs whose finance sources were family investment, 21% were successful 50% moderately successful and 29% unsuccessful. In Bahir-Dar city the figure was 35% successful, 50% moderately successful and 15% unsuccessful. of those MSEs whose investment sources were personal savings, in Bahir Dar Zuria district, 42% were successful, 42% moderately successful and 16% unsuccessful while in Bahir-Dar city 32% successful, 43% moderately successful and 25% un successful. In both, Bahir Dar Zuria district as well as Bahir-Dar city, the highest success percentage was observed among MSEs using joint funds with friends.

Correlation analysis

A correlation analysis was undertaken with both entrepreneur characteristics and type of enterprises in order to identify the factors contributing to perceived business successes.

Correlation between perceived business successes and characteristics of entrepreneurs

Sex: The relationship between sex and business success was tested for Bahir Dar Zuria district (rural) and Bahir Dar city samples independently. The result indicated that there was no significant ($p<0.05$) association between business operator's sex and business success among MSEs at both Bahir Dar Zuria district (rural) and Bahir Dar city.

Thus, sex of business owners/operators and business enterprises success was not related. This indicates that success of MSEs does not depend on gender of managers i.e. being male or female did not bring any difference in terms of business success. The current study result agrees with the findings of Indarti and Langenberg (2010) (Table 2).

Education: The relationship between formal education and the performance of MSEs in Bahir Dar city was significant but it was insignificant at Bahir Dar Zuria district (rural) at 5% level of significance. Positive correlation was also observed between industry line trainings and business success in the two localities but insignificant at Bahir Dar Zuria district.

The study generally had indicated that in Bahir Dar city both formal education and industry line trainings significantly contributed to business successes, i.e. improvement in an individual's education (whether it was formal or industry line training) had an impact on success of the enterprises. The result obtained among Bahir Dar city MSEs relates with the study made

by Thapa, Goswami and Joshi (2008, cited in Tiruneh, 2011), Rose, Kumar and Yen, (2006, cited in Al-Mahrouq, 2010**).** For Bahir Dar Zuria district (rural), both formal education and industry line training were insignificantly related with success at 5% level of level of significance. The result at Bahir Dar Zuria district (rural) MSEs partly relates with the study made by Bowen et.al, (2009) (Table 2).

Experience: The correlation between prior experience and success of MSEs was insignificant among Bahir Dar city MSEs ($p<0.05$). However, there was significant but negative relationship between prior experience and MSEs success ($p<0.05$) in Bahir Dar Zuria district.

Generally the study result had indicated that there was no significant association between prior experience and success in Bahir Dar city, i.e. whether an individual had experience or not before starting business seems not to have effect on business success. This was confirmed by a study conducted by Indarti and Langenberg (2010) (Table 2).

Age: The relationship between entrepreneur age and success among MSEs was insignificant ($p<0.05$) for both Bahir Dar Zuria district (rural) and Bahir Dar city. Similar result was reported by Indarti and Langenberg (2010) (Table 2).

Table 2. Correlation coefficients of entrepreneur/manager characteristics

No.	Entrepreneur characters	Rural N=40	Urban N=120	t-obtained		significance at alpha o.o5	
				Rural	Urban	Rural	Urban
1	Sex	0.2063	0.0168	1.3283	0.1488	insignificant	insignificant
2	Education						
2.1	Formal	0.0436	0.2457	0.2691	2.309	insignificant	significant
2.2	Industry line training	0.2348	0.2663	1.5322	2.5319	insignificant	significant
3	Prior experience	-0.320	0.0995	2.1986	0.8879	significant	insignificant
4	Age	0.1403	-0.122	0.8821	1.0967	insignificant	insignificant

Source: own survey

Note: For Bahir Dar Zuria (rural) df=38; t critical at alpha 0.05 is about 2.036 and at 0.01=2.72; Whereas for Bahir Dar City (urban) df=78; at 0.o5 level=1.99; at 0.01=2.645

Correlation between perceived business successes and characteristics of MSEs

Enterprise's operation years: The correlation of duration of service of enterprises and success among MSEs was examined for Bahir Dar Zuria district (rural) and Bahir Dar city. The result was found to be insignificant for each of the two localities at 5 % level of significance, indicating that duration in the operation of enterprises did not have any effect in the success of MSEs (Table 3). Similar result was obtained in the study conducted by Indarti and Langenberg (2010) (Table 3).

