



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

**FACTOR AFFECTING MICRO AND SMALL ENTERPRISES
CONTRIBUTION TO EMPLOYMENT GENERATION: - THE CASE OF
ADDIS ABEBA CITY**

**BY
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**JUNE, 2020
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ADDIS ABEBA CITY**

THESIS SUBMITTED TO **ST. MARY'S UNIVERSITY**, SCHOOL OF GRADUATE
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MASTER OF ART IN DEVELOPMENTECONOMICS

**BY
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**June, 2020
Addis Ababa, Ethiop**

DECLARATION

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

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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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APPROVED BY BOARD OF EXAMINERS

As members of the board of examining of the final MA thesis open defense, we certify that we have read and evaluated the Thesis prepared by Behailu Bayisa under the title "*Factor Affecting Micro And Small Enterprises Contribution To Employment Generation: - The Case Of Addis Ababa City*" we recommend that this Thesis be accepted as satisfying the thesis requirement for the Degree of Master of Science in Development Economics.

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ABSTRACT

*Unemployment and low income are one of the present situations in Addis Abeba city. The government has formulated a policy to mitigate the overwhelmed problem by fostering micro and small enterprises. Micro and small Enterprises are well known as the building blocks of economy. The basic aim of this research is to identify and analyze factors that affect affecting of employment growth among MSEs in Addis Abeba, Ethiopia. Firm specific factor including: size, age, human capital and managerial competence and business environment factor which include access to finance, access to market, and infrastructure were realized as major factors for SMEs working in Addis Ababa. In this study both quantitative and qualitative approach was used. Data collected using interview schedule through questioner and data analysis carried out by **using descriptive and econometric** models. The econometrics result indicated that previous work training, size enterprises, access to finance, human capital, infrastructure, experience of the promoters and employees, start premises and support (market access) and enterprise size in included for analysis. Enterprises which are engaged in access to finance, education level, promoters training, sale and profit growth, physical infrastructure and firm size were positively and significantly determined employment growth whereas supporting market, and financial access affects the employment growth negatively and significantly. Promoting inter-firm and Buyers/Sellers cooperation, enhancing share capital contribution, enhancing information dissemination, educating and training of MSEs promoters in business development services (BDS) were recommended to enhance employment growth of MSEs.*

Keywords: - employment, micro and small enterprise, growth

Table of Contents

DECLARATION	i
ACKNOWLEDGEMENT	iv
ABSTRACT.....	v
LIST OF TABLES.....	viii
LIST OF FIGURES	ix
LIST OF ACRONYMS	x
CHAPTER ONE.....	1
1. INTRODUCTION	1
1.1. Background of the Study.....	1
1.2. Statement of the problem	3
1.3. Objective of the study	5
1.3.1. Overall research objective.....	5
1.3.2. Specific research objectives	5
1.4. Significance of the study.....	5
1.5. Scope and limitation of the study.....	6
CHAPTER TWO	7
2. REVIEW OF RELATED LITERATURE	7
2.1. Theoretical Literature.....	8
2.1.1. Definition of SMEs	8
2.1.2. Theory on SMEs	9
2.1.3. Firm growth theories.....	10
2.2. Empirical Literature	11
2.2.1. SMEs Strategy for the development	14
2.2.2. National strategy for the development of SMEs	14
2.2.3. Role and contribution of SMEs.....	16
2.2.4. SMEs characteristics	17
2.2.5. Factors affecting of SMEs.....	18
2.3. Conceptual Frame Work	21

CHAPTER THREE	22
3. METHODOLOGY.....	22
3.1. Study Area.....	22
3.2. Research Design.....	22
3.3. Research Approach	23
3.4. Research Strategy.....	23
3.5. Research Method.....	24
3.6. Types and Method of Data Collection	24
3.7. Sampling Procedure and Technique.....	25
3.8. Sample Size Determination.....	25
3.9. Method of Data Analysis	26
3.10. Model Specification	27
3.11. Definition of Variables and their Measurement.....	29
CHAPTER FOUR.....	31
4. RESULTS AND DISCUSSION	31
4.1. Factors Affects the MSE Employment Contribution	32
4.1.1. Descriptive Results.....	32
4.2.2. Econometric Results.....	36
4.3. Enabling Environment of MSE.....	41
CHAPTER FIVE	44
5. CONCLUSION AND RECOMMENDATION.....	44
5.1. Conclusion	44
5.2. Recommendation	45
REFERENCES	47
Appendix 1.....	54
Appendix 2.....	62

LIST OF TABLES

Table 4.1. Education status of promoters	32
Table 4.2 financial sources for business startup	34
Table 4.3a:- business experience of employees	35
Table 4.3b. Business experience and employment correlation.....	35
Table 4.4. Training of enterprise employees	36
Table 4.5:- Factors of employment growth	37
Table 4.6. Multicollinearity test	38
Table 4.7. Market access of the enterprise.....	43

LIST OF FIGURES

Figure 4.1. Sector involved in the study	31
Figure 4.3. financial sources for business startup.....	33
Figure 4.3. Normality residual test	38

LIST OF ACRONYMS

CSA: - Central Statistical Agency.
CSAE: - Central Statistical Authority of Ethiopia.
EU: - European Union.
EDRI: - Ethiopia Development Research institute.
GDP: - Gross Domestic Product.
GTP: - Growth and Transformation Plan
HC: - Human Capital.
INFRA: - Infrastructure.
ILO: - International labor organization
MOI: - Ministry of Industry.
OECD: - Organization for Economic Cooperation and Development.
R & D: - Research and Development.
SBA: - Small Business & institution
SME: - Small and Medium Enterprise
UNIDO: - United Nation's Industrial Development Organization.
UK: - United Kingdom.
SPSS: - Statistical Package for the Social Sciences
MANOVA: Multivariate Analysis of Variance
OLS: Ordinary Least Squares

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

In many countries, nowadays there is a varied recognition of the contribution of Micro and Small Enterprises (MSE) to economic growth; recently the role of MSE in economic growth, urban poverty reduction and employment creation have engaged most of the discussions among government, policy makers and academicians. Wolde and Geta (2015) in their research paper stated that in most fast developing countries MSE by virtue of their size, location, capital investment and their capacity to contribute for urban poverty reduction and generate greater employment have proved their powerful effect for rapid economic growth.

The Micro and Small Enterprises sector is identified as a tool in bringing about economic transition by efficiently using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology, (Wolde & Geta, 2015). The sector is also described as the national home of entrepreneurship, they are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations, (Katua, 2014). It provides the ideal setting, enabling entrepreneurs to exercise their talents to the full and attain their goals. In all the successful economy, they have seen as an indispensable springboard for growth, job creation, and social development at large. The MSE also seen as an important force to generate employment and more impartial income distribution, to activate competition, exploit niche markets, increase productivity and technical change, and through all of these stimulate economic advancement.

Both developed and developing economies, the contribution of the MSE sector to total employment, entrepreneurship, and innovation cannot be undervalued. As indicated in the EU annual report on SMEs of 2018/19, there were slightly more than 25 million SMEs in the EU-28 in 2018, of which 93% were micro SMEs. SMEs accounted for 99.8% of all enterprises in the EU-28 nonfinancial business sector. The NFBS represented 54.5% of EU-28 GDP and 61.4% of total EU-28 employment, EU report 2018/19

From the standpoint of developing countries, MSE have a number of rewards that make them attractive in hastening economic development. Firstly, because MSE are fairly labor intensive, employment opportunities generated with a relatively low capital cost, a factor with limited supply in many developing nations. Then, they apply raw materials and labor-intensive technology that are locally available. Thirdly, policies and programs can put in place to encourage the development of these industries in different parts of the country thereby reducing concentration of enterprises in certain areas and promoting balanced economic growth. Finally, manageable production capacity and their flexibility make them suitable to respond to current national demand and the limited size of the market in many developing nations (Fasika and Daniel 1997).

Many countries in Africa suffer from high rates of unemployment and under-employment and low labour productivity. In addition, because of demographic factors, a large number of people enter into the labour market each year (Iacovone *et al.*, 2012). Consequently, these countries have been promoting job creation through a variety of means such as targeting labor-intensive manufacturing industries, promoting labor-intensive infrastructure, expansion of micro and small enterprises (MSEs), and education expansion (e.g. technical and vocational education and training etc.) (Ferede *et al.*, 2014). Empirical evidence also suggests the contribution of MSEs in generating employment and income has become increasingly recognized around the world (Liendholm, 2001). From an economic perspective, micro and small-enterprises represent a growing source of productive employment, especially for the lowest income groups, because these firms are more labor intensive than large industry, and require fewer technical skills (Robert and Maria, 1985). In most African countries, micro and small enterprises (MSE) account for a significant share of production and employment and are therefore directly influencing poverty alleviation (Agyapong, 2010).

Within the Ethiopian context, despite the potential contribution of the MSE to poverty reduction and employment creation is widely recognized, the Government until very recently had not extended adequate support to the development of the sector. Recent research work by (G. Gizbher & Ayenew, 2010) indicated that in Ethiopia there has not been an independent assessment of the contribution of the MSE development strategy to poverty reduction, job creation and business growth either at the federal or regional levels to date. Against this

background, the main objective of this study is to identify the determinants of the growth of MSEs in terms of employment using a firm level survey in Addis Ababa, Ethiopia.

1.2. Statement of the problem

SMEs are generator of a given economy by stimulating innovation, creating competition, contributing significant role in employment generation, contributing to export. And for developing countries like Ethiopia apart from those listed contributions, SMEs play much for poverty reduction, even in some cases they help a lot for the welfare of individuals besides profit gain.

In Ethiopia, MSE is one of the sector given recognition in the country's industry development plan, and believed that it serves as vehicles reducing poverty and unemployment at urban center and as it reinforce the economic development. As specified in Ethiopian government national plan, the industrial strategy has given outstanding focus to strengthen micro and small enterprise. This is because it's believed that they are the foundation for the establishment and expansion of small and medial scale industries; and open up opportunity for urban employment generation, expansion of urban development, and provide close support for further agricultural development, (GTP I @ II). During the past five GTP implementation years (2010-2015), the expansion of investments by micro and small enterprise as well as medium and large-scale industries has resulted in the creation of significant number of job opportunities.

At present time the Addis Abeba city unemployment rate reached about 20% of the employable population. MSEs in Ethiopia despite its potential contribution to poverty reduction and employment creation, the government until very recently, had not extended adequate support to the development of the sector. This can also easily seen on the limited jobs available in the market compared to the population of unemployed number of youth that join the working age and the substantial controversy existing over the underlying growth assumptions, the job creation potential, and the net contribution of MSEs to national employment and urban poverty reduction (FeMSEDA, 2015). This is due to different institutional, policy, operational and financial constraint factors existing from both sides, from government and MSE's owners. Some of these factors are institutional and policy constraints, lack of innovation and quality products, lack of use of appropriate technology, lack of access to finance and working premises are some of the issues to be blamed for the dearth of success (FeMSEDA, 2015).

Apart from researches done on growth of SME in the global level, there is a clear gap in the case of Ethiopia. And the dynamics of SME growth will change with different behavior of growth determinants, for instance the case of marketing access in the sense of local and global market opportunities and how it affects SME growth in Ethiopia created a motive to investigate its characteristics. And also the influence of infrastructure availability (water, electricity, transport...) is also another interesting determinant which needs to be understood considering as a gap for this study.

In addition there is also a gap on literatures done in Ethiopia in finding the relation between employment growth and growth determinants, previous studies done on growth of SME like, Mulu, (2009), addressed innovative and growth aspects of SME in Ethiopia. And other works by Merima. and Jack ,(2010) studied the effect of clustering on the performance of SMEs in urban and rural areas considering only SMEs working on the hand loom sector using empirical models. There is a need to enrich and develop our knowledge of understanding about the employment growth of SMEs by considering SMEs working on different sectors particularly in Addis Ababa using empirical model. Moreover such studies need to be continuously progressed and advanced since their outcomes will guide policy makers on their approach towards growth of SMEs.

Above all, the growth of SME is not well studied in Ethiopia and it shows that there is a clear gap which needs to be investigated more considering the above listed determinants for improving SME employment contribution in Ethiopia. And this research aimed to fill some gaps on studies focusing on factors affecting SMEs on employment contribution working in different sectors using empirical models.

Thus, this reach work, ultimately attempts to discourse the following key research questions:

1. Is there vivid growth in MSEs in terms of employment?
2. Are there technological innovations or upgrading in MSEs? What can be done to boost their innovative capacity and contribute to employment creation?
3. Is there any conducive policy and business environment that support MSEs to meet their objective?
4. Is there financial access (Loan and other form of financial support) for Micro and Small Enterprises that will help them to easily start up business, maintain and expand their business?

5. Is there any kind of business development and marketing linkage services provided for MSEs by government and other development agents that will improve their competitiveness?
6. Do micro and small business enterprises have access for stable infrastructure facilities and working premises for MSEs to produce and display their products?

1.3. Objective of the study

1.3.1. Overall research objective

The overall objective of this particular research is to identify the factors affecting the contribution of MSEs in terms of employment and the different factors affecting performances of micro and small enterprises in Addis Ababa, Ethiopia.

1.3.2. Specific research objectives

The following are the specific objective of this research work

1. To identify factors affecting the micro and small enterprises on contribution of employment,
2. To describe the enabling environment for MSE in Addis Abeba Ethiopia.

