



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**GROWTH CONSTRAINTS OF MICRO AND SMALL ENTRPRISES  
IN ADDIS ABABA: A STUDY IN WEREDA 3 OF GULLELE SUB  
CITY**

**BY**

**SURAFEL AMHA (SGS/0232/2007A)**

**JANUARY, 2017  
ADDIS ABABA, ETHIOPIA**

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## **LIST OF ABBREVIATIONS AND ACRONYMS USED**

EEA	Ethiopian Economics Association
FeMSEDA	Federal Micro and Small Enterprises Development Agency
GDP	Gross Domestic Product
MN	Mean
MSEDA	Micro and Small Enterprises Development Agencies
MSE	Micro and Small Enterprise
MSEs	Micro and Small Enterprises
MUDC	Ministry of Urban Development & Construction
No.	Number
OECD	Organization for Economic Cooperation and Development
SD	Standard Deviation
SEDA	Small Enterprise Development Agency
Sig.	Significance
SPSS 20	Statistical Package for Social Sciences Version 20
Std.	Standard
TVET	Technical Vocational Education and Training
USAID	United States Agency for International Development
UNIDO	United Nations Industrial Development Organization
USD	United States Dollars
Vs.	Versus



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## **ABSTRACT**

*In developing countries like Ethiopia, micro and small enterprises comprise the largest part of the industrial sector. They are among the most important economic development agents through creating employee opportunities and contributing a significant share in gross domestic product of a country. The benefits of micro and small enterprises to a country will be maximized if they perform well and grow into medium enterprises leaving their place to the rise of new micro and small enterprises. Growth of micro and small enterprises requires identification and minimization of constraints that hinder their performance through a holistic and effective micro and small enterprises support service. This research tried to identify the main constraints that limit the growth of micro and small enterprises in wereda 3 of Gullele sub city. Eight constraints that limit the growth of micro and small enterprises were selected for the study, quantitative data was collected and analyzed from micro and small enterprises. The results showed financial factors as having the highest influence on growth of micro and small enterprises. High collateral requirement and interest rate from lending institutions, complicated loan application procedures of lending institutions and inadequacy of credit institutions are the major challenges for micro and small Enterprises in wereda 3 of Gullele sub city. The results indicate the demand for improved support service from micro and small enterprises across wereda 3 of Gullele sub city.*

# CHAPTER 1 INTRODUCTION

## 1.1 Background of the Study

The contribution of micro and small enterprises (MSEs Hereafter) to national economies is widely acknowledged. According to World Bank, micro and small enterprises play a major role in most economies, particularly in developing countries. Formal MSEs contribute up to 45 % of total employment and up to 33 % of national income (Gross Domestic Product) in emerging economies. These numbers are significantly higher when informal MSEs are included (World Bank, 2015).

The Federal Micro and Small Enterprises Development Agency of Ethiopia was established before 72 years and has passed through different institutional names. In 1998, Federal Micro and Small Enterprises Development Agency (*FeMSEDA* hereafter) was re-established according to Regulation of the council of Ministers 33/1998. The Ethiopian government has given due attention to strengthen MSEs and took a decisive measure for the development of the sector. As a result, the Council of Ministers approved Regulation No.201/2011 and re-structured the Federal Micro and Small Enterprises Development Agency again to enable the agency achieve its objectives (FeMSEDA, 2015). The key objectives of micro and small enterprises development program are to create a reliable support for the development of competitive domestic industries and private sector, create employment opportunities and thereby reduce poverty. Focus has been given to enable micro and small enterprises produce goods and services which are competitive initially in the domestic market and then gradually in the international market, ensure a rapid technological transfer and expand to all cities of the country (Ibid.).

Various supports have been provided by the Ethiopian government to establish new MSEs and to promote the existing ones in to medium enterprises. In order to build the entrepreneurship and technical capacity of enterprises, technical skill development and business management training and counseling have been provided to operators of MSEs. To solve problems related to capital and machinery of enterprises, credit services sales and manufacturing premises and other supports have been provided (FeMSEDA, 2011).

Empirical studies suggest that the growth and performance of MSEs in sub-Saharan countries are highly affected by factors such as sources of finance, infrastructure and lack of marketing

opportunities (MUDC, 2013) .Although improvements have been registered during the last few years the performance of MSEs in Ethiopia has fallen short of expectations due to various challenges. These include, problems related to finance, access to market and low competitiveness, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure (EEA, 2015). In its Economic report update, the World Bank has mentioned challenges in MSEs of Ethiopia including financial constraints, poor market segmentation, and availability of working area, infrastructure and tax administration (World Bank, 2015) .The challenges mentioned on the reports were also confirmed by some of the owners of MSEs and the development sector employees in the Gullele sub city.

As one of the sub cities of the Addis Ababa city admiration, the Gullele sub city has registered and gives support to MSEs in five major business sectors. This study was therefore conducted to investigate, identify and measure factors that constrain the growth of the MSEs in the Gullele sub city, Wereda 3 so that the support bureau of the Wereda will use the study to facilitate support delivery.

## **1.2 Statement of the Problem**

In most developing countries, MSEs constitute the vast majority of firms, generating a substantial share of both overall employment and gross domestic product (USAID, 2005). In order to tap into the potential of SMEs for development and poverty reduction, development partners and SMEs themselves need to address a number of challenges so that graduation of as many enterprises as possible into medium sized enterprises is possible (OECD, 2004). MSEs have been recognized by the Ethiopian government as a tool for the poverty reduction and economic development of the country (FeMSEDA, 2011). Various types of supports have been provided by the FeMSEDA to make sure that MSEs will perform well regardless of the factors constraining their development. These include providing financial support and trainings, Educational or Management skill development, providing working premises, Market development and networking, and providing technological development (FeMSEDA, 2015).

Despite the vital role of MSEs in building a competitive private sector and contributing significantly to economic growth and job creation, MSEs are facing more challenges around the

world in general and in developing countries in particular (Abada et al., 2015). Despite the focus and support provided to MSE sector, the performance of the industry in Ethiopia has fallen short of expectations due to the various factors affecting the growth of MSEs. These include financial problems, access to market, business information, working premises, lack of managerial and technical skill and access to appropriate technology (EEA, 2015). MSEs engaged in manufacturing activities have been growing by rate slower than the growth by large and medium scale manufacturing industries over the last decade. Also, the share of manufacturing MSEs in GDP of the country has declined from about 1.6 % in 2004/05 to 1.3 % in 2012/13. The loan repayment performance of MSEs has declined from 89.6 % in 2010/11 to 68% in 2013/14 (Ibid.) . According to the World Bank (2015), only 3% of MSEs in Ethiopia get a loan or financial credit service. Furthermore, 75% of the MSEs consulted by the World Bank confirmed working premise challenges. Other challenges mentioned by World Bank include insufficient infrastructure and inopportune rules and regulations. It has been found that the support service of MSEs in Ethiopia does not cover the majority of MSEs. 78.5% of MSEs do not receive financial support, 71% have no access to working premises and 76% have never had a training support (MUDC, 2013).

The growth of SMEs is dependent on a range of internal and external factors. However, there is no clear understanding or specific theory to show MSEs are affected by definite constraints of growth (Stokes, 2010). Studies by Lussier, 1996) and Dragnic (2014), have listed out the most challenging factors that influence MSE growth across different parts of the world. The studies also showed the precise effect on growth by these factors. Similarly Reeg et al. (2013), Abada et al. (2015), Hampel-Milagrosa (2014), SEDA (2012) and USAID (2005) have showed the constraints of MSE growth and also stressed on the importance of examining both internal and external constraints to fully understand their effect on growth of MSE. Studies by Weldegebriel (2012), Ermias (2011), Dereje (2012), Kokobe (2015), Bizusew (2015) and MUDC (2013) have showed the relationship between MSE growth and its constraints in Ethiopia. While Bizusew (2015) and MUDC (2013) focus on the lack of MSE support, Weldegebriel (2012), Ermias (2011), Dereje (2012) and Kokobe (2015) have not include all the possible factors from both internal and external environment. As the constraints of MSE growth consists of threats against both internal capabilities of the enterprises and the external opportunities, it is important to investigate all the possible factors of growth (Sun, 2004), (Papadiki and Chami, 2002),

(Olawale and Garwe, 2010). The existing Ethiopian studies therefore lack a holistic view in examining all the internal and external factors. Clearly, there is a gap studying the effect of both the internal and external factors affecting the growth of MSEs in Addis Ababa, especially in Gullele sub city.

This study was therefore conducted to fill the gap that was created due to lack of knowledge to fully understand the effect of constraints on MSE growth from both internal capabilities of MSEs and the external business environment in Wereda 3 of Gullele sub city. The study will be useful in identifying the most influential factors constraining growth in Wereda 3 of Gullele sub city. The study will be a useful input for the MSEDAs of Gullele sub city to focus on these most influential factors and minimize the factors through support delivered to the MSEs of Wereda 3.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The general objective the study is to examine the factors constraining the growth of MSEs in Wereda 3 of Gullele Sub city.

#### **1.3.2 Specific Objectives**

1. To identify the most influential factors constraining the Growth of MSEs in Wereda 3
2. To study the perception of MSEs on the adequacy of support provided in Wereda 3
3. Forward viable recommendations to minimize the challenges associated with growth of MSEs in Wereda 3

## 1.4 Research Questions

The study developed the following questions;

1. What are the most influential factors that constrain the growth of MSEs in Gullele sub city Wereda 3?
2. How do MSEs of Wereda 3 perceive about the adequacy of support delivery?
3. What is the growth trend in Wereda 3 with respect to capital accumulation?

These research questions were answered by collecting and analyzing available and relevant data from selected MSEs.

## 1.5 Research Hypothesis

This study tested the following hypothesis:

**Ho1:** The internal firm capabilities and business environments of Ethiopia aimed at MSE development do affect the growth of MSEs in Wereda 3 of Gullele sub city

**Ho2:** The internal firm capabilities and business environments of Ethiopia aimed at MSE development do not affect the growth of MSEs in Wereda 3 of Gullele sub city

## 1.6 Significance of the Study

The research is significant in identifying constraints that hinder the growth of MSEs with in the sub city and further identify the major constraints of Growth. The Gullele sub city MSEDAs can be benefited from this study to further facilitate its support to the MSEs and identify the major challenges.

The study brings a holistic view of studying constraints of growth from both the capability of the MSEs and the external business environment in Gullele sub city, Wereda 3. The study opens a way of investigating the challenges of MSEs which can be extended to investigate other sub cities or towns of the country. The study will also be useful input to Government policy makers and researchers who are interested on investigating challenges that are depicted on the MSEs of the city.



## 1.7 Scope and Limitations

Due to time and financial constraints the study investigated the constraints affecting the growth of MSEs in Addis Ababa, particularly in Wereda 3 of the Gullele sub city. Although there are various factors affecting the performance of MSEs, this study focused on the most frequently mentioned constraints on literatures reviewed. These constraints are also the ones which MSEs get support from the FeMSEDA. These constraints are *politico-legal, working premises, technological, infrastructural, marketing, Financial, Management and Entrepreneurial*. It must be noted that the study was cross-sectional (i.e. data was taken only once for the study) both in study population and time of investigation.

It must be noted that from the various aspects of firm growth indicators change in capital accumulation was chosen as indicators such as production output and sales volume are not easy to access from the MSEs and they differ from one sector to the other. It is expected that the study might be limited by the lack of access of correct information from the business owners of MSE due to their suspicion that disclosing information regarding their business.

## 1.8 Operational Definitions of Terms

***Change in capital:*** is the ratio of the current accumulated capital of a small enterprise to its initial paid up capital that started the business.

***Entrepreneurial constraints:*** Lack of motivation and drive to manage business. Lack of tolerance and courage to take risks. Absence of opportunity to have entrepreneurial trainings.

***Enterprise:*** is a unit of economic organization engaged in the business of delivering goods and services to customers.

***Factors:*** A factor is any influential trait that constrains growth of micro and small enterprises.

***Financial constraints:*** The lack of MSEs to access capital sources such as loan and collaterals, lack of their financial strength and cash management ability,

**Growth:** In this paper growth is defined in terms of Change in capital of the enterprises.

**Infrastructural constraints:** Absence of infrastructure surrounding the MSE premise such as electricity, water supply, and transportation service. Lack of support on the development of infrastructural facilities.

**Management constraints:** Lack of a strategic planning skill, absence of training and experience in management skills.

**Marketing constraints:** Lack of a strong market connection of SMEs with their customers. Lack of demand forecasting and lack of promotion skills to attract potential customers. Poor customer relationship and handling of SMEs.

**Micro and Small Enterprises:** Any enterprise that operates with a man power not exceeding 30 people and has a paid up capital of not exceeding 1.5 million birr.

**Politico- Legal constraints:** These are constraints related with the various rules and regulations and the political intervention the government imposes in the MSE industry.

**Respondent:** respondents are those individuals who are owners or employees of an enterprise.

**Support Service:** Any assistance or aid by the government or non-governmental institutions that will increase the performance and growth of micro and small enterprises.

**Technological constraints:** Constraints due to absence of modern machinery and equipment. Lack of knowledge to use new technology. Inadequacy of support on technological advancements.

**Working Premise constraints:** Constraints associated with the lack of convenient, available working premise and high rental costs of working premises. .

## CHAPTER 2 LITERATURE REVIEW

### 2.1 Definitions of MSEs

There is no universally accepted definition of MSEs across the world. The understanding of categorizing firms as MSEs varies not from country to country, but also among officials of the multilateral development institutions. The criterion for defining MSEs can be the annual revenue, asset value or the number of employees (Gibson and Van der Vaart, 2008).

Table 2.1: *MSE Definitions Used by Multilateral Institutions*

Institution	Maximum Number Of Employees	Maximum Revenues (USD)	Maximum Asset (USD)
World Bank	300	15,000,000	None
Inter-American Development Bank	100	3,000,000	None
African Development Bank	50	None	None
Asian Development Bank	No Official Definition. Uses only definitions of Individual National Governments		
United Nations Development Program	200	None	None

*Source:* Gibson and Van der Vaart (2008)

Another way of defining MSEs is distinguishing them from large businesses by their characteristics of management, market share and independence (Berisha and Pula, 2015). The *management definition* states that MSEs are managed by their owner(s) in a personalized manner. The *Market share* of MSEs is relatively small in economic terms when compared with larger firms. MSEs are *independent* in the sense that they do not form part of a larger enterprise. They are relatively free from outside control in their principal decisions (Ibid.).