Size of enterprise: Size of enterprise was examined in terms of number of employees as well as total business asset (excluding the value of buildings/premises).

The correlation between number of employees and success of MSEs was significant ($p<0.05$) at Bahir Dar city but insignificant in Bahir Dar Zuria district. Similar result was obtained on relationship between enterprise total asset and its success at the two localities (Table 3).

The study result indicated that with the increase in employment number and capital among MSEs, their success tends to increase. The study agrees with the study conducted by McMahon (2001, cited in Indarti and Langenberg, 2010). The association between enterprise size (number of employees and total asset) and success was insignificant among Bahir Dar Zuria district (rural) MSEs at 5% level of significance. This result matches with the study made by Indarti and Langenberg (2010) (Table 3).

Form of ownership: As shown in table 3, 75% of the enterprises had proprietary form of legal personal ownership while the rest were owned in partnership with others and by cooperatives. For the purpose of analysis, the last two (partnership and cooperatives) ownership were merged into one group.

The correlation of business ownership form and success level of MSEs in Bahir Dar Zuria district (rural) was found to be significant ($p<0.05$) (Table 3).

Those MSEs owned/managed by group tend to be more successful than those owned/managed by individual operators at Bahir Dar city. This may be due to pooled knowledge of operators. This result related to the study made by Tiruneh (2011). Whereas, the correlation in Bahir Dar Zuria district

(rural) ($p<0.05$) was insignificant. This might be due to fewer number (5%) of partnership form of ownership in that locality (Table 3).

Finance sources: Financial sources were categorized into two groups. The financial source from banks and other similar sources into one group (group 1), and others that include personal savings and family support in another group (group 2), while the rest (joint investment and others) were excluded from the analysis.

The relationship between finance sources and success level of MSEs in Bahir Dar Zuria district (rural) was found to be insignificant ($p<0.05$) while it was negative and significantly related in Bahir Dar city ($p<0.05$) (Table 3).

Surprisingly, those who pay interest for borrowed money tend to be more successful than those who were running their businesses with major finance source from their own or from family support, especially in Bahir Dar city. The result appeared to agree with findings of McMahon (2001, cited in Indarti and Langenberg (2010) (Table 3).

Form of premise ownership: Form of premise ownership was also grouped into two, namely, rental and non -rental (personal, family and governmental). In Bahir Dar city, 45% of MSEs were operating in rental and 55% in non-rental (24% governmental and 21% personal) premises, while in Bahir Dar Zuria district 30% in rental and the rest (70%) in non-rental (65% in personal and 5% in family possessed) premises. In the study area as a whole (rural and urban together) 40% of MSEs were operating in

rented premises and the rest non-rental group, 36% personal, 16% governmental and 8% family provided (Table 3).

The correlation between form of premise ownership and success of MSEs was significant ($p<0.01$) in Bahir Dar city and but insignificant at Bahir Dar Zuria district at 5% level of significance.

The study result had proved that there was significant correlation between form of premise ownership and success in Bahir Dar city at 1% level of significance. This implies that those MSEs which got advantage of non-rental premises were more successful than those in rental premises in Bahir Dar city. This may be due to the high cost of rents of premises and shortage in the city, which also ranked as the most pressing challenge for the operation of MSEs (Table 3).

Table 3 Correlation coefficients of enterprise characters

No.	Enterprise characters	Rural N=40	Urban N=120	t-obtained Rural	t-obtained Urban	significance at alpha o.o5 Rural	significance at alpha o.o5 Urban
1	Enterprise age	0.0545	0.0226	0.337	0.1993	insignificant	Insignificant
2	Enterprise size						
2.1	Employment number	0.224	0.2678	1.4538	2.5477	insignificant	Significant
2.2	Capital(total asset in Birr)	0.2697	0.2543	1.7929	2.4011	insignificant	Significant
3	Form of business ownership	0.2165	0.4893	1.4003	5.682	insignificant	Significant
4	Source of finance	-0.055	-0.312	0.3143	2.7823	insignificant	Significant
5	Form of premise ownership	0.1794	0.3043	1.1425	2.9622	insignificant	Significant

