ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

DETERMINANT FACTORS AFFECTING THE PERFORMANCE OF MICRO AND SMALL SCALE ENTERPRISES

THE CASE OF KOLFE KERANIO

SUB-CITY, ADDIS ABABA

BY
SEID BEREKA AWOL

MAY, 2021
ADDIS ABABA, ETHIOPIA

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APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies	**Signature**
Advisor	**Signature**
External Examiner	**Signature**
Internal Examiner	**Signature**

Declaration

I, Seid Bereka, hereby declare that the thesis entitled "Determinant Factors affecting the performance of micro and small enterprises" the case of Kolfe Keranio sub-city, Addis Ababa for the award of MBA General, is an original work carried out by me under the guidance of Mohammed Mohammednur (A.P) and it has not been submitted previously in part or full to this or to any other University for the award of any Degree or Diploma or Prize.

_____ _____

Name Signature

St. Mary's University, Addis Ababa **MAY, 2021**

ENDORSEMENT

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

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Advisor Signature

St. Mary's University, Addis Ababa **MAY, 2021**

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS AND ABBREVIATION

AACMSEDA Agency	Addis Ababa City Administration Micro and Small Enterprise Development
Art.	Article
CC	chambers of Commerce
CED	Committee for Economic Development
CSA	Ethiopian Central Statistics Authority
FMSEDA	Federal Micro and Small Enterprises Development Agency
FP	Food Processing
GEM	Global Entrepreneurship Monitor
GTP	Growth and Transformation Plan
HASIDA	Handicraft and Small Scale Industries Development
HLCLEP	High Level Commission on Legal Empowerment of the Poor
LDCs	Least Developed Countries
MFIs	Micro Finance Institutions
MN	Mean
MoTI	Ministry of Trade and Industry
MSEDA	Micro and Small Enterprises Development Agency
MSMEs	Micro, Small and Medium Enterprises
NMSEDPS	National Micro and Small Enterprises Development Promotion Strategy
RSs	Poverty Reduction Strategies
RMSEDAs	Regional Micro and Small Enterprise Development Agencies
SD	Standard Deviation
SSA	Sub Saharan Africa
SPSS	Statistical Package for Social Science
UNIDO	United Nations Industrial Development Organizations
T&G	Textile & Garment
W&M	Wood & Metal

ABSTRACT

This study was aimed at investigating determinant factors affecting the performance of MSEs with a special emphasis on Textile & Garment, Food Processing and Wood & Metal work sectors in Kolfe Keranio Sub-City, Addis Ababa. In order to meet the objectives of the study, data collected through questionnaires were analyzed using statistical analysis such as descriptive and inferential analyses. Mean and Standard deviation explained the descriptive statistics while Pearson Product Moment Correlation Coefficient and Multiple Regression coefficient applied for inferential statistics. Data were gathered using a five point Likert scale questionnaire from a sample of 197 micro and small scale operators and through secondary source of data. The sample operators were selected using stratified sampling and simple random sampling techniques; data from interview were analyzed using descriptive narrations through concurrent triangulation strategy. The empirical study three major independent variables which seem to affect performance of MSEs in Kolfe Keranio sub-city which include: Inadequate finance, Lack of working premises, and Marketing problem. The comparative influential intensity (effect) of the five hypnotized factors on the business performance of SMEs were determined by using their standardized coefficient (beta), and it was found that the financial factors were the most influencing predictor variable for SMEs business performance followed by working premises and marketing factors. The validity of the regression model was evaluated using residual plots and coefficient of determination and found that it was consistent with the multiple regression assumptions indicated that the model was valid and useful to predict the business performance of SMEs.

Key words: MSEs, performance, factors, manufacturing firms

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Micro and Small Enterprises (MSEs) sector is described as the natural home of entrepreneurship. MSEs have the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals. In all successful economies, MSEs are seen as essential springboard for growth, job creation, and social progress (Kayanula and Quartey, 2000).

Despite their potential to improve economic growth, micro and small enterprises (MSEs) in developing countries lack serious attention. They produce largely for the low income group and employ lower levels of techniques. Many of them are self-employed type with a low transformation rate into higher size categories and their innovative activities are limited (Murinde, 2006).

Small and Medium Enterprises are widely acknowledged to contribute towards promotion and development of inventions, and thereby generate employment opportunities in Ethiopia. MSEs are particularly important in the context of the country's poverty-reduction strategy because they are seedbed for the development of medium and larger enterprises, and because they absorb unemployed labor in the country (CSA, 2007).

Tushabomwe (2006), revealed that small businesses face different challenges that limit their survival and development. Majority of local entrepreneurs establishing micro businesses are susceptible to failure that is attributed to both internal factors (wrong pricing, negative cash flows, poor record keeping, management problems, lack of planning and faulty products) and external factors (government taxation, load shading, in adequate capital, poor markets and high rents).

According to Temtime and Pansiri (2004), sustainability and competitiveness and; internal managerial problems are identified as the major causes of small businesses failure. The managers of small

businesses perform poorly in the areas of bookkeeping, marketing, Ware housing, stock control, production scheduling and quality controls.

Mead and Liedholm (1998) and Swierczek and Ha (2003), the main factors that affect the performance of MSEs in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new. Although this may be true, the vast majority of new enterprises tend to be one-person establishments (Mwega, 1991). This has tended to ensure that the journey of the MSE entrepreneur in many instances is short-lived, with the statistic of MSE failure rate in Africa being put at 99 per cent (Rogerson, 2000). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick 1998), intense competition with replication of micro-businesses (Manning &Mashego, 1993); manager characteristics including lack of skills and experience (Katwalo and Madichie, 2008 and Verhees,2004).

There can be various factors like Policy and procedure of government system, political, financial, managerial and motivational factors that affect performance of small business in general and MSEs in particular. Searching on the literature factors affecting MSE's Performance is not similar across the world, we can find various challenge affecting their activities (Ishengoma, 2004). The study done by O.Okpara (2011), on MSEs operating in Nigeria report that, lack of management experience of the small business owners is the major reason to small business failure in Nigeria. As the findings of this study shows that, most business owners who do not have management experience and adequate training and skills to operate a business faces a problem of collapse of their businesses. Temtime and Pansiri (2004) also reported in their study of Small business Critical Success/Failure Factors in Developing Economies, in Botswana shows that; marketing activities such as product marketing, market research, and demand forecast and so forth have a greater impact on small businesses performance.

Ethiopian MSEs performances are also affected by many factors. According to the CSA Report (2008), the major obstacles experienced MSEs in Ethiopia differ according to the types of MSEs and the area where they exist. Accordingly, MSEs located in Urban and rural parts of the country didn't affected by similar factors. Therefore, the selection of performance measures that reflect the true situation of small

businesses with some degree of certainty and reliability is indeed a crucial process. The lack of universally accepted standard performance measures left the door open to business organizations to decide and choose its own performance measure that might not truly reflect its performance (Alasadi and Abdelrahim, 2007). Based on the above premises this study was attempt tried to investigate the assessment of factors affecting performance of MSEs in Kolfe Keranio Sub – City.

Ethiopia,as one of the sub-Saharan developing country has integrated MSEs as a strategic tools in the Growth and Transformation Plan (GTP) and forwarded a MSE development strategies to promote the sector. However the sector confronted several factors that affected its performance to grow and develop to its potentials (Werotew, 2010:226-37).

Therefore the purpose of this study was to assess the major determinant factors that affected the performance of MSEs in Addis Ababa;Kolfe Keranio Sub city in the light of the MSEs development strategies of Ethiopia, within the context of Addis Ababa business environments.

Micro and small enterprise in Addis Ababa are, however, confronted with several factors that affect the performance of MSE. The major factors included in this study were financial problems, management problems, marketing problems, lack of work premises and infrastructure.

1.2. Statement of the problem

Micro and Small Enterprises (MSEs) sector is described as the natural home of entrepreneurship. MSEs have the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (Bass, 2005). In all successful economies, MSEs are seen as essential springboard for growth, job creation, and social progress. In Ethiopia, although MSEs exist for longer periods, they have got the attention of policy makers, academicians, and researchers very recently (Kayanula and Quartey, 2000).