1.4. Significance of the study

This study will have a significant contribution in the literature of factors affects SMEs contribution on contribution of employment provided policy recommendations based on the research finding. In addition, the observations and findings in this research might be preliminary that could explore different policy, financial and operational factors that contributed MSEs to grow, flourish, and support the economy growth by creating employment opportunity. Hence, this study might serve as a basis for other researchers to conduct a comprehensive analytic research work on micro and small enterprises performance on the entire city. As it is obvious that the SMEs have already contributing a lot to the country's economy in terms of employment, innovation, income, poverty reduction etc ... this type of research works should be continuously advanced to understand the up-to-date growth dynamics of SMEs.

1.5. Scope and limitation of the study

It has hardly to collect primary data in wider terms by reaching all the responsible potential stake holders and MSEs in all sectors of the entire Addis Ababa city due to time, budget and current situation of epidemic disease constraint. Accordingly, this research work is limited only in 2 selected sub city and the result may not necessarily represent the reality for the entire city of Addis Ababa MSE performance; but within the target sub city, the researcher tried to make representative samples in dealing with the research population.

Even if there are so many factors that affect the SME on contribution of employment this research delimited to enterprise characteristics (education of management and employees, age of enterprise, size of enterprise, training and human capital) and business environment factor (access to finance, growth of sales, financial source and profit access to marketing and infrastructure) due to time and financial constraint.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

General overview

Enterprise is defined as a controlled system which comprises detector (is a part of a system that acquires information about the environment), selector (based on the information provided by the detector it gives behavioral response), and effectors (the other part of the system that changes the behavior to effect or simply it is the effectors) (Salminen, 2000). Charte des Pme,(2003) defined SME as a physical or moral person that produce market goods and services. SMEs provide crucial contribution for the world economy basically for developing country like Ethiopia. Indirectly those SMEs help to distribute the benefit from economic growth equally. Even if those sectors have this much contributions for the country economy, the basic dynamics and robust are not available in least developed country like Ethiopia.

Moreover SMEs are considered backbone of a country's economy. This sector is highly recognized as contributing high portion of employment, contribution to exports, and promoting entrepreneurship. And they act as a building block for a country's economic development. As indicated in the EU annual report on SMEs of 2018/19, there were slightly more than 25 million SMEs in the EU-28 in 2018, of which 93% were micro SMEs. SMEs accounted for 99.8% of all enterprises in the EU-28 nonfinancial business sector. The NFBS represented 54.5% of EU-28 GDP and 61.4% of total EU-28 employment (EU report 2018/19)

According to the African development bank estimates 'SME have a crucial role to play in stimulating growth, generating employment, and contributing to poverty alleviation and they represent over 90% of private business in the continent and contribute more than 50% of employment and GDP of most African countries' (African Development Bank, 2015).

In Ethiopia, even though a large number of SMEs are working in Ethiopia, it is extremely difficult to define what constitute SMEs in Ethiopian economy. Carree and Klomp, (1996) showed importance of Small and medium sized enterprises (SMEs) as a job generator. And it is obvious that SMEs contribute a significant portion of a country's employment and economy. In this theoretical review of SMEs, first the study will try to put some definitions of SMEs, characteristics and role of SMEs, national strategy for development of SMEs, definition and measurement of SMEs growth and finally factors affecting SMEs growth will be presented.

2.1. Theoretical Literature

2.1.1. Definition of SMEs

There is no universal definition of SMEs throughout countries and they apply different criterion to define SMEs. Mostly number of employee, turnover, total asset are used as a definition base. SME defined as none affiliate or subsidiary firm which facilitate certain number of employee, but according to OECD (Organization for Economic Co-operation and Development) countries number of employee is not unique definition criteria. (OECD 2005, 17). The size of the enterprise is also used to classify. 'In United Kingdom (UK), a small enterprise is defined as a unit that has a turnover of £5.6 million, and employs around fifty people. And a medium sized enterprise has a turnover of £22.8 million, and has two hundred fifty employees. Canada defines a small business as one that has around fifty to hundred employees depending on service and manufacturing respective. And a firm that has around five hundred employees is classified as a medium sized business. In Japan, for the manufacturing sector, SMEs are those that employ less than three hundred people or have an invested capital of less than hundred million yen. In the United States of America, SME means a unit consisting of one thousand five hundred employees and has a turnover of around \$0.75 to 29 million, depending upon the type of business. In the USA a government department called small business administration (SBA) sets the definition of small businesses.

SME definition in EU (2005) stated the category of micro, small and medium sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro'. In China small enterprises are defined as those that employ fifty to hundred people and medium enterprises employ hundred one to one hundred fifty people. However a study by (Jiantuo YU et 2005) showed that different SMEs classifications are used for different working sectors (Industry, Construction, Wholesale and Retail Trade, Post and etc.).

In a similar way, with reference to capital and technical capacity, SMEs definition in Ethiopia that is accepted, micro enterprises are business enterprises with a capital of not more than 50,000 birr, while a small enterprises are business enterprises with a capital of less than 500,000 – 1,500,000 birr in both cases excluding high-tech consultancy firms and other high-tech g establishments.

Central Statistical Authority classified small and medium enterprises are establishments that engage less than 10 persons using power driven machinery. As it is seen from the above definitions there is no unique definition about SMEs in the globe and different institutions use their own classification based on different parameters considering the existing country's economic development situations.

2.1.2. Theory on SMEs

Study by Green et al., (2006) summarized the existing theories in their work of policy arena on SMEs particularly focusing on finance for SMEs and poverty reduction for developing countries. And it is also provided in this paper as follows to highlight the existing theoretical developments on SMEs. When we look at the theoretical developments done in the last centuries on SMEs, the main theory is the labour surplus theory which was formulated by Lewis (1955). It is argued that the driving force behind SME development is excess labor supply, which cannot be absorbed in the public sector or large private enterprises and is forced into SMEs in spite of poor pay and low productivity. And it is argued that, the SME sector develops in response to the growth in unemployment, functioning as a place of last resort for people who are unable to find employment in the formal sector. And they are expected to grow in periods of economic crisis, when the formal sector contracts or grows too slowly to absorb the labour force. In the contrary when the formal employment grows SME sector is assumed to contract again and thus develops an anti-cyclical relationship with the formal economy. Nevertheless there are empirical problems with the unemployment theory of the growth and development of SMEs, since there is lack of reliable and adequate data for researchers to test the hypothesis that SMEs absorb surplus labour from the public sector or large private enterprises. It is also sometimes argued that SMEs concentrate on trade because this requires less capital and knowledge than production (Green et al., 2006).

The second theory for explaining the development of the SME sector in developing countries is the output-demand theory. And the theory postulates for the development of SMEs there is a prerequisite that is a market for their products and services. Therefore, the SME sector will tend to develop a cyclical relationship with the economy as a whole. However they will face fierce market competition with large firms which will hinder their growth. Nevertheless, structural adjustment and other policies that limit such monopolies, attempt to create more competition. Therefore be advantageous to the SMEs, because this may allow them to capture market shares

from the large enterprises. Empirical studies also propose strengthening of the SMEs through networks or via the creation of forward linkages with the formal economy, for example franchising and sub-contracting.

The third theory, known as the firm growth theory, contends that, as a result of industrialization and economic growth. It is assumed that SMEs are likely to disappear and be replaced by modern large-scale industry. This theory has, however, been shown to be inaccurate in the sense that SMEs do not normally compete directly with large enterprises; rather, they often tend to remain micro and small, co-existing with large multi-national companies, which phenomenon the World Bank (1989) has identified as the 'missing middle' (Ryan, 2005). Also most studies confirm that SMEs are unable to expand creating a 'missing middle'. Moreover SMEs find market niches where scale economies cannot be exploited by large firms distributing to areas or income groups where their costs would be prohibitively high for large enterprises (Green et al., 2006). All the theories are common in the sense that growth of SMEs contribute to poverty reduction.

2.1.3. Firm growth theories

Growth has two different forms which are organic and none organic. If the company grows internally by expanding the existing production or by launching new production line this growth is grouped under organic way of growth. On the other side if the company grows by purchasing another existing firm it is called the company grows through none organic way. (Davidson et al., 2001). For the sake of describing growth different theoretical model are developed. Those theories can be classifying in to two classes one class focus on learning process (either active or passive) while the other class is stochastic and deterministic approach.

Passive learning model: In this Jovanovic's (1982) 'learning model' framework, it is explained that efficient firms (i.e. firms with efficient managers) grow over time, expanding each period when their managers observe that their guesses about their managerial efficiency turn out to have understated their true efficiency. In short in this learning model the annual growth rate of a firm depends on the curacy of the manager's predictions regarding ability and price of the product. Moreover this model implies that small and young firms are more viable for growth (Stranova, 2001; Cunningham and Maloney 2001; Goedhuys, 2002). To sum up only after interring to the market the firm learns how to grow.

Stochastic and deterministic approach: it is known as Gibrat's law, it argues that all change in size is by chance. Therefore size and age of the firm has no effect on the growth of SMEs. The deterministic approach assumes, the difference in the rate of growth across firms depend on a set of observable industry and firm specific characteristics (Becchetti and Trovato, 2002; Francesca et al 1999).

There are views which describe growth processes in the form of life cycle or stage models that encompass the entire life span of a firm (reviewed by Gupta et al. 2013) A model developed by (Churchill and Lewis,1983) showed that an enterprise can have five stages of growth. Existence is the first stage and survival is the second where business grows and entrepreneur feels adding more capital. In the third phase the enterprise starts earning profit. At the take-off stage the firm plans for further growth, expansion and seeking new opportunities. Finally the firm reaches maturity. And the firm focus is on quality control, financial control, and creating a niche in the market.

2.2. Empirical Literature

Small and medium enterprise is affected by a number of factors. And SME grow in a different way which is quite heterogeneous and multi-dimensional and difficult to be summarized with a simple model. And particular studies are beneficial to understand clearly growth of SMEs. Some of determining factor could be related to the behavior of SMEs, financial access and some influences from institutional stakeholders. The existence of various internal and external factors that could affect firm growth creates a challenge for studying aiming at approaching full explanation of the phenomenon.

A study by (Ibrahima,1990) using stake holder analysis which showed stakeholders dealing with SMEs by selecting those that have significant impact of SMEs and classified as government, international institutions, financial institutions, non-financial service providers and SMEs themselves and explained their role on controlling SMEs growth. Similarly the study showed constrains that hinder SMEs development in west Africa: policy, finance, organization culture and information.

Few attempts were done to formally integrate a broad range of growth determinants in a causal model and to test it empirically (Davidsson, 1991; Wiklund,1998). In Davidsson's model he put growth predictors categorized in to three aspects of exhaustive factors: ability, need and

opportunity. From his results all three factors affect growth of employment creation but also that the variables indicating variance in the need for growth was the most influential. Those factors also had the most stable effects across industries. Similar pattern emerged when objective and perceived ability, need and opportunity were related to future growth aspiration.

A study by (Wiklund,1998) showed three theoretical perspectives of growth determinants: the resource-based view, the motivation perspective, and strategic adaptation. In his model, strategy operationalized as entrepreneurial orientation is hypothesized to be directly related to growth. Whereas resources, motivations, and characteristics of the environment are assumed to indirectly affect growth via strategic adaptation and his results confirm that all included categories of variables influence growth. However, in empirical estimation aspects of motivation and the environment were ascribed direct effects alongside their effects via *strategy*. Growth of SMEs also depends on access to finance, which is one of the most important determinants of a firm's productivity and growth. However, it has been well documented that most firms, especially small ones and those in developing countries with less developed financial systems, face substantial credit constraints (Hubbard 1998).

However, empirical studies typically do not find support for the independence of firm growth from size and age (Becchetti and Trovato, 2002). The study adopted a multivariate approach and they found that Gibrat's law doesn't work for SMEs but it cannot be rejected for large firms. The study also found that the scarce availability of external finance and lack of access to foreign markets are crucial determinants of firm growth. Study done by (Humphrey, 2003) on opportunities for SMEs in developing countries to upgrade in a global economy addressed the issue of strategic developments on market opportunities by examining of small and medium enterprises (SMEs) in horizontal linkages between firms (through clusters and networks) and vertical linkages with markets. Also the study argued that highly skilled managerial and technical workers are required that can provide the management and supervisory systems that will ensure adherence to the specifications demanded by global buyers.

Finally, a random sample of firms was selected from each sector in each town from a sample frame generated for each town. And then in their methodology, they applied a probit model in estimation given the binary nature of the dependent variable where the dependent variable takes either 0 or 1 depending access to credit. And they found that informal firms are more credit

constrained as compared to formal ones and firm's location, membership of a business association and maintaining an accounting record were also important determinants of access to credit. Among the limitations is the dependent variable is defined on the basis of demand side responses alone in that it reflects only the view of firms and not that of lenders.

Study done by Admasu., (2012) on factors affecting the performance of micro and small enterprises in Arada and Lideta sub-cities, Addis Ababa. The study applied descriptive and explanatory research methodology and stratified random sampling and the study concluded that financial access, working premises, managerial factor, market access, infrastructure factors, was found to be the main factors hindering employment creation growth of SMEs.

Similar study done by Mike and Lawal, (2012) on financial sector reforms and the growth of small and medium scale enterprises (SMEs), in Nigeria it was found that besides firm characteristics access to finance played a critical role for growth of SMEs. Also a study by Musa and Ibrahim, (2012) using modified version of Lu and Wang (2010) model which is based on ordinary least squares regressions, the study found an important difference in measurement and interpretation of the firm growth-financial constraints relationship by controlling the effect of size, age as well as size and age.