Source: own survey

Note: For Bahir Dar Zuria (rural) df=38; t critical at alpha 0.05 is about 2.036 and at 0.01=2.72; Whereas for Bahir Dar City (urban) df=78; at 0.o5 level=1.99; at 0.01=2.645

Correlation between perceived business successes and contextual variables/success factors

The analysis further explored for any visible difference between Bahir Dar Zuria district and Bahir Dar city MSEs in terms of success level. The result had indicated that there was no significant difference between the two localities in terms of perceived success level of MSEs.

Good customer relation: The correlation between good customer relation and perceived success level of MSEs among Bahir Dar Zuria district (rural) and Bahir Dar city MSEs was found to be significantly associated at 1% level of significance i.e. the direction and strength of the correlations and their significance level ($p<0.01$) all are similar between rural and urban MSEs. Thus, the result of the study had clearly indicated that good customer handling was very important for the success of MSEs at both localities (Table 4).

Comparative analysis of the two locations in terms of the relationship between customer handling and enterprise success was examined. The comparison of the correlation coefficients of the two localities had shown no significance at 5% level of significance.

Identification and focus on market niche: The result had revealed that there was significant ($p<0.05$) correlation between the targeting of market niche and success of MSEs at both Bahir Dar Zuria district (rural) and Bahir Dar city.

Comparative analysis of the two locations in terms of the relationship between market identification and enterprise success was examined further and found to be insignificant ($p<0.05$).

Thus, identification and focus on market niche for business enterprises is important for the success of MSEs (Table 4).

Availability of financial resources: The study result had proved that there was significant association between availability of financial resources and success in MSEs at Bahir Dar Zuria district (rural) and Bahir Dar city (Table 4).

The analysis whether there was a difference between the two localities MSEs in terms of the relationship between financial resources availability and success shown no significant variation at 5% level of significance.

A good human resource management system (HRM): The relationship of HRM and success level of MSEs in Bahir Dar Zuria district was found to be insignificant ($p<0.05$) while the two variables were significantly related in Bahir Dar city ($p<0.01$). At Bahir Dar city, few respondents had provided supplementary information on success factors by expressing that creating and retaining personal motivation/initiation as the major issue of HRM for business successes (Table 4).

Though the significance of the relationship of good HRM and success level of MSEs varies between Bahir Dar Zuria district (rural) and Bahir Dar city,

the comparison of the two independent samples correlation coefficients revealed no statistical significance variation at 5% level of significance.

Family/ spouse support: The correlation between family or spouse support and the performance of MSEs in Bahir Dar city was insignificant ($p<0.05$) whereas it was significant for the rural district (Bahir Dar Zuria) (Table 4).

The analysis whether the difference between Bahir Dar Zuria district (rural) and Bahir Dar city MSEs was significant in terms of the relationship between family support and success shown no significant variation at 5% level of significance in spite of significance variation of coefficients between the two locations.

Technology: The correlation between technology and success among MSEs was significant ($p<0.01$) for Bahir Dar Zuria district (rural) and Bahir Dar city, implying that the use of technology had an influence in the successful operation of MSEs (Table 4).

The comparative analysis of the two locations in their correlation coefficients was found to be insignificant at 5% level of significance.

Government support: The correlation between government support and success of MSEs was significant at both Bahir Dar Zuria district and Bahir Dar city ($p<0.05$). The finding indicated that government support seems to be necessary to promote MSEs at both locations (Table 4).

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The comparative analysis whether the two areas (Bahir Dar Zuria district (rural) and Bahir Dar city) MSEs were significantly different in terms of the relationship between government support and enterprises success was found to be insignificant at 5% level of significance.

Information access: The correlation between information accessibility and success level of MSEs was significant at Bahir Dar Zuria district (rural) and Bahir Dar city. Since the result had indicated a positive relation, accessibility to information contributes more to the success of MSEs (Table 4).