The first's time MSEs were designed in Addis Ababa city Administration in 2003 E.C developed a business plan for the first time in garment, dry food, metal and woodworks sub sectors. Later on in 2005 an overall MSE's Development program was designed for the entire country. 13 Apart its business

opportunity and reduction of poverty and unemployment rate of youths, Small and micro Enterprise hampered their performance through several variables such as, lack of finance for projects, lack of qualified employees, marketing problems, etc. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In addition there are also personal attitudes that affect the performance of MSE, which are related to the person's individual attitude, training and technical know-how problems and so forth (CSA, 2007).

There are a lot of factors that affect the performance of MSEs either positively or negatively which in turn will determine their fate in the competitive business environment. These factors which contribute to the success of the enterprises are mainly related with the personal attribute of the owners' and attributes related to the enterprises. Given the importance of small business for an economy, the survival, success and performance of these enterprises in this sector is an issue of continuous concern. Research that can lead to the identification of those factors associated with small business performance is therefore of a great interest to policy makers, owner managers and their advisors (Alasadi and Abdelrahim, 2007).

Understanding of why some firms performed well and others not is crucial to the stability and health of the economy. Despite this fact, however, which factors are the most important factor affecting performance of MSEs Sector in Ethiopian has not been adequately studied empirically. In this regard, the study has assessed several published and unpublished academic researches to reduced area of similarity. Accordingly, there were a study took place by Dagmawit(2016) on determinants of Micro and Small Enterprises Growth: The Case of Durame Town, KembataTembaro Zone, Southern Nations and Nationalities and Peoples Region, Ethiopia and the finding implied, that out of the total sample 40% of Micro and Small Enterprises are growing and 60% of Micro and Small Enterprises are non-growing in terms of employment. In terms of capital 69% of Micro and Small Enterprises are growing and 31% are non-growing. The study was simply indicated Progress of MSEs interims of employment creation, and capital development. However, were not Investigate which factor affect MSE's Performance. There were also a study conducted by Alemayehu (2010) on factor affecting performance of MSEs in the Construction Sector of Addis Ababa; the finding identified major factors affecting construction sectors of MSEs of Addis Ababa. One of the research gap studied were the study consider only constriction sector.

Zeleke (2009) conducted a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises.

The studies conducted above have tried to indicate the determinant factors affecting performance in specific sectors of MSEs and considered specific factors that affect MSEs performance. However, this study attempted to assess common manufacturing MSEs and tried to evaluate significant determinant factors affecting performance of the sectors. Accordingly the study was considers major manufacturing types of MSEs such as, Metal and Wood Work, Agro-food processing and Textile and Garment sectors.

There are previous research works conducted on MSEs, most of them was focused from the success, and growth point of view, and conducted several years ago hence there was a time gap observed due to the recency of information and the progressive policies and strategies in the promotion of MSEs, and also investigation which determinant factors are the most important factor affecting performance of MSEs Sector in Ethiopian has not been adequately studied empirically. The study was hopefully filled the information gap created due to those of study.

1.4 Objectives of the study

1.4.1 General Objective

- The main objective of the study was to examine determinant factors that affect the performance of MSEs in Kolfe sub-city.

1.4.2 Specific Objectives

The specific objectives of the study were to:

- To examine the effect of Management related factors on performance of MSEs in Kolfe sub-city.
- To determine the effect of marketing related factors on performance of MSEs in Kolfe sub-city.
- To investigate the effect of financial related factors on performance of MSEs in Kolfe sub-city.
- To examine the effect of working premises related factors on performance of MSEs in Kolfe sub-city.

- To evaluate the effect of Infrastructural related factors on performance of MSEs in Kolfe sub-city.

1.5. Significance of the Study

The findings of this study will be useful to the stakeholders including:

i. **Academics/Researchers**

Findings from this study will assist academicians in broadening of the prospectus with respect to this study hence providing a deeper understanding of the critical factors that affect the performance of MSEs.

ii. **Micro and Small Enterprises**

The findings of this study will help MSEs in Kolfe Keranio sub-cities and others, within an insight into the benefits of using different factors studied in this research to predict the factors that affect the performance of MSEs.

iii. **Governmental Policy Makers**

The government can use the findings of this study to assist in policy formulation and development for a framework for critical finance, marketing, work premises and other factors that affect the performance of MSE. Moreover, the findings of this study will help the policy makers and financial institutions how to encourage establishing or expanding MSEs. It also enables them to know what kind(s) of policies should be framed.

1.6. Scope and Limitation of the Study

Theme wise, the study addresses the factors affecting the performance of micro and small enterprises (MSEs) in Kolfe sub-city. In terms of geographical area, the scope of the study delimited to Kolfe Keranio sub-city administration MSEs in Addis Ababa. Accordingly, the study specifically focus on

factors affecting the performance of MSEs (management factors, marketing factors, financial factors, working premises factors and infrastructure factors) as the independent variable and on the dependent variable MSEs performance measure by survival and customers satisfaction within the last few years. The study focus only on the manufacturing sectors of TG (Textile and Garment), FP (Food Processing & WM (Wood and Metal work) MSEs mainly for the reasons of, data from manufacturing enterprises are easily measurable and the second reason is that the pre assessment study showed that the selected manufacturing sectors are commonly available in all sub cities of Addis Ababa. Data are collected from micro and small enterprises operators (owners) in kolfe keranio wereda 1,4,11 & 12.

The research has some limitations, based on the following limitations, the study suggested for further researchers taking into consideration the following;

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

This study adopted a cross-sectional design. In this design, the data collected at a time. Therefore, relationships among variables must be interpreted with caution. True causal inferences can only be drawn testing models using longitudinal data. Thus, the study suggests for future researchers to employ longitudinal design.

1.7 Definition of key operational terms

- ***An enterprise:*** can be defined as an undertaking engaged in production and/or distribution of goods & services for commercial benefits, beyond subsistence (household) consumption at the household level.
- ***Cooperatives***: association of at least 10 individuals, who are grouped, organized for the same organizational objectives (from the same area).

- ***Factors***: A factor is a contributory aspect such as political-legal, working premises, technologies, infrastructures, marketing, financial, management and entrepreneurial influences that affect performance of micro and small enterprises.
- ***Formal enterprises:*** are defined as establishments principally engaged in production of marketed goods and services but formally registered at respective government agencies to undertake the business and hence have licenses to operate.
- ***Growth oriented Micro and Small Enterprises (MSEs):*** are MSEs engaged in production of goods and services in the sectors given priorities in the economic development of the country in most policy and strategy documents of the government (e.g., MoFED, GTP, 2010).
- ***Informal enterprise:*** there is consensus that they are small scale, and operate outside registration, license and tax frameworks.
- ***Micro Enterprise:*** when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is = 100,000 ETB for industrial sector and = 50,000 ETB for service sector (MSEDS, 2011).
- ***Small Enterprise****:* means a business engaged in commercial activities whose capital is not exceeding birr 1.5million and 6-30 employees for industries and 500000 for service other than high technology and consultancy service institutions.

1.8 Organization of the study

This study paper organized in five chapters, the first chapter comprised of Background of the study, Problem statement, Objectives of the study, Research hypothesis and the Scope of the study. Chapter two presents the theoretical and empirical related literature to the study, while chapter three provides research methodology. Chapter four outlines data presentation, analysis and interpretation and chapter five concluded and suggested some recommendations.

CHAPTER TWO

LITERATURE REVIEW

2. Theoretical Literature

2.1 The Concept and Meaning of Micro and Small Enterprises

2.1.1 International Definition of Micro and Small Enterprises

There are a number of different views on what comprises a small business and there is no standard or universal definition of a small business (Cronje, et al., 2001). This dilemma is aggravated because that small business' definition differs from country to country and between industry sectors. While this lack of certainty creates difficulties for researchers, it is entirely appropriate given that what comprises a small business is usually determined by the context in which it exists.

Nevertheless, small businesses are usually defined using quantitative and/or qualitative factors (Barrow, 1998). The quantitative factors are primarily the number of full-time employees, the annual turnover and/or the total assets of an enterprise. On the other hand, qualitative factors focus on the particular characteristics such as having a relatively small share of the market, being independently owned and the management of the enterprise has close personal involvement in all aspects of decision making (Barrow, 1998).

The USA Small Business Act of 1985 defines a small business as one that is independently owned and operated and which is not dominant in its field of operation. Furthermore, the USA Small Business Act of 1985 categorizes small businesses, according to sales volume and number of employees (Hodgetts & Kuratto, 1998). The annual turnover should be between $1.5 million and $10 million for service industry enterprises. In terms of the labor force classification, a very small, small, medium and large firm should have less than 20, 20 to 99, 100 to 499 and 500 or more employees respectively (Hodgetts & Kuratto, 1998).