*Table 2.2: Qualitative MSE Definitions by the United Nations Industrial Development Organization (UNIDO)*

Category	MSEs	Large Companies
Management	Proprietor-Entrepreneurship Functions linked to personalities	Manager-entrepreneurship Division of labor by subject matters
Personnel	Lack of university graduates All-round knowledge	Dominance of University graduates Specialization
Organization	Highly personalized contacts	Highly formalized communication
Sales	Comparative positions not defined and uncertain	Strong competitive position
Buyer's Relationships	Unstable	Based on long term contracts
Production	Labor intensive	Capital intensive, economies of scale
Research Development	Following the market, intuitive Approach	Institutionalized
Finance	Role of family funds, self-financing	Diversified ownership structure, Access to anonymous capital market

*Source: UNIDO as cited in Berisha and Pula (2015)*

### MSE Definitions in Ethiopia

MSEs are defined in Ethiopia in the following way:

***Micro Enterprises:*** A micro enterprise in the industrial sector (manufacturing, construction and mining) is one which operates with up to five people including the owner and/or has total assets not exceeding Birr 100,000 (about 5,000 United States Dollars). Similarly, for activities in the service sector (retailer, transport, hotel, tourism, ICT and maintenance), a micro enterprise is one which operates with up to five people including the owner and/or has total assets not exceeding Birr 50,000 (about 2,500 United States Dollars).

***Small Enterprises:*** A small enterprise in the industrial sector is one which operates with between 6 to 30 persons and/or has paid up capital or total assets not exceeding Birr 1.5

million. Similarly, a small service sector enterprise is one that has between 6 and 30 persons and/or has total assets or paid up capital of Birr 500,000 (FeMSEDA, 2015).

Table 2.3: *MSE Definitions in Ethiopia*

Type of Enterprises	Sector	Man power	Total asset
Micro Enterprise	Industry	≤ 5	≤ birr 100,000
	Service	≤ 5	≤ birr 50,000
Small Enterprise	Industry	6-30	≤ birr 1500000
	Service	6-30	≤ birr 500,000

Source: *FeMSEDA (2015)*

According to FeMSEDA (2011), the main sectors of MSEs in the country are the following.

1. *Manufacturing Sector:* Textile and garment, Leather and leather products, Food processing and beverage, Metal works and engineering, Wood works including furniture and ornaments service and Agro-processing.
2. *Construction sector:* Sub-contracting, Building materials, Traditional mining works, Cobble stone, Infrastructure sub contract, prestigious goods.
3. *Trade sector:* Whole sale of domestic products, Retail sale of domestic products and Raw materials supply.
4. *Service sector:* Small and medium rural transport service, Café and Restaurants, Store service Tourism service, canning/packing service, Management service, Municipality service, Project engineering service, Product design & development service, Maintenance service, Beauty salon, Electronics software development ,Decoration and Internet café.

5. *Agriculture sector (urban agriculture)*: Modern livestock breeding, Bee production, Poultry, Modern forest development, Vegetables and fruits, Modern irrigation, and animal food processing.

## 2.2 Significance of MSEs for Economic Development

MSEs have a significant role to play in Economic development in general and in industrial development in particular. MSEs form the backbone of the private sector, make up over 90% of enterprises in the world and account for 50 to 60% of employment (UNIDO, 2000). In developing countries, MSEs comprise the largest part of the industrial sector and are among the most important development agents in society. MSEs offer many millions of poor people around the world the possibility of earning money, training, work experience and employment (Hampel-Milagrosa, 2014).

MSE growth has a direct effect on Gross Domestic Product (GDP) growth due to increased output, value add and profits. The GDP contribution per MSE is the difference between the return on capital and the cost of capital. Returns on capital are often high, with different datasets showing ranges up to 20-30% a month, which is considerably higher than typical interest rates. The relationship between increased MSE growth and GDP growth is touched upon in the World Bank's report, Finance for All: *"If entry, growth, innovation, equilibrium size, and risk reduction are all helped by access to and use of finance, it is almost inescapable that aggregate economic performance will also be improved"* (Dalberg, 2011). MSE growth also impacts GDP indirectly, through increased innovation and macro-economic resilience of the overall economy. A stronger MSE sector can support a country's resilience by broadening and diversifying the domestic economy, thereby reducing the vulnerability to sector-specific shocks and fluctuations in international private capital flows (Ibid.).

## 2.3 Firm Growth

Enterprise growth is the development process that enterprise keeps the tendencies of balanced and stable growth of total performance level (including output, sales volume, profit and asset gross) or keeps realizing the large enhancement of total performance and the stage spanning of development quality and level (Sun, 2004) .

In the meanings of enterprise growth, following three connotations are contained:

**The time property of enterprise growth:** The premise to analyze the growth of enterprise is long period in which the long-term development tendency and process of enterprise are observed, and it is not the status of enterprise in certain time point

**The dynamic property of enterprise growth:** The growth of enterprise is not a stable process without troubles. In the growth process, enterprise always transits from balance to unbalance, and the result is to transit from unbalance to balance and from lower balance to higher balancer through unbalance.

**The enterprise growth is the unification of quantity and quality:** The increase of quantity is embodied in the extension of enterprise scale such as the increases of sales volume, market share, production value, asset gross and employee. The growth of quality is embodied in the enhancement of enterprise quality, which includes the technological innovation ability from immature to mature production technology, the optimal efficiency of investment and output, the organizational innovation and reform (Ibid).

According to the **life-cycle model**, growth of a firm can be seen as a progression from smaller to larger firms as it passes from start-up, expansion, maturity and diversification stages (Yang, 2006). Some firms do disengage from the growth trajectory of the life cycle. The two disengagement stages are lifestyle and capped growth. In the case of lifestyle firms, the concerns generally have few if any growth aspiration; they principally exist to provide their owner managers with a source of employment and income. Therefore, as long as the owner managers of these firms earn a living, there is no real reason why they should grow in size (Ibid). Capped growth on the other hand refers to those firms that do not grow to where formal organization, financing and management practices are required (SIEID, 2004). This is usually the result of a conscious and deliberate decision by the owner-manager to restrict the firms expansion out of a desire to avoid risk, minimize surrender of control, uncertainty and the general problems associated with hiring more employees, winning new markets, developing new products or securing new capital investments (Ibid).

Generally, the term “business growth” is used to refer to various things, such as increase in total sales volume, increase in production capacity, increase in employment, increase in

production volume and increase in the use of raw material (Delmar et.al, 2003). Business growth is typically defined and measured using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins (Ibid). FeMSEDA (2015) recognizes three growth levels in MSEs of Ethiopia: the *startup level* where an enterprise begins production and service under legal framework or legal entity, *the growth level* when the MSE's total capital is greater than the start-up level, and *the maturity level* when an enterprise is able to be profitable and invest further by fulfilling the definition given to the sector and using the support provided.

## 2.4 Growth Constraints of MSEs

A firm faces internal and external constraints that affect its growth (Reeg et al., 2013). Internal factors deal with the characteristics and attitude of the entrepreneur(s) and the firm as a whole. These factors can be impacted by the decisions made in the firm either by the entrepreneur(s) or the staff in the firm (Nkonoki, 2010). External factors are the result of decisions, rules and policies that affect a small firm directly, and in response the firm has not really control over the decisions made (Ibid.). Factors in a business environment may have either a negative or positive effect on the growth or failure of MSEs (Setsoafia et.al, 2015). When they have a negative impact, the factors are regarded as constraints since they hinder the growth and sometimes survival of enterprises (Ibid). Business constraints limit physical capital accumulation, constrain a firm's ability to undertake its daily operations by reducing its internal financing and its capacity to make proper business decisions, they also interrupt a firm's business operations and therefore hinder its growth (Ishengoma and Kappel, 2008).

**Financial Constraints:** One of the major constraints of growth of MSEs, as mentioned in different studies is limited access to finance and limited knowledge of financial management (Okurut and Bategeka 2006). MSEs are usually financed from owner's wealth and/or by accessing external sources of finance, whether from informal sources such as family and friends, or from formal, market-based sources such as banks, venture capitalists and private equity firms. Once businesses are trading, further development can be financed using retained profits (Olawale and Garwe, 2010). Lack of access to external finance affect MSEs decisions to upgrade their equipment, machinery and technology; this is because by making new investments they further constrain their limited internal sources of financing (Ishengoma and Kappel, 2008). Since most



banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new enterprises and the growth and survival of existing ones will be hindered (Mishra et al, 2009).

***Politico- Legal Constraints:*** These are constraints related with the various rules and regulations and the political intervention the government imposes in the MSE industry (Reeg et al., 2013). Strict regulations and high taxes may keep firms small and informal, thereby contributing to increased transaction costs from problematic property rights protection and contract enforcement (Mboniyane & Lanzani, 2011). Regulatory and institutional challenges may also deter MSE owners from making growth-enabling investments. For example, import duties on capital equipment may excessively hurt MSEs (Ibid.).

***Working Premise constraints:*** For MSEs, lack of premise is unquestionably a serious problem. Most informal operators do not get access to suitable locations where they can get easy access to markets (Olawale and Garwe, 2010). The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of micro, small and medium enterprises who aspire to grow their businesses (Eshetu & Mammo, 2009).

***Technological constraints:*** MSEs with modern machinery and equipment tend to be more successful (Berry et al., 2002). Lack of knowledge to use new technology also affects growth (Ibid.). According to Morse et al. (2007), technological capabilities benefit SMEs in several ways: they enhance SME efficiency, reduce costs, and broaden market share, both locally and globally. As noted by Lee (2001), a small business that adopts greater levels of technological sophistication can be expected to grow more rapidly than a similar firm that does not. Romijn (2001) and Yusuf (2003) point out that low technological capabilities hinder and discourage SMEs from fully reaching their potential. As noted by Hampel-Milagrosa (2014), countries with high levels of technological development tend to have high levels of entrepreneurial growth.

***Infrastructural Constraints:*** The MSEs located closer to urban centers often have better access to services such as compared to those in poorer rural areas (Berry et al., 2002). The necessary

services for business survival and growth include access to water, electricity, accessible roads, telecommunications, postal services and protection from crimes are available in the urban areas (Clover and Darroch, 2005). Olawale and Garwe (2010) pointed out that geographical proximity to either potential buyers or suppliers produces a form of enhanced environmental scanning that enables MSEs to be easily identified and exploit growth opportunities in the market.

***Marketing Constraints:*** Marketing skills have been considered as one of the most effective factor to firm survival and growth (Van Scheers, 2012). The lack of marketing skills has a negative impact on the growth of small businesses (Ibid). Lack of personal initiatives to search for market, failures to properly use the market linkage opportunities, lack of detailed support packages on marketing and limited market information hinder MSEs to access market for their products which result on poor sales of products and limited growth (Berihu et al., 2014).

***Management Constraints:*** Managerial competencies are sets of knowledge, skills, behaviors and attitudes that contribute to personal effectiveness (Hellriegel et al., 2008). The competence of the manager is the ultimate decider of whether the firm will grow or fail (Ibid). According to Stokes (1995), as the business develops, growth can be prematurely reduced by the inability to draw others into the management of the enterprise. Managerial competencies are very important to the survival and growth of MSEs as Martin and Staines (2008) found that lack of managerial experience and skills are the main reasons why new firms fail.

***Entrepreneurial Constraints:*** The characteristics of the entrepreneur are widely accepted as vital ingredient that influences growth of a firm (Marom, 2014). Research indicates that particular characteristics of the entrepreneur that are associated with growth of the enterprise include motivation, previous management experience and demographics of the entrepreneur (Stokes, 2010). If the entrepreneur's reasons for starting the business originated in pull or opportunity driven motives rather than push or necessity driven motives, the resulting enterprise is more likely to grow (Dutta, 2009). Characteristics such as the attitude of an individual in taking risks, motive of going into self-employment, his or her managerial abilities to raise capital and perceive new markets will enable his/her business to grow faster (Papadiki and Chami, 2002).

## 2.5 The MSE Support Service and Support Service Requirements

### 2.5.1 MSE Support Service

In order to be the potential contributor for the economic development, MSEs must be competitive enough in their market and at a certain point in time; they must be graduated or grow in to medium enterprises leaving the door open for the creation of new MSEs (OECD, 2004). The need for a sustainable, competitive and finally fully developed MSE is achieved by a continuous and effective institutional support services delivered to MSEs by the government or non-governmental organizations so that the various challenges or factors that affect the performance of MSEs are minimized (World Bank, 2014).

In Ethiopia, the Federal Micro and Small Enterprises Development Agency (FeMSEDA) reporting to the Ministry of Urban Development, Housing and Construction provides various supports to establish new MSEs and to develop the existing ones in to medium enterprises. The various services the agency provides to the MSEs in Ethiopia include financial support, trainings on business management and technical skills, working premises allocation and creation of marketing linkages (FeMSEDA, 2015).

### 2.5.2 Support Service Requirements

White (1999) indicated international experience in the promotion of the micro and small enterprise sectors has found that the following principles are important:

*Commercial orientation* – It must be recognized that business promotion services are not the same as welfare or social services; businesses have a productive capacity, they create profit, they can repay loans and can grow to employ others;

*Based upon initiative* – Small business promotion initiatives should be based upon the initiative and enterprise that comes from businessmen and women themselves, not the local authority.

*Improve the capacity to manage risk* – Effective small business promotion services do not remove risk, instead they help entrepreneurs to deal with the risks that are a part of every enterprise.

*Appropriate targets* – So that business-people are not treated the same, successful enterprise support programmers should identify variations amongst local business people and their skills, experiences, status, needs, aspirations and capacity to obtain resources – all of which influence their ability to successfully establish, run and expand a small business.

*Comprehensive in nature* – Addressing one area of need or constraint to small business development will not be sufficient if other needs remain which are not being addressed; successful enterprise promotion programs provide a wide range of services either under one roof or in collaboration with other agencies.

*Complementary services* – Ensuring that the training, advice and support provided complements other services.

*Sustainability* – To ensure that the implementation of any initiatives are cost effective and not dependent on a single source of external support, be it technical, organizational or financial.

*Equity* – So that those in a position of disadvantage are assisted in ways specifically designed to address their situation, whilst ensuring that the support mechanisms are designed in such a way as to take account of issues such as sustainability and an overall commercial orientation.

Barton (1997) summarized indicators that can help distinguish between business development service programs that exhibit superior performance characteristics and those that are less effective with respect to the delivery of specific services, as listed below.

### **1. Responsiveness to MSE demands**

Business development service programs must contain mechanisms for identifying and responding to client demands. The importance of structuring service packages so they meet the needs of MSE clients rather than focusing on the needs of the implementing organization or the particular services that are easiest for program designers to supply is increasingly being recognized as best practice.

### **2. Market oriented service packages**

The basic test of high-performing business development service programs is whether they focus on real market opportunities. It does little good to spend a lot of time and effort training small businesses to make products that are not suited to the demands of the market or that offer little

potential for growth. MSEs need business development services that help them escape from the limitations imposed by the increasingly saturated, low-income markets they currently serve, while identifying and gaining access to a new, higher-growth (but realistic) market opportunities.

### **3. Realistic plans for dealing with the business aspects of service delivery, income requirements and expenses, to ensure their operations are financially viable or sustainable**

Business development service programs must demonstrate a realistic strategy for becoming sustainable. Public and private donors are increasingly less interested in funding activities that address temporary problems and then fade away. A scarcity of public funds means program designers have to demonstrate that proposed new efforts will lead to institutional arrangements that can be sustained without continued infusions of public or donor funds.