When correlation coefficients of information access and MSEs success of the two localities MSEs compared one another, the variation was statistically insignificance at 5% level of significance.

Business plan: The correlation of business plan utilization and success level of MSEs at Bahir Dar Zuria district (rural) was insignificant ($p<0.05$) while it was significant at Bahir Dar city ($p<0.05$). The result seems to imply that utilization of business plan contributes to the success of MSEs where business is flourishing in the cities while it had no influence where there is less business activity (Table 4).

Although the significance of the relationship of business plan and success level of MSEs was insignificant for Bahir Dar Zuria district (rural) but significant for Bahir Dar city ($p<0.05$), the comparison of the two independent samples correlation coefficients was revealed no statistical significance variation ($p<0.05$).

A good network system: The correlation of prevalence of good enterprises or entrepreneurs network system and success level of MSEs in Bahir Dar city was significant ($p<0.05$) while it was insignificant ($p<0.05$) at Bahir Dar Zuria district. The prevalence of good network system among enterprises and/or their operators seem to promote business as it will create easy access to recent information. That was reflected in this study when it comes to Bahr Dar city (Table 4).

Though the significance of the relationship of good network system and success level of MSEs was insignificant for Bahir Dar Zuria district (rural) but significant for Bahir Dar city ($p<0.05$), the comparison of the two independent samples correlation coefficients was revealed no statistical significance variation at 5% level of significance.

Product quality: Availability of quality products attracts more consumers in any business if it is supplied at affordable price. This was reflected in this study, in that the correlation between product quality and success among MSEs was significant ($p<0.01$) both in Bahir Dar Zuria district and Bahir Dar city (Table 4).

The variation of the two localities in their correlation coefficient was found to be insignificant at 5% level of significance.

To sum up, among the success factors/ contextual variables in the performance of MSEs, product quality, customer relation, financial availability, technology and government support were very significantly ($p<0.01$) associated with MSEs success in the two localities. In addition to

the above, at Bahir Dar city, HRM, information access and business plan were very significantly associated with MSEs successes. Lower but significant associations ($p<0.05$) were obtained for networking, and identification and focus on market niche at Bahir Dar city, and identification and focus on market niche, information access and family support at Bahir Dar Zuria district (rural). The result appears to agree with the study of Wijewardena and Zoysa (2005, cited in Al-Mahrouq, 2010), Ghosh and Kwan (1996), Indarti and Langenberg, (2010), Rose, Kumar and Yen, (2006, cited in Al-Mahrouq, 2010), Lin (1998, cited in Al-Mahrouq, 2010**),** Pollock, 1989 and Barkham, 1989 (cited in Ghosh and Kwan, 1996), Schilit (1986, cited in Ghosh and Kwan, 1996), Bruerderl and Preisendoerfer (1998, cited in Rose, Kumar and Yen, 2006) and Duncan (1991, cited in Ghosh and Kwan, 1996), and others. .

The comparison of correlation coefficients all success factors/contextual variables and MSEs success indicated insignificant ($p<0.05$) difference between Bahir Dar Zuria district (rural) and Bahir Dar city. In spite of differences in the significance type and level, all relationships of success factors with MSEs success had insignificant ($p<0.05$) variation between the two locations. For instance, networking and business pan were insignificantly related MSEs success for Bahir Dar Zuria district (rural) but significant for Bahir Dar city ($p<0.05$), and vice versa for family support, however, z-test comparison of their correlation coefficients had shown no significance ($p<0.05$) for the two locations. This implies that there was no significant difference whether MSEs located at urban or rural settings in terms of the associations of success and success factors.

