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**FACTORS AFFECTING PERFORMANCE OF MICRO AND
SMALL BUSINESS ENTERPRISES IN ADDIS ABABA**

BY

**MIZAN SIBHATU
ID.No. SGS/0669/2007A**

**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
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SMALL BUSINESS ENTERPRISES IN ADDIS ABABA**

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ADMINISTRATION

ADVISOR

CHALACHEW GETAHUN (PhD)

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MBA PROGRAM

**FACTORS AFFECTING PERFORMANCE OF MICRO AND
SMALL BUSINESS ENTERPRISES IN ADDIS ABABA; IN CASE
OF BOLE AND KIRKOS SUBCITY**

BY

MIZAN SIBHATU

APPROVED BY BOARD OF EXAMINERS

Advisor

Signature & Date

Department Head

Signature & Date.....

External Examiner

Signature & Date.....

Internal Examiner

Signature & Date.....

Declaration

I, Mizan Sibhatu, hereby declare that the thesis entitled “performance of micro and small business enterprises' performance in Addis Ababa, Bole and Kirkos” submitted by me for the award of MBA program in Project Management, is an original work carried out by me and it has not been submitted previously in part or full to this or to any other University for the award of any Degree or Diploma or Prize.

Researcher Name

Date

Signature

MIZAN SIBHATU

Certificate

I hereby certify that I have read this thesis entitled “factors affecting performance of micro and small business enterprises' performance in Addis Ababa in case of Bole and Kirkos sub city” prepared under my direction and recommend that it be accepted as fulfilling the thesis requirement.

Main Advisor Name

Date

Signature

Chalachew Getahun (PhD-----)

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Acronyms

BDS- Business Development Service

CSA- Central Statistics Agency

EU-European Union

FeMSEDA- Federal Micro and Small Enterprises Development Agency

GTP- Growth and Transformation Plan

IADB- Inter-America Development Bank

ILO- International Labor Organization

IMF- International Monetary Fund

LMIC- Low and Middle Income Country

MoFED- Ministry of Finance and Economic Development

MSE-Micro and Small Business Enterprise

MSME- Micro Small and Medium Enterprises

OECD -Organization for Economic Cooperation and Development

PC-GNI -Per Capital -Gross National Income

UNDP-United Nations Development Program

UNCTD-United Nations Conference on Trade and Development

UNIDO -United Nations Industrial Development Organization

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Abstract

This study was designed to assess impact of factors affecting success of micro and small business enterprise performance in Addis Ababa (Bole and Kirkos Sub city). The involved three MSE (food and beverage, construction and metal and wood work) business category. Employing a stratified random sampling, 124 respondents were selected using Taro Yemane (1967) sample size determination formula. Data were analyzed using measures of central tendency and tests of correlation with SPSS version 22.00. Results show that there is significant relationship between government regulation, business information service, management experience, financial control mechanism, marketing strategy and MSE business performance. Based on the findings it was recommended that government and micro finances institutions should improve access to finance through offering a better lending terms and conditions and government to establish a centrally managed marketing sites that will equally give access to market, business information service and also training program that enhance management skill in order to improve performance of MSEs in Addis Ababa.

Key words: *Enterprise, factors, micro enterprise, small enterprise*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There is no universally agreed definition of Micro and Small Enterprises (MSEs). Some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital or turnover, the capital invested and the total balance sheet (asset, liability and capital). According to the Ethiopian Micro and Small Enterprises Development Strategy (EMSEDS, 1997), MSEs are those business enterprises with a paid up capital of not exceeding Birr 20,000 and excluding high tech consultancy enterprises and other high-tech establishments, whereas small enterprises are those business enterprises with a paid up capital above Birr 20,000 and not exceeding Birr 500,000 and excluding high-tech consultancy enterprises and other high-tech establishments.

Currently the importance of Small and Micro Enterprises for the socio economic development of nations is receiving great deal of attention. In this day and age many researchers looking their eyes in MSEs for the reason that globally majority of firms are controlled by businesses of small and medium enterprises. These enterprises play a significant role in the economy through innovation and employment creation. Consequently, the performance of an economy of a nation is closely associated with the performance of MSEs.

ILO (2000) estimated the share of informal employment to the total non-agricultural employment accounts for nearly half or more in all regions of the developing world and about 72% in sub-Saharan Africa. In view of that, the informal sector that mainly constitutes microenterprises is the major source of employment and income for the urban population. Besides employment creation, they also play a very important role in the developing world economy. For example, in Sub Saharan Africa, the contribution of the informal sector in non-agriculture Gross Domestic product (GDP) is about 41 %. Hence, their efficiency matters in determining overall economic performance and poverty reduction.

According to Gebreeyesus (2009) regardless of MSEs Potential to enhance the economic growth, micro and small enterprises in developing countries have not given proper consideration. They produce largely for the low income group and employ lower levels of techniques. Many of them are self-employed type with a low transformation rate into higher size categories and their innovative activities are limited.

As per UNDP study conducted on 2015 SMEs are widely recognized to contribute towards promotion and development of inventions, and thereby generate employment opportunities for developing countries. MSEs are particularly important in the context of the country's poverty-reduction strategy because they are seedbed for the development of medium and large enterprises, and because they absorb agriculturally under-employed labor, and diversify the sources of income for farming families. In this respect, Ageba (2006) reported that, the role of the MSE sector in employment creation, economic growth and poverty alleviation has received the recognition it deserves as opposed to being viewed as marginal and unproductive, tax evader, and with limited contribution to economic growth.

The Ethiopian Government issued the National Micro and Small Enterprises Strategy in 1997 and established the Federal Micro and Small Enterprises Development Agency in 1998 by recognizing the significance of this sector. The country's industrial policy in 2003 and the poverty reduction strategy in 2006 have singled out MSEs as major instruments to create a productive and vibrant private sector and reduce poverty among urban dwellers. These documents reiterated the importance of MSEs, promotion through the provision of finance, training, and infrastructure services among other things.

It is true that small business owner starts with high expectations of success and going concern assumption, on the other hand it is a common spectacle that each year firms go out of businesses. Although failure is not the sole reason for enterprises to leave the business, many enterprises do fail each year. Thus, the odds of forming a profitable venture are a critical issue for those weighing the risk of starting a business (Dennis and Fernald, 2001), and understanding of why firms succeed is crucial to the stability and health of the economy.

1.2 Statement of the Problem

Now a day many countries uses SMEs in order to promote entrepreneurship, investment and growth, facilitating access to venture capital, cutting administrative burdens and increasing legal certainty. Likewise, Micro and Small Enterprises Sectors contribute to the economy of nations' by creating employment opportunities, production of goods and services and other value added activities.

The existence of a strong small business sector is necessary for the boosting of the economy. However, the transition of this sector to medium and large business sectors is as crucial to preserve the flow of new small businesses into the economy. In addition, such transition or growth will further reduce the unemployment rate and increase the number of products or services offered to the society. Hence, growth of MSEs considered as synonymous with success.

In the face of its importance of SMEs in the economy, the survival, success and performance of these enterprises in this sector is an issue of continuous concern. MSEs are influenced by many factors determine their fortune in the competitive business environment. Research that can lead to the identification of those factors associated with small business performance therefore will give a great deal of importance to policy makers, owner-managers and their advisors (Alasadi and Abdelrahim, 2007).

As per Shonesy and Gulbro's (2004) report from review of literatures on small business success studies, 'there have been several studies, which seek to identify the critical success factors for small businesses. However, there appears a problem to develop a common list of the factors which contribute for success of small business performance operating in various business environments and regions'. It is important to define these factors for any new business, as the owner should be concerned about the chances for success.

Sharing knowledge and successful experiences on how and why firms succeed and the rest failed to repeats their practices are fundamental to the solidity and smooth growth of the economy. In spite of this fact, on the other hand, which factors are the most significant to the success of MSEs Sector in Ethiopian has not been adequately studied empirically?

Conferring to Evans (1987) the most important external factors influencing growth of MSEs include access to finance, competition, and limited production/market place, lack of market for

the product or service; and other barriers to trade. On the other hand, the internal (firm-specific) factors that inhibit the growth of MSEs include management competency, 'lack of skilled labor, poor marketing strategies, innovation level and investments on technology, etc. In this respect, Evans (1987) depicted that firm growth decreases with firm size and age. Others contend that the smallest firms were most vulnerable and that those that grew were less likely to fail than those that did not (Stokes, 2000).

From the above discussion, it is quite evident that a good number of studies have investigated on the internal and external factors affecting the performance of MSEs. However, there are some other internal and external factors that could be affecting the performance of MSEs. The purpose of this paper were to identify the main factors that mostly used to reflect the performance of MSEs in Addis Ababa, specifically enterprises found in Bole and Kirkos sub city.

This study also sought to investigate the relationship between those factors like government regulation, management experience, finance control and marketing strategy and performance of micro and small business enterprises (MSEs) in Addis Ababa, specifically enterprises found in Bole and Kirkos sub city.

1.3 Research question

This study was guided by the below research questions:

- What is relationship between government regulation and performance of MSE found in Bole and Kirkos sub city?
- What is relationship between information service of business and performance of MSE found in Bole and Kirkos sub city?
- What is relationship between management experience and performance of MSE found in Bole and Kirkos sub city?
- What is relationship between marketing strategy and performance of MSE found in Bole and Kirkos sub city?
- What is relationship between financial control mechanism and performance of MSE found in Bole and Kirkos sub city?
- How does the performance of MSEs currently look like based on business practice in Bole and Kirkos sub city?

1.4 Objective of the study

1.4.1 General Objectives of the Study

The general objective of the study was to assess factors affecting the performance of MSE of Addis Ababa which found in Bole and Kirkos sub city.

1.4.2 Specific Objectives of the Study

- To determine the relationship between government regulation and performance of MSE which found in Bole and Kirkos sub city.
- To determine the relationship between information service of business and performance of MSE which found in Bole and Kirkos sub city.
- To determine the relationship between management experience and performance of MSE which found in Bole and Kirkos sub city.
- To determine the relationship between marketing strategy and performance of MSE which found in Bole and Kirkos sub city.
- To determine the relationship between financial control mechanism and performance of MSE which found in Bole and Kirkos sub city.
- To assess current performance of MSE found in Bole and Kirkos sub city based on business practice.

1.4.3. Research Hypothesis

The following hypotheses are developed and to be tested using Analysis of Pearson correlation coefficient to determine relationship between the variables.

- H1: There is no significant relationship between government regulation and MSE performance found in Bole and Kirkos sub city.
- H2: There is no significant relationship between accessibility of business information service and MSE business performance found in Bole and Kirkos sub city.
- H3: There is no significant relationship between management experience and MSE business performance found in Bole and Kirkos sub city.
- H4: There is no significant relationship between financial control system and MSE business performances found in Bole and Kirkos sub city.
- H5: There is no significant relationship between marketing strategy and MSE business performance found in Bole and Kirkos sub city.

1.5 Scope and Limitations of the Study

The study assessed factors influencing the performance of MSEs in Addis Ababa city particularly in Bole and Kirkos sub city. There are 10 sub cities in Addis Ababa where a number of MSEs were operating. But due to time and finance constraints the researcher limited to only in Bole and Kirkos sub city.

The scope of this research was being delimited to its scope only to those enterprises which are categorized as Micro and Small Enterprises conferring to the Ethiopian Ministry of Trade and Industry (MoTI) definition. It takes the sample of the study only from those Micro and Small Enterprises operating in two Sub City Administrations in Addis Ababa involving only in three major sectors and extent to which stated success variables affect their performance. Although, there are different factors that affect the performance of MSEs, this study is delimited to government regulation, business information service, management experience of the owners, marketing strategy and financial control mechanism of the principal owner.