### **4. Realistic strategies for developing the scale and coverage of their operations**

To attract funding and justify their use of development funds, successful business development service programs need to demonstrate they can make a difference on a scale that catches the attention of Potential donors, public or private. A promising means of achieving acceptable levels of scale in the delivery of services is to focus on problems shared by large numbers of firms in the same industry, trade, or subsector.

## **2.6 Empirical Studies**

### **2.6.1 International Empirical Studies**

Lussier (1996) conducted a study on the factors that lead firms in the United States to either success or failure. The study investigated the effect of 15 common factors that have been previously used in 22 earlier studies and showed that 10 of the 15 factors influence MSE growth. The most influencing factors from Lussier (1996) study were access to financial resources and the macroeconomic environment of the business. Lussier's work was tested in Israel by Marom (2014) and found out that if small businesses have adequate starting capital, maintain good

record keeping and financial control, have management experience, have specific plans, make use of professional advice, and have good economic timing, they will increase their chances of success.

Dragnic (2014) in Croatia confirmed that eight internal factors (business entity size, life cycle stages, technology and product innovation, organizational autonomy, centralization and formalization, market roles, and type/importance of goals) and three external factors (general state of the economy, sector, and type of customers) have a more or less significant impact on sales growth and achievement of goals of MSEs.

Reeg et al. (2013) investigated what leads to the growth of MSEs in the countries Egypt, India and the Philippines and found out that there is a consistency in the growth constraints among the three countries. The common constraints were lack of educational experience, lack of financial strength, staffing, lack of market research ability and lack of access to working premises. Other studies which listed constraints of growth Abada et al. (2015) in Algeria, and Hampel-Milagrosa (2014) in Philippines.

. A study conducted in South Africa by SEDA (2012) gave a comprehensive view of the MSE challenges in South Africa and mentioned need and support requirements MSEs expected from the MSE service support provider. The paper also assessed the relevance and effectiveness of support service provider in the country which include lack of follow up support and mentorship after initial support has been provided, too much focus on targets in terms of the *numbers* of MSEs supported rather than on the *quality* of support, Length of time it takes to respond to applications for support, Products and services are pitched at a level that is too high for some MSEs, Support caters more appropriately for established businesses rather than start-ups and time constraints prevent Business Advisors from adequately assisting their clients.

### **2.6.2 Empirical Studies in Ethiopia**

Weldegebriel (2012) found that the major challenges of MSEs in Kirkos, Yeka and Kolfe sub cities are lack business plan, lack of formal and informal association, lack of favorable business environment, high cost and shortage of raw materials, lack of proper institutional support, lack of proper marketing practice, and stiff competition among MSEs in the same

business line and medium and large companies. Ermias (2011) found that challenges MSEs face in Gullele sub city include lack of sufficient capital, government rules and regulations, poor marketing and shortage of raw materials. However the paper did not show the amount of effect of these challenges on the growth of the MSEs within the sub city. Dereje (2012) found that financial institutions contribute positively to the growth of MSEs in Addis Ababa city. Kokobe (2015) showed that asset growth of the MSEs in Addis Ababa varies significantly with the type of MSE business, their record keeping trend, borrowing trend and competition level of the industry.

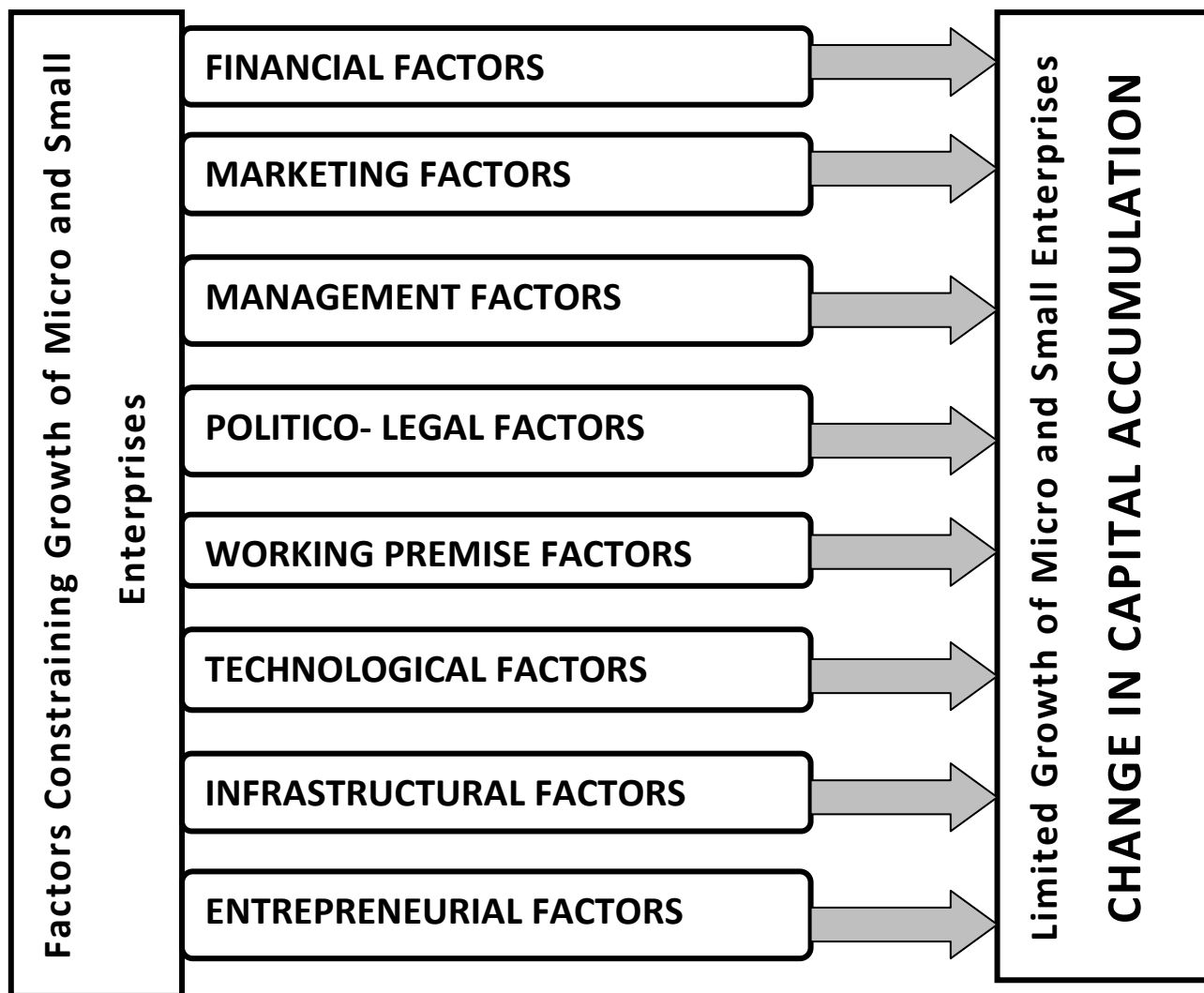
Bizusew (2015) showed that micro and small enterprises operating in Bahr Dar city have been facing various constraints that need additional effort from MSE support providers. The effort that has been delivered by the support providers appeared to be very low. Micro and small enterprises found it very difficult to access alternative financing, market for their products, adequate trainings and advisory services, infrastructure, quality inputs and skilled labor to improve productivity and maintain the required standards of quality. This in turn affected their products' marketability and negatively contributed towards their negotiation capacity to grow and continue in operation.

MUDC (2013) conducted a research on 3000 MSEs selected from 13 major urban areas of Ethiopia. showed that despite considerable efforts made by the government to provide various support services, the opinion of MSEs varied across types of ownership—whereby the majority (78.5%) of those under sole-proprietorship pointed, they didn't receive supports like credit services, while 71.0% of all enterprises didn't access working premises. In the contrary, those organized in cooperatives (67.0%) indicated they were getting necessary support services. Equally, about 76.0% of all operators did not receive training while greater proportions (71.0%) organized under cooperatives (government initiated) have got those trainings. About 21.4% of all enterprises registered more than 50.0% annual capital growth, while 46% of those organized under cooperatives have registered more than 50.0% capital growth, which is more than double the gross average. The survey also identified numerous challenges encountered by the MSEs, although their extent varied across cities. Consequently, shortage of finance (42%) was principal challenge, followed by lack of working premise (28.3%) and lack of access to market (18.1%) for MSEs in the regional cites. Conversely, lack of access to land was the most crucial bottleneck

(26.4%) followed by problems of finance (25.6%) and access to market (25.1%) for constraining performances of MSEs in Addis Ababa.

## 2.7 Conceptual Framework

Figure 2.1: Conceptual Framework



Source: Compiled Based on reviewed literature



As shown in figure 2.1, the effect of eight constraints on growth (capital accumulation of MSEs) is considered to be independent of each other. Due to the capability of the MSEs and the external forces in the business environment the growth of MSEs is hindered by these factors.

## CHAPTER 3 RESEARCH METHODOLOGY

### 3.1 Research Approach

Creswell (2009) classifies research approaches as qualitative, quantitative and mixed and further explains quantitative research is “*is a means for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures*”.

Since the study required the analysis of quantitative data to examine the factors affecting the growth of MSEs in Wereda 3 of Gullele sub city, quantitative approach was used.

### 3.2 Research Design

Saunders et al. (2009) defines research design as the general plan of how a researcher will go about answering the research questions and classifies research designs as:

- Exploratory
- Descriptive and
- Explanatory

The main objective of this research is to examine the factors constraining the growth of MSEs in Wereda 3 of Gullele Sub city.

This study used explanatory design to examine the constraints that affect the growth of MSEs in Wereda 3 of Gullele sub city because explanatory studies emphasize on studying a situation or a problem in order to explain the relationships between variables (Saunders et al., 2009). The study also used descriptive methods to describe the capital accumulation trend of MSEs in Wereda 3. Descriptive designs are appropriate for this purpose because they are useful to describe characteristics of objects, people, groups, organizations and “paint a picture” of a given situation by addressing *who, what, when, where, and how* questions (Zikmund et al., 2009).

### 3.3 Research Methods

#### 3.3.1 Sampling Techniques

The Addis Ababa city administration is composed of 10 Sub cities. Each sub city and each Wereda within the sub city has its own MSE support bureau. Due to time constraint and proximity of the area being convenient to collect data, Wereda 3 of the Gullele sub city was chosen as the study area. **Stratified proportional sampling** was used to select sample MSEs based on the sector the MSEs are working on. These are *Construction, Manufacturing, Service, Trade and Urban Agriculture*. From the sample frame of 452 MSEs in the Wereda, 10 belong to the *Urban Agriculture*, 37 in *Construction*, 250 in *Manufacturing*, 41 in *service* and 114 in *trade* sectors. The reason for selecting proportional stratified sampling is to ensure that the sample will accurately reflect the population on the basis of the criteria used for stratification (Zikmund et al., 2009).

To get a representative sample size the following formula was used in sample size determination. An appropriate sample size is based on a number of accuracy factors that one must consider. This process consist of five steps: *Determine Goals, Determine desired Precision of results, Determine Confidence level, Estimate the degree of Variability and Estimate the Response Rate* (Watson, 2001 cited in Admasu, 2012).

$$n = \frac{\frac{Z^2 + \frac{P[1-P]}{N}}{R}}{R}$$

Where, n = sample size required=219

N = number of population=452

P = estimated variance in the population = 50% (commonly used)

A = margin of error = 5% (assuming 95% error free precision)

Z = confidence level = 1.96 (assuming 95% confidence)

R = estimated response rate=95%

Thus a total of 219 MSEs were selected and questionnaires were distributed to the respondents proportionally according to their sector (strata) as shown below.

Agricultural Sector=  $10 \times (219/452) = 5$  respondents

Construction sector=  $37 \times (219/452) = 18$  respondents

Manufacturing sector=  $250 \times (219/452) = 121$  respondents

Trade sector=  $114 \times (219/452) = 55$  respondents

Service Sector=  $41 \times (219/452) = 20$  respondents

The final step in determining the respondents were to use systematic random sampling for each strata using interval size of 2. Each 2<sup>nd</sup> respondent were selected for the five strata from the sample frame.

### 3.3.2 Data Collection Techniques and Procedures

#### 3.3.2.1 Methods of Data Collection

The study used primary source of data collection to get a comprehensive data for analysis and to achieve objectives of the research.

Survey was used to collect relevant data from the MSE operators. Surveys are popular as they allow the collection of a large amount of data from a sizeable population in a highly economical way, often obtained by using a questionnaire administered to a sample; these data are standardized, allowing easy comparison (Saunders et al., 2009). The questionnaire used for the study was adapted based on the data requirement to answer the research questions from previous studies including Dragnic (2014), Reeg et al. (2013) Admasu (2012), Weldegebriel (2013) and Njanja (2009).

#### 3.3.2.2 Reliability and Validity of Data Collecting Instruments

**Reliability of a quantitative instrument** refers to the extent to which data collection techniques or analysis procedures will yield consistent findings (Saunders et al., 2009). The reliability of a standardized test (the questionnaire) is usually expressed as a correlation coefficient: Cronbach's

Alpha. Alphas should be between 0.70 and 0.99 and Low alphas indicate poor internal consistency of a scale and thus poor degree of reliability of the instrument (Ntoumanis, 2000). In this study each statement in the questionnaire was rated on a 5 point likert scale which includes *strongly agree, agree, undecided, disagree* and *strongly disagree*. Each scale was rated from 1 to 5 consecutively were 1 represents *strongly disagree* and 5 represents *strongly agree*. Based on this an internal consistency reliability test was conducted with a sample of 20 operators and the Cronbach’s Alpha coefficient for the instrument was found to be > 0.70 as shown below which shows a reliable instrument.

Table 3.1: Reliability Test Results

Constraints	Number of Items	Cronbach’s Alpha
Politico-Legal	5	0.79
Working Premise	3	0.73
Technological	5	0.87
Infrastructural	6	0.87
Marketing	7	0.84
Financial	6	0.86
Management	7	0.72
Entrepreneurial	7	0.75

Source: SPSS 20 outputs based on survey

**Validity of the quantitative instrument** measures whether one can draw meaningful and useful inferences from scores on the instruments. The three traditional forms of validity to look for are content validity (do the items measure the content they were intended to measure?), predictive or concurrent validity (do scores predict a criterion measure? Do results correlate with

other results?), and construct validity (do items measure hypothetical constructs or concepts?) (Creswell, 2009). The questionnaire has covered the different features of the variables of the study (i.e. factors and growth) so that each question can lead to a generalized way of accurately measuring the variables. The items used for measuring the independent and dependent variables can be related with the conceptual definitions of growth constraints depicted in (Okurut and Bategeka 2006), (Olawale and Garwe, 2010), (Ishengoma and Kappel, 2008), (Mishra et al, 2009), (Mbonyane & Lanzani, 2011), (Eshetu & Mammo, 2009), (Morse et al. ,2007), (Clover and Darroch, 2005), (Van Scheers, 2012), (Martin and Staines, 2008) , (Delmar et.al, 2003) and (Sun, 2004) .