Table.4 Correlation coefficients of success factors/ contextual variables

Success factors	Correlation coefficient(r)			Obtained(T)			Obtained (Z)	Rank-based value of r/T obtained			D2
	Rural (N=40)	Urban (N=80)	Total (N=120)	Rural	Urban	Total		Rural	Urban	Total	
Good customer relation	0.562	0.511	0.516	4.188	5.253	6.536	0.355	2	4	3	4
Identification and focus on market niche	0.327	0.239	0.265	2.128	2.176	2.987	0.47	7	10	9	9
Availability of financial resources	0.513	0.381	0.416	3.681	3.642	4.969	0.82	3	7	6	16
HRM	0.297	0.549	0.481	1.916	5.796	5.956	0.885	9	2	4	49
Family/ spouse support	0.364	0.129	0.198	2.408	1.144	2.191	1.265	6	11	11	25
Technology	0.466	0.542	0.522	3.246	5.699	6.646	0.505	4	3	2	1
Government support	0.396	0.473	0.453	2.655	4.741	5.525	-0.48	5	5	5	0
Information access	0.308	0.441	0.403	1.992	4.334	4.786	-0.77	8	6	7	4
Business plan	0.232	0.348	0.321	1.469	3.279	3.68	0.635	10	8	8	4
A good Network System	0.215	0.24	0.232	1.353	2.178	2.596	0.135	11	9	10	4
Product quality	0.688	0.665	0.659	5.843	7.871	9.506	0.21	1	1	1	0

Source: own survey

Note: For Bahir Dar Zuria (rural) df=38; t critical is at alpha 0.05 level=2.036 and at 0.01=2.72; Whereas for Bahir Dar City (urban) df=78; at 0.o5 level=1.99; at 0.01=2.645: Z critical is about 1.96 at alpha 0.05

As it can be seen from table 4, the eleven success factors treated in the study were ranked based on their importance to the success of the MSEs. Thus, in their order of importance to the success of MSEs, in Bahir Dar Zuria district (rural) the eleven success factors were arranged as: product quality, customer relation, financial availability, technology, government support, family support, identification and focus on market niche, information access , HRM, business plan and networking. Likewise, in Bahir Dar city, it was arranged as product quality, HRM, technology, customer relation, government support, information access, financial availability, business plan, identification and focus on market niche, networking and family support. Rank correlation of the two localities (Bahir Dar Zuria district (rural) and Bahir Dar city) was moderate (r=0.472) which implies that the order of importance of the studied factors was neither identical nor lack relationship. In other words, moderate similarity implies that there are success factors which equally/similarly ranked between the urban and the rural locations as well as there are factors that ranked entirely different. For instance Product quality and government support ranked equally conversely finance, family support and HRM ranked different while others are moderately ranked. Looking into the rank order of the eleven success factors for the study area as a whole (treating the two samples as a single sample), product quality, technology, customer relation, HRM, government support, financial availability, information access, business plan, identification and focus on market niche, networking and family support were arranged in ascending order.

4.4 Challenges of business operation

Fourteen challenges, expected to encounter Micro and small enterprises, were provided from which respondents had selected five of the most pressing to the operation of their enterprises.

In Bahir Dar Zuria district (rural), out of the fourteen challenges facing MSEs, the five most pressing were infrastructure inaccessibility, lack of sufficient capital, unfavorable business laws, strong competition and high cost or shortage of premises. Among the 25 respondents on unfavorable business laws, 76% of them had specifically indicated that the problem associated with over taxation. Five of them had indicated the prevalence of un taxed/informal sector (Table 5).The study result matches with that conducted by Bokea, Dondo & Mutiso (1999, cited in Michael B., *et al., 2009*), Hailay (2003), Cook and Nixson (2000, cited in Abor and Quartey, 2010), Indarti and Langenberg (2010) and Ghosh and Kwan (1996).The top five problems encountering the existing MSEs in Bahir Dar city were high cost of premises, high cost of inputs, lack of sufficient capital, unfavorable business laws/regulations and competition. Among the 45 respondents on unfavourable laws, 62% specifically mentioned tax burden as a serious obstacle that challenges their survival. Few individuals had indicated that if the new trade proclamation is going to be implemented, it hinders quick business licensing as it demands documents on the permanent location of enterprises. The study was similar with the study conducted by Ghosh and

Kwan (1996), Hailay (2003), Cook and Nixson (2000, cited in Abor and Quartey, 2010), Bowen M., *et al (2009)* and Howard (1989, cited in Ghosh and Kwan, 1996) (Table 5).