In contrast, the Department of Trade and Industry in the UK states that a business is small if it satisfies at least two of the following quantitative and qualitative factors. In terms of quantitative criteria, small firm turnover should not be more than £2.8 million, the total assets must not be more than £1.4 million and the number of employees must not exceed 50 (Culkin and Smith, 2000). While qualitative factors focus on specific characteristics such as a relatively small share of its market, being independent and not a subsidiary of a larger firm and that management has a close personal involvement in all aspects of decision making. In addition, a medium enterprise is defined as having total assets of not more than £5.6 million, turnover of not more than £11.2 million and the number of employees should not exceed 250 (Culkin and Smith, 2000).

Defining what is meant by a small business is of great consequence because policies are often formulated to assist these enterprises, given the crucial role that they play in growing the economy and reducing unemployment.

The definition inconsistency in respect of small firms may create challenges for researchers to compare or match small businesses studies that have been conducted in different countries or regions.

However, the small business sector plays a major role in creating jobs and wealth in any economy. Because of its importance, this sector has recently drawn much attention from policymakers in both developed and developing countries (Hartley and Worthington-Smith, 2004). Accordingly, a number of governments in developing countries have explicitly included small business programs as part of their national economic plan (Solomon, 2004).

2.1.2 The Revised Definition of Micro and Small Enterprise in Ethiopia

According to (FeMSEDA, 2011) there is no commonly agreed international definition for MSE's; different countries use their own approaches in formulating legal definitions.

Ethiopia, after identifying the limitations of the 1997's MSE strategy definitions and reviewing international experience, the definition of MSEs revised by the new MSEs strategy. The new definitions take into consideration the following elements:

1. The number of employed workers
2. Total assets and
3. Two broad sectoral classifications industry and service as well as taking into account inflation and exchange rate related changes that might occur over the next five years.

Table 2- 1 The Revised Definition of Micro and Small Enterprises

Sr. no.	Enterprise Level	Sector	Hired labor	Capital in ETB
1	Micro	Industry	Less than or equal to 5	≤100,000
		Service	Less than or equal to 5	≤50,000
2	Small	Industry	6-30	100,001 - 1,500,000
		Service	6-30	50,001 - 500,000

Source: FeMSEDA 2011

According to (FeMSEDA, 2011) Micro-Enterprise means any enterprise which employs up to 5 people, including the owner of the enterprise, members of his family and having at total asset, (excluding buildings), the value of which is not more than birr 50,000 (fifty thousand birr) in the service sector or not more than birr 100,000 in the industrial sector.

Small-scale Enterprise means any enterprise which employs people from 6 through 30, including the owner of the enterprise, members of his family and having a total asset, (excluding building), the value of which is not more than birr 50,001 through birr 500,000 in the service sector or birr 100,001 through birr 1,500,000 in the industrial sector.

2.2 Concept and definition of manufacturing small enterprises

The International Standard Industrial Classification (ISIC Revision-3 cited in CSA, 2003) defines manufacturing activity as “the physical or chemical transformation of materials or components into new products, whether the work is performed by power driven machines or by hand, whether it is done in a

factory or in the worker's home, and whether the products are sold at the whole sale or retail. The assembly of the component parts of manufactured products is also considered as manufacturing activities." In relation to the definition, according to CSA grain milling services are also considered as manufacturing enterprises (CSA 2003).

2.3 Micro and Small Enterprises Development in Ethiopia

MSEs Development was given prior attention during the first growth and transformation plan (GTP) period. The GTP has indicated the MSE's Development as one of the recognized growth pillars. Some studies rightly point out that MSEs have been on the forefront in employment creations, poverty reduction, formations of entrepreneurship and consequently overall contribution to the economic development of the country (MUDoH, 2006; MOE, 1997).

The MSE Development Strategy of Ethiopia formulated in 1997 clearly informs a systematic approach to alleviate the problems and promote the growth and development of enterprises. The primary objective of this national MSE development strategy was to create enabling environment for MSEs and then enterprises to exert great effort to operate, grow and progress to the next level. Facilitating economic growth to bring equitable development, creating long term jobs, strengthen cooperation between MSEs, setting the bases for medium and large-scale enterprises, promoting export and balancing preferential between MSEs and large enterprises (MOTI, 1997).

The revised MSE Strategy of Ethiopia incorporated a fresh group of targets, the graduates in addition to the poor and less skilled citizen to create their own jobs through cooperatives. Establishment of cooperatives and groups were expected to encourage technology transfer and enhance corporate management skills. The government in its 2011 MSE development strategy document identified and given priority attention to 5 key MSE development sectors believed to substitute import and engage in manufacturing. The sectors which were given priority attention are the manufacturing, the service, construction, urban agriculture, and the trade sector.

The strategy also outlines different criterion to identify their growth stage. The growth stage is then used to analyze the specific problems that MSE's face at a given growth stage and provide them the necessary support.

According to the revised strategy, under the manufacturing sector, textile, garment, leather production, food and beverage processing, metal works, metal engineering, wood works, and agro-processing are given prior attention. Subcontracting, building material provisions, traditional mining, cobblestone, and infrastructures sub-contacting are under construction sector. Rural transport, cafe, storage, tourism, managerial advisory, beauty salon, electronics, software development, and internet cafe are some of the areas identified under the service sector. In the trade sector wholesale and retail of domestic materials and raw materials, supply are listed. Similarly, areas of engagements like beekeeping, poultry, modern irrigation, and production of vegetables and fruits are mentioned under urban agriculture sector as key areas that are given due attention in order to attain the strategic goals set by the government (FeMSEDA, 2011).

2.4 Factors Affecting Performance of Micro and Small Enterprises

Despite many favorable attributes, the average small business enterprise is often struggling for survival in a hostile environment. The most comprehensive summary of factors influencing performance was noted in a literature review by Theo et al. (2007) the factors include: individual characteristics, parental influence, business motivation and goals, business strategies, goals and motives, networking and entrepreneurial orientation. Others include environmental factors.

According to Commission on Legal Empowerment of the Poor (2006), most MSEs in Ethiopia affected critical constraints both at the operation and start up level. Some of these constraints include lack of access to finance, access to premise, infrastructure, training in entrepreneurial and management skills, information on business opportunities, and social and cultural factors particularly related to deficient entrepreneurial culture and excessive corruption. Lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector.

2.4.1. Working premises

One of the desires of most participants in the informal sector is to save on costs and this includes saving on rental; for them higher disposable income now is more important than a better quality premises. They therefore prefer to operate either from homes or from other rent free locations even if it means violation of existing regulations (Sethuraman, 1997). Since incomes of the operators depend significantly on where they do their business within the city, they choose to operate closer to inner city or other locations despite the risks involved in violating the regulations where purchasing power, and hence demand for their output, is concentrated.

2.4.2. Infrastructural factors

The most of small firms faced lack of appropriate location for their businesses. Some of the small firms are located in places with inadequate supply or lack of public services and economic infrastructure (water and electricity, transport systems, telecommunication system, sanitation services). In comparison to middle or high-income communities, small firms with access to these services incur a relatively high cost per unit for the service. Besides, small size firm cannot afford to invest in private public goods (Reinikka and Svensson, 2002) or to buy services from private providers which would be more expensive than supplying from government suppliers (Ishengoma, 2004). A poor economic infrastructure and limited access to public services increases the operating costs of small firms, limits their ability to meet quality standards (Hygiene standards in café), and hinders their participation in linkage relationships.

Good infrastructure facilitates have a positive effect in reducing the cost of operation. MSEs Owners in Ethiopia indicated that lack of efficient, reliable, safe and affordable infrastructure is affecting the performance of their business. The physical infrastructure facilities are not adequately developed and expanded in Ethiopia to meet the growing demand of MSEs activities. As a result, most MSEs have problems related to business premises such as an increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water services (Eshetu& Mammon, 2009).

2.4.3. Marketing factors

Although small enterprises have close relationships with customers, finding new customers is a major challenge for small business owners. Small businesses typically find themselves strapped for time but in order to create a continual stream of new business, they must work on marketing their business every day. The majority of small enterprises target the low income market areas because of low entry barriers. The enterprises in this market tend to compete for the same customers. The magnitude of these hindrances is higher for those concentrated in one area as they tend to apply a copycat strategy and thus produce similar products. This limits their growth potential and stability and is one of the reasons why small enterprises experience a relatively high instance of downfall.