### **3.3.2.3 Variables and Measurements**

The change in capital as a ratio of the current accumulated capital to the initial capital paid to start business was taken as a dependent variable to measure Growth. Change in capital was chosen from other measurements of performance because capital growth will show the aggregate trend of business performance ever since the start of business. The other reason for choosing change in capital is because other growth measurements such as production output and sales volume are not easy to access from the MSEs and it is difficult to bring these outputs in to the same scale as the MSEs are from different types of business sectors. The independent variables (factors constraining the growth of MSEs) selected for this study are *politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial* factors. The aggregate score (arithmetic mean) of likert items corresponding to each of the factors was used to measure the independent variables (Zikmund et al., 2009).

## **3.4 Data Analysis Techniques**

. Descriptive (mean, standard deviation) and inferential (correlation, linear regression) statistics were used to answer the research questions (i.e. to examine the factors affecting the growth of MSEs). Microsoft Excel 2010 and Statistical package for the social sciences (SPSS 20) were used for this purpose.

### **3.4.1 Pearson's Product Moment Correlation Analysis**

According to Ntoumanis (2000), one of the most common correlation coefficients is Pearson r. Pearson Product Moment Correlation Coefficient is a widely used statistical method for obtaining

an index of the relationships between two variables. Correlation coefficient can range from -1 to +1. The value of -1 represents a perfect negative correlation while a value of +1 represents a perfect positive correlation.

Measure of Relationship(r)	Description
> 0.00 to 0.20; < -0.00 to -0.20	Very weak
> 0.20 to 0.40; < -0.20 to -0.40	Weak
> 0.40 to 0.60; < -0.40 to -0.60	Moderate
> 0.60 to 0.80; < -0.60 to -0.80	Strong
> 0.80 to 1.00; < -0.80 to -1.00	Very high

### 3.4.2 Linear Regression Analysis

The model used to predict growth of MSEs in terms of the constraints is a linear regression. In this model, it is assumed that the constraints of growth affect the growth of MSEs linearly and independently. This model has been used in Ishengoma and Kappel (2008), Mohammed et al. (2014), Dragnic (2014), and Abada et al. (2015).

Multiple Linear Regression analysis is useful when we want to predict the scores of one dependent variable from the scores of more than one independent variable. To perform a multiple linear regression a couple of assumptions are made as listed below (Ntoumanis, 2000).

- Normality of the Data: the data used for the regression analysis must be normally distributed (Skewness and Kurtosis tests in SPSS 20 are performed).
- Linearity and Homoscedasticity: The variance of the dependent variable for each independent variable is constant across the population and there is a linear relationship between the dependent variable and each of the independent variable is linear (Scatter plot on SPSS 20 is done to visually inspect linearity and homoscedasticity).
- Residuals (the prediction errors on the regression analysis) have no serial correlation between them, i.e. the size of the residual for one case has no impact on the size of the residual of another case.(Durbin-Watson statistic is used on SPSS 20)

- Multicollinearity: Independent variables on the regression model must not be highly correlated with each other. (Correlation matrix for independent variables, tolerance test and variance inflation factors are checked on SPSS 20)

The prediction model for the linear regression is:

$$\text{Predicted Growth (Capital Ratio)} = \beta_0 + \beta_1 (\text{politico-legal}) + \beta_2 (\text{working premises}) + \beta_3 (\text{technological}) + \beta_4 (\text{infrastructures}) + \beta_5 (\text{marketing}) + \beta_6 (\text{finance}) + \beta_7 (\text{management}) + \beta_8 (\text{entrepreneurial})$$

$\beta_0$  is the intercept term- constant which would be equal to *capital ratio* if all slope coefficients are 0.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$  and  $\beta_8$  are the coefficients associated with each independent variable which measure the change in the mean value of growth, per unit change in their respective independent variables (Ibid.).



## CHAPTER 4 RESULTS AND DISCUSSION

### 4.1 Introduction

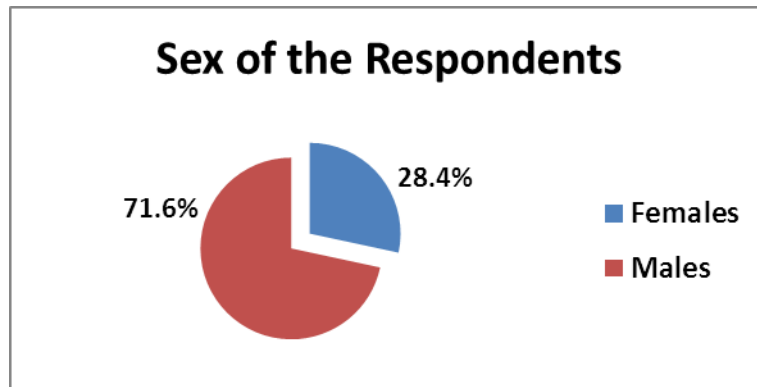
The general objective the study was to examine the factors constraining the growth of MSEs in Wereda 3 of Gullele Sub city. To meet this objective, the quantitative data was analyzed and interpreted using both inferential and descriptive statistics. Descriptive results will be presented first and inferential analysis will be followed.

A total of 219 questionnaires were distributed to the MSEs across the Gullele sub city and 201 of them were completed and returned that results a respondent response rate of 92%.

### 4.2 Characteristics of the Study Population

#### 4.2.1 Demographic Characteristics

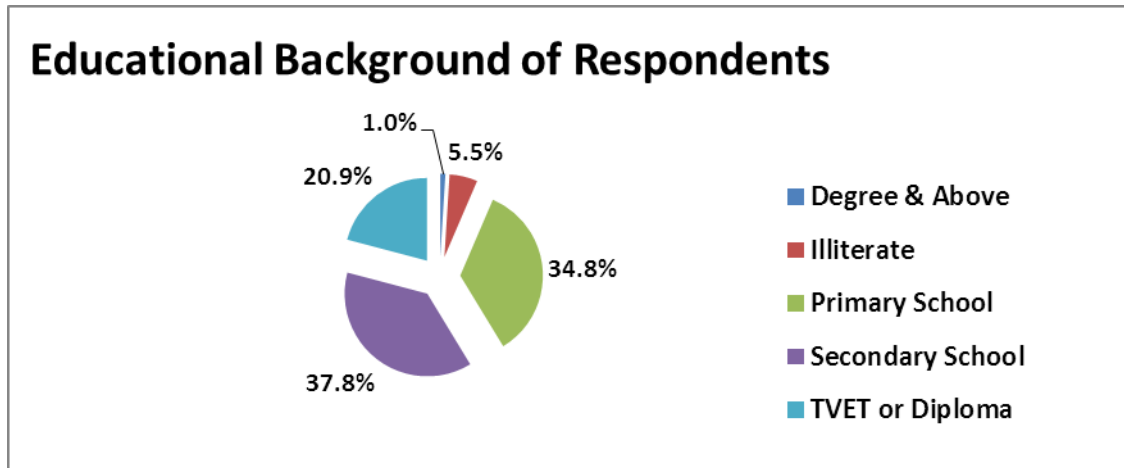
Figure 4.1: Sex of the MSE respondents



Source: Survey, 2016

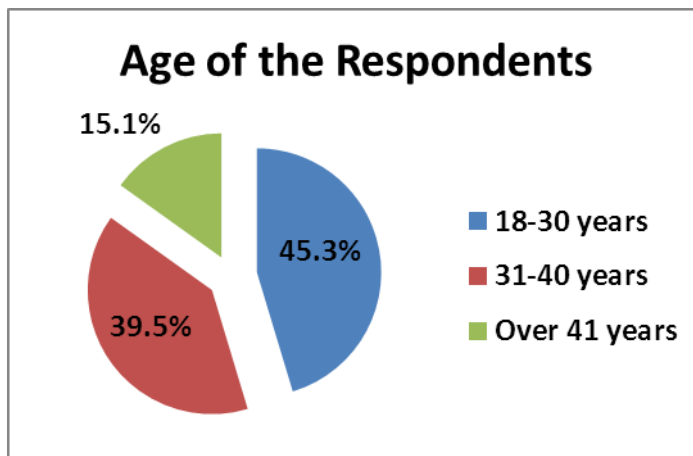
As shown in figure 4.1, the majority (72%) of the MSE respondents were Males. Regarding their educational background (figure 4.2), it was found that (73%) of them have not received any technical, vocational or higher level education. Most of the respondents (85%) were found to be under the age of 41 years (Figure 4.3).

Figure 4.2: Educational Background of the respondents



Source: Survey, 2016

Figure 4.3: Age of the respondents



Source: Survey, 2016

#### 4.2.2 Socio Economic Characteristics of MSEs

**Change in the number of Human Resource from business start to present**

From the respondents it was found that 72% have shown no change in the number of workers they have and only 12% increased their human resource quantity ever since they started their business.

Table 4.1: Change in the number of workers of the MSEs

<b>Change in the number of workers</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Decreased</b>	<b>32</b>	<b>15.9%</b>
<b>Increased</b>	<b>25</b>	<b>12.4%</b>
<b>No Change</b>	<b>144</b>	<b>71.7%</b>
<b>Total</b>	<b>201</b>	<b>100.0%</b>

Source: Survey, 2016

### **Growth of MSEs**

Growth of the MSEs was measured in terms of change in the capital that was used to start the business as a ratio data. Table 4.2 below presents the maximum and minimum starting and current capital each sector recorded. The mean scores of capital ratio are also presented to compare the growth of MSEs in Wereda 3 across each sector. The results indicate that MSEs from the trade sector have been growing their startup capital with an average of 5.8 times their initial capital while Construction MSEs grew their capital 5.3 times.

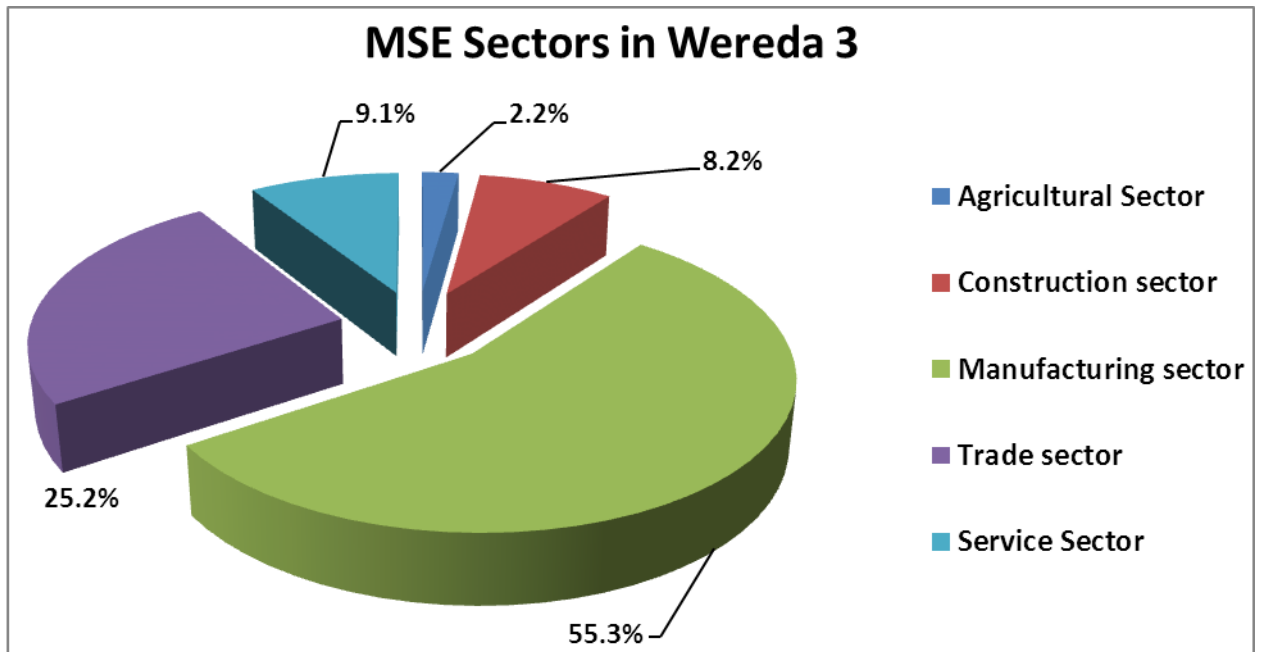
Table 4.2: Summary of the MSE Capital across Sectors

<b>Sector</b>	<b>Minimum Start Up capital (Birr)</b>	<b>Maximum Start Up capital (Birr)</b>	<b>Minimum Current Capital (Birr)</b>	<b>Maximum Current capital (Birr)</b>	<b>Mean Start up Capital (Birr)</b>	<b>Mean Current Capital (Birr)</b>	<b>Mean Capital Ratio</b>
<i>Construction</i>	<i>5,000</i>	<i>100,000</i>	<i>25,000</i>	<i>500,000</i>	<i>31,357</i>	<i>17,2143</i>	<i>5.30</i>
<i>Manufacturing</i>	<i>1,000</i>	<i>100,000</i>	<i>1,000</i>	<i>750,000</i>	<i>18,178</i>	<i>90,626</i>	<i>4.77</i>
<i>Service</i>	<i>2,000</i>	<i>80,000</i>	<i>12,000</i>	<i>500,000</i>	<i>23,266</i>	<i>121,467</i>	<i>5.13</i>
<i>Trade</i>	<i>1,500</i>	<i>80,000</i>	<i>10,000</i>	<i>500,000</i>	<i>23,250</i>	<i>141,115</i>	<i>5.80</i>

Source: Survey, 2016

### 4.2.3 Business Characteristics of MSEs

Figure 4.4: MSE sectors in Wereda 3



Source: Survey, 2016

As shown in Figure 4.4, 55% of the MSEs in Wereda 3 are engaged in the manufacturing sector, especially in textile, garment, wood and metal works. 25% of MSEs are involved in whole selling traditional food products. 9% of the MSEs in the Wereda give café, restaurant, stationary and internet services. 8% of the MSEs are engaged mainly in cobble stone construction. Only 2% of the MSEs produce and sell Agricultural products.

#### **Number of years the MSEs remained in Business**

As shown in table 4.3 below, 66% of the MSEs are below 6 years. 34% of MSEs have stayed in business for 6 years and above.

Table 4.3: Number of years of the sample MSEs

Number of Years in the Business	Frequency	Percentage
0-5 years	133	66.2%
6-10 years	51	25.3%
11-15 years	17	8.5%
<b>Total</b>	<b>201</b>	<b>100.0%</b>

Source: Survey, 2016

### Growth Constraints

In this section the descriptive statistics results on growth constraints are presented. Each statement in the questionnaire was rated on a 5 point likert scale which includes *strongly agree*, *agree*, *undecided*, *disagree* and *strongly disagree*. Each scale was rated from 1 to 5 consecutively were 1 represents *strongly disagree* and 5 represents *strongly agree*. This section shows the Mean (MN) and the Standard Deviation (SD) results of the constraints.