Above all, most SME working in Ethiopia operate in the trading and service sectors, their demand for new investment in fixed assets are relatively low. Usually they look for short-term bank loans or other resources from relatives, friends or suppliers to finance their operations. Apart from these previous achievements on growth definition and measurement, factors affecting growth behavior of SMEs, there is still a need to address this area and understand the dynamics of SMEs growth particularly in our developing world. This study aims to understand firm growth by considering firm characteristics and business environment which includes access to market, access to finance and availability of infrastructure. And this paper also aims to fill the gap we had in Ethiopia by considering SMEs located in Addis Abeba.

2.2.1. SMEs Strategy for the development

For many SMEs, decision-making and strategic objectives are ignored, due to uncertainty and risks. Usually short term decisions are considered to balance the needs of customers with the demands of suppliers and financiers. However, successful owners try to keep options open because of future uncertainty in the market. SMEs' strategy tends to be emergent and informal. SMEs primarily adopt a differentiation strategy, where the product or service delivered is different from those already in the market to get a particular market niche (Margi and Philip, 2005). And this makes SMEs grow more quickly since they exploit the existing market gap. Moreover, investment in product innovation is usually the main strategy for SMEs growth. It also allows the SME to focus on quality, innovation and flexibility in delivering the product or service (Burns and Harrison, 1996). And their strategy is usually connected to their innovativeness and this is a key characteristic of SMEs and one that may demand flexible strategies for success. So SMEs are reluctant to commit to long-term strategies. And there are few formal systems and relatively little strategic planning done by SMEs until they are nearly at maturity (Margi and Philip, 2005). In general, as compared to large firms, SMEs tend to plan strategically in a less structured and more informal manner than bigger companies.

2.2.2. National strategy for the development of SMEs

In Addis Abeba, there is about 28,348 micro enterprises, generating a means of livelihood for about more than 1.3 million people. Carree and Klomp,(1996) showed importance of Small and medium sized enterprises (SMEs) as a job generator. In Ethiopia the private sector is limited and it was the worst state and discouraged in the previous government time. Even now they are at the lowest peaks as compared to other continental countries (Zuzana and Emerta, 2010). Particularly the sector of manufacturing is quite limited with some exceptional sectors (flower, leather, and textile). And unemployment in the urban population is quite high whereas the limited private sector can't absorb such high unemployment which actually comes from the high population increase in the urban areas from 6 million to 13 million between 1990 and 2007 (Zuzana and Emerta, 2010). Besides this, there distribution is not even most concentrated of the capital, Addis. Moreover, the private sector got significant share around 15% of employment distribution (World Bank, 2005) Moreover, similar studies also showed that in Ethiopia most private sectors are SMEs where majority of them are informal and unproductive. Even the existing SMEs are unproductive and are not upgrading.

Government has also included many promotional policies to support this sector like product reservation, infrastructural support, direct and concessional credit, tax concession, and special assessment in procurement of equipment, facility of duty drawback, quality control, and provision of market network. Moreover the government has formulated a National SMEs Development and Promotion Strategy in 1997 E.C, which enlightens a systematic approach to alleviate the problems and promote the growth of SMEs. And the strategy was planned to achieve economic growth, to assure employments, to help them to be more innovative and productive so that they can be competitive in both local and global markets. Particularly the strategy focus on manufacturing sectors which includes:- food, textiles, leather, clothing, metal works, and crafts. Small enterprises are also working in nomadic and disaster areas; agro-business and small scale farming and fishing; small exporters; as well as small-scale tourism operators; small size contractors & firms providing construction materials. And SMEs working related to construction have got particular attention to make them work with big construction companies using subcontracting so that they can be easily upgraded and achieve growth.

The framework of SMEs support includes, business registration and licensing; financial and loan application, simplify tax declaration, training in entrepreneurship, skills and management. However there are more discrepancies at different stakeholder levels to implement those strategies. Moreover, World Bank (2005) has reported that poor countries such as Ethiopia are usually more heavily regulated in terms of policy. In these countries they reported that SMEs have only two options: compliance with regulation or operating in the informal sector. However, neither of the two options is strategically beneficial for small businesses and enterprises as the options fail to meet the basic needs and requirements of small firms. SMEs in Ethiopia are over-regulated and under-resourced, compliance with existing regulations does not provide SMEs with competitive market conditions that would raise their profit. The second option left for SMEs is operating in the informal sector which denies SMEs access to benefits such as loan from formal money lending institutions such as commercial banks, business related trainings, technical assistances and work-place related problems. According to (Lowery, 2005) in countries where there is good macro-economic policy, SMEs flourish and operate at full potential, conversely in countries where macro -economic policy is not favorable, SMEs struggle to survive, and fail to play a prominent role in the national economy (Eshetu and Mammo, 2009).

2.2.3. Role and contribution of SMEs

The economic importance of SMEs is widely understood in all corners of the globe. They contribute significantly for job creation (employment), involve in innovative activities and they create competitiveness in the market. Especially for developing economies they contribute much for economic growth and poverty alleviation. In the context of poverty alleviation, SMEs help entrepreneurs for income generation in terms of profit margins, and also for income generation in the form of salaries for employees.

In OECD (Organization for Economic Cooperation and Development) countries, 95% of firms are SMEs employing between 60% and 70% of workers. In a different report in the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises (European Commission). Similarly in Africa comprising over 90% of African business operations and contributing to over 50% of African employment and GDP (Ok a for, 2006). In Kenya some estimates showed that there were about 900,000 small and micro enterprises establishments employing 2 million Kenyans and generating about 14 per cent of the country's GDP (Dolman, 1994). In Nigeria, SMEs working under agricultural projects were used as an effective strategy for poverty alleviation. Despite previous failed government programs to alleviate poverty, SMEs working in agricultural sectors easily create income and employment to the local rural communities which in turn also reduce displaced people to urban areas (Adepoju, 2012). More experiences in developing world, for example, in three west African countries (Botswana, Zimbabwe and Mauritius) showed that SMEs working in various sectors (trade and service, 68% ,manufacturing, 15%, construction, 3%) played much in poverty alleviation(Mukras, 2003).

In general SMEs played a key role in job creation in developed and developing world. Ethiopia, being the poorest country, the role of SMEs in alleviating poverty is unquestionable and it is also widely accepted from every stakeholder in the country SMEs are helping much for the community to survive. Moreover SMEs in Ethiopia are not only aiming for income and employment generation, rather they are contributing to the welfare and improving the life of society (Mukras, 2003).

2.2.4. SMEs characteristics

SMEs are also considered flexible and innovative organizations that are able to respond quickly to customer and market demands. Moreover flexibility is a key characteristic of SMEs which determine their ability to adapt to changing circumstances (Margi Levy and Philip Powell, 2005). Though, flexibility is desirable, but dependent upon other factors in the organization (Hansen et al., 1994). The production technologies of many manufacturing SMEs may inhibit flexibility (Gupta and Cawthorn, 1996), while it is also believed that it is people rather than technology that provide flexibility (Carrie et al. 1994). And SMEs are also characterized by producing innovative products and many of the owners are motivated by innovation activities. And with innovation SMEs are able to respond within their bounds of the knowledge about existing products or services to changes required by their customers within their niche market. Moreover to be successful firm needs to understand the perceptions, needs and wants of the market in order to create products with a superior value (Barbara et al. 2011).

While SMEs don't involve in extensive research and development, if they do so, they can be more innovative than larger firms (Storey, 1994). Moreover many of the SMEs innovative are not successful due to lack of professionalism and inability to collaborate with other enterprises (Rothwell, 1986; Noteboom, 1991).

The growth of SMEs on employment creation is highly depending on their innovative nature. Size of firms, human capital determines the innovativeness of SMEs. For example in Ethiopia, among the human capital variables vocational training was found to have a strong effect on the innovation activity and with regard to their size, larger SMEs are more innovative than small ones (Mulu, 2009). These are among the positive characteristics of SMEs that lead them to success. However, SMEs are found to often be constrained not only financially, but also in skills (Carrie et al., 1994; Hansen et al., 1994). And this usually leads SMEs to use external consultants to provide the skills that they need. They are also characterized by small equity since the owners have small resources to invest in the business. And this low equity is viewed by financial institution (banks) as insufficient to create a good relation between the enterprises and the banks. Actually this shows clear differences from the advanced business sector.

In developing countries, SMEs use traditional technology and process which might be due to the cost of technology or they have little attachment to technology (Ibrahim a, 1990). Moreover the

level of technology in SMEs critically affects their growth and productivity. Particularly in developing world: - core function services, electricity, water, infrastructures are poorly available. And as a result SMEs working in such locations are technologically constrained and they are unable to use information system to support their business.

2.2.5. Factors affecting of SMEs

In small and micro enterprises is affected by a number of factors. And SMEs grow in a different way which is quite heterogeneous and multi-dimensional and difficult to be summarized with a simple model. And particular studies are beneficial to understand clearly growth of SMEs. Some of determining factors could be related to the behavior of SMEs, financial access and some influences from institutional stakeholders. The existence of various internal and external factors that could affect firm growth creates a Challenge for studies aiming at approaching full explanation of the phenomenon.

1. Human capital

Human capital refers to the skills and knowledge that individuals acquire by investing in schooling, on-the-job training and other types of experience that could contribute for possible growth of SME (Becker, 1964). The management of SMEs is determined by the owner and their attitude towards business. The more skills and knowledge an SME owner has, the greater is their capability to exploit opportunities, learn about new processes or develop a growth strategy and find it easier to grow than others (Shane, 2003). And the behavior of the entrepreneur affects the firm growth that really creates business and uses any opportunities. For instance, innovation activities, cost reduction, production efficiency and any other changes and growth of the enterprise depends highly on the entrepreneur ability to respond to changes in the environment (Hashi and Krasniqi, 2011). And firms with growth intention entrepreneurs achieve high growth rates as compared to those with no intention of growth. Also the willingness, motivation and readiness to take risk also affect the upgrading of SMEs.(Markus Loewe et al. 2013) Moreover, Since a country's educational and entrepreneurship systems contribute to its entrepreneurs' average human capital, they can help to predict the general likelihood of SMEs to upgrade or not. Particularly in developing countries lack of qualified, practically oriented vocational schools, institutions highly affect the growth of SMEs.

2. Managerial competence

Managerial skills become more important to the firm since there is a greater attention to be paid in financing, marketing and managing staffs (Burns, 2001). And the organizational structure will need to be more formal, although most owners attempt to try to keep it from becoming bureaucratic. Besides this the owner is responsible to respond to changing circumstances to manage firm growth. Firm managers are appointed to support activities such as finance, marketing and operations. And firm plans are medium term, but focusing on operational issues and budgets. And then the owner's attitude to growth will determine their path. Owners need to have a vision for future growth which is shared with staff throughout the organization (Margi Levy and Philip Powell, 2005). Firms owned with good education and management experience get success in their business (Storey, 1994). Besides education and experience of owners have much stronger relation to growth if the owner has high growth aspirations (Wiklund and Shepherd, 2003). In other words, the ability gained through experience and education does not deterministically force business founders to expand their firms. If they aspire to do so, however, education and experience seem instrumental in reaching their target goal.

3. Access to finance

Small and medium enterprises should pass through tiresome informalities to get access to credit. And informality becomes the basic determinant for access to credit. SMEs should provide extensive information to the lenders, including proper documentation of registration and an operating license, tax-compliance and externally audited financial statements. And Informal firms are less likely to possess all of these documents, and almost certainly not to the standard required by formal financial institutions. As a result such firms are likely to be restricted to access to credit.

Further, financial contracts are highly sensitive to the availability and enforcement of contract. And it is almost impossible for formal financial institutions to enter into contracts with informal firms. Thus, informality is a priori an important determinant of a firm's access to external finance which is noted on the study in Ethiopian SMEs by Aga and Reilly, (2010). Apart from this, certain attributes of SMEs like size and age, motivation to grow, and assets they possess all can have effect on the financial institution to get the confidence to provide the required finance. Similarly access to finance is more difficult for small enterprises than for large ones (Beck et al.

2006). Small firms are also more vulnerable to limitation in accessing finance than large companies.

4. Access to market

Market structure is the main dimension of a firm growth. Moreover the market share where SMEs work on price is highly competitive where new firms will create pressure on the existing firms and also some competition may come from large firms entering the market. Moreover market uncertainty is high in most SMEs as they tend to have a smaller share of the market, to have one or two major customers and are hence less able to influence price. Since large firms have large market share they usually determine price. Few SMEs work in slim market niches where there is little or no competition. These firms may influence price and sold amount (Margi and Philip, 2005).

Moreover the concept of market orientation is not related to firm size and it is appropriate to both large and small firms (Blankson et al. 2006). SMEs respond quickly to markets based on customer information as compared to large firms since they are closer to customers, and since they have also less bureaucracy (Keskin, 2006). And it has been argued that most of SMEs lacked marketing concepts since most firm managers are not also taking formal trainings in marketing. SMEs may follow some form of self-directed and informal customer centric philosophies (Helen, 2009; McPherson, 2007). According to the responsive market orientation, customer needs are first investigated and assessed and then consistent products and services developed, however in SMEs the managers usually do it in the opposite way: they develop a product and then try to find a market for it (Stokes, 2000b). And for SMEs working in Ethiopia, market access is main factor controlling their growth.