2.4.4. Financial factors

There are two sources of finance available to small enterprises which includes; internal and external sources (Chizea, 2002). Internal sources as the dominant source of finance for most small-scale businesses. And for most businesses, internal sources of finance constitute retained earnings for the period including provisions made for depreciation which is essentially a book transfer. The external sources of financing constitute bank finance and other forms of institutional credit. External source of finance must also include public equity.

In most of developing countries, the majority of small enterprises lack access to formal financial services. Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new enterprises and the growth and survival of existing ones will be impeded (Commission on Legal Empowerment of the Poor. 2006)

2.4.5. Management factors

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

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

2.5. Performance of Micro and Small Enterprises

According to Ogutu (2010) performance simply defined in terms of output terms such as quantified objectives or profitability. Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (John, 2009). The most common definition of good performance is financial growth with adequate profits (RamiAlasadi & Ahmedabderehim, 2007). Other definitions of performance are equally applicable. For example, some entrepreneurs feel success as the job satisfaction they derive from achieving desired goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.

Global Entrepreneurship Monitor (GEM) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it (GEM, 2004). Among the most frequently used operationalization are growth in employees, survival, and profitability. A company could measure its performance using financial and non-financial measures. Financial measures include profit before tax and turnover. While non-financial measures focus on issues related to customer satisfaction and customer reference rates, delivery times, waiting time, employee satisfaction,

survival and employee turnover etc. Recognizing the limitations of relying solely on financial or non-financial measures, the owner-managers of modern small businesses have adopted a hybrid approach to using both financial and non-financial measures (Chong., 2008).

There is no empirical evidence that suggested financial measure is preferred over non-financial measures and vice versa. Most studies suggested the use of hybrid measures of performance. However, Carter and Jones-Evan (2000)[8] and Gebreeyesus (2007)[30] attempted to provide some theoretical justification, that assumed to use growth rate in sales(increase in sales), increase in capital assets and profits as more precise and potential offer more objective measurement as compared to other measures of performance of firm. However, in practice they reported these measures tends to be susceptible, problematic and not credible as firms hesitate report the true value of their sales and profit in fear for high tax burden from the government and the factors that influence one growth measure (for instance, increase in profits) may not necessarily influence another (for example, increase in employment), moreover, firms may unable to accurately report their sales and profit as they do not keep records and fixed assets could also not indicate proper measures of performance. Therefore, for the purposes of this study the researcher selected Non-financial performance measurements such as survival and customer satisfaction.

2.6. Theoretical perspective on factors affecting performance MSEs

2.6.1. Resource Based View Theory (RBV)

Wernefelt (1984) came up with the Resource based view theory to advance the idea that strategy of a firm as a function of the complement of the resources held. The core of the Resource Based Model is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies. The resulting advantage can be sustained due to lack of substitution and imitation by the firm's competitors. Firms have different collections of resources (tangible and intangible assets) and no two firms are similar in terms of the resources they hold, moreover, the resources a firm holds determine how well that firm would carry out its operations. A company would be posited to succeed if it has the best and most appropriate stock of resources relevant for its business and strategy and therefore Competitive advantage ultimately can be attributed to ownership of valuable

resources that enable the firm to perform its activities better than competitors thereby improving its performance. RBV describes a firm in terms of the integrated resources and that resources are limited to those attributes that enhance efficiency, effectiveness and performance of the firm (Wernerfelt, 1984). Miller and Shamsie (1996) refer that resources should have some capability to generate profits or to avoid losses.

2.6.2. The Balanced Scorecard

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

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

2.6.3 The Pecking Order Theory

This is another financial theory, which is to be considered in relation to SMEs financial performance and management. It is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the capital structure policy (Norton, 1991). A research study

by Zoppa and McMahon (2002) revealed that 75% of the small enterprises used seemed to make financial structure decisions within hierarchical or pecking order framework. According to Cassar and Holmes (2003), the Pecking Order Theory is consistent with small business sectors because they are owner managed and do not want to dilute their ownership. Owner managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations.

2.6.4. Infrastructural Development

Infrastructure is an organizational or physical structure that is important and required in the operation of an enterprise and in the daily activities of a society. Infrastructure facilitates the necessary functions of an economy. According to Nkechi et al. (2012), infrastructure refers to a group of interconnected elements that provide a framework necessary in supporting the whole structure for development in a society. These include technical structures that support and guide the society in terms of electricity grid, roads, bridges, sewers, telecommunication and water supply. Infrastructure provides services and products necessarily in the sustenance, enablement and enhancement of the living conditions in a society (Obokoh & Goldman, 2016). In the society, infrastructures facilitate products and services production, finished goods distribution, and promotion of essential services in the society like hospitals and schools.

2.7. Empirical Study

2.7.1. Empirical evidence on the factors affecting the performance of MSEs

In accordance with Mead & Liedholm (1998) and Swierczek and Ha (2003), the main factors that affect the performance of small businesses in developing countries is not their small size but their isolation or lack of due attention, which hinders access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are very important in the role they play in employment creation and general contribution to economic growth is not new phenomenon. However, the trip of the small entrepreneur in many instances is short-lived, with the statistic of small business failure rate in Africa being put at 99 per cent (Rogerson, 2000). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick ,1998), intense competition with imitation of micro-businesses (Manning & Mashego,

1993) and manager characteristics including lack of skills and experience (Katwalo & Madichie, 2008 and Verhees, F. M., & Meulenberg, M. G., 2004).

Roy and Wheeler (2006) identified that the level of training small businesses (both formal and informal); experience and number of years in operation; knowledge of the market; level of separation of products (in terms of price, quality or other) and diversification of products; access to the necessary resources and/or technologies; level of planning and vision for the future; are among the factors contributing to success of MSEs in job creation while lack of market knowledge and training, limited access to capital, and lack of co-operation among possible business partners are some of the factors hindering the performance and development of the small business sector. Likewise, Mbugua Stephen& Kamunge(2014) conducted a research on factors affecting employment generation of small businesses in Kenya as a result of which they found that access to finance and managerial skills are the prime causes for the failure of the businesses.

A study done by International Finance Corporation (IFC; 2013), based on responses of more than 45,000 firms in developing countries, found that the top obstacles to their operations are a poor investment climate, especially red tape, high tax rates, and competition from the informal sector, and inadequate infrastructure, especially an insufficient or unreliable power supply. Whereas informality is a major hindrance of SMEs in middle-income countries, an inadequate power supply is the most important challenge for companies in low-income countries.

According to Shah et al. (2013), financial institutions behave more carefully when providing loans to SMEs, and SMEs are usually charged comparatively high interest and high collateral requirements discourage firms from obtaining loans from banks. Based on Asma Benzazoua et al.(2015) ,pointed out that unfair competition from the informal sector, cumbersome and costly bureaucratic procedures, burdensome laws, policies, and regulations, an inefficient tax system, a lack of access to external financing, and low human resources capacities are the key business environmental factors affecting Algerian SMEs in employment generation.

Kinyua(2014), researching with objectives to investigate on factors affecting the performance of small and medium enterprises in the Jua Kali sector Nakuru town in Keny. The findings indicated that; access

to finance had the potential to positively affect the performance of SMEs; managerial factors were found to be positively and significantly affecting the performance of MSEs and infrastructure did not significantly affect the performance in the study area.

2.7.2. Empirical studies on factors affecting Ethiopian MSEs

Eshetu and Zeleke (2008) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival of medium, small and micro enterprises and their contribution to job generation in Ethiopia .As a result of which they found that adequacy of finance, level of education, level of managerial skills, level of technological skills, and ability to convert part of their profit to investment were the prime causes for failure.

Based on the sample survey of 2000 MSEs chosen from four major cities of Ethiopia namely Adama, Hawassa, Bahirdar and Mekelle, Tegegne and Meheret's (2010) was conducted with the intention of assessing the contribution of the MSE strategy to poverty reduction, job creation and business development. As a result of which lack of finance, lack of market, and lack of working space were playing a pivotal role for hindering the success of the strategy.