In addition, difficulty during data collections & lack of up-to-dated information, the findings of this study cannot necessarily represent for other MSEs Sectors & similar to these business MSEs in the country, because the sample is not being presentation of the entire Mses. In the country Therefore, the results cannot be taken as uniform to generalize for MSES those were not part of this study.

The instruments were developed by the researcher based on the literature & limited to descriptive statistics which needs more statistical tests in order to establish a more robust validity and reliability. Thus the instruments could be further fined to more closely capture each of the problem areas identified in the literature. Replication of this study using larger samples broader geographic, longitudinal wide study is suggested for cross-validation purposes.

1.6 Significance of the Study

The findings of this study expected to be significant for the following reasons. Government and other parties involved in the promotion of the development of SMEs may use the findings of the study as additional information about the success factors and strengthen the development of SMEs. Academics, consultants, and government agencies may use the study as a stepping-stone for further study in the area at an advanced level. The result of the study may serve as an input for planning and policy formulation. The findings may also be considered as important additions to the existing knowledge and literature in the area for the public at large.

1.7 Definition of terms

- **Enterprise:** can be defined as an undertaking engaged in production and/or distribution of goods & services for commercial benefits, beyond subsistence (household) consumption at the household level.
- **Factors:** A factor is a contributory aspect such as government regulation, business information service, management experience, marketing and financial management influences that affect performance of micro and small enterprises.
- **Micro Enterprise:** when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is 100,000 ETB for industrial sector and 50,000 ETB for service sector (MSEDS, 2011).
- **Small Enterprise:** means a business engaged in commercial activities whose capital is not exceeding birr 1.5million and 6-30 employees for industries and 500000 for service other than high technology and consultancy service institutions.
- **Informal enterprise:** there is consensus that they are small scale, and operate outside registration, license and tax frameworks.
- **Formal enterprise:** are defined as establishments principally engaged in production of marketed goods and services but formally registered at respective government agencies to undertake the business and hence have licenses to operate.

1.8 Organization of the study

The study was organized in to five major parts. The first part comprises background of the study, statement of the problem, objectives of the study, significance of the study, scope and limitation of the study, hypothesis and organization of the paper. The second part incorporates on reviewing of related literature on the issues under study. The third part clarifies on the research methodology adopted. The fourth part present the major findings of the research and the last part provide summary, conclusions and pertinent recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

As a component of the review of related literature have four major sections, the first part begins with conceptual literature like defining what micro and small business enterprises are in general and in Ethiopian context in particular. The second part discusses the relevant and enough theoretical perspective related to factors influencing SME performance, the third part empirical literature review based on previous research evidence regarding those factors and the fourth part synthesizing the reviewed literature and draws conclusion in terms of existing knowledge base, research gap.

2.1 Conceptual literature

2.1.1. Definition of Micro and Small Enterprises (MSEs)

As per Quartey and Kayanula 2000, there is no single and universally acceptable definition of a small enterprise. This is so because the criteria and ways of categorizing enterprises as micro and small differ from institution to institution and from country to country depending essentially on the country's level of development.

A definition forwarded for MSE differs from country to country, depending on the stages of economic development and population. In USA and Europe MSE defined on the bases of number of employment and turnover. European Commission and Organization for Economic Cooperation and Development defines MSE as having below 250 employees (Habtamu, 2010).

In developing countries, the definition is a little bit different from developed nations. For instance, in Tanzania to be MSE the major variables are level of employment and capital investment; in Zambia annual revenue and capital investment are major requirement. Likewise, the definition given to MSE in Ethiopia includes the variables such as employment, capital investment, production capacity, level of technology and sub sector (World Bank, 2010)

Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations (Emma, 2009).

Firms differ in their levels of capitalization, sales and employment. Hence, definitions that employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result.

In the past the definition of Micro and Small Enterprises was based on paid up capital only. An enterprise is categorized as micro if it's paid up capital is less than or equal to Birr 20, 000. Similarly, an enterprise is considered small when its paid-up capital is less than or equal to Birr 500,000. However, this does not provide information on the size of jobs or number of employees in the MSE. It also did not tell the size of the total asset for the MSE and did not differentiate between manufacturing (industry) and services. Current definition considers human capital and asset as the main measures of micro and small enterprise to addresses the limitations of the old definition.

Table2.1: The New MSE Definition (2011)

Level of enterprise	Sector	Human Power	Total Asset
Micro Enterprise	Industry	5	Birr 100,000 (\$ 6000)
	Service	5	Birr 50000 (\$ 3000)
Small Enterprise	Industry	6-30	Birr 1.5 million (\$9000)
	Services	6-30	Birr 500000(\$ 3000)

Source: Ethiopian Micro and Small Enterprise Development Strategy (2011)

According to Alasadi and Abdelrahim (2007) MSEs considered as a vital component of the socio-economic development of both developed and developing countries, usually some of these enterprises collapse within the first few years of their start up. Of those operating, some grow rapidly, while others grow slowly. Thus, it is important to identify the cause factors of success because it helps new entrants of the sector to consider the factors and use for their future in the business. These factors could vary from one country to another due to the economic, geographical and cultural differences. This kind of investigation of the success factor is very important for developing countries like Ethiopia because the investigation deduction could be useful for the economic development planners as well as to individual entrepreneurs and business owners in the countries concerned.

2.1.2 Ethiopian Micro and Small Enterprise Strategy

In contrast to many MSE related studies, the working definition of MSE in Ethiopia is based on capital. According to the Micro and Small Enterprises Development Strategy; (1) Micro Enterprises: are those business enterprises with a paid-up capital of not exceeding Birr20,000 and excluding high tech consultancy firms and other high-tech establishments; (2) Small Enterprises: are those business enterprises with a paid-up capital above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high-tech establishments (FDRE Ministry of Trade and Industry 2007: 5). Hence, in this case the definition is based on capital and the level of technical and technological capacities adopted. The information on MSE in Addis Ababa indicated that from all the total licensed enterprises,75.4% are micro enterprises, 20.9% are small enterprises and the remaining 3.7% are medium and large enterprises (Addis ReMSEDA 2009).

During the socialist regime (1974-1991) due to extensive nationalization of private sector, many of the former private sector firms ceased to exist. But after 1991, the current government adopted several policies and regulations aimed at supporting the informal sector. MSE serves as sources for sustainable job opportunities not only for developing countries like Ethiopia, but also for developed countries like USA. Thus they are given prior attention as they are important and serve for sustainable source of job opportunities to our country. As a result many important overall policy and institutional reforms have been undertaken including: safety net, decentralization, market economy, agricultural development led industrialization (ADLI), etc. Moreover, a number of sector specific policy reforms and restructuring of regulatory institutions may have contributed to the process of creation of micro and small enterprises. One of the frameworks was related to issuance of the National Micro and Small Enterprises Development Strategy in 1997 and the issuance of Proclamation No. 33/98 to provide for the establishment of the Federal Micro and Small Enterprises Development Agency (Addis ReMSEDA 2009).

In the same way to promote MSE, the Addis Ababa Trade and Industry Development Bureau has two branches, one is for MSE which focuses on the development of enterprises and the other one is for trade and industry. Micro and Small Enterprises are one of the focal points on the development agenda of the municipal government of Addis Ababa. The MSE branch has three main departments namely; MSE Development, Marketing Research and Promotion Department,

and the Cooperatives Promotion and Controlling Department. Similarly, the structure of the MSE is extended to all sub cities in Addis Ababa. There are MSE teams and teams for the promotion of cooperatives in each sub-city while at the 'kebele' level it is handled by the MSE office under the 'kebele' chief executive.

The MSE branch has been organizing people with different skills into individual business and cooperatives by creating job opportunities and providing various supportive services in coordination with NGOs to create a favorable environment for the growth of the sector.

Organizing and licensing was done by the cooperative office and a working premise was provided by the sub-city administration, and other concerned housing and land agencies. Space was provided depending on the size of the available land by assigning four square meters per person for a monthly fee of Birr 1.00/m² for the food processing sector and monthly fee Birr 2.00/m² for the metal and woodworks sectors (Addis ReMSEDA 2009).

In November 1997, the Ethiopian Ministry of Trade and Industry published the "Micro and Small Enterprises Development Strategy", which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (MOTI, 1997).

Elements of the program include measures with regard to creating an enabling legal framework and streamlining regulatory conditions that hinder the establishment of new and expansion of existing MSEs. In addition, specific support programs also include measures related to providing working premises, facilitating access to finance, provision of incentives, promotion of partnerships, business skill development training, access to appropriate technology, access to market, access to information and advice, infrastructure and institutional strengthening of the private sector associations and chambers of commerce.

2.1.3 Ethiopia's Micro and Small Enterprise Promotion Policy

The role of Micro and Small Enterprises (MSEs) is indispensable in poverty reduction through employment generation. Cognizant of this, a national MSEs Development Strategy was formulated in 1997. Ethiopia's MSE Policy envisages not only reducing poverty in urban areas but also nurturing entrepreneurship and laying the foundation for industrial development.

The strategy was revised in 2010/11 with renewed interests and more ambitious targets on employment and number of entrepreneurs and transition to medium size level (Addis ReMSEDA 2009)

MSE development, being one of the key focus areas of the country's development strategy, receives massive support from the government in the form of access to finance, market, technology, training and working space. The government strongly believes that MSEs are the right solution to reduce urban unemployment and hence reduce poverty. This ambition is reflected in the GTP. For instance, it plans to create three million new jobs in the MSE sector in the five years growth and transformation period. Therefore, MSE promotion and support is the vital strategy to fulfill this national plan of employment creation in the short-run and achieving industrialization in the long-run.

Ethiopia adopts a layered policy support in which MSEs are categorized into start-ups, growing-middle and maturity. Start-up stage enterprises refers to those enterprises found at their establishment stage and comprises a group or individual aspiring entrepreneurs that seek various supports to make their enterprise operational. The basic challenges at this stage include lack of initial and working capital, poor knowledge of business management and entrepreneurship and lack of knowhow about the different government policies and directives related to the sector.

In order to mitigate these challenges, FEMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs in formalization and legalization process and provision of training on business management, entrepreneurship and production technique. Growing stage enterprises refers to those enterprises that are competent in the market in terms of price and quality and successfully utilize the various government support packages and are profitable in their business. However, enterprises at this stage also suffer from different

challenges like financial constraint, stage, knowledge of international standards and better production technology are disseminated to enterprises lack of appropriate technology and technical skill, absence of sufficient working and sales premises and rent seeking behavior.

To alleviate these specific challenges, FEMSEDA has formed a national strategy that focuses on facilitation of financial support and skill and technological development program. On the other Hand, enterprises are considered to have reached the maturity stage when they are fully profitable and engaged in further expansion and investments in the sector. At this stage FEMSEDA has a strategy that aims to strengthen enterprises in terms of productivity and product quality. Moreover, at this stage, knowledge of international standards and better production technology are disseminated to enterprises

2.1.4 Defining Business Performance

Two significant management dimensions in the domain of success measuring of business systems are effectiveness and efficiency. Effectiveness dimension is oriented towards the choice of the right goals (doing the right things) which will have the market verification by consumers while efficiency dimension is determined by the degree of rational use and engagement of available resources (doing things in the right way). It is possible to be successful only with effectiveness but for a short time, while the complete success is guaranteed when both dimensions are realized at the high level.

The analyses of some literature in the field of management, business and entrepreneurship with a view of searching for success criteria of owners/entrepreneurs/managers can give numerous terms used for defining the mentioned category. Business performance, entrepreneurial success and owners' success goals can be met.