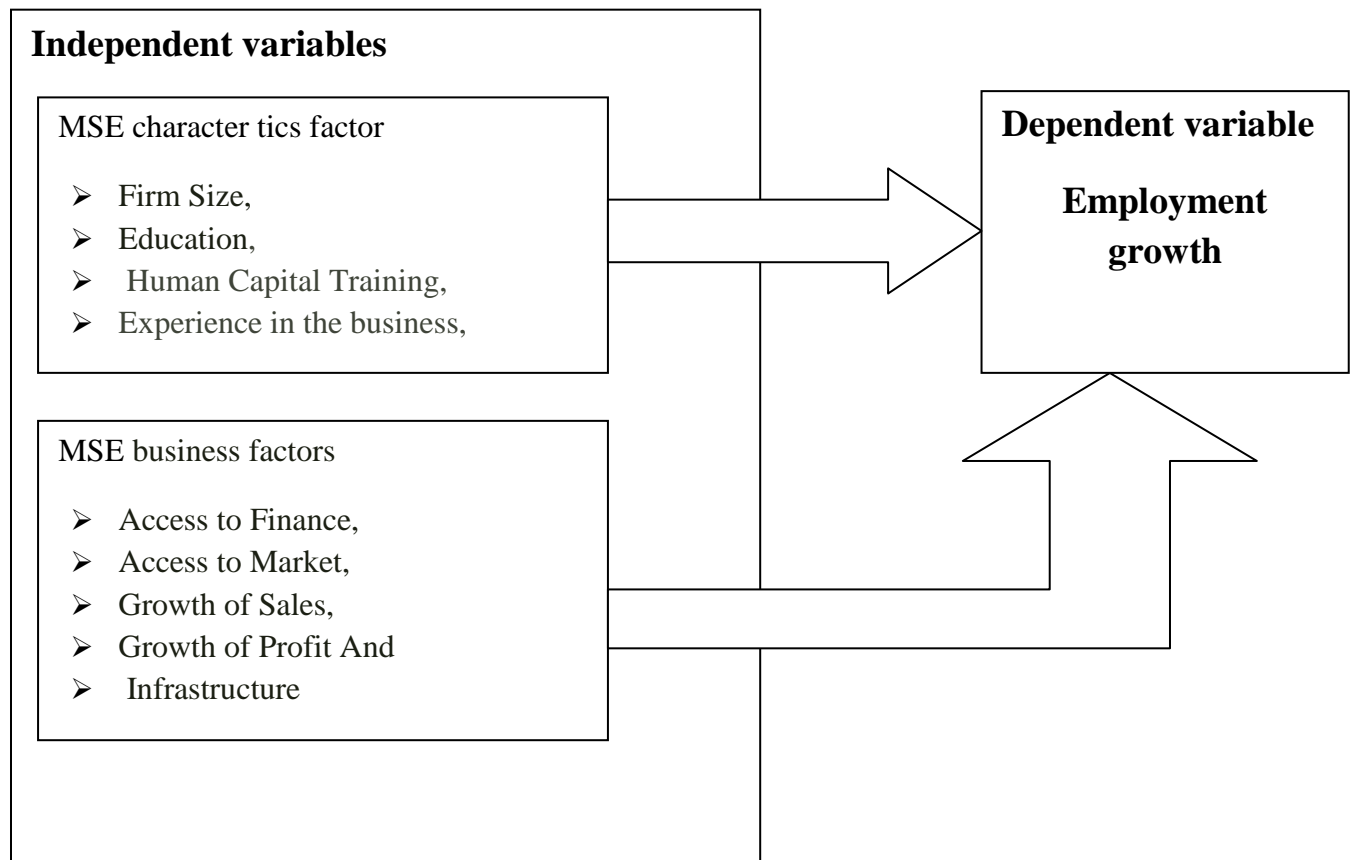
5. Infrastructure

Finally the availability of good infrastructures also controls SMEs growth to make them competitive in the local and international markets. Infrastructure can be assured by the provision of quality education, health facilities, environment, water supply, energy supply, access roads, and creation of science and technology institutions to produce competitive entrepreneurs. Moreover technological innovation, globally integrated financial sectors, well-developed infrastructures and skilled labor force all support a country's international competitiveness. Infrastructures like efficient transport network systems helps SMEs to get good access to market and resources, and reliable energy source production and distribution systems which helps SMEs

to use modern technologies. Particularly SMEs working in developing world suffer a lot in this dimension since there are a lot of infrastructure problems. The World development report (1994) showed that the efficiency of infrastructure utilization is important to business and economic growth.

2.3. Conceptual Frame Work

Since the main objective this work is to identify and analyze factors that affect the employment growth of SME. To align the conceptual frame work with this objective employment growth is taken as dependent variable whereas Firm Size, Education, Human Capital Training, Experience in the business, Access to Finance, Access to Market, Growth of Sales, Growth of Profit And Infrastructure take as independent variable. Based on this a simple schematic relation is realized between the variables.



CHAPTER THREE

3. METHODOLOGY

3.1. Study Area

The study under the title of factors affecting small and medium enterprise contribution of employment was under taken in Addis Ababa city administration by taking two sub cities as specified study area. Addis Abeba was founded in 1886 by emperor Menilik II of Ethiopia and the city become a capital city of Ethiopia on 26 October 1896. Geographically, the city is located between 8°55' and 9° 05'm north latitude and between 38° 40' and 38°50' east longitude, while its total area is 54,000 hectares. Akaki Kality sub city total Area: 118.08 sq.km and its population is 195,273 while ledeta sub city Area is 9.18 sq.km and its Population is 214,769. And in the city Micro and Small Enterprises (MSEs) played an important role in creating income and employment opportunities that have bearing on poverty reduction.(addis Abeba ccity administration web)

According to Addis Abeba micro and small enterprise bureau report 2018/19 in the city there is 30,348 SMEs that conduct different business type include construction (7,049), manufacturing (9031), service (3861), trade (9659) and urban agriculture (740). From this the two sub city accounts 6068 SMEs from this construction (1409), manufacturing (1806), service (772), trade (1931) and urban agriculture (148).

3.2. Research Design

From the definition provided by (Kothari, 2004) "A research design is the arrangement of Conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure". Moreover research design is a frame work or a plan to be followed for study and is used as a guideline for collecting and analyzing data. Among the existing research methods, this research used both descriptive and explanatory research design (why is it going on) methods and those are appropriate for the study case.

Descriptive research design:- tries to "paint a picture" of a given situation by addressing who, what, when, where, and how questions (William G. Zikmund, 1984). In other words it shows what is going on.

Explanatory research is used to answer why questions and this feature leads to involve causal explanations. The reason for application of descriptive research design in this thesis is to describe and assess factors that affect the contribution of small and medium enterprise on employment in two sub city. Besides explanatory research design was used to estimate the influence of those factors on the dependent variable or growth.

3.3. Research Approach

For a given research question appropriate research approach needs to be followed. In deductive (theory testing) approaches theory is placed at the beginning of the plan for a study. And then the researcher advances a theory, collects data to test it, and reflects on the confirmation or disconfirmation of the theory by the results. Mostly this approach is associated with quantitative method. Inductive approaches (theory building) can be applied for qualitative studies where there isn't any explicit theory. In this approach; however, the researcher gather information (e.g. observations, interviews) and then the researcher analyze data to form themes and categories.

Finally these themes or categories are developed into broad patterns, theories, or generalizations that are then compared with personal experiences or with existing literature on the topic (Creswell, 2003). Mostly this approach is associated with qualitative approach. Several studies also applied deductive approach for barriers of SMEs growth (Ahmed, 2013; Markus et. ai, 2013). Likewise this research used both deductive and inductive approaches because there are no clear structured theories that deal about factors that determine the growth of SME.

3.4. Research Strategy

There are five research strategies that can be applied in a research work which are experiment, survey, archival analysis, history and case study (Yin, 2003). Case study is the most widely used approach of researching a problem. Previous studied also consider case study to understand employment contribution of SMEs (Ahmed, 2013; Admasu, 2012). In a case study by understanding the deep behavior of a particular case (for example SMEs employment contribution factors) can help for wider understanding of factors affecting growth of SMEs. To achieve its specific objectives this study also used a *case study* way of approach for researching factors that affect the growth of small and medium enterprises. Particularly this study is designed focusing on factors for SMEs on contribution of employment located in Addis Ababa "ledeta and Akaki Kaliti" sub cities, Ethiopia.

3.5. Research Method

As it is known widely there are two sorts of research approaches: - such as qualitative and quantitative research approach. Based on the general and specific objective the researcher might select one or both methods that are most appropriate to achieve the aim. In this research both quantitative and qualitative approach are used. Quantitative methods involve systematic empirical studies which includes quantifying through the assistance of mathematics and statistics. And the collecting: data are converted into numbers which will be tested empirically to draw some conclusions from the results. Quantitative approach will be applied to test the research hypothesis and to examine the relationship between dependent and independent variable by using empirical models.

While in qualitative methods, statistical analysis are irrelevant rather they draw conclusion by (Jeep understanding of how the respondents perceive barrier to growth of SMEs. Similarly the researcher used the second approach (qualitative) to interpret result of the analysis and to collect qualitative data from the respondents since most of the independent variables cannot be obtained in quantitative form and this leads to seek more about their opinion and belief of the respondents about the variable. In addition to the above reasons, the investigator applied both approaches since they provide additional advantages like.- to achieve cross validation, to obtain full understanding of the research and to cover the weakness of one approach using the other approach.

3.6. Types and Method of Data Collection

3.6.1. Types and source of data

As it is already explained in the previous topics, the study particularly focused on employment contribution/growth factors of SMEs using a case in Addis Ababa, Ethiopia.

This study applied both primary and secondary types of data and they have qualitative and quantitative nature. Primary data were collected using structured questionnaire which were filled with firm owners or managers since they are aware of the trend of the firm.

3.6.2. Method of data collection

In this study, structured questionnaire designed to capture easily the required data for the study work. Besides this, unstructured interviews were used to support and to complete data collection

mechanisms. It is also advisable to include interviews to particular stakeholders to understand better the employment growth behavior of SMEs in a qualitative way.

Questionnaire was designed by thorough revision of previous case studies and it is reconstructed accordingly to our variables.

Besides this the study used secondary data which are mostly qualitative data referred from similar case studies done on the topic particularly in the study area, books, articles, reports and some policy documents are used. Moreover, in this work the researcher reviewed previous literature, books and developed research questions. After thorough revisions on SMEs, I figured out factors (i.e. age, size, human capital, access to finance, access to market and infrastructure) that hinder employment growth of SMEs in developing countries particularly in Ethiopia.

3.7. Sampling Procedure and Technique

This study covered SMEs located in Addis, Ethiopia as the target population. The study concerned on registered small and medium enterprises. It also excluded micro enterprises due to the following reasons:-

1. Some of the independent variables may not exist like human capital, experienced manager and
2. Most of micro enterprise may not keep proper record.

In Addis Ababa city administration there are 10 sub cities. From those sub cities two sub cities (Akaki kality and ledeta sub cities) was selected based on their convenient and from the center of ledeta sub city and from the alongside of the city Akaki kality sub city. And in this study small and medium enterprises working in construction, manufacturing, trade, service and urban agriculture will be chosen since exist in the city.

In the selected sub cities there are SMEs, that conducts different business type and a stratified random sampling will be used. In this technique must group the sample frame in to homogeneous group often called strata before selecting the element for the sample. And the business type was taken as criteria to create strata.

3.8. Sample Size Determination

According to Adams et.al, (2007) descriptive research method uses large number of sample. Sometimes it uses 10 or 20% of total population. In this study registered in the city there is 469

small and medium SMEs will be used as a Population to select the sample in the two sub city. And the total populations in the city there is 4,692 those are from different SME that conduct different business type includes construction (422), manufacturing (1809), service (263), trade (2076) and urban agriculture (123). From this the two sub city accounts construction (109), manufacturing (140), service (60), trade (149) and urban agriculture (11). And in selected sub city the sample size for the study represents those different strata. The following formula is used to calculate the sample size because according to Adams et.al , (2007) it is the best method.

The sample size is determined based on Yamane’s formula (Glenn D. Israel, IFAS); with an error 5% and with a confidence coefficient of 95% and the following equations applied

$$n = \frac{N}{1 + (N * e^2)}$$

Where,

n= sample size

N= the total size of population

e= acceptable sampling error, 95% confidence level with 10% precision. Accordingly, the sample is determined as follows:

$$n = \frac{469}{1 + (469 * (0.05)^2)}$$

$$n = 215$$

3.9. Method of Data Analysis

The raw data by itself is not relevant unless it is analyzed to give meanings. Therefore in this research the collected data will be analyzed through descriptive statistical analysis and multiple regression models analysis.

Descriptive analysis

Descriptive statistical analysis (mean, standard deviation and correlation analysis through Pearson) will be applied to measures variables like education of promoters, access of training, work place.

Multiple regression models

Multiple regressions employ a linear junction of two or more independent variables to explain the variation in a dependent variable. In multiple regression analysis, we predict the observed values of the dependent variable using a linear function of the observed values of two or more independent variables. Multiple linear Regressions will deploy to examine the relationship of several hypothesized variables with the employment growth. Age of the enterprises, access to finance, human capital, sales volume, profit infrastructure, and supporting markets will be included in the analysis.

The growth model was provided by Evans (1987) and that was adopted in several studies. Depending on the data set either of the following parameters employment, sales, profits, fixed asset or capital stock to measure firms' growth. This study used firms' employment as an indicator to capture growth. Hagoset al., (2014) used similar approach to measure growth indicator in employment was used.