Rank correlation of challenges of Bahir Dar Zuria district (rural) and Bahir Dar city was moderate (r=0.45). The challenges are moderately similar between the two localities sharing 20 % similarity order of relative challenges. . This can be substantiated by the fact that high cost of inputs in Bahir Dar city and infrastructure inaccessibility in Bahir Dar Zuria district (rural) were specific to each whereas the other four (lack of sufficient capital, unfavourable business laws, strong competition, and high cost or shortage of premise) were common challenges between the two localities except the difference in their order of importance/rank. Likewise, strong competition ranked equally (4^{th}) while great rank variation had occurred in high cost or shortage of premise, that ranked 5^{th} in Bahir Dar Zuria district (rural) but 1^{st} in Bahir Dar city (Table 5).

TABLE 5 Ranking of pressing challenges of micro and small businesses

No.	*challenges*	Respondents				Rank		D2
		Rural		Urban		Rural	Urban	
		No.	%	No.	%			
1	Strong competition	19	47.5	31	77.5	4	5	1
2	Insecurity	15	37.5	24	38.75	6	7	1
3	Debt collection	11	27.5	15	18.75	8	10	4
4	Lack of credit / shortage of capital	26	65	54	67.5	2	3	1
5	High cost of materials (inputs)	12	30	55	68.75	7	2	25
6	Marketing your products/services	7	17.5	23	28.75	10	8	4
7	Unfavorable business laws	25	62.5	45	56.25	3	4	1
8	Inadequate and/or high cost of premises	16	40	59	73.75	5	1	16
9	Understanding financial issues	5	12.5	22	27.5	12.5	9	3.5
10	Lack of management skills	1	2.5	7	8.75	14	13	1
11	Understanding industry trends	11	27.5	10	12.5	8	11	9
12	Lack of skilled or trained workers	5	12.5	2	2.5	12.5	14	2.25
13	Isolation/inaccessibility to different services	26	65	8	10	1	12	121
14	Technology	6	15	26	32.5	11	6	25

Source: study survey

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The study on the influence of entrepreneur/manager demographic characteristics (sex, education, prior experience and age) on the success of business operation had shown little effect. In other words success of MSEs was not influenced by variation in entrepreneurs' sex and age. However, education (formal and industry line training) significantly related with success in Bahir Dar city,

In looking at other factors contributing to the success of MSEs, except for enterprise's year of operation, high correlation had existed between the other factors (size, legality, finance source and premise ownership) and enterprise success, implying that their contribution to the success of business was significant. On the other hand, the effect of these factors had not been realized in Bahir Dar Zuria district..

The success factors/ contextual variables in the performance of MSEs, product quality, customer relation, financial availability, technology and government support were very significantly ($p<0.01$) associated with MSEs success in the two localities. In addition to the above, at Bahir Dar city, HRM, information access and business plan were also very significantly ($p<0.01$) associated with MSEs successes. Lower but significant

associations ($p<0.05$) were obtained for networking, and identification and focus on market niche at Bahir Dar city, and identification and focus on market niche, information access and family support at Bahir Dar Zuria district (rural).

The comparison of the correlation coefficient of each success factor with the performance or success of MSEs had shown no significant difference between Bahir Dar Zuria district (rural) and Bahir Dar city. This implies the fact that there was no significant difference whether MSEs located at urban or rural settings in terms of the associations of success and success factors.

Rank correlation of the two localities (Bahir Dar Zuria district (rural) and Bahir Dar city) was moderate ($r=0.472$) which implies that the order of importance of the studied factors was neither identical nor lack relationship. In other words, moderate similarity implies that there are success factors which equally/similarly ranked between the urban and the rural locations as well as there are factors that ranked entirely different.

Of the fourteen challenges facing MSEs, the five most pressing were, infrastructure inaccessibility, lack of sufficient capital, unfavorable business laws, strong competition, and high cost or shortage of premise at Bahir Dar Zuria district. Whereas in Bahir Dar city were high cost of premises, high cost of inputs, lack of sufficient capital, unfavourable business laws/regulations and competition. Rank correlation of challenges of Bahir Dar Zuria district (rural) and Bahir Dar city was moderate ($r=0.45$), which

indicates that the challenges were neither identical nor entirely different (neither lack correlation nor had strong correlation) between the two localities.