The category of success/performance is set as a dependent variable primarily in relation to management practice and the volume of management activities in small businesses in order to explain connections and possible influences in the direction of improving business results. Therefore, it becomes necessary to precisely understand and restrict the notions of success and performances that are usually used as synonyms. It is also necessary to define criteria which really measure success of micro and small businesses.

Beaver (2002), has commented there are very real problems with the term success (good performance) and its various Interpretations and perceptions in the small firm sector. The subject

of success factors in small businesses has become more popular in recent years amongst business researchers and entrepreneurs, each attempting to provide a definitive formula for success (Beaver, 2002). Success is often viewed in terms of growth or profitability, but this becomes more complicated when trying to determine the factors that lead towards it. It is important to recognize that while a common measure of success in business is still to be defined, there are some general factors found to influence the success potential of businesses (Beaver, 2002).

Previous research into the relationships between various factors and small business success has been lacking a comprehensive theoretical framework, and many small business owners are aiming to discover the management strategies, business objectives and personal characteristics most closely linked to small business success (Walker and Brown, 2004).

According to Martin (2010:67) performance is defined simply in terms of output terms such as quantified objectives or profitability. Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (Bidzakin K.J., 2009:31). The issues that remain unresolved are the goals against which performance should be assessed and from whose perspective the goals should be established (Etzioni, n.d:128).

Rami Alasadi and Ahmed Abdelrahim (2007:6-13) on their study defined performance as follows.

The most commonly adopted definition of success [good performance] is financial growth with adequate profits. Other definitions of success [good performance] are equally applicable. For example, some entrepreneurs regard success [good performance] as the job satisfaction they derive from achieving desired goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.

A business enterprise could measure its performance using the financial and non-financial measures. The financial measures include profit before tax and turnover while the no-financial measures focus on issues pertaining to customers' satisfaction and customers 'referral rates, delivery time, waiting time and employees' turnover. Recognizing the limitations of relying solely on either the financial or non-financial measures, owners-managers of the modern small Business has adopted a hybrid approach of using both the financial and non-financial measures (Chong, 2008).

2.1.5 Measures of business performance

Business success is usually measured in terms of economic performance. As Walker and Brown (2004), small business success can be measured by financial and non-financial criteria although The former has been given most attention in the literature. Traditional measures of business success have been based on either employee numbers or financial performance, such as profit, turnover or return on investment. Implicit in these measures is an assumption of growth that presupposes all small business owners want or need to grow their businesses.

For businesses to be deemed successful these financial measurements require increases in profit or turnover and/or increased numbers of employees. As Walker and Brown (2004) cited from the Study of Hall and Fulshaw (1993), 'the most obvious measures of success are profitability and growth'. In economic terms this is seen as profit maximization. Economic measures of performance have generally been popular due to the ease with which they can be administered and applied since they are very much hard measures. Furthermore, Walker and Brown (2004) suggested, 'all businesses must be financially viable on some level to continue to exist'. However, given that some businesses have no interest in growth, thereby implying that financial gain is not their primary or only motivation, then there must therefore be other non-financial criteria that these small business owners use to measure their business success.

In smaller, entrepreneurial and independent firms, measures of success may have more complex Dimensions than just financial performance (Mohan-Neill 2009). Non-financial measures of success used by business owners, such as autonomy, job satisfaction or the ability to balance work and family responsibilities (Walker and Brown, 2004; Mohan-Neill, 2009) are subjective and personally defined and are consequently more difficult to quantify. The hard measures previously mentioned therefore, are easier to understand and can be used in a comparative way against existing data and as benchmarks for future measures.

Non-financial measures are based on criteria that are personally determined by the individual business owner although commonalties within the partners of small business owners occur. These non-financial measures presume that there is a given level of financial security already established; it may be that this is within the business, or that the small business owner does not require the business to be the primary source of income (Walker and Brown, 2004). The election of performance measures that reflect the true situation of small businesses with some degree of certainty and reliability is indeed a crucial process. The lack of universally accepted standard

performance measures left the door open to business organizations to decide and choose its own performance measure that might not truly reflect its performance (Alasadi and Abdelrahim, 2007).

Such performance measures include but not limited to: sales volume, Organization reputation, return-on-investment (ROI), profitability, and established corporate identity. While some might argue that most of these performance measures are appropriate for large corporations; they are not always perfectly applicable to small businesses.

In this study profitability was adopted to measure performance of these MSEs. This is mainly because of the pilot study clearly indicates these MSEs are more focusing on profitability than other modes of performance measures.

2.1.6 Factors Influencing Performance of MSEs

Micro and small enterprises considered as a vital component of the socio-economic development of both developed and developing countries, usually some of these enterprises collapse within the first few years of their start-up. Of those operating, some grow rapidly, while others grow slowly. So, it is important to identify the cause factors of success because it helps new entrants of the sector to consider the factors and use for their future in the business (Alasadi and Abdelrahim, 2007).

These factors could vary from one country to another due to the economic, geographical and cultural differences. This kind of investigation of the success factor is very important for developing countries like Ethiopia because the research conclusion could be useful for the economic development planners as well as to individual entrepreneurs and business owners in the countries concerned.

There can be various factors like socio-economic, political and motivational factors that affect the success of small business in general and MSEs in particular. Searching on the literature of Mses Success across the world, we can find various factors affecting their success.

In the following section of the review of related works of previous researchers regarding each of the independent variables (performance factors) of this study the researcher has chosen five success factors to investigate and discuss. These are: management experience of the owners',

business information service, government regulation and policy, financial control and planning and marketing skill and strategy mechanism of the principal owner.

2.1.6.1. Access management Experience on Performance of SMES

Management experience may provide entrepreneurs with prior knowledge of markets, ways to serve markets, and of customer problems. Zeleke (2009) conducts a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises. Successful businesses are significantly associated with the ability to generate profit on a sustainable basis. Profitability has enabled successful businesses to achieve their next level of growth as well as the potential to stay competitive in business.

The main reason for failure is inexperienced management. Managers of bankrupt firms do not have the experience, knowledge, or vision to run their businesses. In diagnosing the root causes of small firm failure it should not be surprising that this turns out to be the management inefficiency of owner-managers (Zeleke 2009).

Managerial effectiveness influences every aspect of a business and is often believed to be the most important factor contributing to small business failure. The management skills and management concepts of business founders are deemed much more important than their technical skills and their concern about production which has resulted in an overall positive organizational performance (Lin and Yeh-Yun 1998).

In contrast, the study report of Rose, Kumar and Yen (2006), indicates ‘management experience Prior owning businesses were found not significant for the success of small enterprises. Apparently individuals who were found successful in their small business venture were less dependent up on their previous business skills. In addition, their study shows that; marketing functions such as ‘promoting company and its product and services’, ‘understanding market needs’, ‘customer feedback’ and ‘market analysis’ ensure the long term success of business ventures.

In addition, Temtime and Pansiri (2004) also reported in their study managerial of background has less significance on the success of the enterprises. This may arise from the fact that most

managers of failed enterprises do not accept the fact that their lack of managerial education and experience is also responsible for failure.

Lin and Yeh-Yun (1998), in their study of, Success factors of small and medium sized enterprises, suggested that the management skills and management concepts of business founders are much more important than their technical skills and their concern about production which has resulted in an overall positive organizational performance. They argued in their study that, 'although technical skills may guarantee the survival of a given SME, for an enterprise to truly thrive, founders need to enhance their capabilities in carrying out contemporary management concepts, such as satisfying employees' growth needs, delegating responsibility, and participative management'.

Another study done by O.Okpara (2011), on MSEs operating in Nigeria supports the argument that, lack of management experience of the small business owners is the other major reason to small business failure. As the findings of this study shows that, most business owners who do not Have management experience and adequate training and skills to operate a business faces a problem of collapse of their businesses.

2.1.6.2 Access to business information services and performance of SMEs

Information is the 'life blood' for business enterprises. Organizations cannot survive without information. They need information on market, raw materials, government directions and others. Access to business information services has been identified as one area that needs attention from governments and business services providers if the SMEs sector in developing countries is to achieve sustainable levels of growth and development. Many firms in Africa Operate in an information-poor environment due to lack of adequate business support services and the poor information technological infrastructures (Oshikoya&Hussain, 2007). Access to information has however been not given the same attention as other constraints to growth of SMEs like access to finance, markets, technology or training.

Accessing business information services has over the years been greatly enhanced with the emergence of various information and communication technologies. In developed countries, because of well-developed information and communication technologies (ICTs) infrastructure and easy access to computer hardware and software, SMEs enjoy easy access to business information services.

In developing economies there are many challenges regarding ICTs infrastructure and the cost of IT hardware and software. This in itself has created many problems in the area of business information services for the SMEs sector. As governments and business service providers try to address the many challenges facing the SME sector, it is also important that the present use of ICTs in accessing business information services be identified in order to provide more development support in this area (Levy, 2000).

For the SMEs sector in developing countries, including Ethiopia to observe sustainable levels of growth and development, availability of business information services has been identified as one area that needs attention from governments and business services providers. Many SMEs in Africa and Ethiopia specifically, operate in an information insufficient environment due to lack of adequate business support services and the poor information technological infrastructures (Oshikoya and Hussain, 2007). Access to information has however been not given the same attention as other constraints to improve the performance of SMEs like access to finance, markets, technology or training (Kauffmann, 2005).

Availability of business information services for SMEs over the years has been enhanced with the emergence of various information and communication technologies. In developed countries, SMEs enjoy easy access to business information services due to well-developed information and communication technologies (ICT) infrastructure and easy access to computer hardware and software while in developing economies there are many challenges regarding ICT infrastructure and the cost of IT hardware and software. This has brought many challenges in the area of business information services for the SMEs sector. Despite the effort of governments and business service providers try to address the many challenges facing the SME sector, it is also necessary to note that SMEs identify and adopt the present use of ICT in accessing business information services in order to provide more development support in this area (Levy, 2000).

A research study conducted by Cacciolatti, Fearne and McNeil (2011) indicated that SMEs that make good use of structured marketing information services experienced higher probability of performance growth. Mahmoud (2011) concluded that the higher the level of market information resulted in greater the level of performance in Ghanaian SMEs. The study of Keh et al (2007) showed that there was a positive relationship between availability and utilization of business information and the performance of the firm.

2.1.6.3 Access government regulation and policy on performance of MSEs

The Government can occur up with policies that can boost and support the growth of novel technologies, products, and solutions. On the other hand, Government can likewise seem to hinder SME firm performance when it introduces policy which can restrict the autonomy, as well as the entrepreneurial freedom of some variety.

In Ethiopia, all MSEs are formal, properly licensed and subject to paying taxes as per the tax proclamation of the country. According to Addis Ababa Micro and Small Enterprise Development Bureau, there are as much if not more informal firms as are formal firms in Addis Ababa. Some of the reasons attributed to the informality are high transaction costs during licensing, contraband, illegal under invoicing of imports.

This implies that in Ethiopian SMEs operate in a difficult business environment due to the government failure in addressing the above overall problems. Among other things the lack of sources and access to finance, overregulated business environment, limited support services for innovation, technology development, and marketing limit their contribution to economic development.

Recall that it was mentioned earlier in that government policy bias favoring larger corporations was cited as a challenge for development of SMEs. They take the form of various incentives targeting the large corporations under the guise that they will speed up industrialization.

For instance, in the last five-year development policy, dubbed the “Plan for Accelerated and Sustained Development to End Poverty (PASDEP)” is a proof for the above claim because the plan grants various financial and non-financial benefits for large scale firms.