Table 4.4: Politico legal factors constraining the growth of MSEs

Sector	Construction		Manufacturing		Service		Trade		Average	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
<i>Politico-Legal Constraints</i>										
<i>The tax levied on my business is not reasonable</i>	3.86	0.66	3.36	1.14	3.60	0.91	3.54	0.90	3.43	1.06
<i>Bureaucracy in company registration and licensing</i>	3.79	0.43	3.65	1.00	3.80	0.94	3.62	0.93	3.63	0.98
<i>Political intervention</i>	2.64	0.93	2.97	1.22	3.07	1.10	2.81	1.03	2.89	1.15
<i>Lack of accessible information on government regulations that are relevant to my Business</i>	3.43	0.85	3.59	1.01	3.53	0.92	3.62	0.75	3.55	0.95
<i>Not Enough government support on politico-legal Factors</i>										
	3.71	0.47	3.69	1.00	3.20	1.15	3.40	0.80	3.54	0.97
<i>Mean/Standard Deviation</i>									3.41	1.02

Source: Survey, 2016

As shown in table 4.4, the respondents confirm to the existence of bureaucracy in registration and licensing with a mean scores of 3.79 in construction sector, 3.65 in Manufacturing sector, 3.80 in service sector and 3.62 in trade sector with a standard deviation of 0.43, 1.00, 0.94 and 0.93 respectively. The other main politico-legal challenges are lack of accessible information, not enough government support and not reasonable tax implementations with grand mean scores of 3.55, 3.54 and 3.43 and a standard deviation of 0.95, 0.97 and 1.06 respectively. However, respondents were undecided about political intervention with mean scores of 2.64, 2.97, 3.07, 2.81 and standard deviations of 0.93, 1.22, 1.10, and 1.03 for construction, manufacturing, service and trade sectors respectively.

Table 4.5: Working place factors constraining growth of MSEs

Sector	Construction		Manufacturing		Service		Trade		Average	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
<i>Working Place Constraints</i>										
<i>Absence of own premises</i>	2.64	1.08	2.67	1.10	2.87	0.99	2.42	0.94	2.61	1.04
<i>Current working place is not convenient</i>	3.43	0.76	2.56	1.04	3.07	1.03	2.44	0.83	2.64	1.00
<i>The rent of house is too high</i>	1.86	0.86	2.42	1.11	2.67	1.50	2.12	0.86	2.30	1.07
<i>Not enough government support on Working place factors</i>	3.36	1.01	3.06	1.13	2.80	1.15	2.81	0.97	2.97	1.09
<i>Mean/Standard Deviation</i>									2.63	1.05

Source: Field Survey, 2016

As it can be seen from table 4.5, respondents from the construction sector confirmed the existence of inconvenient working premise with a mean score of 3.43 and standard deviation of 0.76. However, this challenge is not manifested on the respondents from the manufacturing, service and trade sectors with mean scores of 2.56, 3.07, 2.44 and standard deviations of 1.04, 1.03 and 0.83 respectively.

The respondents from the construction sector also believe that moderately there is not enough support for them regarding working place factors with a mean of 3.36 and standard

deviation of 1.01. However the other sectors are unsure if there is enough government support on workplace factors. All of the sectors showed that the rent for their working places are reasonable with a mean of 2.30 and standard deviation of 1.07. The respondents from all sectors also confirmed that they have their own working place to conduct their business with a grand mean score of 2.61 and standard deviation of 1.04.

Table 4.6: Technological factors constraining the growth of MSEs

Sector	Construction		Manufacturing		Service		Trade		Average	
	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>
<i>Lack of appropriate machinery and equipment</i>	3.43	0.76	3.77	1.07	2.67	0.72	2.81	1.12	3.36	1.16
<i>Lack of skills to handle new technology</i>	3.29	0.91	3.13	1.20	2.73	1.10	2.50	1.00	2.91	1.16
<i>Lack of money to acquire new technology</i>	3.57	1.02	3.80	1.03	3.40	1.18	2.77	1.08	3.43	1.16
<i>Unable to select proper technology</i>	3.14	0.95	3.26	1.15	2.80	0.86	2.52	0.92	2.99	1.11
<i>Not Enough government support on Technological Factors</i>	3.43	0.76	3.88	0.95	2.80	0.94	2.62	0.95	3.38	1.12
<i>Mean/Standard Deviation</i>									3.21	1.14

Source: Survey, 2016

As can be seen from table 4.6, respondents from construction and manufacturing sectors confirmed not enough support is provided by the government to minimize technological challenges with a mean score of 3.43, 3.88 and standard deviation of 0.76, 0.95 respectively while respondents from service and trade sectors are unsure if enough support is provided by the government with a mean scores of 2.80, 2.62 and standard deviations of 0.94, 0.95 respectively.

Mean scores of 3.43, 3.77 and standard deviations of 0.76, 1.07 for construction and manufacturing sectors respectively shows the lack of appropriate machinery and equipment, whereas a mean scores of 2.67, 2.81 and standard deviations of 0.72, 1.12 for service and trade

sectors respectively shows they are unsure if they have the appropriate machinery and equipment. The construction and manufacturing sectors also confirmed lack of skill to handle new technologies however; this was not manifested on the trade and service sectors.

The financial difficulties to acquire new technology was confirmed with a mean scores of 3.57, 3.80, 3.40 and standard deviations 1.02, 1.03, 1.18 for construction, manufacturing and service sectors respectively but the trade sector respondents were unsure of this difficulty with a mean score of 2.77 and standard deviation of 1.08.

Table 4.7: Infrastructural factors constraining growth of MSEs

Sector	Construction		Manufacturing		Service		Trade		Average	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
<i>Power interruptions</i>	3.50	0.52	3.38	1.10	3.73	0.88	3.25	0.81	3.35	1.01
<i>Insufficient and interrupted water supply</i>	3.36	0.63	3.78	1.02	3.20	0.86	3.25	0.84	3.53	1.00
<i>Lack of business development services</i>	3.79	0.43	3.70	0.99	3.93	1.03	3.73	0.69	3.71	0.91
<i>Lack of sufficient and quick transportation service</i>	3.50	0.85	2.89	1.10	2.93	1.10	2.73	1.01	2.89	1.06
<i>Lack of appropriate dry waste and sewerage system</i>	3.07	0.83	3.18	1.21	2.87	0.99	2.69	1.02	3.01	1.13
<i>Not enough government support on Infrastructural factors</i>	3.50	0.85	3.52	1.01	3.40	0.83	3.37	0.84	3.45	0.95
<i>Mean/Standard Deviation</i>									3.32	1.01

Source: survey, 2016

As it is shown in table 4.7, the respondents are challenged by the lack of business development services with mean scores of 3.79, 3.70, 3.93, 3.73 and standard deviations of 0.43, 0.99, 1.03, and 0.69 in construction, manufacturing, service and trade sectors respectively. The other challenges in their order of severity are insufficient and interrupted water supply, not enough support on the infrastructural factors from the government, and electric power interruptions with grand means of 3.53, 3.45, 3.35 and standard deviations of 1, 0.95, and 1.01 respectively. Only respondents from the construction sector claimed the lack of transportation service around their



work place with a mean score of 3.5 and standard deviation of 0.85 while manufacturing, service and trade sector respondents were undecided about the existence of the problem with mean scores of 2.89,2.93, 2.93, 2.73 and standard deviations of 1.10, 1.10 and 1.01 respectively. The respondents from all sectors were unsure if there is a lack of appropriate waste and sewerage system with mean scores of 3.07, 3.18, 2.87,2.69 and standard deviations of 0.83,1.21,0.99 and 1.02 to construction, manufacturing, service and trade sectors respectively .

Table 4.8: Marketing factors constraining growth of MSEs

Sector	Construction		Manufacturing		Service		Trade		Average	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
<i>Inadequate market for my product</i>	3.93	0.27	3.92	0.95	3.60	0.83	3.79	0.67	3.82	0.87
<i>Searching new market is so difficult</i>	3.43	0.65	3.71	0.90	3.47	0.92	3.63	0.79	3.63	0.87
<i>Lack of demand forecasting</i>	2.79	0.97	3.21	1.10	3.27	1.22	2.87	0.97	3.07	1.08
<i>Lack of market information</i>	3.57	0.94	3.67	1.08	2.93	1.03	3.50	0.92	3.54	1.04
<i>Absence of relationship with an organization that conduct marketing research</i>	4.07	1.00	4.07	0.91	3.47	1.25	3.92	0.90	3.97	0.96
<i>Lack of promotion to attract potential users</i>	2.71	0.91	2.99	1.08	2.60	0.83	3.04	1.01	2.94	1.03
<i>Poor customer relationship and handling</i>	2.50	0.85	2.70	1.10	2.67	1.18	2.58	0.89	2.64	1.03
<i>Not enough government support on Marketing factors</i>	3.21	1.05	3.69	1.09	3.27	0.88	3.67	0.76	3.59	1.01
<i>Mean/Standard Deviation</i>									3.39	0.98

Source: survey, 2016

As shown in table 4.8, respondents agree that there is absence of relationship with an organization that conduct marketing research with mean scores of 4.07, 4.07, 3.47, 3.92 and standard deviations of 1.00, 0.91, 1.25, 0.90 to construction, manufacturing, service and trade sectors respectively. The respondents also agreed that there is no adequate market to their product with a grand mean score of 3.82 and standard deviations of 0.87. They also confirmed that searching for new market is difficult with a grand mean score of 3.63 and standard deviation of 0.87. The respondents also felt that there exist a lack of market information with a grand mean

of 3.54 and standard deviation of 1.04. However, the respondents do not believe they have poor customer relation and handling with mean scores of 2.50, 2.70, 2.67, 2.58 and standard deviations of 0.85, 1.10, 1.18, 0.89 to construction, manufacturing, service and trade sectors respectively. Finally the respondents felt moderately that not enough is being done by the government to support them with mean scores of 3.21, 3.69, 3.27, 3.67 and standard deviations of 1.05, 1.09, 0.88, and 0.76 to construction, manufacturing, service and trade sectors respectively.

Table 4.9: Financial factors constraining growth of MSEs

Sector	Construction		Manufacturing		Service		Trade		Average	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
<i>Financial Constraints</i>										
<i>Inadequacy of credit institutions</i>	4.07	1.07	4.10	1.10	4.20	1.01	4.13	0.91	4.07	1.08
<i>Lack of cash management skills</i>	3.36	0.84	3.36	1.15	3.73	1.10	3.25	1.15	3.33	1.13
<i>Shortage of working capital</i>	4.21	0.70	4.09	1.08	4.00	1.07	4.13	0.74	4.06	1.01
<i>High collateral requirement from banks &amp; other lending institutions</i>	4.43	0.65	4.35	0.87	4.00	1.07	4.46	0.61	4.30	0.88
<i>High interest rate charged by banks and other lending institutions</i>	4.29	0.91	4.36	0.77	3.67	1.35	4.27	0.84	4.22	0.93
<i>Loan application procedures of banks and other lending institutions are too complicated</i>	4.36	0.84	4.37	0.85	3.93	1.22	4.13	1.01	4.22	0.99
<i>Not enough government support on financial factors</i>	3.93	1.07	4.19	0.96	4.00	1.20	4.12	0.83	4.10	0.98
<i>Mean/Standard Deviation</i>									4.04	1.01

Source: survey, 2016

As shown in table 4.9, respondents from all the sectors confirmed to the existence of financial challenges in Wereda 3. High collateral requirements from lending institutions is the highest challenge with mean scores of 4.43, 4.35, 4.00, 4.46 and standard deviation scores of 0.65, 0.87, 1.07, 0.61 to the construction, manufacturing, service and trade sectors respectively. The other major financial challenges of the MSEs are the high interest rates charged by lending institutions, complicated loan application procedures, not enough government support on the financial factors and inadequacy of credit institutions with grand mean scores of 4.22, 4.22, 4.10, 4.07 and standard deviation of 0.93, 0.99, 0.98 and 1.08 respectively.

Table 4.10: Management factors constraining growth of MSEs

Sector	Construction		Manufacturing		Service		Trade		Average	
	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>
<i>Lack of clear division of duties and responsibility among employees</i>	3.21	0.89	3.16	1.20	2.93	0.96	2.63	0.91	2.98	1.12
<i>Poor organization and ineffective communication</i>	2.79	0.80	3.15	1.05	3.07	1.03	2.71	0.80	2.98	0.98
<i>Poor selection of associates in business</i>	3.29	0.91	2.95	1.03	3.20	1.01	2.56	0.87	2.86	1.01
<i>Lack of well trained and experienced employees</i>	2.71	0.83	2.62	1.05	3.20	0.94	2.67	0.81	2.67	0.97
<i>Lack of low cost and accessible training facilities</i>	3.21	0.80		1.08	3.60	1.12	3.04	0.93	3.19	1.03
<i>Lack of strategic business planning</i>	3.29	0.83	3.35	1.20	3.47	0.99	3.02	1.04	3.25	1.12
<i>Not Enough government support on managerial Factors</i>	3.43	0.85	3.63	1.13	3.20	0.94	3.35	0.95	3.47	1.06
<i>Mean/Standard Deviation</i>									<b>3.06</b>	<b>1.04</b>

Source: survey, 2016

As can be seen from table 4.10 the respondents have moderately confirmed to the lack of enough support to management related factors with a mean scores of 3.43, 3.63, 3.20, 3.35 and standard deviations 0.85,1.13, 0.94, 0.95 for the construction, manufacturing, service and trade sectors respectively. Respondents from construction, manufacturing and service sectors believe that they lack strategic business planning moderately with mean scores of 3.29, 3.35, 3.47 and standard deviations of 0.83, 1.20, and 0.99 respectively while respondents from trade sector cannot decide if they lack strategic business planning with mean score of 3.02 and standard deviation of 1.04. The respondents from construction, manufacturing and trade sectors cannot decide if they lack well trained and experienced employees with mean scores of 2.71, 2.62, 2.67 and standard deviations of 0.83, 1.05, and 0.81 respectively. However, respondents from service sector agree that there is a moderate lack of well trained and experienced employees with mean score of 3.20 and standard deviation of 0.94. Respondents were also undecided about the absence of poor organization and ineffective communication in their business with mean scores of 2.79,

3.15, 3.07, 2.71 and standard deviations of 0.80, 1.05, 1.03, and 0.80 for construction, manufacturing, service and trade sectors respectively.