5.2 Recommendations

The study had revealed that education in general, short term training in particular, was positively and significantly related with the success of MSEs. Thus entrepreneurs, MSEs development agencies and other stake holders should give prior attention to short term industry line trainings along with upgrading entrepreneur's level of education.

The study result had shown that partnership was more advantageous than individual for success in business. Partnership (general partnership, plc, companies, cooperatives, etc.) forms of business operation should be promoted and supported than proprietary form of investments since such forms create a situation for pooled finance, knowledge/skills and other resources. They also create more employment opportunities than their counterpart proprietary.

MSEs, whose major sources of finance were from loan providing institutions, such as banks, MFI, etc. that charges interests for their services were more successful than equity or family supported business operators. In the country where borrowing was not a common culture and not considered as a means to success, the study result indicated there is a

potential for success under this scheme. Thus, such and other related study results have to be utilized for promoting venture creation and expansion/growth against the cultural bottleneck especially by MSEs development agencies and other stake holders in the study area as a whole.

As there is no responsible body for the development of MSEs in the rural villages of Bahir Dar Zuria district, the first major issue to be considered is the establishment of new rural oriented enterprises development institution or the extension of the existing regional MSEDA structure into the rural villages of the region.

Generally both rural and urban entrepreneurs should develop efficient and effective production management, customer relationship and cooperation with stake holders (financial institutions, government, infrastructure providers, NGOs, etc) through their business associations. MSEs operators, MSEs development agencies, NGOs and other stake holders should know, address and promote success determinants to new venture creators. Those MSEs currently performing low and future new entrants interested in establishing new ventures, especially MSEs, should know and give due attention to quality product/goods and services/ and be very close to their customers is a way to success.

As can be seen from the ranking of success factors and also from physical observation by the researcher during data collection, MSE operators were not sensitive to the importance of information access, networking and business plan in improving their business. The ignorance was more serious among the rural MSEs operators. Thus, the existing and potential MSEs operators need to be aware and capacitate themselves in these regards. MSEs development agencies, NGOs and other stake holders should know that operators were not active on the importance of information, networking and business plan for MSEs success, and need to address these issues while trying to work on MSEs development in the study area.

The general solution for every challenge may be the collaborative work among entrepreneurs, MSEs development agencies, NGOs and other stake holders so as to improve the business environment by taking remedial measures.

In Bahir Dar Zuria district, as infrastructure inaccessibility (especially complete absence and interruption of power supply) was the most important of all pressing challenges of MSEs operation, rural entrepreneurs need to organize themselves by forming different forms of associations (business associations, producers associations, etc.) that may help in sharing costs to make infrastructure/facilities accessible, improve their bargaining power , etc. At Bahir Dar city, the most important challenging problem for entrepreneurs was high cost or shortage of premises. Thus, promoting

investment on commercial buildings construction, promoting /practicing home based businesses and en ternate based marketing by entrepreneurs, continuing the provision of production shed and demonstration premises to group operators, organizing trade fairs and inflation control by government, construction of premises by entrepreneurs themselves, etc. may help in alleviating high cost and shortage of premises.

Rising cost of inputs may be managed by inflation control by the government and increasing efficiency of operational management.

The other three common challenges to both localities were lack of sufficient capital, unfavorable business laws and strong competition. As this study had shown that enterprise size associates with success, agencies for MSEs development should harmonize the financial cooperation between MSEs operators and financial institutions may help in improving the financial capacity of enterprises. Agencies for developing MSEs should promote the establishment of those financial institutions targeting MSEs. Entrepreneurs should not exaggerate the liability aspect of credit but start to consider as a means to success.

The problem of unfavourable laws/regulations was reported to be associated with tax burden. Where the size of sales/transaction of individual enterprise has not been easy for the government to obtain, and where transparency was not common among business operators, perfect/objective taxation system was not expected to be practiced. However it can be improved by practicing record keeping by entrepreneurs, and assessing or

monitoring MSEs sales as many times as possible and continually throughout the year (including slack period) and avoid subjectivity by revenue authority officials and its structure. But what has to be carefully considered is that new entrants to the business environment and the growth of the existing MSEs (especially startups) should not be discouraged. More focus has to be given especially in the first startup year not on tax generation but on strengthening new entrants through various supports. Taxation should not impede the flourishing of MSEs.