The PASDEP provides mechanisms to waive taxes on imported raw materials and industrial machineries specifically for textile and garment, cement and steel, meat and leather, and sugar industries with little benefit for SMEs (MoFD, 2006)

The absence of government commitment to ensure an enabling business environment and enhance the capacity of SMEs is another obstacle.

According to World Bank (2005), in developing countries such as Ethiopia the legal and policy framework that govern the business environment is heavily regulated.

Consequently, SMEs’ operate in this difficult policy and regulatory environment have two alternative options; to compliance with rules and regulations and or to operate the business in informal manner. But study shows that, conforming the regulation create a problem for SMEs

operation in terms of expansion, access to competitive market, and securing profit. Working in the informal sector prevents MSMEs from obtaining available limited services (Eshetu and Mammo 2009, 12-13)

2.1.6.4 Access Financial Control and Planning on Performance of SMES

The major universally indicated key problem for SMEs is lack of access to credit/finance. Credit constraints operate in variety of ways in Ethiopia where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives, is not enough to enable SMEs undertake their business activities optimally. Insufficient access to long-term finance for SMEs has forced most SMEs in Kenya to rely on high cost short term finances. The various financial challenges that SMEs face include: high cost of credit, high bank charges and fees and lack of proper infrastructure (Kauffmann, 2005).

Wanjohi and Mugure (2008) in their study revealed the extent entrepreneurs' need for credit among the common and low earning businesses as numerous money lenders in the name of pyramid schemes came up, promising hope among the 'little investors,' which they can make it to the financial freedom through soft borrowing. The reason for opting for these schemes among a good number of entrepreneurs was majorly to seek finances and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SMEs in Ethiopia.

Finding the starting capital for most business is one of the major hurdles that many entrepreneurs go through and even after obtaining the starting capital, acquiring sufficient finance to sustain business growth is yet another challenge (Carter, Greene & Hart, 2003). Study by Kinyanjui (2006) has established how SMEs are constrained by finance. Other studies by Kiiru et al (1988) for Rural Enterprise Programmed confirmed further that the chief constraint within the small business enterprise sector is financing. In the study carried in Nairobi among small manufacturing enterprises, Nyambura (2013) established that finance was rated among the biggest problem.

Eeden (2004) carried out a study on challenges facing SMEs in South Africa. The study found that finance was one of the most prominent constrains. The study further revealed that the problem related to finance included: lack of information on where to source for finance; restrictive lending offered by commercial banks; lack of access to finance; insufficient financing;

lack of track record required by the banks; limited access to collateral and inappropriate structure of financial institutions when dealing with SMEs.

Access to finance is paramount for the growth of SMEs' competitiveness, as SMEs have to invest in new technologies, skills and innovation (Basil, 2005). A wide spectrum such as this may only be tackled by mainstreaming SME development in national frameworks. It is also noteworthy to add that effort to resolve access to finance issues is not solely the responsibility of governments. SMEs need to take a better initiative like mobilizing joint advocacy and recommendations based on sound analyses through their membership organizations. Eeden (2004) suggests further that SMEs must adopt and implement sensible business practices and continuously invest in good internal management systems in accounting, planning, financial, operations and human resource management.

Ihyembe (2000) reported that SMEs claim that financing, particularly long-term financing is the greatest obstacle to growth and investment. The challenges come at two levels. In least developed economies and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment cause major obstacles for SMEs to access financing (Chu, Cynthia and McGee, 2007).

In some economies, there is inadequate capital, property rights may be a hindrance to ownership of land, underdeveloped markets don't favor the transfer of immovable assets, credit and collateral policies may not allow SMEs to access certain assets to be used as collateral (e.g. future acquired property), absence of registries increases risks to lenders for mortgages and pledges, weaknesses in legislation and in the judiciary may hamper contract enforcement and asset liquidation (Kinyanjui, 2006).

Most of these obstacles may be due to poor organizational capacity. For instance, in developing economies, underdeveloped marketing, accounting, auditing, financial management and legal counsel services and other essential services that SMEs may need when they approach banks and other types of lenders may result in SMEs not being able to access or afford such services (Cassar and Holmes, 2003).

In more advanced developing countries, where there is reasonable progress in the fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital, leasing and so on. For example, even though SMEs are the

largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also be limited (Nyambura, 2013).

Majority of the formal financial institutions consider SMEs as highly risky and commercially unviable, thus hindering them from accessing credit and worse case is in the rural areas where most SMEs are located (Hamisi, 2012). The present legal and policy framework for financial services is less supportive of smaller borrowers and needs to be addressed.

Planning was also recognized by several studies as a key factor to small business success such Lussier (1995), Lussier and Pfeifer (2001), Alasadi and Abdelrahim (2007). A business often begins with an idea that is acted upon. However, to get from the idea stage to the actual business start-up generally involves considerable Planning. In many cases, the amount of actual Planning done is dependent on the willingness of the entrepreneur to do it. Some entrepreneurs prepare business plans as a means to attain financing for their businesses while others use a plan to get all their ideas down on paper to assess whether their business idea is sound and viable.

Ahmed, Shahbaz and Mubarak (2008) suggested that no one should start a business in today's economy without a business plan. They argued that success for small businesses is achieved through planning, commitment, and time, nurturing, financing, and positioning to seize opportunities. Many of these activities must be done on a continual basis as the environment in which businesses operate is continuously evolving.

Another fact rarely considered is that the majority of new businesses fail within a few years mostly due simply to poor planning or no planning at all. Most people who go into business enter a field related to their current employment or a favorite hobby. They don't do a market study first to see whether the demand for their product or service is growing, declining or stagnating.

2.1.6.5 Access Marketing Skill and Strategy and Performance of MSES

Marketing skills, such as identifying new prospects, showing effective corporate positioning, customer handling, finding ways to efficiently advertise, and the ability to come up with new ideas are very important factors that micro and small business enterprises should possess to be successful long term survival in the future.

Temtime and Pansiri (2004) also reported in their study of Small Business Critical Success/Failure Factors in Developing Economies, in Botswana shows that; marketing activities such as product marketing, market research, and demand forecast and so forth have a greater impact on the success of small businesses performance. In this study customer relationship also reported as one of the important success factors of the small business owners. From this study report one can understand the importance of marketing skills of the business owners to be successful in their competitive environment.

Pulendran, Speed and Widing (2002), suggest that the quality of marketing planning is associated with a higher level of market orientation. Perhaps one can argue that, better quality planning assists managers seeking to implement a market orientation to achieve their goal, or conversely, market orientation assists planning by providing a clear and unambiguous goal that serves to focus the planning effort. This study also indicates that managerial functions in small enterprises are limited to routine short term focused activities, and very little emphasis is given long term competitiveness which intern has an impact on the long-term success and profitability of the enterprises.

2.2 Theoretical literature

This study is based on four theories: resource based view theory, signaling theory, the balanced scorecard and the pecking order theory. These theories are explained in detail below:

2.2.1 Resource Based View Theory (RBV)

Wernfelt (1984) came up with the Resource based view theory to advance the idea that strategy of a firm as a function of the complement of the resources held. The core of the Resource Based Model is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies. The resulting advantage can be sustained due to lack of substitution and imitation by the firm's competitors. Firms have different collections of resources (tangible and intangible assets) and no two firms are similar in terms of the resources they hold, moreover, the resources a firm holds determine how well that firm would carry out its operations. A company would be posited to succeed if it has the best and most appropriate stock of resources relevant for its business and strategy and therefore Competitive advantage ultimately can be attributed to ownership of valuable resources that enable the firm to perform its activities better than competitors thereby improving its performance. RBV describes a firm in terms of the integrated resources and that resources are limited to those attributes that enhance efficiency, effectiveness and performance of the firm (Wernerfelt, 1984). Miller and Shamsie (1996) refer that resources should have some capability to generate profits or to avoid losses.

2.2.2 Signaling Theory

Signaling theory is based on the transfer and interpretation of information at hand about a business enterprise to the capital market and the requisition of the resulting perceptions into the terms on which finances made available to the enterprise.

In other words, flows of funds between an enterprise and the capital market are dependent on the flow of information between them (Beck et al, 2008). Watson, Keasey and Baker (2000) assert that of the ability of small enterprises to signal their value to potential investors, only the signal of the disclosure of an earnings forecast were found to be positively and significantly related to enterprise value amongst the following: percentage of equity retained by owners, the net proceeds raised by an equity issue, the choice of financial advisor to an issue (presuming that a more reputable accountant, banker or auditor may cause greater faith to be placed in the prospectus for the float) and the level of under pricing of an issue.

2.2.3 The Balanced Scorecard

The balanced scorecard (BSC) suggests that managers should consider the organization's performance from four dimensions, financial perspective, customer perspective, innovation & learning perspective, internal perspective (Kaplan and Norton 1996). BSC integrates financial and non-financial measures into one measurement system. The objectives and standards of BSC are obtained from the organization's vision and strategy.

The Balanced Scorecard provides managers with a comprehensive framework that translates a company's vision and strategy into a coherent set of performance measures. Kaplan & Norton (1996) showed that the balanced scorecard not only allows the monitoring of present performance, but also tries to incorporate information about how well the organization is positioned to perform in the future. In addition, the Balanced Scorecard has evolved to become a core management tool, in that it helps the management of firms to clarify, communicate and manage strategy. In practice, companies use the BSC approach to accomplish four critical management processes, clarify and translate vision and strategy, communicate and link strategic objectives and measures, plan, set targets, and align strategic initiatives and enhance strategic feedback and learning.

2.2.4 The Pecking Order Theory

This is another financial theory, which is to be considered in relation to SMEs financial performance and management. It is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the capital structure policy (Norton, 1991). A research study by Zoppa and McMahon (2002) revealed that 75% of the small enterprises used seemed to make financial structure decisions within hierarchical or pecking order framework. According to Cassar and Holmes (2003), the Pecking Order Theory is consistent with small business sectors because they are owner managed and do not want to dilute their ownership. Owner managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations.

2.3 Empirical Literature

Conferring to Mead & Liedholm (1998) and Swierczek and Ha (2003), the main factors that affect the performance of MSEs 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. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new. Although this may be true, many new enterprises tend to be one person establishments (Mwega, 1991).

This has tended to ensure that the journey of the MSE entrepreneur in many instances is short-lived, with the statistic of MSE failure rate in Africa being put at 99 per cent (Rogerson, 2000). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick 1998), intense competition with replication of micro-businesses (Manning & Mashego, 1993; manager characteristics including lack of skills and experience (Katwalo & Madichie, 2008 and Verhees, F. M., & Meulenber, M. G., 2004).

A study by Hall (1992:237-250) has identified two primary causes of small business failure appear to be a lack of appropriate management skills and inadequate capital (both at start-up and on a continuing basis). The research undertaken in Tanzania by surveying 160 micro enterprises showed that high tax rates, corruption, and regulation in the form of licenses and permits, are

found to be the most important constraints to 24 business operations of micro enterprises(Fjeldstad et al, 2006 cited in Mulugeta, 2011).

According to JS Wiese (2014) who conducted a study on the determinant factors of sustainability shows owners or managers with more experience (managerial, sector or previous SME experience) tend to have a greater inclination towards growth and was also considered essential criteria for sustainability. Woldie, et al., (2008) and Mbugua, et al., (2014) contend that SMEs owners or managers with more experience (managerial, sector or previous small businesses experience) tend to have more growth potential than those with a lack of expected potential and also the higher the level of education attained by the owner/manager, the higher the likelihood of growth of the enterprise. Managerial skills and experience affect businesses performance at certain level. Since small businesses account for sizeable proportions of economic activity, therefore, and since they are an importance source of dynamism and innovation, small business management skills should be a primary focus for economic policy in general and for innovation strategies (Keith, 2001).