3.10. Model Specification

This study had explored a number of factors which had been related to employment growth of SMEs. The employment growths determine factors such as individual and firm related factors, social networks and the firm support of market will be considered in this regard. The dependent variable is the change in the number of employment in specific period of time. For the measurement of employment growth of MSEs which is dependent variable, annual average growth method was employed and for the regression analysis multiple linear models was used.

This study used firms' employments an indicator to capture growth. Hagoset al., (2014) used similar approach to measure growth indicator in employment was used. Employment contribution can be measured by taking the difference in employment between the start of operation and the current situation.

Employment Growth

$$Gr = \frac{\ln st' - \ln st}{Age}$$

Where,

- $\ln St'$, is firm's log of current employment,

- $\ln St_t$ is firm's log of initial employment,
- AGE is the age of MSEs and
- Gr Employment growth is the variable indicates the growth rate of the enterprises.

Econometric models used to estimate significant factors that affect growth, such as multiple linear regression models. In multiple linear regression models, the dependent variable is explained by means of a set of independent variables. A multiple linear regression analysis used to test whether or not the key independent variables determine the dependent variable. Multiple linear regressions will employ as the dependent of the study (Gr), which is the employment growth of MSEs, is of continuous nature. Multiple linear Regressions will deploy to examine the relationship of several hypothesized variables with the employment growth. Age of the enterprises, SMEs size, access to finance, amount of initial capital, infrastructure, and supporting markets will be included in the analysis.

The general Multiple Linear Regression model was specified as:

$$Gr = \frac{\ln st'_t - \ln st_t}{Age} = \beta_0 + \sum_{i=1}^j (\beta_i X'_i + U_{ij})$$

Where, β_0 = the intercept,

β_i = the coefficient of X_i, U_{ij}

Gr = Employment Growth

While dealing with the above independent variables, the following tests will be applied
Multicollinearity test: - among them to precisely gauge the individual effect of the independent variables on the dependent variables was ruled out. Multi co linearity is possible correlation that may exist among explanatory variables, making the coefficient estimates unreliable. Variance of Inflation Factor (VIF) and Tolerance are two important measures that can detect multi co linearity in a regression model (Wooldridge, 2002).

Heteroscedasticity test: - In regression analysis, heteroscedasticity is a systematic change in the spread of the residuals over the range of measured values. Ordinary least squares (OLS) regression assumes that all residuals are drawn from a population that has a constant variance (homoscedasticity). The paper will test the variables hetroscedacity.

Normality test

On the residuals disclosed the fact that the residuals were not normally distributed. Without the assumption of normal distribution of error terms (residuals) statistics derived for testing hypothesis would be misleading.

3.11. Definition of Variables and their Measurement

Dependent variable

The dependent variable is growth of employment creation and it can be measured by several attributes such as turnover/sales, firm size, firm age and profits. Among these measures, sales and firm size are in particular broadly used indicators for employment creation of MSEs.

Independent Variables:-

The independent variables include factors and individual variables representing internal factors which basically include firm characteristics and business environment those are mostly external factor that affect firm growth interims of job creation. Firm characteristics include (firm size, education, human capital training, experience in the business), on the others side business environment (access to finance, access to market, growth of sales, growth of profit and infrastructure). They are summarized as follows. Based on the literature and theory of MSEs the following variables are identified to be tested in the research:-

- a. Firm size:** - The absolute value of total assets is used as size variables in order to test for scale effects in the relation to employment and firm size. $\text{Firm size} = \ln(\text{TOTAL ASSETS})$ and the expected sign is positive (+)
- b. Firm age:** - It is defined as the number of years a firm has been operating in the market (since the date of Incorporation) and is expected to have relation with firm employment creation. $\text{Age} = \text{number of years of existence}$. Based on literature the expected sign of years of existence of the enterprise is negative (-).
- c. Human capital:** - Business owners with prior management experience are thought to be likely to form faster growing in terms of job creation businesses than those established by individuals without that experience. Based on most literature the expected sign of uman capital the enterprise is positive (+).
- d. Access to finance:** - Even though measuring access to finance is difficult, researcher formulated a survey question whether the firms have received credit from banks, personal

savings, "Idir" or family support or micro finance or NGOs. Based on literature the expected sign of access to finance the enterprise is positive (+).

- e. **Access to market:** - focus on access of market to sale their products and is assessed through question. Access to market based on literature and theory of growth the expected of the enterprise is positive (+).
- f. **Availability of infrastructure:** - this variable assessed through formulated questions to understand whether a firm has access to those factors. Expected sign for infrastructure of the enterprise is positive (+).
- g. **Growth of sales and profit:** - this variable assessed through formulated questions to understand whether a firm's sales and profit grow or not those factors. And the expected sign is positive (+).

CHAPTER FOUR

4. RESULTS AND DISCUSSION

The enterprises included in this paper are diversified in many dimensions. The enterprises are also diversified in terms of gender of owners, experience and education of managers in business, the sectors they are engaged, and their finance sources as will be briefly discussed. The study was conducted to understand factors affecting the employment growth of SMEs located in Addis Ababa, Ethiopia. To undertake these study two sub cities were selected ("Iedeta" and "Kaliti" sub cities). Once the data was collected, it was filtered, categorized and proceeded using descriptive Statistics tools like mean, standard deviation by applying SPSS-25 (Statistical Package for the Social Sciences version,25) and STATA. Hypotheses were also tested using particular methods like F test chi-squared. Out of 215 distributed questionnaires only 163 are retrieved successfully which represent average response rate of 71.4% for wood and metal work, 75% for textile and garment and 85% for block.

Sectors considered in the study

Among the collected data from the field survey it is understood that SMEs considered in this study are involved in three major business sectors are textile and garment, Block, wood and metal work. The percentage distribution of sectors is, 30.77% accounts for textile and garment, 53.85% for wood and metal work while least percent (15.38%) is observed for block manufacture sector.

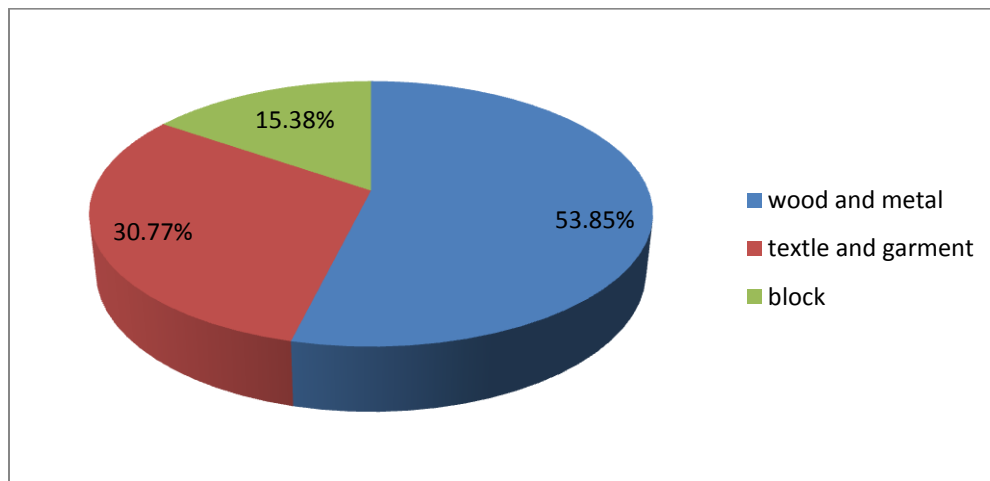


Figure 4.1. Sector involved in the study

4.1. Factors Affects the MSE Employment Contribution

4.1.1. Descriptive Results

4.1.1.1. Education level

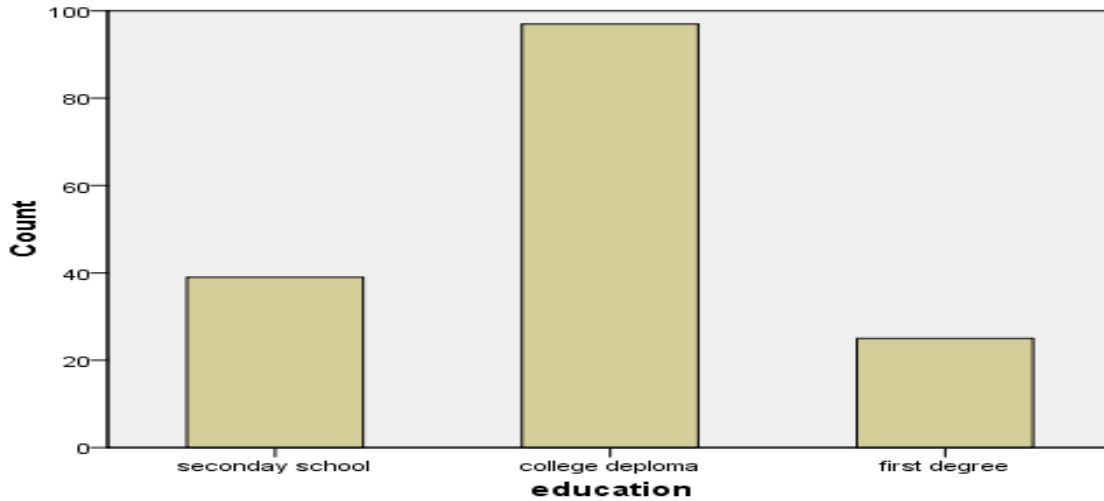
Promoters' education is supposed to determine the enterprises employment growth. Education being the basic human endowment would enhance access to new information and their ability to process such information resulting in efficient production and distribution of goods and services.

Table 4.1. Education status of promoters

		education			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	secondary school	39	23.9	24.2	24.2
	college diploma	97	59.5	60.2	84.5
	first degree	25	15.3	15.5	100.0
	Total	161	98.8	100.0	
Missing	System	2	1.2		
Total		163	100.0		

Source: - survey report

About 59.5 per cent of respondents completed collage (either such as TVET or other colleges) while 23.9 completed secondary (9-12 Grades). And only 15.3 percent which is less of the respondent have attained tertiary education (university) could be the pointer to the weak education system to prepare the graduates for self-employment. In addition, this also might indicate the lower propensity of potential entrepreneurs to pursue higher education that the test of Independence.



Graph 4.1. Education status of promoters

The figure above shows that the large portion of the employees and promoter of small and medium enterprise have a college diploma or levels and this have a significant impact on the growth of the enterprise interims of employment. But this highly portion also might indicate the lower propensity of potential entrepreneurs to pursue higher education that the Test of Independence.

4.1.1.2. Financial sources for business startup

Among the considered financial sources for their startup, as produced fig 4.2 and table 4.1 plots where there is a clear detailed description of all the possible financial sources of SMEs business startup.

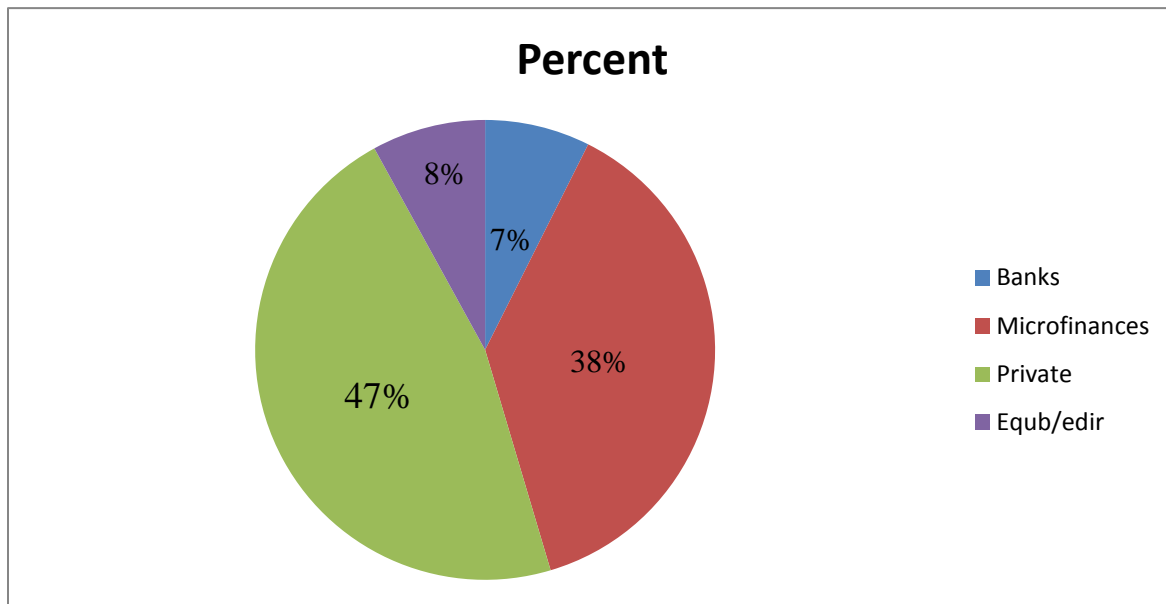


Figure 4.2 financial sources for business startup

Table 4.2 financial sources for business startup

Finance source					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	bank	12	7.4	7.4	7.4
	microfinance	62	38.0	38.0	45.4
	private	76	46.6	46.6	92.0
	equb/edir	13	8.0	8.0	100.0
	Total	163	100.0	100.0	

Source: - from survey report

It is obtained that most of the respondents used their personal saving (46.6%), micro finance institutions (38.8%). It is interesting also to get low values for financial sources from banks (7.4%) and equb/edir (8%) which might be most probability the stiff and complicated requirements provided by the banks. It is clear that from this simple analysis their financial sources are limited mostly to the informal sources (personal savings) and it is most likely this affect their growth. There are positive impacts of education over the entrepreneurs in terms of their marketing ability, business judgment, exposure to new technology, exploiting opportunities resulting in business longevity and growth.