Table 4.11: Entrepreneurial factors constraining growth of MSEs

Sector	Construction		Manufacturing		Service		Trade		Average	
	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>
<i>Entrepreneurial constraints</i>										
<i>Lack of motivation and drive</i>	2.93	0.62	2.81	1.15	3.07	0.88	2.83	1.08	2.84	1.07
<i>Lack of tolerance to work hard</i>	3.07	0.62	2.65	1.16	3.00	1.13	2.65	0.88	2.71	1.05
<i>Lack of persistence and courage to take responsibility for one's failure</i>	3.36	0.63	3.23	1.08	3.33	0.90	2.98	0.70	3.16	0.96
<i>Absence of initiative to assess ones strengths and weakness</i>	3.29	0.61	3.30	1.12	3.27	0.80	3.13	0.79	3.24	0.98
<i>Lack of entrepreneurship training</i>	3.36	0.84	3.50	1.13	3.47	0.83	3.35	0.81	3.44	1.01
<i>Lack of information to exploit business opportunities</i>	3.43	0.65	3.63	1.08	3.20	1.01	3.50	0.83	3.54	0.98
<i>Not Enough government support on Entrepreneurial factors</i>	3.86	0.66	3.68	1.16	3.67	0.72	3.83	0.86	3.71	1.03
<i>Mean/Standard Deviation</i>									<b>3.23</b>	<b>1.01</b>

Source: Survey, 2016

As can be seen from table 4.11 , the respondents confirm that they are not getting enough support on Entrepreneurial challenges from the government with mean scores of 3.86, 3.68, 3.67, 3.83 and standard deviations of 0.66,1.16, 0.72,0.86 for construction, manufacturing, service and trade sectors respectively. The respondents also confirmed the moderate lack of information to exploit business opportunities with mean scores of 3.43, 3.63, 3.20, 3.50 and standard deviations of 0.65, 1.08, 1.01, and 0.83 for construction, manufacturing, service and trade sectors respectively. The respondents were unsure about the existence of the lack of motivation and drive in their business with mean scores of 2.93, 2.81, 3.07, 2.83 and standard deviations of 0.62, 1.15, 0.88, and 1.08 for construction, manufacturing, service and trade sectors respectively. While respondents from construction manufacturing and service sectors confirmed moderately there is a lack of persistence and courage to take responsibility for one's failure with mean scores of 3.36, 3.23, 3.33 and standard deviations of 0.63, 1.08, and 0.90 respectively, respondents from trade

sector were unsure if there is lack of persistence and courage to take responsibility for one's failure with a mean score of 2.98 and standard deviation 0.70.

### Comparison of response on constraints

As it was seen in the previous section, the existence of the eight constraints (*politico-legal, working premises, technological, infrastructural, marketing, Financial, Management and Entrepreneurial*) was perceived differently across the MSE sectors of Wereda 3. Table 4.12 below summarizes the perception of MSE respondents on the existence of the constraints.

Table 4.12: Comparison of the response on the existence of Constraints

<i>Factors</i>	<i>Grand Mean</i>	<i>Grand Standard Deviation</i>	<i>Rank of Severity</i>
<i>Politico-Legal</i>	<i>3.41</i>	<i>1.02</i>	<i>2<sup>nd</sup></i>
<i>Working Place</i>	<i>2.63</i>	<i>1.05</i>	<i>8<sup>th</sup></i>
<i>Technological</i>	<i>3.21</i>	<i>1.14</i>	<i>6<sup>th</sup></i>
<i>Infrastructural</i>	<i>3.32</i>	<i>1.01</i>	<i>4<sup>th</sup></i>
<i>Marketing</i>	<i>3.39</i>	<i>0.98</i>	<i>3<sup>rd</sup></i>
<i>Financial</i>	<i>4.04</i>	<i>1.01</i>	<i>1<sup>st</sup></i>
<i>Management</i>	<i>3.06</i>	<i>1.04</i>	<i>7<sup>th</sup></i>
<i>Entrepreneurial</i>	<i>3.23</i>	<i>1.01</i>	<i>5<sup>th</sup></i>

Source: Survey, 2016

## 4.3 Factors Constraining the Growth of MSEs

### 4.3.1 Pearson's Product Moment Correlation Analysis

To investigate association between growth constraints and change in capital, Pearson's Product Moment Correlation Coefficient ( $r$ ) was used using the SPSS 20 for the 201 respondents (N=201) and the result is presented below.

Table 4.13: The relationship between Constraints and Growth

<i>Constraints</i>		<i>Capital Ratio (Growth)</i>
<i>politico legal</i>	<i>Pearson Correlation (r)</i>	-.422 <sup>**</sup>
	<i>Sig. (2-tailed)</i>	.000
	<i>N</i>	201
<i>working places</i>	<i>Pearson Correlation (r)</i>	-.406 <sup>**</sup>
	<i>Sig. (2-tailed)</i>	.000
	<i>N</i>	201
<i>Technological</i>	<i>Pearson Correlation (r)</i>	-.599 <sup>**</sup>
	<i>Sig. (2-tailed)</i>	.000
	<i>N</i>	201
<i>Infrastructure</i>	<i>Pearson Correlation (r)</i>	-.596 <sup>**</sup>
	<i>Sig. (2-tailed)</i>	.000
	<i>N</i>	201
<i>Marketing</i>	<i>Pearson Correlation (r)</i>	-.600 <sup>**</sup>
	<i>Sig. (2-tailed)</i>	.000
	<i>N</i>	201
<i>Financial</i>	<i>Pearson Correlation (r)</i>	-.495 <sup>**</sup>
	<i>Sig. (2-tailed)</i>	.000
	<i>N</i>	201
<i>Management</i>	<i>Pearson Correlation (r)</i>	-.476 <sup>**</sup>
	<i>Sig. (2-tailed)</i>	.000
	<i>N</i>	201
<i>Entrepreneurial</i>	<i>Pearson Correlation (r)</i>	-.502 <sup>**</sup>
	<i>Sig. (2-tailed)</i>	.000
	<i>N</i>	201

\*\* . Correlation is significant at the 0.01 level (2-tailed) which implies a 99% statistically significant confidence label for all the correlation results.

Source: SPSS 20 outputs based on Field survey, 2016

As can be seen from table 4.13, there is a strong statistically significant relationship between *marketing* factors and growth of MSEs at a confidence level of 99% ( $r=0.600$ ). There is a moderate statistically significant relationship between the rest of factors and growth of *MSEs* in Wereda 3 of Gullele sub city at a confidence level of 99% with Pearson's coefficient  $r= -0.422$

for *politico-legal factors*,  $r=-0.406$  for *working places factors*,  $r= -0.596$  for *infrastructural factors*,

$r=-0.599$  for *technological factors*,  $r= -0.495$  for *financial factors*,  $r= -0.476$  for *management factors* and  $r= -0.502$  for *entrepreneurial factors*.

The negative sign on the Pearson's coefficients indicates the inverse relationship that exists between constraints and growth, as the various challenges impede firm growth and survival (USAID, 2005), Reeg et al. (2013), Abada et al. (2015).

### **.4.3.2 Linear Regression Analysis**

As discussed in section 3.4.2, prediction model for the linear regression is:

$$\text{Predicted Growth (Capital Ratio)} = \beta_0 + \beta_1 (\text{politico-legal}) + \beta_2 (\text{working premises}) + \beta_3 (\text{technological}) + \beta_4 (\text{infrastructures}) + \beta_5 (\text{marketing}) + \beta_6 (\text{finance}) + \beta_7 (\text{management}) + \beta_8 (\text{entrepreneurial})$$

$\beta_0$  is the intercept term- constant which would be equal to growth if all slope coefficients are 0.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$  and  $\beta_8$  are the coefficients associated with each independent variable which measures the change in the mean value of growth, per unit change in their respective independent variables (Constraints).

Based on the assumptions of the linear regression analysis, the linear regression result of the factors constraining growth of MSE for 201 respondents is presented below. Please refer to Appendices for the linear regression assumption test outputs from SPSS 20.

Table 4.14: Linear Regression Results

<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>		<i>Sig. *</i>
0.804	0.646	0.632	1.414		.000
<i>Regression Coefficients</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>T</i>	<i>Sig. *</i>
	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
<i>(Constant)</i>	19.282	0.827		23.304	0.000
<i>politico legal</i>	-0.411	0.168	-0.119	-2.449	0.015
<i>working places</i>	-0.528	0.152	-0.173	-3.466	0.001
<i>Technological</i>	-0.539	0.142	-0.208	-3.800	0.000
<i>Infrastructure</i>	-0.607	0.203	-0.171	-2.995	0.003
<i>Marketing</i>	-0.493	0.221	-0.132	-2.233	0.027
<i>Financial</i>	-0.856	0.181	-0.246	-4.742	0.000
<i>Management</i>	-0.110	0.198	-0.033	-0.555	0.580
<i>Entrepreneurial</i>	-0.617	0.221	-0.165	-2.799	0.006

Regression is significant at the 0.05 level (95% confidence level)

Source: SPSS 20 outputs based on Field survey, 2016

As shown in the table above, the overall fit of the regression model has a significance level of 0.000 which is less than the level of significance of 0.05(95% confidence level); this indicates the existence of a relationship between the constraints and growth. The multiple R result of 0.804 indicates the magnitude of the relationship between the constraints and growth of MSEs. The R square and adjusted R square results show the prediction strength of the regression model i.e. 63.2% of the variance in change in capital of MSEs can be predicted by the factors or constraints from this model. The other 36.8% of variance of growth accounts for the factors which were not included in this study.



**Politico-legal Constraints:** The regression result showed that there is an inverse relationship between politico legal constraints and capital ratio with  $\beta=-0.411$  and significance of  $0.015$ . Since  $0.015 < 0.05$ , we can conclude that politico legal constraints limit the growth of MSE in Wereda 3 of Gullele sub city with a confidence interval of 95%. This result is consistent with previous results of Dereje (2012), Ishengoma and Kappel (2008), Mboniyane & Lanzani, (2011), Reeg et al. (2013) which showed that the complex rules and regulations imposed on MSEs diverts them from more productive tasks and hence limit their output influencing their improvement and growth.

**Working premise Constraints:** The regression result showed that there is an inverse relationship between Working premise Constraints and capital ratio with  $\beta=-0.528$  and significance of  $0.001$ . Since  $0.001 < 0.05$ , we can conclude that Working premise constraints limit the growth of MSE in Wereda 3 of Gullele sub city with a confidence interval of 95%. This result is consistent with previous results of Eshetu and Mammo (2009) and Olawale and Garwe (2010) to describe that lack of convenient and low cost working premises limit the growth of MSEs by creating a unsuitable environment where MSEs cannot deliver the goods and services to their full capacity.

**Technological Constraints:** The regression result showed that there is an inverse relationship between technological constraints and capital ratio with  $\beta=-0.539$  and significance of  $0.000$ . Since  $0.000 < 0.05$ , we can conclude that technological constraints limit the growth of MSE in Wereda 3 of Gullele sub city with a confidence interval of 95%. This result is consistent with previous results of Morse et al. (2007), Romijn (2001) and Yusuf (2003) to further show that lack of ability to acquire and use new technologies will limit MSE growth as the competitive business environment demands continuous technological development of products.

**Infrastructural Constraints:** The regression result showed that there is an inverse relationship between infrastructural constraints and capital ratio with  $\beta=-0.607$  and significance of  $0.003$ . Since  $0.003 < 0.05$ , we can conclude that infrastructural constraints limit the growth of MSE in Wereda 3 of Gullele sub city with a confidence interval of 95%. This result is consistent with previous results of (Clover and Darroch, 2005), Olawale and Garwe (2010) and Weldegebriel (2012) in demonstrating that the lack of availability of infrastructure around MSE working premises creates low production by blocking access to raw materials and electric power, creates lack of network to connect MSEs with customers hence limiting their growth.

**Marketing Constraints:** The regression result showed that there is an inverse relationship between marketing constraints and capital ratio with  $\beta=-0.493$  and significance of  $0.027$ . Since  $0.027 < 0.05$ , we can conclude that marketing constraints limit the growth of MSE in Wereda 3 of Gullele sub city with a confidence interval of 95%. This result further explains previous results of Van Scheers (2012), Weldegebriel (2012), Nuwagaba (2013), Lussier (1996) and (Berihu et al., 2014) that show lack of marketing promotion to attract new customers and hold the existing creates gap between MSEs and their customers which lowers the competitive advantage of MSEs and hence affect their expansion and survival.

**Financial Constraints:** The regression result showed that there is an inverse relationship between financial constraints and capital ratio with  $\beta=-0.856$  and significance of  $0.000$ . Since  $0.000 < 0.05$ , we can conclude that financial constraints limit the growth of MSE in Wereda 3 of Gullele sub city with a confidence interval of 95%. This result relates with Okurut and Bategeka (2006), Olawale and Garwe (2010), Mishra et al (2009) and Ishengoma and Kappel (2008) in showing that lack of financial resources, lack of financial management knowledge and difficulties in accessing loan and credit are hindering the growth and expansion of MSEs.

**Management Constraints:** The regression result showed that for management constraints,  $\beta=-0.110$  with significance of  $0.580$ . Since  $0.580 > 0.05$ , we can conclude that management constraints do not limit the growth of MSE in Wereda 3 of Gullele sub city with a confidence interval of 95%. This result contradicts with Stokes (1995), Martin and Staines (2008), Abada et al. (2015) and Setsoafia et.al (2015) as they showed lack of managerial know-how places significant constraints on MSE development.

**Entrepreneurial Constraints:** The regression result showed that there is an inverse relationship between entrepreneurial constraints and capital ratio with  $\beta=-0.617$  and significance of  $0.006$ . Since  $0.006 < 0.05$ , we can conclude that entrepreneurial constraints limit the growth of MSE in Wereda 3 of Gullele sub city with a confidence interval of 95%. This result supports Kokobe (2015), Papadiki and Chami (2002), Stokes (2010) and Bizusew (2015) to show that lack of entrepreneurship skills such limit MSE growth.

The unstandardized coefficients from table 4.14 can now be used to develop an equation for predicting change in capital of MSEs.

$$\text{Growth (Capital Ratio)} = 19.282 - 0.411 (\text{politico-legal}) - 0.528 (\text{working premises}) - 0.539 (\text{technological}) - 0.607 (\text{infrastructures}) - 0.493 (\text{marketing}) - 0.856 (\text{finance}) - 0.617 (\text{entrepreneurial})$$

The standardized coefficients (Beta) for each factor constraining the growth of MSEs indicate the relative contribution each factor has on the growth of the MSEs (Zikmund et al., 2009). As shown in the standardized coefficients column, table 4.14, the most influencing constraint from the factors on growth is *financial* factor with beta=-0.246, the second most influencing factor belongs to *technological* factors with beta=-0.208, the third highest influence belongs to Working place factors with beta=-0.173 and fourth most influencing constraint is infrastructure with beta=-0.171. This result relates the previous results of Admasu (2012), Ermias (2011), (EEA, 2015) and (World Bank, 2015), however major challenges mentioned in these studies such as management (no significant relationship), marketing (beta=-0.132) and politico-legal (beta=-0.119) factors were found to have no or little influence on growth of MSEs of wereda 3.

*“Although improvements have been registered during the last few years, the development of MSEs has fallen short of expectations due to various challenges. These include, problems related to finance, access to market and low competitiveness, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure”* EEA(2015).

*“Access to finance is a top obstacle to MSEs as firms in Ethiopia are more likely to be credit constrained than global comparators. Business entry regulations and processes are consistently highlighted by the private sector as burdensome and obstructive of firm entry and dynamism.”* World Bank (2015)

## **CHAPTER 5 CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Conclusions**

The main objective the study is to examine the factors constraining the growth of MSEs in Wereda 3 of Gullele Sub city. In accordance with the results of the data analysis the following conclusions are listed.