As per Simeon and Lara (2005) MSEs appear to be disproportionately afflicted by the underdeveloped nature of financial institutions in developing countries. For various reasons ranging from a lack of collateral to bias against small firms, MSEs tend to face greater financial constraints than do larger firms. The study done in Kenya related to financial management of MSEs identified the heavy investment in inventory ties up capital which in the end reduces firm“ profitability therefore, there is need for a tradeoff between receivables and holding inventory if the firm is to attain the required profits (Charles et al., 2014). Marketing activities such as product/service marketing, marketing research and information and promotion impact negatively on the performance of SMEs due to lack of marketing skills by SMEs owners. The study conducted in Nigeria by Ebitu et al., (2015) identified most of problems encountered MSEs are marketing related some of which include inability to apply modern marketing techniques and strategies, difficulty in managing the firm’s advertising and other promotional tools, competition from large firms, lack of adequate research, poor and mundane production technology, lack of adequate financing of marketing activities, poor quality products and problems of standardization, warehousing, inventory control, and poor transportation facilities, branding/packaging, financing and credit facilities, and risk bearing among others. These problems are capable of impeding, disrupting and hindering the growth, development and

expansion of the firms in its effort to satisfy its target market and also create value for the organizations. According to Noghor (2015), MSEs are facing challenges brought about by changes in technological environment; hence they are failing to keep abreast of these changes. Large businesses, because they have the advantage of being technologically advanced, end up poaching the MSE market niche and resulting in MSEs being kicked out of the game. Failure not to employ the latest technology means producing at higher cost than do competitors in the market thus, eventually exiting the market due to tough competition.

Though MSEs are considered an important source of job creation and economic growth, their survival is a difficult task for managers for they have typical characteristics that end up becoming barriers to their development. According to Olawale, (2014) reason for failure are lack of management experience, lack of functional skills, poor staff training and development, poor attitudes towards customers, unavailability of a logistics chain and a high cost of distribution, competition, rising costs of doing business, lack of finance and crime. The reason for failure of MSE identified by Mariana, (2014) lack of customer, previous experience in the field of business, lack of knowledge or managerial experience, lack of government policies to support small business, the lack of bank credit. A study has been conducted by Abera (2012) on Factors Affecting the Performance of Micro and Small Enterprises by using stratified random sampling of 261 MSEs from two major sub cities of Arada and Lideta in Addis Ababa.

According to this study, the main internal factors identified were management factors which include poor selection of associates in business, lack of strategic business planning, and costly and inaccessible training facilities. The major entrepreneurial factors include lack of persistence and courage to take responsibility for one's failure and absence of initiative to assess one's strengths and weakness. He further noted that the contextual factors such as financial, workings premises, marketing and infrastructure had very high effects on the performance of MSEs compared to other factors in the research area and is prevalent to the businesses. In a survey conducted on MSEs in selected cities in Ethiopia by MUDC (2013), they identified a number of factors including inadequate coverage of the support services, low level of education among the operators, limited relevance of the trainings and exclusion of the most of the private MSE operators from the support services provided by the government. The other study which has similar finding indicates Drbibe et al., (2013) lack of access to finance, lack of knowledge and

skills, lack of working premises, lack of access to market, lack of necessary support from relevant institutions, shortage of raw materials, and regulatory problems as major challenges.

The major constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. According to Gebreyohannes (2015) Market is the major constraint that highly hinders the firms' performance for all sectors in the manufacturing MSEs. About 43% of the enterprises' sales performance is below their expectation level and in few 18 cases there is no sale at all. This problem is attributed to lot of factors as the location of the working premise and the display facilities is away from the main road, burden of tasks in the entrepreneurs, lack of competitive business skill, lower price of product offered by the informal sector and promotion of the sector is focused more on its role in poverty reduction than its business role as quality products and thus the customers came with expectation of lower price than to get quality products with fair price in the market.

As indicated in survey of Assefa et al., (2014) the MSEs were inquired to identify the major business constraints hampering their business. Access to finance tops the constraint list where 37.7% of the MSEs reported it as a key constraint. The financial constraints facing MSEs is one of the critical bottlenecks for the growth of MSE. Some of the more common problems facing MSEs include failing to get the loan they applied for and when they do, it is after a very long loan procedure. Repeated delays in loan delivery affect their business. The upper loan limit set by the MFIs falls short of the loan requisite of MSE. Especially matured MSEs usually find it very hard to meet their loan requirements from MFIs. The MSEs feel that the interest rate and service charges are very high given the business environment MSEs operate with. Literatures on MSEs, particularly those done in Asella, are not conducted on financial performance aspects of the sectors. This research is therefore, meant to address the factors determining the financial performance of MSEs in a holistic way by targeting and deeply investigating those operators engaged in construction, service, manufacturing and trade activities by capitalizing on operators in Asella town administration.

As clearly stated in Terfasa et al., (2016) access to finance appears to be a very severe or major obstacle as reported by about 55% and 64% of micro and small scale enterprises respectively. The problem of access to finance is more severe for small enterprises compared with micro enterprise as the latter often have access to microfinance institutions (MFIs) as their loan requirement is within the capacity of MFIs.

2.5 Synthesis of the Review

Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may not well be equipped to carry out managerial routines for their enterprises (King & McGrath, 2002). Management experience related to the owner/manager and the enterprise. Desouza and Awazu (2006) argue that management is concerned with the deployment of material, human and finance resources with the design of organization structure. Hayton (2003) observes that the growth of many enterprises of all sizes, suggest that the scarcity of competent managers is a more serious constraint on economic development. As the enterprise becomes larger, the more need for managers to plan, coordinate and control the activities of the enterprise. Keyser et al. (2000) found that in Zambia lack of starting capital was a common problem for entrepreneurs, as only 24% received a loan to start their business. Another study by Koop et al (2000) established that the amount of starting capital was positively related to business success. Other negative factors that have been identified include corruption, poor infrastructure, poor location, failure to conduct market research and the economy (Kiggundu, 2002). The study therefore seeks to establish factors that influence the performance of micro and small business enterprises' performance in Addis Ababa.

2.5 Conceptual framework

According to Mugenda and Mugenda (2003) conceptual framework is a diagrammatic presentation of the relationship between dependent and independent variables. In this study, the dependent variable is performance of SMEs while independent variables are financial control and Planning, Marketing Skill and strategy, Government regulation and policy, availability of business information services, and Management Experience as presented in figure 1

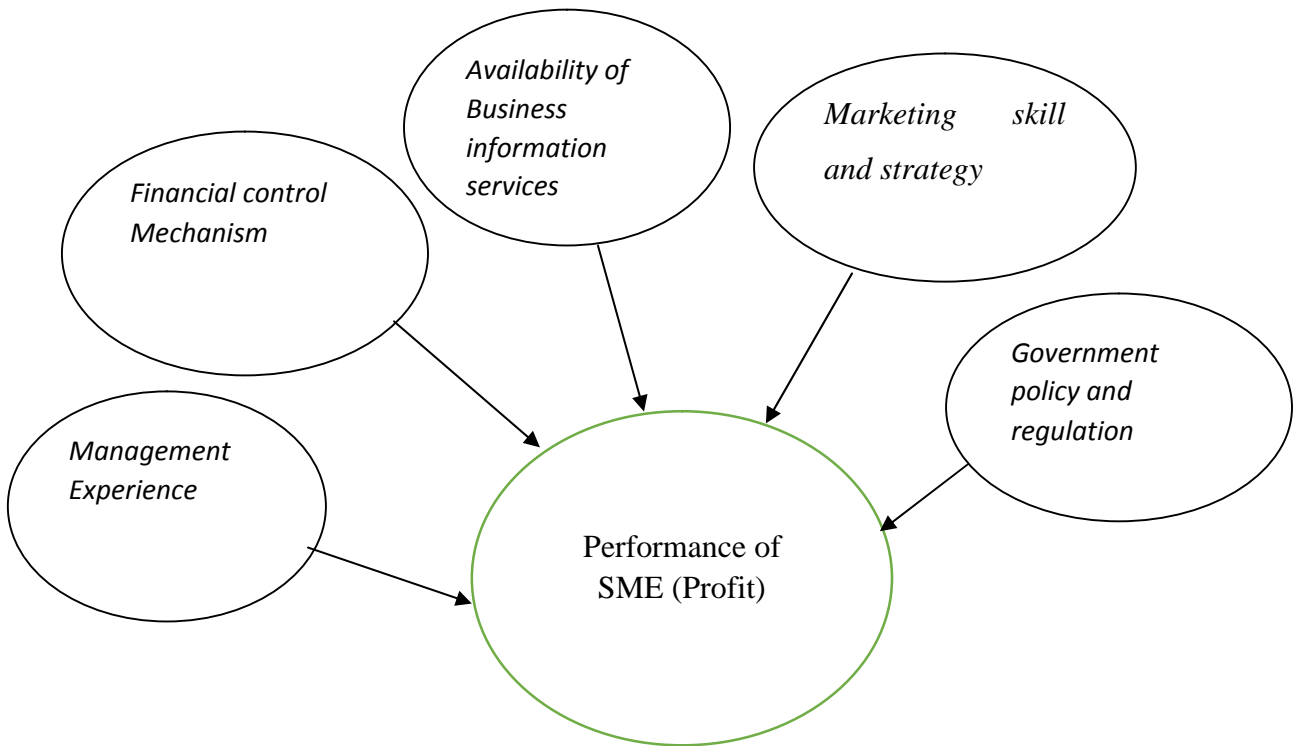


Figure 2.1 Frame work of the research that shows the relation between the independent variables with dependent variable.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter describes the research design, population and sample size determination, data collection methods, sampling design, research instruments, and method of data analysis. Research methodology is a process that used to analyze the data with the purpose of generating the required information. The purpose of this chapter is to state out the background of the research methodology. This chapter describes how the research will have carried out in terms of research design, data collection methods, sampling design, operational definitions of constructs, measurement scales, and methods of data analysis will be included in this study.

3.1 The Research Approach

In the study, a qualitative research method was used. Qualitative data was associated with the opinions of the respondent and different scholars regarding the influence of various factors to business performance.

3.2 Research Design

The study used descriptive and inferential statistics. According to (Schindler and Cooper, 2001) descriptive study is defined as one that is concerned with the description of phenomena and characteristics associated with a subject population (finding out who, what, when, where and how of a topic). The research design is expected to be appropriate, and the researcher needs to find out the impact of government regulation, business information service, management experience, financial and market strategy factors on the performance of MSE businesses. And inferential statistics helps to determine the relationship between dependent and independent variable under the study.

3.3 The Research Methods

3.3.1 Sampling Techniques and Sample Size

The population of the study was members of those MSEs found in Bole and Kirkos sub city (180 individuals) which grouped under food and beverage production, construction and metal and wood work. For this study purpose the researcher used simplified formula of Taro Yemane (1967) sample size determination that helps to calculate sample size.

Taro Yamane's formula for sample size determination stated that a simplified formula to calculate sample sizes= $n = N / (1 + N(e)^2)$. Where n is – Sample size N is Total population the researcher will use 5% sampling error and 95% confidence level. The sample size calculated by $180 / (1 + 180(0.05)^2) = 124$. Hence out of the total population of 180 sample size determined will be 124.