4.1.1.3. Experience of promoters

Among the total enterprise owner/managers included in the study 44.2% have from 6-10 years' experience in business running, about 21.5% have more than 10 years of business experience while 33.7% have only less than 5 years or less experience in business running as depicted in table 4.3 a & b. the large portion of the employees and promoters have 6-10 years' experience in the business this affects the quality of the products and services and more experienced employees and promoters works more and this affects the employment growth.

Table 4.3a:- business experience of employees

experience					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5	55	33.7	34.0	34.0
	6-10	72	44.2	44.4	78.4
	11-15	35	21.5	21.6	100.0
	Total	162	99.4	100.0	
Missing	System	1	.6		
Total		163	100.0		

Source: - survey report

Theoretically, it is believed that experience in business has important role in productivity of enterprises as experienced business managers can take more appropriate measures than the inexperienced ones. In addition to tapping new potentials and expanding business, experienced business managers are better equipped to cope with business risks and uncertainties.

Table 4.3b. Business experience and employment correlation

Correlations			
		grem	experi
grem	Pearson Correlation	1	-.062
	Sig. (2-tailed)		.436
	N	163	162
experi	Pearson Correlation	-.062	1
	Sig. (2-tailed)	.436	
	N	162	162

N.B : grem = growth in employment, experi = experience

As can be seen from the next table however, experience in business has statistically significant negative correlation with growth of employment. This means that business experience has a negative correlation with enterprise growth of employment even stronger at higher level of experience shows that there are limits to expansion.

4.1.1.4. Training of employees

Entrepreneurship training was an important input for enterprise growth. It not only familiarized entrepreneurs with process and organizational function but also helped entrepreneurs to establish network with suppliers and buyers. As presented in Table 4.5, 60.1% of employees/managers are not taken any training while 37.7% employees/managers taken training.

Table 4.4. Training of enterprise employees

Training					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	63	38.7	39.1	39.1
	no	98	60.1	60.9	100.0
	Total	161	98.8	100.0	
Missing	System	2	1.2		
Total		163	100.0		

Source: - survey report

The lack of training institutions adequately equipped for training MSEs was the key reason for the poor performance of the SMEs sector. The t-test revealed that average training provided for promoters had significant at less than one per cent significant level ($t = 22.79$, $p = 0.0014$).

4.2.2. Econometric Results

4.2.2.1. Validity of the Estimates of Employment Growth

In the regression the dependent variables was a continuous one. The models so constructed was fit enough to explain the variation in the dependent variables. As suggested by Wooldridge, 2000, R^2 was calculated to establish the fit of the model. This test tells us the degree to which our model was able to explain the variation in the dependent variable (employment growth).

As table 4.5, the R^2 value shows the goodness of fit of the model. In cross sectional data of this type R^2 value of 0.15 indeed shows the model specified fits well the data at hand. The given F-value and its P-value are indicators of the fact that the variables included in the model are jointly significant.

The negative signs of both financial and market access variables show that both variable affect employment growth of SMEs negatively.

Table 4.5:- Factors of employment growth

Model parameter results done by stata

```
. regress grempt hmncp grsale grpro finacc infru markacc edu finsrce trian age firmsize
```

Source	SS	df	MS	Number of obs =	157
Model	69.0875811	11	6.28068919	F(11, 145) =	2.26
Residual	403.702228	145	2.7841533	Prob > F =	0.0145
				R-squared =	0.1461
				Adj R-squared =	0.0814
Total	472.789809	156	3.0307039	Root MSE =	1.6686

grempt	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
hmncp	.2039976	.1273039	1.60	0.111	-.0476133	.4556085
grsale	.1317327	.1312028	1.00	0.317	-.1275843	.3910497
grpro	.1588507	.1449518	1.10	0.275	-.1276408	.4453421
finacc	-.0988628	.1110533	-0.89	0.375	-.3183551	.1206296
infru	.3592306	.1243715	2.89	0.004	.1134153	.6050459
markacc	-.3086485	.1488885	-2.07	0.040	-.6029206	-.0143764
edu	.2862329	.220131	1.30	0.196	-.1488471	.7213128
finsrce	-.0046672	.1843574	-0.03	0.980	-.3690421	.3597077
trian	-.0181751	.2825791	-0.06	0.949	-.5766812	.540331
age	-.0051213	.1023482	-0.05	0.960	-.2074084	.1971659
firmsize	.2039884	.0898238	2.27	0.025	.0264552	.3815216
_cons	-.359447	1.767113	-0.20	0.839	-3.852075	3.133181

N.B:- grempt= employment growth, grsale= growth of sales, grpro= growth of profit, hmncp=human capital, finacc=financial access, infru= infrastructure, markacc=market access, firmsize= firm size, age=age of firm

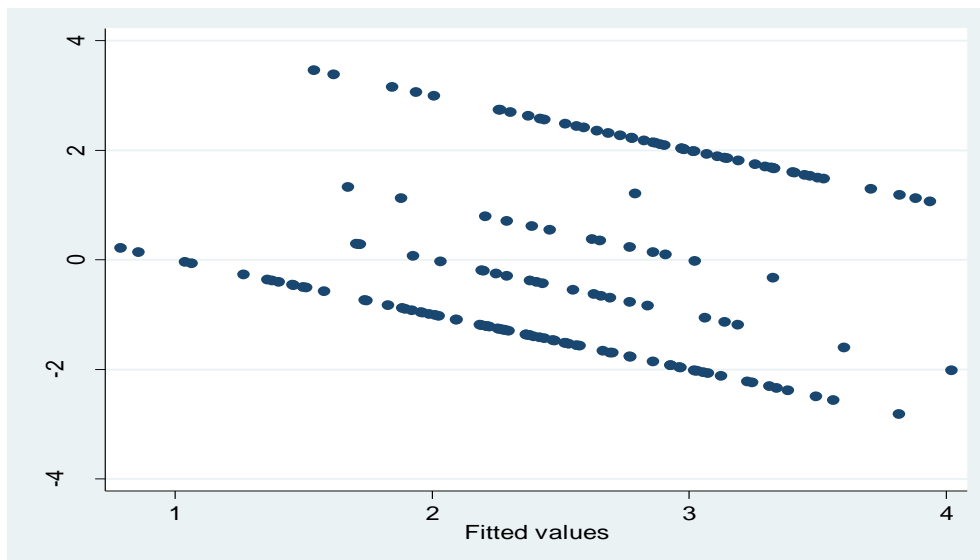
Multicollinearity test: - VIF is 1.06 suggested that regression coefficients did not suffer from Multicollinearity among the independent variables. Normality of the residuals was also reckoned in the analysis.

Table 4.6. Multicollinearity test

Variable	VIF	1/VIF
infru	1.10	0.908782
grsale	1.10	0.909041
grpro	1.06	0.939829
finacc	1.05	0.949264
hmncp	1.04	0.958018
markacc	1.03	0.969722
firmsize	1.03	0.969917
Mean VIF	1.06	

Normality Test: - on the residuals disclosed the fact that the residuals were not normally distributed. Without the assumption of normal distribution of error terms (residuals) statistics derived for testing hypothesis would be misleading. However, given the large sample (215) used in the study the distributions of F, t would approach normal distribution, making the inference reliable. Moreover, the values inferred under these distributions were mere approximations rather than precise estimates. Approximations approach actual values as the sample size increases. An 'F Test on joint significance of co-efficient estimates gave a p-value of zero indicating the significant.

Figure 4.3. Normality residual test



Doornik-Hansen $\chi^2(24) = 366.664$ Prob> $\chi^2 = 0.0000$

4.2.2.2. Age of the Enterprises

The employment growth was affected by the age of the enterprise. This was perhaps due to the fact that younger enterprises would grow faster than larger and older ones. Innovations in technology adoption and aggressive growth ambitions among younger ones would be associated reasons. In addition, older entrepreneurs and their enterprises would be risk averse, resulting in slower growth. These provide sufficient evidence that age of the enterprises and growth are negatively related. This gives evidence that smaller and younger MSEs grow faster than large firms, and consistent with the learning hypothesis but contrary to the Gibrats law. The study results were consistent with those of Bigiston and Gebreeyesus, (2007); Gebreeyesus, (2009) and Evans, (1987).

4.2.2.3. Human capital

Employment growth was significantly affected by human capital. A unit change in promoter's education would increase employment growth by 0.22 for while assuming all other variables remain constant. This implies that educated people show higher tendencies to become entrepreneurs and Innovate new systems of production. The role of education on enterprise growth is explained through its effect on exposure to new information and processing of this new information, which has an ultimate positive impact on production and/or distribution of goods and services. Human capitals have positive impacts of through making good business judgment, exposure to new technology, innovation and exploiting opportunities. The result was in line with findings of Gebreeyesus, (2009); Cabral and Meta, (2003); Solomon (2004) Eshetu and Zeleke, (2009).

4.2.2.4. Access to finance

Access to finance an impact employment growth in MSEs. This implies that enterprises which have access to finance grow better at te same time employment will row. However, in the study area, MSEs face various challenges in securing finance. Lack of collateral has been the principal reason affecting the small MSEs depriving them of finance. The formal financial institutions shy away from MSEs for several other reasons including lack of track record of MSEs, patchy record keeping, high cost involved in serving unorganized for MSEs, etc. The result was in line with findings of Gebreeyesus, (2009); Cabral and Meta, (2003); Solomon (2004) Eshetu and Zeleke, (2009).

4.2.2.5. Infrastructure

Access of Infrastructure positively and significantly affects employment growth of SMEs, keeping all other variables held constant; a unit change in infrastructural facilities employment grow by 0.36. It justified that SMEs suffered from inadequate infrastructure. For instance, poor state of roads, unreliable supply of electricity and insufficient supply of water to businesses, shortage of essential raw materials, shortage of business premises, etc. were the persistent problems for businesses and enterprises performance.

Poor infrastructure make local goods and services more expensive than corresponding goods and services provided by foreign or domestic competitors outside of problem stricken area. Poor infrastructure was the key factor responsible for the poor quality of goods in the sector, as the problem rendered local products less competitive crippling the MSEs potential for growth. Similar results had been found by Solomon, (2004); Bekele and Zeleke, (2008).

4.2.2.6. Market access

Market access negatively and significantly affects employment growth in business. A unit increase in support to the MSEs led to decrease employment growth by 0.33. The services provided through supporting markets such as market access; consulting, legal, market information and skills training etc. However, in the study area relationship with supporting organization including trade association, universities and vocational schools, financial institutions, local and national level government agencies, and private business service providers were weak in the form of vertical or horizontal form but skills training less likely provided for the MSEs to offer new products or amount of finance provided for them less likely to allow them to produce greater volumes. FGD deliberations in the study brought out adequate evidences that supporting market constraint was the greatest obstacles MSE for growth. Similar results have been found by other researchers (Solomon, 2004; Eshetu and Zeleke, 2008; Belay,2012).

4.2.2.7. Size Enterprises

The employment growth was positively and significantly affected by the size of the enterprises. The result indicated that one birr increase in an enterprise asset would increase employment growth by 0.215 *ceteris paribus*. The extent to which enterprise can employ the most advantageous division of labor depends on the scale of its operation; the smaller its output the

less can resource is used in specialized manner. The smaller enterprises have the greater the indivisibility of resources and slack resources, thus higher incentive to expand.

4.2.2.8. Growth of sale and profit

The growth of sales volume and profit affects the employment growth positively and significantly the enterprises. The services provided through supporting markets such as market access; market information and display area etc.

Based on the above results, infrastructure (infru), market access (markacc) and firm size variables are found to have the strongest impact on enterprise employment growth. Therefore we can say that infrastructure is the major/main factor followed by Market access factors that affect SME's employment growth in Addis Ababa. Only infrastructure and market access are not significant factors that affect the SMEs employment growth in Addis Ababa among enterprise characteristics variables. From the variables human capital and firm size are found to be significant factors of SMEs employment growth.

4.3. Enabling Environment of MSE

4.3.1. Access to Working Space

From the factors to affect MSE growth is working space. The city administration provides the working space for the establishment of MSEs. This is a good opportunities for enterprise to start the business in the city. But based on the interview made, many respondents response, although the Addis Abeba city administration has massively built working spaces for MSEs, working space size are still remains a critical challenge. Rent is extremely high in major cities especially Addis Ababa. The supply size of working spaces is small relative to demand. The problem is not only shortage, working spaces are built arbitrarily, they are far from the city center. Market linkage may become easier if MSE are located near medium and large enterprises and government investment areas. MSEs can benefit from around government investment like house building projects because this is the main market access.

4.3.2. Policy (Institutional) Coordination

The implementation of the MSE policy involves many government agencies – FeMSEDA and ReMSEDA, MFIs, Land Development and Management Bureaus, and other infrastructure providers such as EEPC, Ethio-Telecom and Water and Sewerage Management Authority. As a

result of this, multi-agency support system policy coordination becomes a critical during the policy implementation. In order to solve policy coordination problems, Ethiopia instituted coordination councils both at Federal and Regional Levels. At the Federal level, there is an MSE council that oversees policy implementation and coordination. The MSE council consists of Ministry of Urban Development, Housing and Construction (MoUDHC), Federal Micro and Small Enterprises Development Agency (FeMSEDA), Regional Micro and Small Enterprises Development Agencies (ReMSEDA) who are represented by regional Vice Presidents, Technical and Vocational Education and Training (TVETs), Ministry of Industry (MOI), National Bank of Ethiopia (NBE) and Ethiopian Revenue and Customs Authority. The Federal MSE council is chaired by the MoUDHC. There is similar council at Addis Ababa.