The major constraints identified by various studies on MSEs in Ethiopia are associated with market, working premise and finance problems. The causes of market-related problems of MSEs engaged in metal and wood work are shortage or deficiency of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting (FMSEDA, 2006). Similarly, Adil's (2007) research carried out in Addis Ababa shows that unsuitable government intervention, shortage of capital, location disadvantage, lack of market and lack of display room are the major challenges that impede growth in employment of MSEs.

According to HLCLEP (2006), there is short of entrepreneurial and managerial skills, which in turn leads to problems in production of quality of products due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process and incapability to troubleshoot failures on machinery and/or equipments is a critical problem that small businesses are facing since they cannot afford to employ specialists in the fields of planning, finance and administration; Market and

market-related external problems, which are caused by disadvantaged market linkage and poor promotional efforts; on government rule and regulation – related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness on government control and those with technical knowledge due to lack of finance

According to Admasu Abera (2012), the study conducted at Arada and Lideta SubCities, Addis Ababa on small enterprises, he found that financial, working premise and marketing factors were the prime external causes affecting the performance of small manufacturing enterprises respectively. Besides, he found that entrepreneurial and management factors were found to be the least influential internal factors affecting the performance of manufacturing small business (8th and 5th factors respectively). He also pointed out that there is appositive relationship and a strong correlation among the variables

According to Arya Solomon (2015), the study conducted on factors affecting the performance of micro and small enterprises in Hawssa. He found that access to infrastructure (access water, electric power and transport service), access to working premise and access to finance are the prime causes for the failure of firms to generate jobs.

Based on Solomon Worku(2004),the research carried out on socio economic determinants of small manufacturing enterprises' growth at Addis Ababa ,was found that working premise and infrastructure factors are significant and positively related to the growth of employment.

Based on MUDC (2013), is the first of its kind in Ethiopia was conducted by ministry of urban development and construction on Micro and Small Enterprises (MSEs), aiming at identifying a number of challenges and constraints hindering the growth of MSEs in Selected Major Cities of Ethiopia. These challenges were manifested in terms of capital, technology and employment growth trends. Enterprises from the regional cites indicated that shortage of finance (42 percent) to expand their business was their principal challenge, followed by lack of working premise (28.3 percent); and lack of access to market or absence of linkage to market. The study also showed that lack of access to land has most crucial been one of the bottlenecks (6.4 2percent).

According to Mekonnen Drbie&Tilaye ssahun (2013), the study conducted on deterrents to the success of Micro and Small enterprise in Akaki-Kality Sub-City as a result of which infrastructure, finance and managerial factors were found to be the top three challenging problems of MSEs.

2.8. Methodological studies on prior similar research and their gabs

According to Admasu (2012), the research was conducted at Arada and Lideta Sub- Cities, Addis Ababa on factors affecting the performance of micro and small Manufacturing enterprises, the study was used profitability index of measuring the performance of MSEs and used micro and small enterprises as a target of conducting the research. As well, used Likert scale questionnaire as internal and external independent variables and multiple regression model. According to this research MSEs were given a supportive package base on 1997 MSE's strategies, i.e. one –fit- all support. However, this research fills the gap and basically differs from Admasu Abera (2012), research is: by considering micro and small enterprises only as a target of conducing the research, use customer satisfaction, employee satisfaction and survival for measuring performance of small enterprises, and the study conduct on the bases of 2011 MSEs supportive package strategies that MSEs received from government based on their growth stage i.e. start up, on growing and maturity.

According to Mekonnen & Tilaye (2013), the study was conducted at Akaki-Kality Sub-City, Addis Ababa on deterrents to the success of Micro and Small enterprises, the research targeted to three MSEs sectors namely, in construction ,service and manufacturing and, also used liker scale type of questionnaire as an independent variables and multiple regression model to study this research. The study doesn't explicitly show how to measure the performance of the enterprises. In contrary to Mekonnen Drbie&Tilaye Kasahun(2013),this research considers only micro and small manufacturing enterprises, and clearly describes how to measure dependent and independent variables. Besides, descriptively analyze the problems of each sub sectors independently.

Based on Solomon (2004),the research carried out on socio economic determinants of small manufacturing enterprises' growth at Addis Ababa, was used multiple regression model and 14 dummy independent variables to study the research. Also, use CAGR to measure the performance of the enterprises in the period of their establishment until the time of the study. However, against to Solomon

(2004), this research typically differs by: including Likert scale type of questionnaire as independent variables, enabling to descriptively analyzing and ranking the severity of problems.

Based on the previous review on factors affecting the performance of micro and small enterprise, it can be conclude that most of the studies reported financial constraints significantly affect the performance of MSE's compare to other factors, other researchers reported management constrains significantly affect the performance of MSE's and also some studies reported that marketing constraints significantly affect the performance of MSE's. Thus, there is inconsistency in the findings and some of the studies don't explicitly show how to measure the performance of the enterprises. Therefore this study fills those gaps uncovered by previous studies and try to assess factors affecting the performance of MSEs and fill the gaps deeply investigate those operators engage in different manufacturing sector of micro-and small enterprises in Kolfe Keranio Sub-City.

2.9. Conceptual Framework of the Study

The conceptual framework of this study presents the factors affecting the performance of MSEs. The framework adopted the independent variables; these factors are Management, Marketing, Finance, Work premises and Infrastructure factors. Each factor is captured using a variety of constructs those described above. The dependent variable in the study is MSEs Performance that consists of customers satisfaction and survival as its constructs.

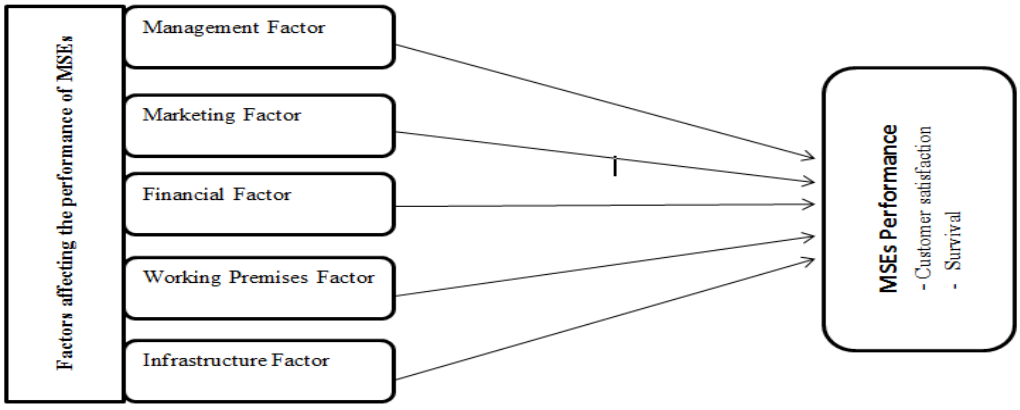

Figure 2-1 Conceptual Framework of the Study

Source: - Own Model (from literature)

2.10. Research Hypothesis

Based on the literature review, the following hypotheses were developed and tested to examine which factors affected the performance of MSEs significantly.

2.10.1. Management Factors and MSE's Performance

There is lack of knowledge of entrepreneurial and managerial capacity, and marketing experience. Lack of skill leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process, and inability to troubleshoot failures on machinery and/or equipment's is a critical problem that MSE's are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control, and those with technical knowledge (Commission on Legal Empowerment of the Poor, 2006). The most common form of acquiring skills in the MSE's sector is through apprenticeships though the formal education system prepares students for paid employment, there are very few vocational institutions that cater for developing skills. This inevitably leads to low level of innovation in almost all sectors of the economy and severe shortage of training opportunities for potential entrepreneurs (Gebrehiwot and Wolday, 2004). Mbonyane and Ladzani (2011) found that more than 50 percent of micro-enterprises lack training in proper business management. As a result, there is lack of technology available to micro and small businesses enterprises. The results of this research show that the government does not have enough support mechanisms available to ensure that small business owners and their employees receive the training that would enable them to run the business successfully. Most owners do not have management experience and adequate training and skills to operate a business (Okpara, 2011). Olawale and Garwe (2010) also found lack of business skills and shortage of skill labor which results from absence of proper training are affecting micro and small enterprises negatively.

H_1: Management factor significantly affects the performance of MSEs in Kolfe Keranio sub-city.