For the purpose of the study the researcher used probability sampling method (Stratified sampling) which may have resulted in more reliable and detailed information and also helps to draw sample representative form population of the study that does not constitute homogeneous group. In order to form stratum, the researcher was used the stated enterprise categories and followed proportional allocation method from each stratum. And after allocating the sample size of each stratum researcher drawn items using simple random sampling.

Stratum based on category	Population (N)	Proportion of population in stratum (Pi)	Sample size from each stratum (n)
Food and Beverage	63	$63/180 = 0.35$	43
Construction	18	$18/180 = 0.1$	12
Metal and wood work	99	$99/180 = 0.55$	69
Total	180	1.00	124

3.3.2 Data collection techniques and procedures

The study was based on primary and secondary sources. The literature review totally depends on secondary sources while the analysis depends on primary sources specifically questionnaires and interview.

Primary data collected from MSE operators through questionnaire and interview .This was completed by the owner managers/or operators of the enterprises.

The questionnaire is dividing into three main sections. The demographic and general data regarding the owner and the enterprise are discussed on the first section. While the second section includes group factors that affect the performance of SMEs, these are: management experience of the owners', business information service, government regulation and policy, financial control and planning and marketing skill and strategy mechanism of the principal owner.

This section is designed according to a five points in Likert scale form. The scale for each factor ranged from 1= strongly disagree to 5= strongly agree. However the last sections were open ended question if any of the respondents like to mention any comments that could be useful for the study.

3.3.3 Data analysis techniques

The purpose of data analysis is to reduce accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper and Schindler, 2011). The collected questionnaire was first edited for clarification in case of any inconsistencies. The response was then coded, and scores from the questionnaire summarized. The data analysis is quantitative in nature and uses descriptive statistics where mean and standard deviation, frequency distribution and percentages were applied. Data was organized in terms of the research questions and presented using tables.

The median and mode could be a better type of average measure for this kind of statistical data. But, they do not give enough information for the entrepreneurs and researchers. However, the mean is much more familiar to them and that is why it will be used.

The most significant factors in the questions will be found on the basis of the mean of the answers. If the mean of the answers is high compared to the means of the other answers, the

factor will be meaningful, and if the mean of the answers is low compared to the others, the factor will be of little importance. Lin (1998).

Additionally, inferential statistics allows inferring from the data through analysis, the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable. So for the study purpose the researcher used use Pearson correlation coefficient to determine relationship between the variables and testing the hypotheses.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the presentation of data, analysis and interpretation. During the study, questionnaire paper was distributed to collect the necessary data. The data collected from employees using the questionnaire distributed is presented by using descriptive statistics. The employee demographic characteristics such as gender, age, education level, and job category and service year will be presented.

4.2 Response Rate

For this study, a total of 124 questionnaires were distributed to the individuals/members/ currently working in stated MSE which found in Bole and Kirkos sub city those grouped operating in food and beverage, metal and wood work and construction type of business to assess impact of factors affect success of MSE. Out of total questionnaires distributed 90% returned.

4.3 Demographic Characteristics of Respondents

This part commences with the analysis of the demographic data gathered from the respondents using frequencies and percentages. Accordingly, the general respondent's characteristics including: sex, age, marital status, educational level and work experience are presented in Table 4.1 below

Table 4.1 Demographic Characteristics of Respondents

	Frequency	Percentage
Gender		
Male	73	65.2%
Female	39	34.8%
Age		
20-30	55	49%
31- 40	44	39.3%
41- 50	13	11.6%
Education level		
10+ 1-3	35	31.25%
Diploma	52	46.4%
Degree	23	22.3%
Enterprise category		
Construction	52	46.4%
Metal and wood work	28	25%
Food and beverage	32	28.6%
Age of the business		
1-3	35	33%
4-6	62	55.35%
7 and above	13	11.6%

From the Table 4.1 above, it is possible to deduce the following facts. The overwhelming majority of the respondents 73 (65.2%) were males and the rest 39 (34.8%) were females. This implies that enterprise was dominated by male individuals more.

As per the above table, 49% of the respondents were below 30 years, 39.3% were between 31-40 years, 44% were between 31-40 years and 11% were between 41-50 years. The age of the respondents was important as different age groups have different challenges in operating their businesses. Young businessmen may not be having enough experience and capital to grow their businesses while aged businessmen may be.

Related with qualification, 31.25 % of respondents indicated that had 10 +1-3 as their highest level of education, 46.4 % said they were college graduates in diploma and 22.3 % of the respondents were university graduates while. These findings show that the respondents had attained different levels of education. Education levels affect the management levels hence the higher education level attained by the businessman the more it is assumed that they can make better decisions to grow the business. This however may vary from one businessman to another.

From the shown above table, 46.4% of the respondents are construction, 28.6% are in Food and beverage business and the remaining 25 % are in metal and wood work business, this shows that the respondents were drawn from various business types hence more appropriate in finding out the factors affecting their performance in the market. The various business types included in the study makes the study more exhaustive in establishing the factors affecting performance of SMEs in Kirkos and bole sub city.

From the table 33% had being in operation for less than 3 years, Majority 55.35% for between 3-6 years and 11.6 % were above 7 years. These findings show that the respondents had operated in the market for different period ranging from less than 3 years to more than 7 years. These findings show that the respondents had operated their business within the market for a long period hence is more informed on the factors affecting SMEs performance.

4.4 Descriptive Statistics

Under this section the data collected through questionnaire from selected sample size of organization under the study are presented.

The central tendencies measurement of construct in this part was to illustrate the value of mean and standard deviation for the dependent variable and the independent variables. In section B, there is total 25 questions contained in the questionnaire were introduced. All the questions were being examined by using the SPSS software and also measured by using the Likert Scale. For example, 1 indicated “Strongly Disagree”, 2 indicated “Disagree”, 3 indicated “Neutral”, 4 indicated “Agree”, and lastly 5 indicated “Strongly Agree”.

Table 4.2 Descriptive statistics on government regulation (means and standard deviations)

Statement	Mean	Standard deviation	Rank
License processing to start the business affect business performance of SME.	4.36667	0.61495	1 st
Taxation policy and regulation affect business performance of SME	4.23333	0.56832	2 nd
Effect of government policies and regulations affect performance of SME Through provision of training and development	4.2	0.71438	3 rd
Government regulation on liberalization of the economy affects business performance of SME.	4.16667	0.64772	4 th
<i>Grand Mean and Standard Deviation</i>	4.24	0.622	

Source, own data 2018

Therefore, from here it can be concluded that among the government policy and regulation factors the License processing to start the business was the major obstacle for the startup and expansion of business performance (MN=4.366, SD=0.61). According to interviewees, there still exists an overly bureaucratic government system that often results in unnecessary delays in compliance and is excessively costly.

This includes a complex system, lengthy procedures and rules. For example, registration of a business, getting working places, payment of stamp duty among others. For enterprises found in AddisAbeba, this poses a major challenge and cost as the owners of the business would need to close for days in order to travel to concerned governmental offices to access these services sometimes without success.

The case of MSEs to do business they have to get registered and licensed. Every registered business has to record their costs, revenues and give receipt for customers. But other small businesses initiated by owners do not go through those processes which gives them advantages of paying tax random estimation. But for MSEs organized by government, everything is difficult to get receipt for merchandise or material purchase which leads to generalization of least costs and high revenue. Finally this shows high false profit. Due to this, majority of MSEs prefer not to continue in such manner, but either to leave the work or to return the license.

From the in-depth interview with different parties, they do not need to rent a place for running their currently working without taking license from government office. Most of these businesses are traditionally known as “ayerbayer”

According to World Bank (2005), in developing countries such as Ethiopia the legal and policy framework that govern the business environment is heavily regulated.

Consequently, SMEs’ operate in this difficult policy and regulatory environment have two alternative options; to compliance with rules and regulations and or to operate the business in informal manner.

Table 4.3 Descriptive statistics on business information service (means and standard deviations)

Statement	Mean	Standard deviation	Rank
Business information is readily available in this market	4.16	1.08	1 st
The information available is relevant for our business.	3.32	0.95	4 th
The information available informs us of the changes in the business environment	3.72	0.89	2 nd
The information available inform us of the business registration requirements	3.3	0.60	3 rd
The information necessary for our business growth is availed on time	3.18	0.62	5 th
<i>Grand Mean and Standard Deviation</i>	3.53	0.82	

Source, own data 2018

On whether the business information was readily available to them at their business environment they strongly agreed as shown by a mean of 4.16. Oshikoya and Hussain (2007) argue that accessing business information services has over the years been greatly enhanced with the emergence of various information and communication technologies. The businessmen could easily communicate with different players in the market using their mobile phones hence were able to access information concerning the operations of their systems on time.

When asked whether the information available was relevant for their business they also agreed as supported by a mean of 3.32. For the businessmen to make better decisions, the information available needs to be timely and accurate. With the advancements in communication technology, the businessmen were able to access information concerning their operations in a timely manner hence better decision making on matters affecting the performance of their businesses.

On whether the information available informed them of the changes in the business environment, the respondents agreed as supported by a mean of 3.72. Accessing business information services on a timely basis helps businessmen to develop mechanisms that would enable them face the challenges and emerge successful in their businesses. Due to the developments in telecommunications industry, the businessmen were able to access information on a timely basis hence able to develop quality decision in countering the challenges that could face them in their operations.

On whether the information available informed them of the business registration requirements they also agreed as indicated by a mean of 3.3. Scholars argues that the developments in telecommunication industry have leveraged business operations especially in as far as registration details are concerned because information is readily availed in different platforms that can be accessed by businessmen

When asked whether the information necessary for their business growth was availed on time, they agreed as supported by a mean of 3.18. In order for businessmen to make timely and quality decisions concerning their business operations, it is important that they access information about the market in a timely manner. Information needs to be timely and accurate for businessmen to rely on when making their decisions.

Respondents were interviewed issues related to business information services some entrepreneurs complained they have no information specifically on market access. That there was no clear bidding and if any, a very short period (maximum of one day or less).

Table 4.4 Descriptive statistics on management experience (means and standard deviations)

Statement	Mean	Standard deviation	Rank
Are you well prepared to face changes in the business environment and to plan appropriate changes in technology	4.06667	0.58329	3 rd
Managerial skills as the most important constraint faced while enhancing business performance of SME.	4.03333	0.71840	4 th
Lack of Managerial Experience affect performance of business	4.0	0.58722	1 st
Management provision of training and development program affect performance of SME.	4.233	0.56832	5 th
Basic managerial function (planning, organizing, staffing directing and controlling) are important in improving business performance of SME.	3.9333	0.58329	2 nd
Grand Mean and Standard Deviation	4.02	0.6	

Source, own data 2018

When asked whether they are well prepared to face changes in the business environment and to plan appropriate changes in technology the respondent agreed to a mean of 4.06667. With regard to Managerial function (Planning, organizing, staffing, directing and controlling) respondents agreed to the mean of 3.933. The basic managerial function important variable that enhance business performance of SME. Managerial skills as the most important constraint faced the respondent agreed to a mean of 4.0333. Experience is important in any business because it determines the quality of decisions made and how they impact on the performance of an organization. By seeking to understand the managerial experience of entrepreneurs in the study area, the study is able to determine how the entrepreneurs have been able to utilize their managerial experience for the success of their organizations.

Managerial experience is important in guiding the path which an organization is to follow in order to arrive at the designated goal. Managers control that acts of other staff and guide them to ensure that they build synergy for the attainment of organizational goals. Managerial experience among SMEs is important as it will influence the manner in which the SMEs operation hence how it is able to interact with the environment. Through better and experienced management, an organization is able to access financial assistance as the financial and other recorded requested by lenders may be easily availed. Management is therefore necessary to enable group or business goals to be accomplished through the functions of planning, staffing, directing, controlling activities, coordination and directing.