78% of the MSE respondents have not received any Technical Vocational Education and Training (TVET) or higher level of education. People without any college education who start a business have a greater chance of failure than people with one or more years of college education (Lussier, 1996). Since 85% of the respondents are under the age of 41 years it can be concluded that there is a high potential of trainability and knowledge gap in TVET or higher education with in the MSE operators of Wereda 3.

The internal firm capabilities and business environments of Ethiopia aimed at MSE development do affect the growth of MSEs in Wereda 3 of Gullele sub city. The most influential factors that constrain the growth of MSEs in Gullele sub city Wereda 3 in descending order are:

1. Financial
2. Technological
3. Working Premises
4. Infrastructural

Among the financial factors, High collateral requirement from lending institutions, High interest rate charged by lending institutions, complicated Loan application procedures of lending institutions and Inadequacy of credit institutions were the most challenging for the respondents from MSEs. The other major factors which challenge MSEs in Wereda 3 of Gullele sub city are Bureaucracy in enterprise registration and licensing, lack of business development services, difficulty in finding new customers and inadequate market for products. As it was the case in the financial factors, these major challenges were depicted across the different MSE sectors with in Wereda 3.

As the response of MSE operators on tables 4.4 to 4.11 show, MSEs of Wereda 3 perceive that insufficient government support exists on the factors constraining their growth.

It must be noted that the results found and conclusions drawn are subject to the limited area and cross-sectional nature of study. It must also be noted that from the different indicators of firm growth, only capital accumulation was used .However, the study contributes in identifying the most influential factors that constrain the growth of MSEs in wereda 3 of Gullele sub city. The Gullele sub city MSEDAs can be benefited from this study to further facilitate its support to the MSEs and identify the major challenges.

Further studies on other weredas and/or sub cities will be helpful in validating the results achieved and discover additional results that will enable the MSEDAs to identify and deliver better service on the most influential factors that constrain the growth of MSEs.

## 5.2 Recommendations

Based on the major findings the following recommendations are forwarded:

- MSE operators of Wereda 3 should enhance their academic knowledge through Technical Vocational Education and Training (TVET), higher level of education or short trainings so that they will increase their potential to be competent business leaders and be effective in tackling the factors constraining their growth. Beyond the support delivered on the constraints, MSE operators must take ownership as business leaders to minimize their challenges which are under their span of control. Education can be their tool to develop their employees in the areas such as management, financial controlling, Entrepreneurship and marketing so that challenges in these areas will be minimized.
- The Wereda 3 MSE development bureau and the Gullele sub city development bureaus must collaborate with institutions that satisfy the needs of MSEs. The MSE support bureaus must assess and negotiate on the collateral requirement of the lending institutions on behalf of the MSEs and come up with a better collateral deal to satisfy both MSEs and lending institutions. The support bureaus must also

review and negotiate with lending institutions on their interest rates and loan application procedures to make sure that MSEs have minimal challenges on those areas.

- The Gullele sub city and Wereda 3 support bureaus must focus the financial, technological, working premise and infrastructural challenges as these are the most influencing factors constraining growth. The support bureaus must also investigate in their support delivery practices to change the perception of the MSE operators which consider insufficient support on growth constraints.
- Finally further research on factors constraining the growth of MSEs on other related areas will be helpful to validate the results found from this research, help the sub city support bureaus in clearly identifying the challenges faced by the MSEs, identify the most influential factors that constrain the growth of MSEs. Further studies may also identify the impact of other constraints that limit the growth of MSEs which have not been included in this study.

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# APPENDIX A

## QUESTIONNAIRE FOR MSE OPERATORS

SAINT MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
MBA PROGRAM

### SECTION 1: INTRODUCTION

Dear respondent,

I am a graduate student in the department of Business administration, Saint Mary's University. Currently, I am undertaking a research titled '*Factors Affecting the Performance of Micro and Small Enterprises in Addis Ababa: A study in Wereda 3 of Gullele sub city*'. You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of the factors affecting the performance of Micro and Small enterprises. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses such and the identity of Persons responding will not be published or released to anyone.

**Thank you in advance for your kind cooperation and dedicating your time.**

**Surafel Amha**

**Phone Number: 0913949949**

### Instructions

- ✓ No need of writing your name
- ✓ For Likert scale type statements and multiple choice questions indicate your answers with a check mark (✓) in the box, for the other questions indicate your answer the space provide

## SECTION 2: GENERAL INFORMATION ON BUSINESS ENTERPRISES

- 1) Gender of the respondent:  Male  Female
- 2) Age of the respondent: \_\_\_\_\_
- 3) Position (more than one Tick possible):  Owner  Manager  Employee
- 4) Education:  Illiterate  primary school  secondary school
- Technical Vocational Education and Training or Diploma  1<sup>st</sup> degree and above
- 5) Sector are you working on:  Manufacturing  Trade  Service
- Construction  Urban Agriculture
- 6) Number of years of your business: \_\_\_\_\_
- 7) Please specify your initial capital in Ethiopian Birr? \_\_\_\_\_
- 8) Please specify your current capital in Ethiopian Birr? \_\_\_\_\_
- 9) Please specify the number of employees when you start the business \_\_\_\_\_
- 10) Please specify the number of employees you have currently \_\_\_\_\_

## SECTION 3: FACTORS AFFECTING THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES

The major factors that affect performance of MSEs are listed below. Please indicate the degree to which these factors are affecting the performance of your business enterprise. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (✓) under the choices below.

S. No.	Politico-Legal Factors	Strongly Agree	Agree	undecided	disagree	Strongly disagree
1.1	The tax levied on my business is not reasonable					
1.2	Bureaucracy in company registration and licensing					
1.3	Political intervention					
1.4	Lack of accessible information on government regulations that are relevant to my business					
1.5	Not Enough government support on politico-legal Factors					

2. Please indicate the degree to which you agree with the following statements concerning working place factors.

S. No.	Working Place Factors	Strongly Agree	Agree	undecided	disagree	Strongly disagree
2.1	Absence of own premises					
2.2	Current working place is not convenient					
2.3	The rent of house is too high					
2.4	Not enough government support on Working place factors					

3. Please indicate the degree to which you agree with the following statements concerning technology factors.

S. No.	Technological Factors	Strongly Agree	Agree	undecided	disagree	Strongly disagree
3.1	Lack of appropriate machinery and equipment					
3.2	Lack of skills to handle new technology					
3.3	Lack of money to acquire new technology					
3.4	Unable to select proper technology					
3.5	Not enough government support on Technological Factors					

4. Please indicate the degree to which you agree with the following statements concerning infrastructural factors.

S. No.	Infrastructural factors	Strongly Agree	Agree	undecided	disagree	Strongly disagree
4.1	Power interruptions					
4.2	Insufficient and interrupted water supply					
4.3	Lack of business development services					
4.4	Lack of sufficient and quick transportation service					
4.5	Lack of appropriate dry waste and sewerage system					
4.6	Not enough government support on Infrastructural factors					

3 Please indicate the degree to which you agree with the following statements concerning marketing factors.

S. No.	Marketing Factors	Strongly Agree	Agree	undecided	disagree	Strongly disagree
5.1	Inadequate market for my product					
5.2	Searching new market is so difficult					
5.3	Lack of demand forecasting					
5.4	Lack of market information					
5.5	Absence of relationship with an organization that conduct marketing research					
5.6	Lack of promotion to attract potential users					
5.7	Poor customer relationship and handling					
5.8	Not enough government support on Marketing factors					

6. Please indicate the degree to which you agree with the following statements concerning financial factors.

S. No.	Financial Factors	Strongly Agree	Agree	Undecided	disagree	Strongly disagree
6.1	Inadequacy of credit institutions					
6.2	Lack of cash management skills					
6.3	Shortage of working capital					
6.4	High collateral requirement from banks and other lending institutions					
6.5	High interest rate charged by banks and other lending institutions					
6.6	Loan application procedures of banks and other lending institutions are too complicated					
6.7	Not enough government support on Financial factors					

7. Please indicate the degree to which you agree with the following statements concerning management factors

S. No.	Management Factors	Strongly Agree	Agree	undecided	disagree	Strongly disagree
7.1	Lack of clear division of duties and responsibility among employees					
7.2	Poor organization and ineffective communication					
7.3	Poor selection of associates in business					
7.4	Lack of well trained and experienced employees					
7.5	Lack of low cost and accessible training facilities					
7.6	Lack of strategic business planning					
7.7	Not Enough government support on managerial Factors					



8. Please indicate the degree to which you agree with the following statements concerning entrepreneurship factors

S. No.	Entrepreneurial Factors	Strongly Agree	Agree	undecided	disagree	Strongly disagree
8.1	Lack of motivation and drive					
8.2	Lack of tolerance to work hard					
8.3	Lack of persistence and courage to take responsibility for one's failure					
8.4	Absence of initiative to assess ones strengths and weakness					
8.5	Lack of entrepreneurship training					
8.6	Lack of information to exploit business opportunities					
8.7	Not Enough government support on Entrepreneurial factors					

# ቅድስተ ማርያም ዩኒቨርሲቲ የድህረ ምረቃ ትምህርት ቤት የቢዝነስ አስተዳደር ፕሮግራም

በጥቃቅንና አነስተኛ ተቋማት ባለቤቶች ወይም ስራተኞች የሚሞላ የጽሁፍ መጠይቅ

## መግቢያ

ውድ የጥናቱ ተሳታፊዎች፡-

እኔ በቅድስተ ማርያም ዩኒቨርሲቲ የድህረ ምረቃ ትምህርት ቤት በቢዝነስ አስተዳደር ፕሮግራም የድህረ ምረቃ ተመራቂ ተማሪ ስሆን፤ በአሁን ሰዓት የመመረቂያ ፅሁፌን በማዘጋጀት ላይ እገኛለሁ። የጥናቱ ርዕስም “በጉለሌ ክፍለ ከተማ (በተለይም በወረዳ 3) የሚገኙ የጥቃቅንና አነስተኛ ተቋማት እድገት ላይ ተፅእኖ የሚያሳድሩ ጉዳዮች” የሚል ነው። እርስዎም በዚህ ጥናት እንዲሳተፉ ተመርጠዋል። እርስዎ የሚሰጡት ትክክለኛ መረጃ ለጥናቱ ውጤታማነት በጣም አስፈላጊ መሆኑን በመገንዘብ መጠይቁን በጥንቃቄ እንዲሞሉ እጠይቃለሁ። ተሳትፎዎ በእርስዎ በጎ ፈቃደኝነት ላይ የተመሰረተ ነው። በመጨረሻም የሚሰጡት መረጃ ሚስጥራዊነቱ የተጠበቀና ለዚህ ጥናት ዓላማ ብቻ እንደሚውል አረጋግጣለሁ። የማንኛውም መልስ ሰጪ ማንነት በማንኛውም መልኩ የማይታተምና የማይሰራጭ ይሆናል። ሁሉም መረጃዎች ለትምህርታዊ ዓላማ ብቻ ይውላሉ።

**ጊዜዎን ሰውተው ስለሚያደርጉልኝ ትብብር በቅድሚያ አመሰግናለሁ።**

ሱራፌል አምሀ

ስልክ ቁጥር: 0913949949

መልስዎትን በሳጥኑ ውስጥ የእርማት ምልክት (✓) ያስቀምጡ።

መልስዎትን በሳጥኑ ውስጥ የእርማት ምልክት (✓) ያስቀምጡ።

ምርጫ ለሌላቸው ጥያቄዎች መልሱን በተዘጋጀው ክፍት ቦታ ላይ ያስቀምጡ።  
ክፍል እንደ፡ አጠቃላይ መረጃ

1. ጾታ ፡ ወንድ  ሴት

2. ዕድሜ፡ \_\_\_\_\_

3. የሥራ ሀላፊነት (ከእንደ በላይ መምረጥ ይቻላል ባለቤት  ግንኙኛ  ተቀጣሪ

4. የትምህርት ደረጃ፡ ራደል ያልቆጠረ  የመጀመሪያ ደረጃ ት/ቤት

ሁለተኛ ደረጃ ት/ቤት  ቲክኒክና ሙያ/ጻፐር  ጻግሪና ከዛ በላይ

5. የተሰማሩበት የስራ መስክ ምንድነው?

ግንኙኛ  ንግድ  ሰርቪስ  ኮንስትራክሽን  ከተማ ግብርና

6. ድርጅቱ በዚህ የስራ ዘርፍ ላይ ምን ያህል አመታት በስራ ቆየ?  
\_\_\_\_\_

7. የድርጅትዎ ሀብት (የካፒታል) መጠን ስራ ሲጀምሩ በኢትዮጵያ ብር ምን ያህል

ነበር? \_\_\_\_\_

8. የድርጅትዎ ሀብት (የካፒታል) መጠን በአሁኑ ጊዜ በኢትዮጵያ ብር ምን ያህል

ነው? \_\_\_\_\_

9. ድርጅቱ ስራ ሲጀምር ምን ያህል ሰራተኞች ነበሩት? \_\_\_\_\_

ምርጫ ለሌላቸው ጥያቄዎች መልሱን በተዘጋጀው ክፍት ቦታ ላይ ያስቀምጡ።  
ክፍል አንድ፡ አጠቃላይ መረጃ

1. ጾታ ፡ ወንድ  ሴት

2. ዕድሜ፡ \_\_\_\_\_

3. የሥራ ሀላፊነት (ከአንድ በላይ መምረጥ ይቻላል ባለቤት ማ ተቀላ

4. የትምህርት ደረጃ፡ ፊደል ያልቆጠረ  ጀመሪያ ደረጃ ት/ቤት

ሁለተኛ ደረጃ ት/ቤት  ቴክኒክና ሙያ/ዲፕሎማ  ዲግሪ  ከዛ በላይ

5. የተሰማሩበት የስራ መስክ ምንድነው?