The other common problem both in Bahir Dar Zuria district as well as in Bahir Dar city was strong competition. As competition is a means to promoting entrepreneurial culture in a society, in order to be successful in competitive environment, supporting entrepreneurs by providing short term management and industry line training by MSEs development agents and NGOs; and improving entrepreneurial capacity through formal education and short term trainings by business operators has a paramount importance.

Those parties engaged/interested in improving the performance MSEs, such as stakes holders, government institutions /especially MSEDA and its structure/, potential entrepreneurs, etc. should focus in building/capacitating new entrants with business related knowledge, such as business management, accounting, technical skill, planning, etc. to promote entrepreneurial culture in the study area

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ANNEX-1

Interview schedule

Part one-- Background information

Select the one that best describes your enterprise (1-8) and yourself/character (9-13)

1. Location of the enterprise
   Urban------rural---------

2. Industry sector
   Manufacturing ----- Service ---- Trading------ Other -----

3. Age of enterprise / no. of years in operation/
   Less than a year-------- 1-3 years ------- 4-6 years----- 7-9 years---- 10 years and above --------

4. Number of employees
   Up to 5 employees-----6 to 10 employees-----11-20 employees-----21-30 employees----- more than 30-100 employees----------

5. Total asset
   not more than 50,000 birr/$3,000---------- >50,000 birr/$3,000 up to 100,000 birr/$6,000----->100,000 birr/$6,000 up to 500,000 birr/$30,000---------- >500,000 birr/$30,000 up to 1,500,0000birr/$90,000----->1,500,0000birr/$90,000

6. Legal Status of Firm
   Sole trader --------- Partnership ------ Company/ limited liability-------- other----

7. Source of finance

   Personal savings-------Family investment-----Joint venture with colleagues/friends--------bank---------specialized financial institutions (MFI) ----------other ------

8. Form of premise ownership

   Personal-------family--------rental-------governmental--------other-------

9. Sex

   Male----- female-------

10. Highest education attained

    No formal education -------Elementary (1-8) ---- high school-------
    TEVT--------- college diploma ------first degree and above------

11. Do you ever attend training programmes related to your business?

    Never------rarely-----sometimes-----often---------always-------

12. Previous experience

    Yes------no-------

13. Age of the entrepreneur

    Up to 20 years -----21 - 30 years-----31-40years-------41-50 years------
    51-60 years ------ above 60 years-------

Part two –measure and factors of success

1. how do you rate your business performance/success

Very unsuccessful -----unsuccessful -------- slightly success ----------
successful---------Very successful ----------

2. Please indicate your opinion regarding the importance of each factor to your business success (1. Very unimportant… 5. Very important)

No.	Success factor	Very unimportant (1)	Unimportant (2)	slightly important (3)	Important (4)	Very important (5)
1	A good customer relationship					
2	Able to identify and focus on a market niche					
3	Availability of financial resources					
4	A good HRM system					
5	Spouse/family support					
6	Ability to develop and sustains technological advantage					
7	Government support					
8	*Information access/availability*					
9	Business plan					
10	A good network system					
11	Product quality					

Part three–Select the most 5 pressing challenges to your business enterprise running/operation

No.	*challenges*	Selection(✓)
1	strong competition	
2	Insecurity	

3	Debt collection	
4	Lack of credit / shortage of capital	
5	High cost of materials (inputs)	
6	Marketing your products/services	
7	Unfavorable business laws	
8	Inadequate and high cost of premises	
9	Understanding financial issues	
10	Lack of management skills	
11	Understanding industry trends	
12	Lack of skilled or trained workers	
13	Isolation/inaccessibility to different services	
14	Technology	

Part four- additional comments

1. Would you tell us some of the possible reasons/factors believed to contribute to your enterprise performance or success but not provided among the alternatives in part two, if any?

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2. Would you tell us some of the constraints to your enterprise operation but not provided among the alternatives in part three, if any?

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3. Additional comment related to the study, if any