2.10.2. Marketing Factors and MSE's Performance

Marketing problem is the main constraint for the growth of enterprises (Rahel& Paul, 2010). Micro and small enterprises in Ethiopia faced various marketing problems. There is lack of product diversity and as a result similar products are overcrowding the market. In addition to this certain micro and small enterprises lack the skill to modify their products and they have lack of sufficient range of product designs (Assegedech, 2004). Ethiopian micro and small enterprises have different pricing problems such as lack of costing knowledge, did not include overhead costs, salary or wage of family members involved in the production process are not considered, and do not know the exact earning From sales (Assegedech, 2004). Mbonyane and Ladzani, 2011, Olawale and Garwe, 2010 Bowen et al, 2009 also found that lack of appropriate marketing practices are among the major constraints that hinder the smooth function of MSEs. Bowen et al (2009) found that there is fierce competition in the small business sector which leads to price competition and small margin of profit. Olawale and Garwe (2010) also show that high competition is among the major factors that hinder the growth of micro and small enterprises performance. This is due to the reason that most of MSEs tend to congregate in dense markets and overcrowded cities. Small business owners do no long find it easy in competing with their own goods which is mostly perceived by consumers as low quality ones when compared with those of the multinational companies. Due to the aggressive competition small business enterprises are facing from companies that operate with greater capital outlay, companies with better and modern equipment's for production, companies with better manpower and companies with marketing capabilities have resulted to low level of business and at times outright closure by small business owners (Etumeahu, 2009).

H_2: Marketing factor significantly and positively affects the performance of MSEs in Kolfe Keranio sub-city.

2.10.3. Financial Factors and MSE's Performance

Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new Enterprises and the growth and survival of existing ones will be impeded

(Commission on Legal Empowerment of the Poor, 2006). Access to finance is a major bottleneck for the rapid growth and development of MSEs mainly due to targeted mechanism put in place to address the financial needs of small scale enterprises. Most micro and small enterprises do not have access to micro finance institutions and most banks are reluctant to avail credit facility to small enterprises unless they have acceptable collateral. The standard of loan appraisal, the long delay the banks take to sanction loans, unfavorable disposition towards small loans and the limited collateral requirement, which is over 100% of the loan amount, are the major obstacles that small scale enterprises are facing (Commission on Legal Empowerment of the Poor, 2006).

Moreover, the interest rate by most micro finance institutes, which is higher than the lending rate of formal banks, inhibits effectiveness in addressing the needs of micro enterprises (Commission on Legal Empowerment of the Poor, 2006). According To Wolday and Gebrehiwot (2006), more than 93% of MSEs replied that they did not apply for bank loans for the reasons they considered themselves as discouraged potential borrowers, need credit but are discouraged from applying by the perceived or real high collateral requirement, high cost of borrowing, difficulty of processes, ineligibility, or concern about their repayment ability and uninformed (i.e. not aware of the facility, or where and how to apply, etc.). The findings of Mulu (2007) also indicate that banks and MFIs do not seem to support MSE's expansion. Due to this 85% of the respondents have never received credit from these formal sources. The availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks appear more appealing for MSE's. Hence, firms with better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster. Lack of finance has been considered in many studies as a key success factor for MSEs such as Rolfe et al (2010), Mbonyane & Ladzani (2011).

H_3: financial factor significantly and positively affects the performance of MSEs in Kolfe Keranio sub-city.

2.10.4. Working premises Factors and MSE's Performance

For MSEs, lack of premise is unquestionably a serious problem. Most informal operators do not get access to suitable locations where they can get easy access to markets. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of micro, small and medium enterprises who aspire to startup businesses (Eshetu & Mammo, 2009). According to Rolfe et al (2010) findings location is critical factor for sales and income of small scale enterprises and hence entrepreneurs benefit from businesses in formal residential areas. Logically, this finding stems from the higher per capita income and demand density in developed urban areas. Demand density also makes taxi ranks and train stations more lucrative. These spaces are limited and thus a source of competitive advantage that cannot be copied or re-created. Mbonyane & Ladzani (2011) found that small businesses select a site without first thoroughly analyzing the suitability of location. The same researcher found that most of the micro-enterprises are failing owing to a lack of space provided by the government and the various shortcomings of the small business owners regarding their businesses. Olawale &Garwe (2010) also found that poor location has a negative impact of the performance of micro and small enterprises.

H_4: Working premises factor significantly and positively affects the performance of MSEs in Kolfe Keranio sub-city.

2.10.5 Infrastructure Factors and MSE's Performance

The most of small firms faced lack of appropriate location for their businesses. Some of the small firms are located in places with inadequate supply or lack of public services and economic infrastructure (water and electricity, transport systems, telecommunication system, sanitation services). In comparison to middle or high-income communities, small firms with access to these services incur a relatively high cost per unit for the service. Besides, small size firm cannot afford to invest in private public goods (Reinikka and Svensson, 2002) or to buy services from private providers which would be more expensive than supplying from government suppliers (Ishengoma, 2004). A poor economic infrastructure and limited access to public services increases the operating costs of small firms, limits their ability to meet quality standards (Hygiene standards in café), and hinders their participation in linkage relationships. Good infrastructure facilitates have a positive effect in reducing the cost of

operation. MSEs Owners in Ethiopia indicated that lack of efficient, reliable, safe and affordable infrastructure is affecting the performance of their business. The physical infrastructure facilities are not adequately developed and expanded in Ethiopia to meet the growing demand of MSEs activities. As a result, most MSEs have problems related to business premises such as an increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water services (Eshetu & Mammon, 2009). Rahel & Paul (2010) also identify that even if access to infrastructure is not reported as a significant problem, lack of access to water and lack of awareness about the advantages of telephones and media leads to a negative or insignificant effect on the performance of enterprises.

H_5: Infrastructural factor significantly and negatively affects the performance of MSEs in Kolfe Keranio sub-city.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Approach

The study adopted the inductive approach. A positivism paradigm maintains that there is existence of a social reality which can be observed objectively and independently of the observer (Hatch & Cunliffe, 2006). This paradigm also maintains that theoretical models can be developed that are generalizable and can explain cause and effect relationships leading to prediction of outcomes (Easterby-Smith, 1991; Saunders et al., 2007). This paradigm is concerned with deductive or testing of existing theory (Creswell, 2006). Hence, the 96 positivist researcher starts with a theory, collects data that either supports or rejects the theory, and makes necessary revisions and conducts additional tests (Phillips & Burbules, 2000).

3.2. Research Design

The study were apply both descriptive and explanatory research designs; According to Schindler and Cooper, (2001) descriptive design describe the state of affairs as it exist during the time of study period, and explanatory design to explain the relationship between variables that correlate to estimate the integration influence of the factors on performance. Then the study was described and critically assesses the factors affecting the performance of MSEs in Kolfe Keranio sub-city of Addis Ababa.

According to Mark et al. (2009:101) mixing qualitative and quantitative approaches gives the potential to cover each method's weaknesses with strengths from the other method. In this study, a combination of qualitative and quantitative approaches of doing research was employed, which has been practiced, as recommended by Creswell (2009:203-216)

3.3. Target Population and Sample Techniques of the study

3.3.1. Target Population of the study

The population was identified as all people or items with the characteristics that one wishes to study (Anol, 2012). Accordingly, the study was conducted in Kolfe Keranio sub-city administration and the target population for this particular study was micro and small enterprises that are formally registered in the city administration of Kolfe Industrial College Industry Extension Service Dean office.

The organized list of MSEs was obtained from Kolfe Industrial College Industry Extension Service Dean Office. The total sampling frame was considered manufacturing sectors specifically Metal and Wood Work (M&W), Textile and Garment (T&G) and Food processing (FP) MSEs found in Kolfe Keranio sub-city administration and composed of MSEs Operators in wereda 1,4,11, & 12 within Kolfe Keranio Sub – City which had getting industry extension supportive service by Kolfe Industrial College, this was because of most of the enterprises found in those wereda. Generally there are three manufacturing sectors which hold the highest number of MSE's in Addis Ababa City which are T&G, M&W and FP, from which the highest number exists in Kolfe Keranio sub-city administration. Which sectors are also commonly represented in all sub – city of Addis Ababa.

The total registered MSE's in Kolfe Industrial College Industry Extension Dean office are 409. This number reflects the sampling frame as a list of the target population from which representative samples are will draw.