ማኑፋክቸሪንግ  ንግድ  ርብርብ  ስትራቴጂስት  ትምህርት  ግብርና

6. ድርጅቱ በዚህ የስራ ዘርፍ ላይ ምን ያህል አመታት በስራ ቆየ?  
\_\_\_\_\_

7. የድርጅትዎ ሀብት(የካፒታል) መጠን ስራ ሲጀምሩ በኢትዮጵያ ብር ምን ያህል ነበር?  
\_\_\_\_\_

8. የድርጅትዎ ሀብት(የካፒታል) መጠን በአሁኑ ጊዜ በኢትዮጵያ ብር ምን ያህል ነው?  
\_\_\_\_\_

9. ድርጅቱ ስራ ሲጀምር ምን ያህል ሰራተኞች ነበሩት? \_\_\_\_\_

10. ድርጅቱ በአሁኑ ሰአት ምን ያህል ሰራተኞች አሉት? \_\_\_\_\_  
 ክፍል ሁለት፡ በጥቃቅንና አነስተኛ ተቋማት የሥራ እንቅስቃሴ ላይ ተፅእኖ የሚያሳድሩ ጉዳዮች  
 ከዚህ በታች ለጥቃቅንና አነስተኛ ተቋማት የእድገት መሰናክል ሊሆኑ የሚችሉ ነገሮች  
 ተዘርዝረዋል። ከተዘረዘሩት ችግሮች የእርስዎን የሥራ ዘርፍ ይበልጥ ተፅእኖ የሚያሳድሩትን  
 በደረጃ ያመለክቱ። ለእያንዳንዱ ጥያቄ ከአማራጮቹ አንድ ጊዜ ብቻ የ(✓) ምልክት በማድረግ  
 ምላሽ ይስጡ።

ተ.ቁ	1. ህጋዊና ፖለቲካዊ ጉዳዮች	በጣም እስማማለሁ	እስማማለሁ	ሰሙወሰን እንግራላለሁ	አልሰማም	በጣም አልሰማም
1.1	ተመጣጣኝና ምክንያታዊ ያልሆነ የሥራ ግብር።					
1.2	በቢሮክራሲያዊ ማነቆ የተተበተበ የምዝገባና የንግድ ፈቃድ አሰጣጥ ሂደት።					
1.3	ተገቢ ያልሆነ የፖለቲካ ጣልቃ ገብነት።					
1.4	ከስራዬ ጋር ተዛማጅ ስለሆኑ ህጎች፣ ደንቦችና አዋጆች በቂ መረጃ አለማግኘት					
1.5	የመንግስት ድጋፍ በህጋዊና ፖለቲካዊ ችግሮች ላይ በቂ አይደለም					

ተ.ቁ	2. የሥራ ቦታና አለመመቻቸትና ተዛማጅ ችግሮች	በጣም እስማማለሁ	እስማማለሁ	ሰሙወሰን እንግራላለሁ	አልሰማም	በጣም አልሰማም
2.1.	ስራዬን የሚያካሄድበት የግል ቦታ አለመኖር።					
2.2.	አሁን ያለሁበት ቦታ ለስራ አመቺ አለመሆን።					
2.3.	ከፍተኛ የሆነ የቤት ኪራይ መጠን።					
2.4	የመንግስት ድጋፍ በስራ ቦታ አለመመቻቸት ችግሮች ላይ በቂ አይደለም					

ተ.ቁ	3. ቴክኖሎጂና ተዛማጅ ችግሮች	በጣም እስከማሳለፊ	እስከማሳለፊ	ሰመጠሰን እንደገና-ሰ ሰ	እልስማማም	በጣም እልስማማም
3.1	ለስራዬ ተገቢ የሆነ የቴክኖሎጂ ማሸን አለመኖር።					
3.2	በቂ የሆነ የቴክኖሎጂ ክህሎት አለመኖር።					
3.3	በገንዘብ እጥረት ምክንያት አዳዲስ የቴክኖሎጂ ውጤቶችን አለማግኘት።					
3.4	ለስራዬ ተገቢ የሆነ የቴክኖሎጂ ውጤት መምረጥ አለመቻል።					
3.5	የመንግስት ድጋፍ በቴክኖሎጂ ችግሮች ላይ በቂ አይደለም					

ተ.ቁ	4. ከመሰረተ ልማት ጋር የተያያዙ ችግሮች	በጣም እስከማሳለፊ	እስከማሳለፊ	ሰመጠሰን እንደገና-ሰ ሰ	እልስማማም	በጣም እልስማማም
4.1	የኤሌክትሪክ ሀይል መቆራረጥ።					
4.2	የተቆራረጠና በቂ ያልሆነ የውሃ አቅርቦት።					
4.3	የቢዝነስ ልማት አገልግሎት እጥረት።					
4.4	በቂ እና ፈጣን የሆነ የትራንስፖርት አገልግሎት በስራ ቦታ አለመኖር።					
4.5	በቂ የደረቅና ፈሳሽ ቆሻሻ ማስወገጃ ስርዓት አለመኖር።					
4.6	የመንግስት ድጋፍ በመሰረተ ልማት ችግሮች ላይ በቂ አይደለም					

ተ.ቁ	5. ግብይትና ተዛማጅ ችግሮች	በጣም እስማማለሁ	እስማማለሁ	ሰሙዐሰን እቸገራለሁ	አልሰማምም	በጣም አልሰማምም
5.1	በቂ የሆነ የገቢያ እድል አለመኖር።					
5.2	አዲስ የገቢያ አግራጭን የመፈለግ አስቸጋሪ ነው።					
5.3	የወደፊት የሽማግሌ ፍላጎትን መተንበይ አለመቻል።					
5.4	በቂ የሆነ የግብይት መረጃ አለመኖር።					
5.5	ግብይትን በተመለከተ ጥናትና ምርምር ከሚያካሂዱ ተቋማት ጋር ግንኙነት አለመፍጠር።					
5.6	ምርቶችን በአግባቡ አለማስተዋወቅ።					
5.7	ደካማ የሆነ የደንበኞች አያያዝ።					
5.8	የመንግስት ድጋፍ በግብይትና ተዛማጅ ችግሮች ላይ በቂ አይደለም					

ተ.ቁ	6. ከገንዘብ ጋር የተያያዙ ችግሮች	በጣም እስማማለሁ	እስማማለሁ	ሰሙዐሰን እቸገራለሁ	አልሰማምም	በጣም አልሰማምም
6.1	በቂ የሆኑ የብድር ተቋማት አለመኖር።					
6.2	የድርጅቱ የብር አያያዝ ክህሎት ችግር።					
6.3	የስራ ማንቀሳቀሻ ብር እጥረት።					
6.4	ባንኮችና ሌሎች አባዳሪ ተቋማት ለማብደር የሚጠይቁት ከፍተኛ የማስያዣ መጠን።					
6.5	ባንኮችና ሌሎች አባዳሪ ተቋማት የሚጥሉት ከፍተኛ የብድር ወለድ መጠን					
6.6	ባንኮችና ሌሎች አባዳሪ ተቋማት ለማብደር የሚከተሉት ውስብስብና አሰልጣኝ የስራ ሂደት።					
6.7	የመንግስት ድጋፍ ከገንዘብ ጋር በተያያዙ ችግሮች ላይ በቂ አይደለም					

ተ.ቁ	7. የስራ አመራር ክህሎት ጋር የተያያዙ ችግሮች	በጣም እስማማለሁ	እስማማለሁ	ሰሙወሰን እቸግራለሁ	አልስማማም	በጣም አልስማማም
7.1	በስራተኞች መካከል ግልፅ የሆነ የስራና ሀላፊነት ክፍፍል አለመኖር።					
7.2	ደካማ አደረጃጀትና ውጤታማ ያልሆነ የግንኙነት አሰራር።					
7.3	ደካማ የሆኑ የስራ ባልደረቦችን መምረጥ።					
7.4	የሰለጠኑ እና ልምድ ያላቸው ሰራተኞች አለመኖር።					
7.5	በዋጋቸው ተመጣጣኝና ተደራሽ የሆኑ ስልጠናዎች እጥረት።					
7.6	የረጅም ጊዜ የቢዝነስ እቅድ አለመኖር።					
7.7	የመንግስት ድጋፍ በስራ አመራር ክህሎት ላይ በቂ አይደለም					

ተ.ቁ	8. የስራ ፈጠራ ክህሎት (ኢንተርፕሪንሬሽን) ተዛማጅ ችግሮች	በጣም እስማማለሁ	እስማማለሁ	ሰሙወሰን እቸግራለሁ	አልስማማም	በጣም አልስማማም
8.1	ለስራ ፈጣሪነት አለመነሳሳት።					
8.2	ጠንክሮ አለመስራት።					
8.3	በስራ ላይ ለሚፈጠሩ ጊዜያዊ ውድቀቶች ፀንቶ ሀላፊነትን አለመውሰድ።					
8.4	የራስን ጠንካራና ደካማ ጎን አለመፈተሽ።					
8.5	በቂ የሆነ የስራ ፈጠራ(ኢንተርፕሪንሬሽን) ስልጠና አለመግኘት					
8.6	የሚፈጠሩ የቢዝነስ አጋጣሚዎችን ለመጠቀም የሚያስችል መረጃ አለመኖር ወይም እጥረት ።					
8.7	የመንግስት ድጋፍ በስራ ፈጠራ ክህሎት (ኢንተርፕሪንሬሽን) ላይ በቂ አይደለም					



## APPENDIX B

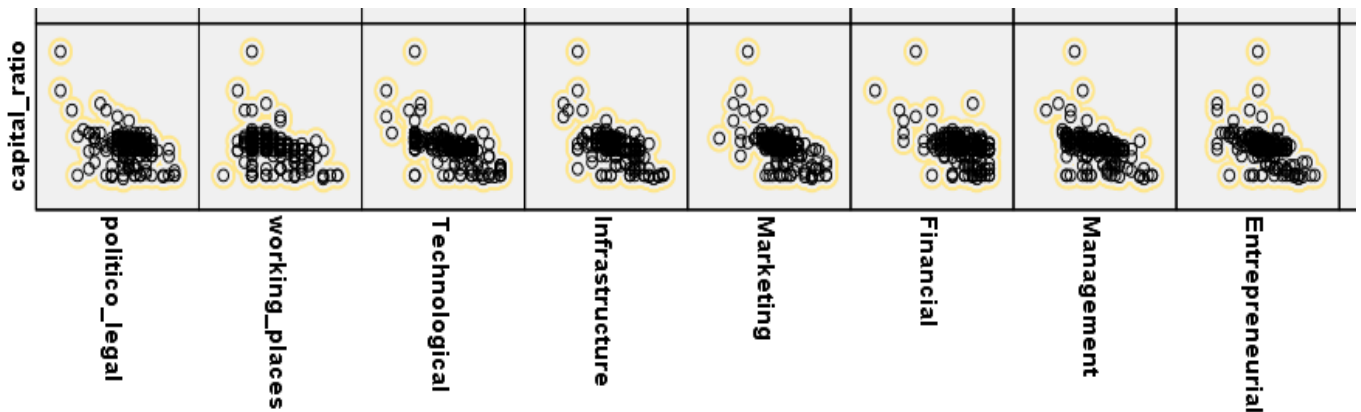
### REGRESSION ASSUMPTION TESTS & REGRESSION RESULTS FROM SPSS 20

**Normality of Data**

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
politico legal	201	3.4070	-.740	.172	1.619	.341
Working places	201	2.6281	.909	.172	.362	.341
Technological	201	3.2119	-.083	.172	-.682	.341
Infrastructure	201	3.3259	-.013	.172	.272	.341
Marketing	201	3.3899	.070	.172	1.126	.341
Financial	201	4.0448	-1.130	.172	2.491	.341
Management	201	3.0576	.282	.172	-.154	.341
Entrepreneurial	201	3.2309	-.141	.172	.605	.341
capital ratio	201	5.2763	1.220	.172	8.464	.341
Valid N (list wise)	201					

A normally distributed data has Skewness and Kurtosis values between -1 and 1 (Ntoumanis, 2000)

**Scatter Plot of the Dependent variable against independent Variables**



**Correlation Matrix**

		politico_egal	working_places	Technological	Infrastructure	Marketing	Financial	Management	Entrepreneurial	capital_ratio
politico_egal	Pearson Correlation	1								
	Sig. (2-tailed)									
	N	201								
working_places	Pearson Correlation	.210 <sup>**</sup>	1							
	Sig. (2-tailed)	.003								
	N	201	201							
Technological	Pearson Correlation	.231 <sup>**</sup>	.264 <sup>**</sup>	1						
	Sig. (2-tailed)	.001	.000							
	N	201	201	201						
Infrastructure	Pearson Correlation	.347 <sup>**</sup>	.348 <sup>**</sup>	.509 <sup>**</sup>	1					
	Sig. (2-tailed)	.000	.000	.000						
	N	201	201	201	201					
Marketing	Pearson Correlation	.225 <sup>**</sup>	.293 <sup>**</sup>	.523 <sup>**</sup>	.539 <sup>**</sup>	1				
	Sig. (2-tailed)	.001	.000	.000	.000					
	N	201	201	201	201	201				
Financial	Pearson Correlation	.377 <sup>**</sup>	-.036	.325 <sup>**</sup>	.329 <sup>**</sup>	.405 <sup>**</sup>	1			
	Sig. (2-tailed)	.000	.616	.000	.000	.000				
	N	201	201	201	201	201	201			
Management	Pearson Correlation	.200 <sup>**</sup>	.396 <sup>**</sup>	.397 <sup>**</sup>	.409 <sup>**</sup>	.428 <sup>**</sup>	.145	1		
	Sig. (2-tailed)	.004	.000	.000	.000	.000	.039			
	N	201	201	201	201	201	201	201		
Entrepreneurial	Pearson Correlation	.181 <sup>*</sup>	.306 <sup>**</sup>	.413 <sup>**</sup>	.311 <sup>**</sup>	.459 <sup>**</sup>	.169	.642 <sup>**</sup>	1	
	Sig. (2-tailed)	.010	.000	.000	.000	.000	.016	.000		
	N	201	201	201	201	201	201	201	201	
capital_ratio	Pearson Correlation	-.422 <sup>**</sup>	-.406 <sup>**</sup>	-.599 <sup>**</sup>	-.596 <sup>**</sup>	-.600 <sup>**</sup>	-.495 <sup>**</sup>	-.476 <sup>**</sup>	-.502 <sup>**</sup>	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	
	N	201	201	201	201	201	201	201	201	201

Multicollinearity is not a problem if Independent variables are not highly correlated with each other (Ntoumanis, 2000).

#### Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.804	.646	.632	1.41409	2.253

Durbin- Watson statistic (2.253) is within acceptable range of between 1.5 and 2.50 (Ntoumanis, 2000).

**Anova Table**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	702.002	8	87.750	43.883	.000 <sup>b</sup>
Residual	383.931	192	2.000		
Total	1085.933	200			

**Collinearity Test & Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	19.282	.827		23.304	.000		
politico legal	-.411	.168	-.119	-2.449	.015	.775	1.291
working places	-.528	.152	-.173	-3.466	.001	.743	1.346
Technological	-.539	.142	-.208	-3.800	.000	.612	1.634
Infrastructure	-.607	.203	-.171	-2.995	.003	.562	1.778
Marketing	-.493	.221	-.132	-2.233	.027	.529	1.891
Financial	-.856	.181	-.246	-4.742	.000	.686	1.458
Management	-.110	.198	-.033	-.555	.580	.512	1.954
entrepreneurial	-.617	.221	-.165	-2.799	.006	.531	1.884

**Multicollinearity is not a problem if Tolerance > 0.10 and VIF < 2.5 (Ntoumanis, 2000)**

## DECLARATION

I the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Chalachew Getahun. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to this or any other higher learning institution for the purpose of earning any degree or diploma.

Surafel Amha Haregeweyen

Name

\_\_\_\_\_

Signature

Saint Mary's University,  
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January, 2017

## ENDORSEMENT

This thesis has been submitted to St Mary's University College, School of Graduate Studies for examinations with my approval as an advisor to the student.

Chalachew Getahun (Ph. D)

Name

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Signature

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January, 2017