4.3.3. Access to Training

Skilled manpower and the use of appropriate technology are critical inputs for micro and small enterprises. In this regard, the national MSE promotion and development strategy paid due attention to human resource and technological development. Pertinent to human resource development, the government intervenes in the sector through two mechanisms. On the one hand, the government directly provides skill trainings to potential entrepreneurs of the sector.

For instance, as shown in the table 4.4, 37 percent of employees of the enterprises had obtained a formal training on production technology and business management. On the other hand, the government also strengthens and supports MSEs through TVETs by producing skilled manpower that could satisfy the manpower demand of the different subsectors of MSEs of the country.

4.3.4. Market Access

The government tries to solve marketing problems:

- The government itself buys goods directly from MSEs. Federal Public Procurement Administration Agency has set a rule that enforces public institutions to source certain portion of their annual procurement from MSEs. That is, MSEs are given priority in government procurements.
- The government tries to link MSEs with large and medium enterprises in the market in the form of subcontracting and input suppliers. The FEMSEDA has introduced a new directive on franchising, sub-contracting and out-growth linkage with large and medium enterprises. For instance, in condominium housing construction projects, 40% of the construction works

mainly involving finishing such as sanitary, electric installation and other finishing works are given to MSEs.

Based on the data gathered as shown table 4.7, 76.8.5% of the respondent agrees that there is market linkage to sale while 14.6% of the respondents disagree.

Table 4.7. Market access of the enterprise

Market to access					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	24	14.6	14.7	14.7
	undecided	13	7.9	8.0	22.7
	agree	84	51.2	51.5	74.2
	highly agree	42	25.6	25.8	100.0
	Total	163	99.4	100.0	
Missing	System	1	.6		
Total		164	100.0		

The main challenge with regards to market linkage is that MSEs depend to a great extent on the government to market their products. The government is the largest buyer and market linkage creator for their products. This has Made MSE operators to develop dependency and hence this kind of market linkage cannot be sustainable. MSEs need to gradually shift to market-driven market linkages on their own

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

This study aimed at investigating the key factors affects the employment growth among MSEs, based on questioner consisting 215 randomly selected enterprises in two sub city of Addis Abeba city administration, Ethiopia. Also analyzes the enabling environment of MSEs in the city.

The study activities engaged in wood & metal, garment & textile and Block manufacture sectors with 32 or fewer workers, of which 38 per cent with 1-5 worker establishments, 23 per cent with 6-10 workers, 15 per cent with 11-15 workers and 23 per cent with 15 and above workers. The study also showed that the average annual employment growth rates of the enterprises in the sample since start-up was 12.5 per cent per year.

The study formally tested the factors affected employment growth econometrically in an extended fashion that includes a wide variety of factors. Enterprises which are access to infrastructure and education were positively and significantly affected employment growth whereas supporting market and financial access affected employment growth negatively and significantly.

growth in sales and human capital are directly related to improvements in capacity of MSEs and help promoters identify business opportunities as well as overcome a number of obstacles related to transaction costs, contract enforcement, and regulation and it was related positive and significant.

The study also shows that even though the working space is insufficient to expand their business the city administration provides the working place to start up the business. Also the government provides market access but the same enterprises are highly dependent on government market access. The government also provide infrastructure like electricity, water and road supplies but there is shortage.

5.2. Recommendation

Mobilizing startup capital being a crucial constraint for MSE operators, relaxation of entry norm for licensing of MSEs need to be considered on a priority basis. Escalating cost and inflation, further diminishes the purchasing power of the paltry sum the entrepreneurs manage to mobilize. For the foregoing reasons, the MSE Development Strategy (2011) of the Government should be revisited and the entry capital / investment eligible for licensing to be raised.

Shortage of working premises, power supply, other infrastructures and inputs rising costs are among the problems of challenging the proper functioning of the SMEs. Available working premises and other infrastructure in most cases are inconvenient to accommodate business tasks and related requirements. Though some working premises located in business areas, some are located within residential area. The rents are quite expensive, sometimes leading to bankruptcy and eventual closure. Poor infrastructure makes local goods and service more expensive, poorer quality than corresponding goods and service provided by foreign competitors, making the local MSEs less competitive and stunted. Relevant government agencies may need to design appropriate policy and regulatory framework to address such and related problems.

Things are already becoming tough for most of the SMEs as costs of running the business are getting unaffordable. In this upsetting context, SMEs need to build up effective inter-firm and Buyers/Sellers relations in all possible area. For instance, SMEs may need to exercise such practices as joint purchase of inputs and joint use of transport in order to cope up with the restraining impacts of costs. SMEs are small in size; consequently, they could not compete with large enterprises both locally and nationally. SMEs can deal with this kind of problem through inter-firm and Buyers/Sellers relations and cooperation. Through sound inter firm and Buyers/Sellers relations, SMEs can build collective efficiency that can help them become and stay competitive with larger enterprises and imported goods. Lastly, the prime role of the government and its agencies at all levels should promote and implement programmer that facilitate local and cross-border business activities, helpful linkages, strategic partnerships, skills-related networking in market information and others, and the outsourcing of activities among MSEs and large enterprises. It is at this stage, both sectors that private and the public become effective partners and ultimately discharge their part towards growth. In addition, it is imperative that the government should provide support with respect to timely and adequate

supply of quality inputs, affordable credit facilities and infrastructural development. Maximum effort should be exerted to improve and strengthen the education and training system and the information flow in all business aspect.

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APPENDIX

Appendix 1

Questioner

St marry university

College of Agricultural Economics

Department of development Economics

Introduction

Part one: - I am a Masters student from St. Marry University College of Agricultural Economics. Now I am conducting a study on "factors affecting small and medium sized Enterprises employment contribution in Addis Ababa city administration". The purpose of this questionnaire is to collect information on Factors Constraining the Growth of employment Small and Medium Enterprises in Addis Ababa. It is purely for academic purpose and the information obtained shall not be used for any other purpose other than for its intended use and will be treated with utmost confidentiality. So, your genuine, honest and timely response is vital for accomplishment of this study on time. Therefore, I kindly ask you to give your response to each question honestly. Thanks in advance for cooperation

Instruction

- No need to write your and organization name.
- Put a tick mark (✓) under the choices below in the appropriate place.

Part Two: - Profile of respondent

1. sex of respondent

Male female

2. age of respondent

18-30 30-40
40-50 More than 40

3. Level of Education:

A. Primary school C. secondary school
B. College level D. university F. Illiterates

4. Experience level in the enterprise

A. 1-5 year C. 11-16 year
B. 6-10 year D. More than 16 year

Part three: company profile

1. What is the main activity of the enterprise
A. Textile and garment C. Wood and metal work
B. Block D. different from the above
2. The major source of capital to start your business and to operate your business operation is from
A. Personal saving D. NGOs
B. Family E. Micro finance instituti
C. Banks F. Iqub/Idir
3. How many employees you have
A. when your enterprise starts the operation-----
B. In the last year, (2019, G.C) -----
4. When did your company start operating?----- (Age of business)
5. Have you accessed any business training services Yes B. No
6. What is the current total value of your business assets birr -----
7. How much were approximately your total sales? birr -----
8. Did your sales grow last five years?
A. Highly increase D. Highly decrease
B. Increase E. stayed the same
C. Decrease
9. Did the size of your enterprise assets increase last five years?
A. Highly increase D. Highly decrease
B. Increase E. stayed the same
C. Decrease
10. Did your profits grow last five years?
A. Highly increase D. Highly decrease
B. Increase E. stayed the same
C. Decrease

Part four: - Please indicate the degree to which these factors are affecting the growth 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. Where, 5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree 1= strongly disagree.

#	Description	5	4	3	2	1
	1. Human capital factor					
1	Do you think your education status affect your firm growth					
2	How do you describe innovative activities in your firm?					
3	Did you get special training which will upgrade your skill?					
4	Is there number employees grow during last years					
	2. Financial Factors					
1	Lack of credit facility					
2	High collateral requirement from banks and other lending institutions					
3	Loan application procedures of banks and other lending institutions are too complicated					
4	Lack of sufficient working capital					
5	Unfamiliarity with financial Information					
	3. Infrastructure					
1	Power interruptions					
2	Poor or interrupted communication system (mobile and internet)					
3	Insufficient and interrupted water supply					
4	Lack of sufficient and quick transportation service					
5	Lack of appropriate dry waste and sewerage system					
	4. Marketing Factors					
1	Inadequate market for my product					
2	Searching new market is so difficult					
3	Lack of demand forecasting					
4	Lack of market information					
5	Absence of relationship with an organization that conduct marketing research					
6	Lack of promotion to attract potential users					
7	Poor customer relationship and handling					
8	Lack of continuous improvement of product					
9	Lack of setting clear and competitive price for products					
10	Lack of network with successful and other businesses					
11	High Competitions					
12	Lack of identifying target market					
13	Lack of adaptation to changing environment					
14	Negative perception of public					

5. If you have any comment regarding factors affecting growth of your business out of the above factors, please mention here

Thank you!!!!!!!

ቅድስት ማሪያም ዩኒቨርሲቲ

የደብዳቤ መንገድ ኢኮኖሚክስ ድህር ምረቃ

ክፍል አንድ፡ መግቢያ

ውድ የጥናቱ ተሳታፊዎች

እኔ በቅድስት ማሪያም ዩኒቨርሲቲ ውስጥ በደብዳቤ መንገድ ኢኮኖሚክስ ድህር ምረቃ ተማሪ ስሆን በአሁኑ ሰዓት የመመረቂያ ፅሁፌን በማዘጋጀት ላይ እገኛለሁ። ----- ክፍለ ከተማ የሚገኝ አነስተኛ እና መካከለኛ ኢንተርፕራይዞች በስራ እድል ፈጠራ ላይ ያለባቸውን ተፅዕኖ የሚዳስስ ይሆናል።

እርሶም በዚህ ጥናት እንዲሳተፉ ተመርጠዋል። እርሶም የሚሰጡት ትክክለኛ መረጃ ለጥናቱ ውጤታማነት በጣም አስፈላጊ መሆኑን በመገንዘብ መጠይቁን በጥንቃቄ እንዲሞሉት በትህትና እጠይቃለሁ። ግዜዎትን ሰውተው መጠይቁን ስልሚሞሉልኝ በቅርድሚያ ልባዊ ምስጋናዬን አቀርባለሁ።

ማሳሰቢያ

- በመጠይቁ ላይ የእርሶ ስም ወይም የድርጅቶዎትን ስም መፃፍ አይጠበቅም
- መልሶዎች በሳጥን ውስጥ የእርማት ምልክት (✓) ያስቀምጡ

ክፍል ሁለት፡ የተሳታፊው አጠቃላይ መረጃ

1. ፆታ	ወንድ <input style="width: 50px;" type="checkbox"/>	[]	
2. እድሜ	ሀ. 18-30	<input style="width: 50px;" type="checkbox"/>	30-40 <input style="width: 50px;" type="checkbox"/>
	ሐ. 40-50	<input style="width: 50px;" type="checkbox"/>	50 በላይ <input style="width: 50px;" type="checkbox"/>
3. የትምህርት ደረጃ			<input style="width: 50px;" type="checkbox"/>
	ሀ. 1ኛ ደረጃ	<input style="width: 50px;" type="checkbox"/>	ሐ. ኮሌጅ <input style="width: 50px;" type="checkbox"/>
	ለ. 2ኛ ደረጃ	<input style="width: 50px;" type="checkbox"/>	መ. ዩኒቨርሲቲ <input style="width: 50px;" type="checkbox"/>
4. በድርጅቱ ውጥ የቆዩበት ወይም የስራ ልምድ			
	ሀ. 1-5 ዓመት	<input style="width: 50px;" type="checkbox"/>	6-10 <input style="width: 50px;" type="checkbox"/>
	ሐ. 11-15 ዓመት	<input style="width: 50px;" type="checkbox"/>	16 ዓመት በላይ <input style="width: 50px;" type="checkbox"/>