3.3.2. Sampling Techniques

Samples were selected from the total population of MSEs, a stratified random sampling was apply to get a representative number of enterprises from each sector that was considered in this study. This technique preferred because it was use to assist in minimizing bias when dealing with the population. With this technique, the sampling frame was organized into relatively homogeneous groups (strata), which were before selecting elements for the sample. The strata's sectors of MSEs included: TG, WM & FP. which was to select samples of MSE operators from each stratum (sectors) and applied simple random sampling method from a complete list of enterprise operators in the sub city.

Sectors of MSE systematically selected from the complete list of the FMSE, those sectors commonly available in all sub cities of Addis Ababa and those enterprises from privately owned manufacturing sectors selected for the study because data's from manufacturing sectors were measurable the sectors selected include TG,WM,&FP.

3.3.3. Sample Size

Although there are no general rules, the sample size usually depends on the population to be sampled. In this study sample size were selected, from a listed of formally registered population by the Federal MSE Bureau (FMSEB) until Dec, 2020. A list were contain names, address and the type of MSE business engaged, of the total population of the study area found from Kolfe Industrial College Industry Extension Service Dean office. A Total population of 409 enterprises, that comprised of FP (14), T&G (234) and W&M (161)**.** The sample size selected here considered as representative of FP, TG and WM respectively.

According to Catherine Dawson (2009:54), the correct sample size in a study depends on the nature of the population and the purpose of the study. Although there are no general rules, the sample size usually depends on the population to be sampled. In this study selected sample size was a list of the population formally registered MSEs until Dec, 2021 by the Addis Ababa City Administration Trade and Industry Development Bureau, which had acquired industry extension service from Kolfe Industrial College. The total population of the study was 409 enterprises which includes food processing (14), textile and garment (234) and wood and metal work (161). The sample size selected here was considered as representative of textile and garment, food processing and wood and metal work and also large enough to allow for precision, confidence and generalizability of the research found. The following formula used for the calculation of the sample size since it was relevant to studies where a probability sampling method use (Watson, 2001:5).

$$\left[\frac{\dfrac{Z^2 \; N \; \dfrac{P(1-P)}{A^2 + \dfrac{P(1-P)}{N}}}{R}\right]$$

Where, n = sample size required = 206, N= number of population = 409, P = estimated variance in the population = 50%, A = margin of error = 5%, Z = confidence level = 1.96 for 95% confidence, R = estimated response rate = 96%. Accordingly, 206 respondents were selected from the total of 409 MSE's.

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

Table 3- 1 Sampling size from stratum

Stratum based on category	Population(N)	Proportion of population in stratum (Pi)	Sample size from each stratum(n)
Food Processing	14	14/409 = 0.034	7
Textile and Garment	234	234/409 = 0.57	118
Wood and Metal Work	161	161/409 = 0.39	81
Total	409	1.00	206

3.4. Data sources of the study

The study used both primary and secondary data sources, the primary data sources of the study was enterprise members belongs in different Micros and Small enterprises of Kolfe Keranio Sub-City, such as, MSEs belongs to Metal and Wood Work, Textile and Garment and Agro-Food Processing sectors. On the other hand the study also used documents related to MSEs of the sub – city as secondary data

sources of the study area. In addition the study used related areas sources of documents such as, related studies, books, journals, articles and so forth.

3.5. Data Collection Method

The quantitative and qualitative data collected through questionnaire and secondary data sources of the study area. Questionnaires were used to gather data from different types of MSEs found in the selected sub-city. Organization of the questionnaire was in to two major parts, the first part deal about personal characteristics of respondents and the second part deal with the issue of MSEs of the sub city. The questionnaire in this way distributed to the selected sample population. Secondary data from files, pamphlets, office manuals, government documents, circulars and policy papers were used to provide additional information where appropriate. Besides, government documents, reports were reviewed in Kolfe Keranio Sub-City MSEs office to make the study fruitful. Generally, the primary sources of the data were serves as main sources of the study; this is because the study more depends on the opinion of individuals on certain issues. On the other hand secondary data were also collected.

Primary data were collected first hand by the researcher on the areas of interest using structural questionnaires that were delivered and collect in person by the researcher to reduce the nonresponse rate and had the opportunity to introduce the research topic in person and motivate respondents to provide honest feedback. Based on this, the researcher used a questionnaire to gather information from MSE's operators to get information about factors, and MSE's performance.

3.6. Data Analysis Methods

Both primary and secondary sources of data were analyzed using both qualitative and quantitative methods. Data analyses were made through a combination of both descriptive and inferential statistics. Descriptive statistics used to provide details of the various factors that affect the performance of MSEs. In this respect, frequency distributions were used to evaluate the effects of various factors on the performance of MSEs and bivariate correlation regression analyses were used. In this study used statistical package for social sciences (SPSS) version 23.

3.7. Reliability and Validity of the Instrument

Validity on the other hand refers to whether an instrument actually measures what it is supposed to measure, given the context in which it is Applied (Bless & Higson-Smith, 1995). To assure validity, questionnaires were designed on the basis of previous studies' questionnaires and review of related literatures.

The reliability of instruments measures the consistency of instruments. Creswell (2009:190-92) considers the reliability of the instruments as the degree of consistency that the instruments or procedure demonstrates. The reliability of a standardized test is usually expressed as a correlation coefficient, which measures the strength of association between variables. Such coefficients vary between -1.00 and +1.00 with the former showing that there is a perfect negative reliability and the latter shows that there is perfect positive reliability.

In this study each statement rated on a 5 point likert response scale which includes strongly agree, agree, undecided, disagree and strongly disagree. Based on this an internal consistency reliability test was conducted in *Kolfe Keranio* sub-citie with a sample of 21 operators and the Cronbach's alpha coefficient for the instrument was found as 0.802 which is highly reliable. Typically an alpha value of 0.80 or higher is taken as a good indication of reliability, although others suggest that it is acceptable if it is 0.67 or above (Cohen et al., 2007:506). Since, instruments were developed based on research questions and objectives; it is possible to collect necessary data from respondents. Then, instruments are consistent with the objectives of the study.

3.8 Ethical Consideration of the Research

During the course of administering the questionnaires, names and any identifying remarks were not used. The confidentiality of the respondents is kept and any data received for the study kept at the hands of the researcher and the advisor. The data's were analyzed based on the questionnaires rather than using the researcher opinion and input. The researcher stays truth full to responses of the respondents and free from any personal assessment. Results depicted were only from out puts of truth full inputs.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. INTRODUCTION

To facilitate ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the inferential analysis. The purpose of this study is to critically assess the factors affecting the performance of MSEs in Kolfe Keranio sub-city. How far, the owner managers are aware on the challenges of MSE's performance. Data were collected from operators or owner managers of MSEs found in Kolfe Keranio sub-city.

Generally, this section is organized in the following manner: First, the general information about MSEs were presented and analyzed. Second, data collected through questionnaires and secondary source of data were analyzed concurrently. Moreover, the results of Pearson's Product Moment Correlation Coefficient and inferential regressions were analyzed.

4.2. Response Rate

The calculated sample size of this study is 206. The researcher distributed research questionnaires to the sample enterprises and a total of 197 well-filled questionnaires were returned. This is a response rate of 95.63 percent. Sekaran (2010) argues that any response rate above 75 percent is classified as the best data that could be generalized to represent the opinions of respondents about the study problem. Thus, this response rate indicates sufficient data is available for generalization.

Table 4- 1 Response Rate

Sectors	Sample Size	Response	Response Rate
Textile and Garment	118	112	94.9
Wood and Metal work	81	78	96.3

Food processing	7	7	100
Total	206	197	95.63

Source: field survey 2021

4.3 Background Information

4.3.1 Demographic characteristics of MSEs Owners/Managers

Respondents were asked to indicate their age, sex, education level; and the responses were, 84.8% of the participants in this study are males and 15.2% are female owners/managers of the enterprises as shown in table 4.2. This result shows that more men are engaged in owning and leading of MSEs than females.

As shown in table 4.2, 39.6% of respondents are in the age between 18 to 30, 30.5% of respondents are found in the age category 31-40, 28.4% of respondents are found in the age category 41-49 and 1% of respondents are 50 years and above. Majority of respondents are found in the age between 18 to 30. Thus, there are younger MSEs owners/managers.

According to table 4.2, the educational level of the sample respondents indicates that from grade 1-8, grade 9-12, TVET level 1-4 and degree holders and above are 21.3%, 60.9%, 15.7%, and 2.0% respectively.