Table 4.5 Descriptive statistics on Financial control mechanism (means and standard deviations)

Statement	Mean	Standard deviation	rank
The source of capital (bank, saving institution, donation from family and friends) affect performance of the business	4.633	0.56832	1 st
Good financial communication within the organization efficiently and effectively	4.03333	0.71840	5 th
Certify completion of the reconciliation process.	4.5	0.58722	2 nd
Verify that all transactions initiated posted in a reasonable period.	4.46667	0.683290	3 rd
Ensure the reliability and integrity of financial information.	4.05	0.5329	4 th
Grand Mean and Standard Deviation	4.33	0.61	

Source, own data 2018

The table above showed that extent to which financial control related statement affect the performance of those MSE selected as organization of the study. From the above table we understand that with regard to question on impact of source of capital on performance of the enterprise mean of 4.633 agreed that source of fund affect performance of the business. High collateral requirement from lending institutions, Shortage of working capital, High interest rate by lending institutions and complicated loan application procedures was identified as an important factor for the performance of enterprises.

Shortage of capital was identified as the prime factor for startup and expansion of micro enterprises, operators search to raise finance within their reach i.e. the informal sectors and from personal savings, the formal institutions were not easily accessible due to high collateral, high interest rate and difficult loan application procedures. And also from the above table we understand that the basic financial control method and accounting principles has impact on performance of the business.

Table 4.6 Descriptive statistics on market strategy (means and standard deviations)

Statement	Mean	Standard deviation	Rank
Inadequate market for my product	4.28	0.66	1 st
Searching new market is so difficult	4.16	0.68	3 rd
My products are Poor quality for the market.	4.21	0.85	2 nd
Lack of establishing a market network.	4.15	0.79	4 th
Lack of promotion to attract potential users	4.05	0.66	5 th
Grand Mean and Standard Deviation	4.16	0.72	

Source, own data 2018

Among the marketing factors that affected the performance of enterprises: Inadequate market, difficulty of searching new market, Poor quality product for the market, Lack of establishing a market network and Lack of market information, the respondents were agreed that these factors are important in affecting the performance of enterprises, the response of all sectors showed that a grand MN score of above 4-point scale implies it is above agreed point and below strongly agreed point.

In an interview conducted with an operator of the MSE, it was confirmed that production area is inaccessible for market hence forced to rent a shop which in turn incurred additional costs to firms, promotion of products, searching of market and networking took more time and cost as a starter. Some of the operators believed that personal factor is significantly played a role in succeeding in marketing. From here it can be concluded that marketing factors are linked to infrastructural (access, transportation, amenities), entrepreneurial, working place, management and personal factors of customer handling, this interconnection made the marketing factors more significant. Lack of market to products emerged from the various marketing factors hence inefficiency on the other factors lead to lack of market.

Table 4.7 Descriptive statics on current performance of MSE based on business practice

Performance Factors	Mean	Standard deviation
The business is profitable	4.14	0.71
There is good sales turnover	3.32	0.65
There is good progress to reduce unemployment rate	3.34	0.69

Source, own data

From the table above it can be understood that all the sectors agreed on the profitability of the business they are engaged in this was demonstrated by the MN score observed above 4 and the SD showed that there is low variation in among the responses. From here it can be concluded that regardless of other factors the business engaged by operators are profitable. For most of enterprises are not keeping record profitability is justified by survival and covering household expenditures.

4.5 Comparison of Factors affecting on the Performance of SMSEs

Even though, all the management experience of the owners', business information service, government regulation and policy, financial control and planning and marketing skill and strategy factors affect the performance of MSEs, this does not necessarily mean that all factors have equal impact. The following table clearly compares the overall impact of all key factors discussed in detail above.

Table 4.8 Comparison of Factors affecting on the performance of SMSEs

No	Factors	Mean	Standard deviation	rank
1	Government policy and regulation factor	4.24	0.71	2 nd
2	Financial control factor	4.33	0.65	1 st
3	Management experience factor	4.02	0.64	4 th
4	Marketing skill and strategy factor	4.16	0.7	3 rd
5	Business information services factor	3.53	0.8	5 th

Source, own data 2018

The most significant factors in the questions will be found on the basis of the mean of the answers. If the mean of the answers is high compared to the means of the other answers, the factor will be meaningful, and if the mean of the answers is low compared to the others, the factor will be of little importance.

It can now be seen that Financial and Government policy and regulation factor has the biggest potential to contribute to the performance, followed by Marketing, Management, and Business information services factor. In another words, the result shows that Financial and Government policy and regulation factors were the two top most factors that affected the performance of MSE in the selected area.

4.6 Factors affecting MSE Performance and its Correlate

Micro and small enterprises considered as a vital component of the socio-economic development of both developed and developing countries, usually some of these enterprises collapse within the first few years of their start-up. Of those operating, some grow rapidly, while others grow slowly. So, it is important to identify the cause factors of success because it helps new entrants of the sector to consider the factors and use for their future in the business.

These factors could vary from one enterprise to another due to the internal and external factors. This kind of investigation of the success factor is very important for developing countries like Ethiopia because the research conclusion could be useful for the economic development planners as well as to individual entrepreneurs and business owners in the countries concerned.

For this study purpose the researcher conducted his investigation on the relationship between factors like government regulation, business information service, management experience, finance control and marketing strategy of the enterprise and current performance of the enterprise. In order to show the relationship and significance of variables under the study the researcher adopted correlation coefficient and also linear regression analysis to test hypotheses.

According to Burns and Bush (2000), inferential analysis is used to measure the generation of result from the respondents of the population based on the sample data. The purpose of inferential analysis is to evaluate the relationship between independent variable and dependent variable. The researcher use Pearson's Correlation Coefficient to test all the hypotheses .

4.6.1 Pearson Correlation Coefficient

A Pearson Correlation Coefficient is used to measure the direction, strength and significance of the relationship among the variables that measured in the form of ratio level and interval level. In addition, Hair et al. (2007) put forward the rules of thumb about the coefficient range and the strength of association.

Table 4.8 Rules of Thumb Pearson Correlation Coefficient

Coefficient Range	Strength of Association
± 0.91 to ± 1.00	Very Strong
± 0.71 to ± 0.90	High
± 0.41 to ± 0.70	Moderate
± 0.21 to ± 0.40	Small but definite relationship
± 0.01 to ± 0.20	Slight, almost negligible

Source: Hair, J.F, Jr., Money, A.h., Samouel, P. & Page, M. (2007). Research methods for business Chichester West Sussex: John Wiley & Sons, Inc.

A. Government regulation

Hypotheses 1

H0: There is no significant relationship between government regulation and MSE performance.

H1: There is significant relationship between government regulation and MSE performance.

The result shows there is positive relationship between government regulation and MSE performance because positive value of correlation coefficient. The government regulation variable has a 0.73435 correlation with the MSE performance variable. Thus, when government regulation to encourage MSE business enterprise, their business performance is high.

The value of this correlation coefficient 0.73435 is fall under the coefficient range from ± 0.41 to ± 0.70 . Therefore, the relationship between government regulation and MSE business performance is high.

Significance

The relationship government regulation and MSE business performance is significant. It is because the p-value <0.0001 is less than alpha value of 0.05.

These further support that the government policy and regulation can positively to improve the performance of MSE.

B. Accessibility of business information service

Hypotheses 2

H0: There is no significant relationship between accessibility of business information service and MSE business performance.

H1: There is significant relationship between accessibility of business information service and MSE business performance.

The result shows that there is positive relationship between accessibility of business information service and MSE business performance. Because positive value of correlation coefficient. The promotion variable has a 0.51685 correlation with the job performance variable. Thus, when accessibility of business information service is high, MSE business performance is high.

The value of this correlation coefficient 0.51685 is fall under the coefficient range from ± 0.41 to ± 0.70 . Therefore, the relationship between accessibility of business information service and MSE business performance is moderate.

Significance

The relationship between promotion and job performance is significant. It is because the p-value <0.0001 is less than alpha value of 0.05.

The result supports that accessibility of business information service has positive significant relationship with SME performance. It is because it able to provide information related with the business that help them to conduct daily business activity and to forecast future scenario.

C. Management experience

Hypotheses 3

H0: There is no significant relationship between management experience and MSE business performance.

H1: There is significant relationship between management experience and MSE business performance.

The result shows that the positive relationship between management experience and MSE business performance. Because of the positive value for correlation coefficient. Management experience variable has a 0.62014 correlation with the job performance variable. Therefore, when management experience is high, MSE business performance is high.

The value of correlation coefficient 0.62014 is fall under coefficient range from ± 0.41 to ± 0.70 . According to Rules of Thumb Person Correlation Coefficient; ± 0.41 to ± 0.70 has a moderate strength of association. Thus, the relationship between management experience and MSE business performance is moderate.

Significance

The connection between training and job performance is significant. It is because P Value is less than alpha value 0.05.

The result supports that management experience has positive significant relationship with MSE business performance. It is because management experience can provide learning opportunities and prepared them for more challenging task. Without good management experience the business will only stay on their comfort zone and unable to handle more challenging task. Therefore, Management experience is essential in every organization to improve their reputation, morale, and attitude and improve productivity in the competitive environment.

D. Financial control mechanism

Hypotheses 4

H0: There is no significant relationship between financial control system and MSE business performances.

H1: There is significant relationship between financial control system and MSE business performance.

From the result there is a positive relationship between financial control system and MSE business performance. It is because financial control system and MSE business performance have a positive value of correlation coefficient. Variable of financial control system has a 0.85673 correlation with MSE business performance variable. Therefore, when financial control mechanism is comfortable, MSE business performance are high.

The value of correlation coefficient 0.85673 is fall under coefficient range from ± 0.71 to ± 0.90 . According to Rules of Thumb Person Correlation Coefficient; ± 0.71 to ± 0.90 has a high strength of association. Thus, the relationship between financial control mechanism and MSE business performance is high.

Significance

The connection between financial control mechanism and MSE business performance is significant. It is because P-Value < 0.0001 is less than alpha value of 0.05.

It shows that the financial control mechanism is playing an important role to the business organization because a proper financial control system able to increase business performance. Without a good financial control system, business tends to become not succeed. Thus this will affect the business productivity and performance.

E. Marketing Strategy

Hypotheses 5

- H0: There is no significant relationship between marketing strategy and MSE business performance.
- H1: There is significant relationship between marketing strategy and MSE business performance.

From the result there is a positive relationship between marketing strategy and MSE business performance. It is because marketing strategy and MSE business performance have a positive value of correlation coefficient. Variable of marketing strategy has a 0.81533 correlation with MSE business performance variable. Therefore, when marketing strategy applied accordingly, MSE business performance is high.

The value of correlation coefficient 0.81533 is fall under coefficient range from ± 0.71 to ± 0.90 . According to Rules of Thumb Person Correlation Coefficient; ± 0.71 to ± 0.90 has a high strength of association. Thus, the relationship between financial control mechanism and MSE business performance is high

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This study sought to examine factors that affect the performance of MSEs in Addis Ababa, Bole and Kirkos sub city. The study was guided by research questions to establish relationship between some major factors and performance of SMEs businesses. The findings from this study may be imperative because, from the analysis of key variables, the researcher be able to come up with recommendations on the key factors to be considered in performance of the enterprises. This chapter provides the results and findings of the primary data which was obtained through questionnaire guide. The chapter provides analysis of the obtained data with the aim to respond to the statement problem of the study.