ክፍል ሁለት፡- ስለድርጅቱ አጠቃላይ መረጃ

1. የተሰማሩበት የስራ ዘርፍ

ሀ. እንጨት እና ብረታ ብረታ ለ. ጨርቃጨርቅ

ሐ. ብሎኬት ምርት መ. ሌላ ዘርፍ

2. በዘረፉ ለመቀላቀስ መነሻ ብር እንዲሁም የስራ ማስኬጃ ብር ከየት አገኙ

ሀ. ከግል ቁጠባ ለ. ከቤተሰብ

ሐ. ከባንክ መ. መንግስታዊ ካልሆነ ድርጅት

ሠ. ከማይክሮ ፋይናንስ ከእድር/እቁብ

3. በድርጅቱ ውስጥ ቋሚ ሰራተኞች ብዛት

ሀ. ድርጅቱ ሲመሰረት -----

ለ. በአሁኑ ሰዓት -----

4. ድርጅቱ ስራ የጀመረው መቼ ነው ----- ዓ.ም

5. በላፊት ጊዜያት የቢዝነስ እቅድ ስለጣና ወስደው ያውቃሉ

ሀ. አዎ ለ. አልወሰድኩም

6. አጠቃላይ የድርጅቶቻቸው ሀብት በግምት ስንት ይሆናል ----- ብር

7. አጠቃላይ የድርጅቱ የሽያጭ መጠን በግምት ምን ያህል ይሆናል ----- ብር

8. አጠቃላይ የሽያጭ መጠን ባፋት 5 ዓመታት ሲታይ

ሀ. በጣም ጨምሯል ለ. ቀንሷል

ሐ. ጨምሯል መ. በጣም ቀንሷል

ሠ. ባለበት ሁኔታ ላይ ነው

9. አጠቃላይ የድርጅቶቻቸው ሀብት መጠን ባፋት 5 ዓመታት ሲታይ

ሀ. በጣም ጨምሯል ቀንሷል

ሐ. ጨምሯል መ. በጣም ቀንሷል

ሠ. ባለበት ሁኔታ ላይ ነው

10. አጠቃላይ የድርጅቶቻቸው የትርፍ መጠን ባፋት 5 ዓመታት ሲታይ

ሀ. በጣም ጨምሯል ቀንሷል

ለ. ጨምሯል መ. በጣም ቀንሷል

ሠ. ባለበት ሁኔታ ላይ ነው

ክፍል ሶስት:- በአነስተኛ እና መካከለኛ ተቋማት እድገት ላይ ተፅዕኖ የሚያሳድሩ ጉዳዮች ከዚህ በታች ተዘርዝረዋል። ከተዘረዘሩት ችግሮች የእርሶዎች የስራ ዘርፍ ተፅዕኖ የሚያሳድሩትን በደረጃ ያመላክቱ። ለእያንዳንዱ ጥያቄ አማራጮች አንድ ጊዜ ብቻ ምልክት በማድረግ ምላሽ ይስጡ።

ተ. ቁ	መግለጫ	በጣም እስማማለው (5)	እስማማለው (4)	ለመወሰን እቸገራለው (3)	አልስማማም (2)	በጣም አልስማማም (1)
	1. የሰው ሀብት ብቃት					
1	የትምህርት ደረጃ በድርጅቱ እድገት ላይ እንከን ይፈጥራል					
2	በድጅቶቻቸው ውስጥ ያለው የስራ ፈጠራ					
3	ክህሎትን ለማሻሻል ስልጠና ወስደዋል					
4	የሰው ሀይል ቅጥር እድገት ነበረው ባለፉት አመታት					
	2. ከፋይናንስ ጋር የተያያዙ					
1	በቂ የሆነ የብድር አቅርቦት ያለመኖር					
2	ባንኮች እና ሌሎች አበዳሪዎች ለብድር ማሳዘድ የሚጠይቁት መጠን					
3	ባንኮች እና ሌሎች አበዳሪ ተቋማት የሚከተሉት ውስብስብ እና አስልጅ ሂደት፤					
4	የስራ መንቀሳቀሻ ብር እጥረት					
5	የፋይናንስ አጠቃቀም ክህሎት ችግር					
	3. ከመሰረተ ልማት ጋር የተያያዙ ችግር					
1	የኤሌክትሪክ ሀይል መቆራረጥ					
2	የስልክ እና ኢንቴርኔት መቆራረጥ					
3	የተቆራረጠ እና በቂ ያልሆነ የውደሃ አቅርቦት					
4	በቂ እና ፈጣን የሆነ የትራንስፖርት አቅርቦት					
5	በቂ የደረቅ እና ፍሳሽ ማስወገጃያ አቅርቦት					
	4. የግብይት እና ተዛማጅ ችግሮች					
1	በቂ የሆነ የግብይት እድል ያለመኖር					
2	አዲስ የግብይት እድል የመፈለግ አዳጋጅነት					
3	የወደፊት የግብይት ፍላጎት መተበይ አለመቻል					

ተ. ቁ	መግለጫያ	በጣም እስማማለው (5)	እስማማለው (4)	ለመወሰን እቸገራለው (3)	አልስማማም (2)	በጣም አልስማማም (1)
4	በቂ የሆነ የግብይት መረጃ ያለመኖር					
5	ግብይት በተመለከተ ጥናትና ምርምር ከሚያካሂዱ ተቋማት ጋር ግንኙነት ያለመፍጠር					
6	ምርቶችን በአገውባቡ ያለማስተዋወቅ					
7	ደካማ የሆነ የደንበኛ አያያዝ					
8	ዘላቂ የሆነ የምርት ጥራት ያለመኖር					
9	በምርቶች ላይ ደንበኞች ያላገናዘበ አግባብ ያልሆነ የዋጋ ጭማሪ እና ተመን					
10	ከተለያዩ ድርጅቶች ጋር የገበያ ትስስር ያለመኖር					
11	በገበያ ላይ ክፍተኛ ውድድር መኖር					
12	ከአካባቢው ሁኔታ ጋር ተለዋዋጭ የገበያ ስርዓት ያለመኖር					
13	ማህበረሰቡ ያለው ጥሩ ያልሆነ አመለካከት					
	ሌሎች በስራዎ ላይ ተፅኖ የሚያሳድሩ ካሉ ቢጠቅሱ					
1						
2						
3						

መጠይቁን ስለሞሉ ክልብ አመሰግናለው!!!!!!!

Appendix 2

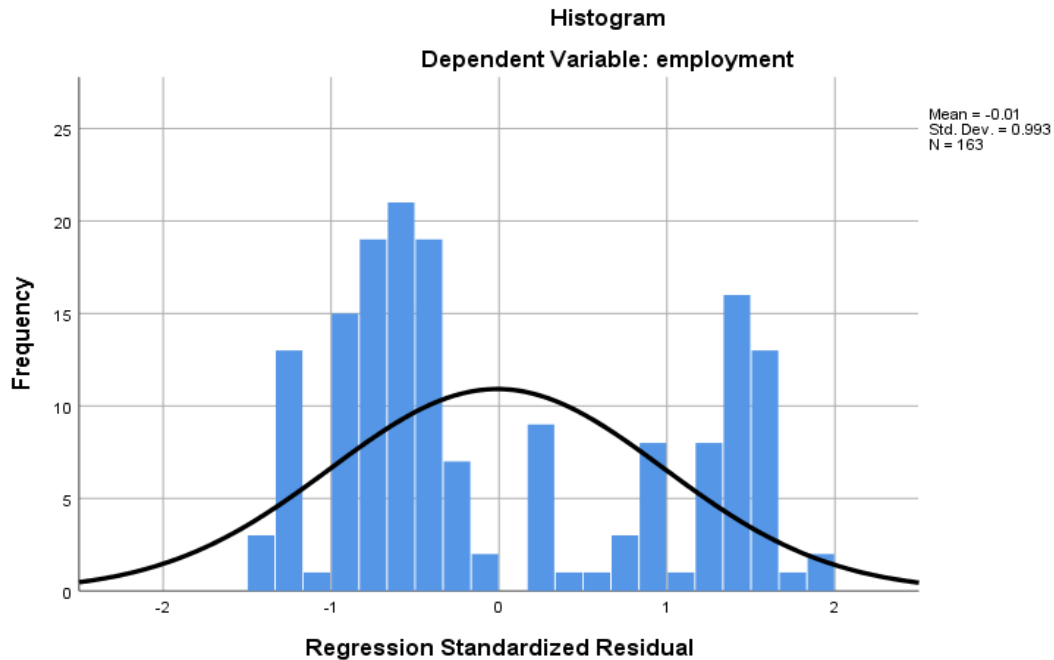
Model parameter done by stata

```
. regress grempth hmncp grsale grpro finacc infru markacc edu finsrce trian age firmsize
```

Source	SS	df	MS	Number of obs =	157
Model	69.0875811	11	6.28068919	F(11, 145) =	2.26
Residual	403.702228	145	2.7841533	Prob > F =	0.0145
Total	472.789809	156	3.0307039	R-squared =	0.1461
				Adj R-squared =	0.0814
				Root MSE =	1.6686

grempth	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
hmncp	.2039976	.1273039	1.60	0.111	-.0476133 .4556085
grsale	.1317327	.1312028	1.00	0.317	-.1275843 .3910497
grpro	.1588507	.1449518	1.10	0.275	-.1276408 .4453421
finacc	-.0988628	.1110533	-0.89	0.375	-.3183551 .1206296
infru	.3592306	.1243715	2.89	0.004	.1134153 .6050459
markacc	-.3086485	.1488885	-2.07	0.040	-.6029206 -.0143764
edu	.2862329	.220131	1.30	0.196	-.1488471 .7213128
finsrce	-.0046672	.1843574	-0.03	0.980	-.3690421 .3597077
trian	-.0181751	.2825791	-0.06	0.949	-.5766812 .540331
age	-.0051213	.1023482	-0.05	0.960	-.2074084 .1971659
firmsize	.2039884	.0898238	2.27	0.025	.0264552 .3815216
_cons	-.359447	1.767113	-0.20	0.839	-3.852075 3.133181

Distribution of variables done by stata



Factors done by stata

```
. ci grsale grpro finacc infru markacc grempu edu finsrce trian age exper firmsize
```

Variable	Obs	Mean	Std. Err.	[95% Conf. Interval]	
grsale	162	2.382716	.0854115	2.214045	2.551387
grpro	163	2.779141	.076874	2.627337	2.930945
finacc	162	3.604938	.0976521	3.412094	3.797782
infru	163	3.503067	.0876249	3.330033	3.676102
markacc	163	3.883436	.0750635	3.735207	4.031665
grempu	163	2.552147	.1365421	2.282515	2.821779
edu	161	3.913043	.0493681	3.815546	4.010541
finsrce	163	2.552147	.0584802	2.436665	2.667629
trian	161	1.608696	.0385831	1.532498	1.684894
age	162	2.833333	.1066208	2.622778	3.043889
exper	162	1.876543	.0579309	1.762141	1.990946
firmsize	163	3.128834	.1177779	2.896256	3.361412

Correlation between variables done by stata

```
. correlate grsale grpro finacc infru markacc grempu edu finsrce trian age exper firmsize
(obs=156)
```

	grsale	grpro	finacc	infru	markacc	grempu	edu	finsrce	trian	age	exper	firmsize
grsale	1.0000											
grpro	-0.1639	1.0000										
finacc	-0.1445	0.0082	1.0000									
infru	-0.1731	-0.0831	-0.1043	1.0000								
markacc	0.0276	0.0158	-0.0338	0.1054	1.0000							
grempu	0.0267	0.0852	-0.0717	0.1865	-0.1663	1.0000						
edu	-0.1547	0.0963	0.0118	0.0629	-0.0993	0.1390	1.0000					
finsrce	0.0809	0.0007	-0.1288	-0.0592	-0.1865	0.0343	-0.0938	1.0000				
trian	-0.1053	0.0533	0.0822	-0.0811	-0.1218	-0.0272	-0.0230	0.0886	1.0000			
age	0.0181	-0.1565	0.0774	0.0303	-0.0301	-0.0271	-0.1235	-0.1090	0.1485	1.0000		
exper	0.1310	0.0734	0.0331	-0.1646	-0.0497	-0.0628	-0.0059	-0.0179	-0.0296	0.0931	1.0000	
firmsize	0.0634	0.0430	0.1118	-0.1015	-0.0467	0.1559	-0.0289	-0.0324	-0.0673	-0.0208	-0.0272	1.0000

Normality test done by stata

```
. mvtest normality grsale grpro finacc infru markacc grempd edu finsrce trian age exper firmsize
```

Test for multivariate normality

Doornik-Hansen $\chi^2(24) = 400.833$ $\text{Prob} > \chi^2 = 0.0000$

Human capital factors done by spss

Descriptive Statistics

Variables	N	Range	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
hmncp1	162	3.00	4.1111	.06895	.87760	.770
hmncp2	161	3.00	3.5901	.07904	1.00295	1.006
hmncp3	162	3.00	3.6543	.08368	1.06509	1.134
hmncp4	163	4.00	3.4479	.09134	1.16616	1.360
Valid N (listwise)	159					

Financial factors

Descriptive Statistics

Variables	N	Range	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
finacc1	161	3.00	3.2609	.11059	1.40322	1.969
finacc2	162	3.00	3.9444	.09278	1.18085	1.394
finacc3	158	3.00	4.0000	.07619	.95770	.917
finacc4	161	4.00	3.6894	.09782	1.24115	1.540
finacc5	162	3.00	3.2469	.08890	1.13149	1.280
Valid N (listwise)	152					

Infrastructure factors

Descriptive Statistics

variables	N	Range	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
infru1	161	1.00	4.5528	.03931	.49876	.249
infru2	141	2.00	3.5106	.05922	.70323	.495
infru3	160	3.00	3.4250	.08391	1.06133	1.126
infru4	158	4.00	3.5633	.08444	1.06139	1.127
infru5	161	3.00	2.6832	.08379	1.06315	1.130

Valid N (listwise)	132					
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Market access factors

variables	Descriptive Statistics					
	N	Range	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
markacc1	161	3.00	4.1988	.07519	.95407	.910
markacc2	162	1.00	4.2222	.03276	.41703	.174
markacc3	163	1.00	3.8896	.02462	.31439	.099
markacc4	163	3.00	3.6810	.07318	.93430	.873
markacc5	159	1.00	4.6226	.03856	.48626	.236
markacc6	163	3.00	3.9939	.07512	.95902	.920
markacc7	163	2.00	2.6994	.07024	.89674	.804
markacc8	163	3.00	3.6687	.07387	.94317	.890
markacc9	162	3.00	3.4012	.09409	1.19762	1.434
markacc10	160	3.00	4.4437	.07614	.96314	.928
markacc11	158	3.00	3.7215	.09790	1.23057	1.514
markacc13	162	3.00	3.7037	.07678	.97731	.955
Valid N (listwise)	147					