5.2 Summary of the Finding

For this study, a total of 124 questionnaires were distributed to the employees currently working in food and beverage, construction and metal and wood work enterprise which found in Bole and Kirkos sub city, out of total questionnaires distributed 112 filled up and returned with response rate of 90%. The overwhelming majority of the respondents 65.2% were males and the rest 34.8% were females.

The age interval of the respondents in this regard, the majority 49 % of the respondents in the organization were found in the age interval of 20-30 years and 39.3 % of the respondents were found in the age interval of 31-40 years and the remaining percentage were above 41 years which signifies that the organization has majority of productive age group employee, related with the respondent's level of education, 22.3% of the total respondents were first degree holders. Majority of the respondent 46.4 % and 25% were diploma and 10+ 1-3 holders respectively. This signifies that the majority of respondents were diploma holders in terms of their educational level.

With regard to service year of the business majority of the respondent 55.35 % of their business service year is between 4-6 years and 33 % of the respondent respond that their business has service year of 1-3 years and the remaining composition (11.6%) has service year above seven

years. Related with category of their business type 46.4% were construction enterprise, 28.6% were food and beverage enterprise and the remaining 25% categorized under metal and wood work enterprise. In general, the results of the demographic characteristics of the respondents indicate that they can clearly understand and respond to the questions provided to them to gather the primary data.

From the findings of the descriptive analysis of factors , the study established that financial control and planning affected the performance of SMEs as supported by a high mean on the respondents responses First the study established that the sources of capital for SMEs differed ranging from own savings, bank loans, and donations from family and friends among other sources. However, the entrepreneurs in this market were found not to have enough capital to finance their business operations. They only had access to moderate capital which limited their ability to take advantage of opportunities as and when they arose.

The study concludes that most of the respondents measured the performance of the business the number of customers and that the government policy and regulations affect the performance of the business to strongly agree through taxation, licenses, through creation of support funds and through liberalization of the economy.

The availability of managerial experience affected the performance of SMEs. The entrepreneurs were well prepared to face changes in the business environment and to plan appropriate changes in technology. Managerial skills were found to be the most important constraint faced the respondent. Managerial experience is important in any business because it determines the quality of decisions made and how they impact on the performance of an organization

Further this study indicates that, marketing factor includes inadequacy of market, difficulty of searching new market, lack of demand forecasting, lack of market information and absence of Relationships with an organization/association that conduct marketing research are the major obstacles of financial performance of MSEs.

Finally findings of the study established that accessibility to business information services affected the performance of SMEs.

Even though, all the management experience of the owners', business information service, government regulation and policy, financial control and planning and marketing skill and

strategy factors affect the performance of MSEs, this does not necessarily mean that all factors have equal impact. Financial and Government policy and regulation factor has the biggest potential to contribute to the performance, followed by Marketing, Management, and Business information services factor.

The result from Pearson Correlation Coefficient test shows that all independent variable has significant relationship with employee MSE business performance. The value of three variables is within the range of coefficient range of ± 0.41 to ± 0.70 which consider the relationship of independent variable and dependent variable is moderate and also the value of two variables is within the range of coefficient range of ± 0.71 to ± 0.90 which consider the relationship of independent variable and dependent variable is high. The result show that government regulation is 0.734, business information service value is 0.516, management experience value is 0.620, and financial control mechanism variable value is 0.856 and marketing strategy variable value is 0.815.

The outcome of the research shows that all MSE business success factors have positive and significant impact on business performance of MSE. The research able to provide bench mark for the organization to realizes the importance and ways of improving those success factors in order to enhance MSE enterprise.

5.3 Conclusions

This research was conducted with the prime objective of assessing the relationship between MSE and factors affecting the performance of MSE operators engaged in food and beverage, construction and wood and metal work sectors of MSEs in Bole and Kirkos Sub City of Addis Ababa. Specifically, the study attempted to examine the relationship between government regulation, business information service, Management experience, financial control mechanism and marketing strategy and performance of MSEs. Based on the findings of the study, the following conclusions were drawn.

In line with the result of the findings, the correlation result of this particular study showed all the variables (factors) included in this particular study were statistically significant and therefore, affects the performance of SMEs and also has relationship with performance of the business in the study area.

The result from Pearson Correlation Coefficient test shows that all independent variable has significant relationship with employee MSE business performance. The value of three variables is within the range of coefficient range of ± 0.41 to ± 0.70 which consider the relationship of independent variable and dependent variable is moderate and also the value of two variables is within the range of coefficient range of ± 0.71 to ± 0.90 which consider the relationship of independent variable and dependent variable is high. The result show that government regulation is 0.734, business information service value is 0.516, management experience value is 0.620, and financial control mechanism variable value is 0.856 and marketing strategy variable value is 0.815.

5.4 Recommendations

As per the study find out, factors like government regulation, business information service, management experience, financial control and marketing strategy determine micro and Small Enterprises performance found in Bole and kirkos sub city. Thus, micro and Small Enterprise managers, directors, governmental bodies and all stakeholders should consider about factor that encourage business performance of MSE in designing out strategies to improve their performance.

- ✚ Regarding the factors related with management experience of enterprises owned by individuals with previous management experience have better performance as compared with those MSEs Operators who have no previous management experience. Therefore, MSE enterprise and other government bodies are better to work on preparing training programs on management issues and creating experience sharing opportunities especially to those enter into the sector without any previous business background.
- ✚ The MSEs Operators are better to enhance their marketing skills through proper training and experience sharing with other successful medium and large scale enterprises. In addition to this marketing skills, such as setting competitive price for their products, creating good interpersonal relationship with customers and the way of promoting their outputs to the customers in an effective manner. Moreover, the government bodies, non-government bodies sub city micro and small enterprise agency and the other stakeholders are better to assist them by searching market for their products which is produced by the MSEs operators, by doing this, they are try to save them from losses.
- ✚ To overcome the problems related to establishing and starting the MSEs businesses, it is needed primarily to conduct market assessment. This can identify and prioritize the type of MSE business, to pin point the sources of inputs to identify the working place and other premises to establish and to start the type of business. Moreover, it is required to train and council the MSEs in developing saving culture and to generating initial capital by themselves.
- ✚ Concerning to the source of finance, the major sources of finance or funds for most of MSEs operators at the study area are by borrowing money from microfinance institutions. The reason for emphasizing on informal sector is that the requirement of collateral/guaranty is relatively rare as compared with formal sectors like banks but the informal sectors like MFIs are unable to provide/supply enough credit to them as they

want. Therefore, Bole and Kirkos sub city micro and small enterprise agency in cooperation with other government bodies have to develop comfortable source of finance for MSEs by organizing and supporting the performance of MFIs and other source of finance. This can be done by communicating with the banks and other credit institutions to minimize their requirements to provide fund. By doing so, the MSEs can get enough access to finance for their business activities.

- ✚ The FMSE office in consultation with the government should review the current Institutional frame works of the lowest administrative offices and Microfinance institutions. The FMSE office should establish a digitally networked business registration system that can register MSE operators from anywhere, this will eliminate bias in registration, and provide license within a short period of time by assigning MSE extension officers to facilitate. The office in consultation with the customs office should made a very fair registration and licensing fee and provides grace period for tax. The Microfinance institutions should review and simplify loan application procedures, the level of collateral and interest rates that can be easily accessed and affordably utilized by MSEs. Assigning of trained MSEs extension workers at grass root level is vital in providing technical support, information required about the political legal requirements and facilitate on the day to day support needed.
- ✚ To make MSEs competitive and profitable, increase the capacity, knowledge and skill of the operators, experience sharing from successful enterprises, and provision of advice and consultancy, continuous capacity building initiatives and accessibility of relevant technologies should be availed by the government.
- ✚ Having identified some of the challenges facing SMEs in Bole and Kirkos sub city, the researcher prescribed some strategies that the government and its agencies responsible for SMEs, and SMEs themselves may adopt. The government should play a leading role in educating SME practitioners on the incentives available to them and how to access them. These incentives should be delivered through an establishment that really cares for the success and sustainability of SMEs in the country.
- ✚ Finally, the study sought to investigate the internal and external factors that influence performance of SMEs that operates in Bole and Kirkos sub city. However, the variables used in the statistical analysis did not include all factors that can affect SMEs performance in the area. Thus, future researchers could incorporate external factors such as corruption, size of the enterprise and inflation rate.

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**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA IN PROJECT MANGEMENT**

Questionnaire for the survey on the analysis and description of the Impact of success factors of micro and small business enterprises in Addis Ababa

Researcher:

Dear Respondents

The main purpose of this questionnaire is to gather information about the Impact of success factors of micro and small business enterprises in Addis Ababa for the partial fulfillment of the requirements for Masters of Business Administration-Project Management. The outcome of this study will be used for academic purpose only.

Therefore, your genuine response to the questions is vital for the quality and successful completion of the study. The accuracy of the information you provide highly determine the reliability of the study.

Contact Address:

If you have any query, please don't hesitate to contact me. I am available as per your convenience at – Tele -

Thank you in advance for your unreserved cooperation!

Part I: Demographic profile of respondents

Please indicate the following information by ticking [x] on the space provided.

1. Gender:

1-Male

2- Female

2. Age A. 18-25 b 26-33 C 33- 41 D 41 and above

3. Educational status:

A. 10+1-3

B Diploma

C Degree

4. Type of business you involved in

A. Construction B. Metal and wood work C. Food and beverage

5. Age of your business

A. 1-3

B. 4-6

C 7 and above

PART II: ISSUES RELATED WITH THE STUDY AREA

Here are some statements as regards the influence of accessibility to business information Services, managerial experience, marketing strategy and financial control system on the performance of micro and small Business enterprise. On a scale of 5-1 where 5=strongly agree, 4= agree, 3= neutral, 2= disagree, 1= strongly disagree, please indicate your level of agreement with each statement by ticking.

S.N O	Items	Rating Scale				
		1(SD)	2(D)	3(N)	4(A)	5(SA)
	Government Regulation					
1	The government policies and regulations affect performance of SME businesses.					
2	Taxation policy and regulation affect business performance of SME.					
3	License processing to start the business					

	affect business performance of SME.					
4	Government regulation on liberalization of the economy affects business performance of SME.					
	Availability of business information system					
1	Business information is readily available to us					
2	The information available is relevant for our business.					
3	The information available informs us of the changes in the business environment					
4	The information available inform us of the business registration requirements					
5	The information necessary for our business growth is availed on time					
	Management experience					
1	Well prepared to face changes in the business environment and to plan appropriate changes in technology					
2	Managerial skills as the most important constraint faced while enhancing business performance of SME.					
3	Lack of Managerial Experience affect performance of business					
4	Management provision of training and development program affect performance of SME.					
5	Basic managerial function (planning, organizing, staffing directing and controlling) are important in improving					

	business performance of SME.					
	Financial Control Mechanism					
1	The source of capital (bank, saving institution, donation from family and friends) for your business are sufficient.					
2	Good financial communication within the organization efficiently and effectively					
3	Certify completion of the reconciliation process.					
4	Verify that all transactions initiated posted in a reasonable period.					
5	Ensure the reliability and integrity of financial information.					
	Marketing Practice					
1	Inadequate market for my product					
2	Searching new market is so difficult					
3	My products are Poor quality for the market.					
4	Lack of establishing a market network.					
5	Lack of promotion to attract potential users					
	Performance Factors					
1	The business is Profitable					
2	There is a good Sales turnover					

4	There is good progress to reduce unemployment rate					
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PART III: NTERVIEW QUESTIONS FOR MSE OPERATORS

1. what were the problems you face

A. At the time of establishment of the business

6. At the running of the business

2. What were your solutions?

A. For problems at the time of establishment of the business

B. For problems at the time of running the business