Table 4- 2 Demographic Characterteristics of Respondents

Demographic Characteristics		**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Sex	Male	167	84.8	84.8	84.8
	Female	30	15.2	15.2	100.0
	Total	197	100.0	100.0	
Age	18-30	78	39.6	39.8	39.8
	31-39	60	30.5	30.6	70.4
	40-49	56	28.4	28.6	99.0
	50 and	2	1.0	1.0	100.0

	above				
	Total	196	99.5	100.0	
	Missing System	1	0.5		
	Total	197	100.0		
Education Level	1-8	42	21.3	21.3	21.3
	9-12	120	60.9	60.9	82.2
	Level 1-4	31	15.7	15.7	98.0
	Degree & Above	4	2.0	2.0	100.0
	Total	197	100.0		

Source: field survey 2021

4.3.2 Business Characteristics of Respondents

Respondents were asked to indicate their enterprise characteristics and the responses were presented in the following.

The greatest number of respondents' enterprise participated in Textile and Garment sub-sector with 56.9%. Next, to the Textile and Garment sub-sector, the Wood and Metal work sector followed with 39.6%, and 3.6% of respondents' enterprises operated in the Food processing sector.

The majority of 58.4% of the respondents' enterprise length of service in the industry were five up to ten years. While 29.4% of the respondent's enterprise has 1-4 years duration, 10.2% of the respondent's enterprises have 11-15 years duration, 1.0% having to be in the industry for 16 years and above.

As indicated in table 4.3, 68.5% of respondents have 1-4 employees, 13.7 % of them have 5-10 employees, and 16.8% of respondents have no (self-employed) employees.

Table 4- 3 Respondents Business Characteristics

Enterprise Characteristics	**Frequency**	**Percent**	**Valid**	**Cumulative**

				Percent	Percent
Sector	Textile and Garment	112	56.9	56.9	56.9
	Food processing	7	3.6	3.6	60.4
	Wood and Metal work	78	39.6	39.6	100.0
	Total	197	100.0	100.0	
Age of The Enterprise	1-4	58	29.4	29.7	29.7
	5-10	115	58.4	59.0	88.7
	11-15	20	10.2	10.3	99.0
	16 and above	2	1.0	1.0	100.0
	Total	195	99.0	100.0	
Missing System		2	1.0		
Total		197	100.0		
No. of Employees	1-4	135	68.5	69.2	69.2
	5-10	27	13.7	13.8	83.1
	0	33	16.8	16.9	100.0
	Total	195	99.0	100.0	
Missing System		2	1.0		
Total		197	100.0		

Source: field survey 2021

4.3.3 GENERAL CHARACTERISTICS OF THE ENTERPRISES

4.3.3.1 Category of Business Venture

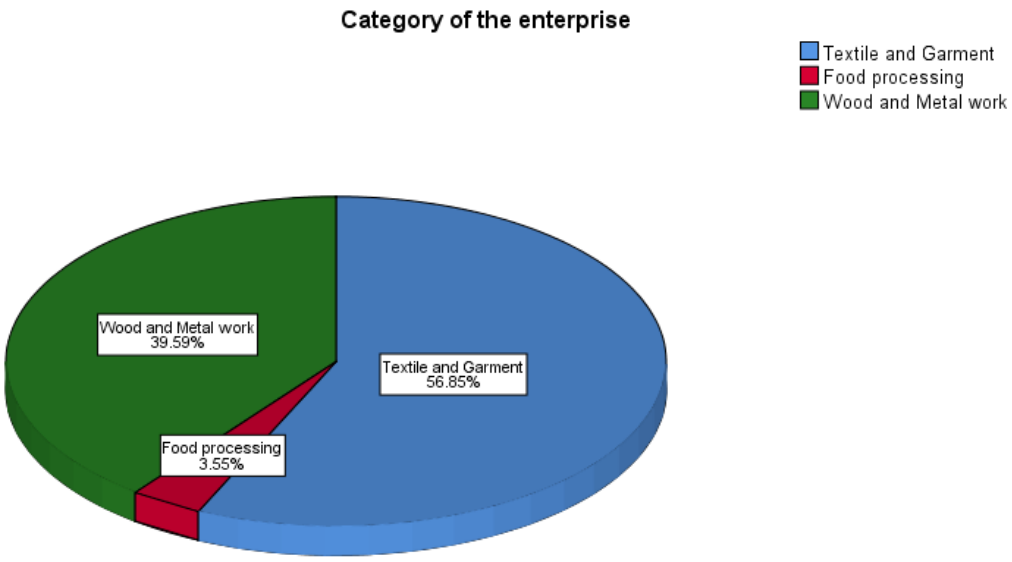

Figure 4-1 Sectors respondents engaged in

Source: Field survey, 2021

As shown in figure above, the sample firms were operating in three sectors of the economy. Most of them are engaged in textile and garment (56.85%) followed by wood and metal work (39.59%) and food processing (3.55%). This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the performance of MSEs. This is because firms in different sectors of the economy face different types of problems. That means the degree of those critical factors in food processing sector may differ from the factors that are critical to textile and garment and wood and metal work sectors.

4.3.3.2 The Main Source of Start-up and Expansion Finance

Starting own business requires a starting capital rather than mere existence of ideas. To capture information regarding the relative importance of the various sources of finance, enterprises were asked whether they ever received credit from each of a given list of sources of finance. The following figure shows the main sources funds.

Table 4- 4 Raise funds to start up the business

Raise funds to start up the business					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Personal saving	103	52.3	52.3	52.3
	Family	81	41.1	41.1	93.4
	Iqub/Idir	9	4.6	4.6	98.0
	Micro finance institutions	4	2.0	2.0	100.0
	Total	197	100.0	100.0	

Source: Field survey, 2021

As can be seen from the table personal saving (52.3%) are the most frequently used sources, followed by family (41.1%), iqub/idir (4.6%) and micro finance institutions (2.0%) in that order. This shows that the main source of finance for MSEs in Kolfe Keranio sub-cities is personal saving. But also other traditional source like family and iqub/idir plays the greatest role. In the sub-cities, informal sources play the greatest role in establishment of MSEs than the formal sources like microfinances.

Besides, the result of secondary sources of data shows that majority of MSEs in the study area uses informal sources. The formal financial institutions have not been able to meet the credit needs of the MSEs. According to majority interviewee, the reason for emphasizing on informal sector is that the requirement of collateral/guarantor is relatively rare since such sources usually take place among parties with intimate knowledge and trust of each other in addition to that there is also religious problems many Muslim operators or owners needs interest free financial services. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. To wind up, such constraint of finance for MSE affects their performance directly or indirectly.

4.4. Descriptive Statistics on Individual Factors Affecting MSEs Performance

Table 4- 5 Statistics on Enterprise Performance of MSEs

Descriptive Statistics on Enterprise Performance

	N	Minimum	Maximum	Mean	Std. Deviation
The enterprises customers are unhappy with the product we offer	197	1	2	1.25	.436
The number of customers used products in the enterprise decrease over the last few years	197	1	5	4.68	.962
Cash flow reduced over the last few years	197	1	5	3.34	1.906
The number of new customers acquired reduced over the last few years	197	1	5	4.86	.535
The number of loyal customers reduced over the last few years	197	1	5	2.51	1.398
Valid N (listwise)	197				

As shown table 4.5, MSEs owners/managers response to performance measurement, the response to question number 1 is a mean score of 1.25 which is within the average (1.0-2.50); question numbers 2 and 4 have a mean score of 4.68 and 4.86 which is being within above the average (3.50-5.0) and for question numbers 3 and 5 have a mean score of 3.34 and 2.51 which is within the average (2.50-3.49). This indicates that the respondents showed their disagreement on enterprise's customers are unhappy with the products we offer and agreed on number of customers used products in the enterprise decrease

over the last few years, the number of new customers acquired reduced over the last few years with score of above 3.5 and the number of loyal customers reduced over the last few years with score of below 3.5 point. From here it can be concluded that regardless of other factors the business engaged by operators in Kolfe Keranio sub-city are profitable. For most of enterprises are not keeping record profitability is justified by survival and covering household expenditures.

Table 4- 6 Working place factors that affect the performance of MSEs

Descriptive Statistics on Working place factors

	N	Minimum	Maximum	Mean	Std. Deviation
Absence of own premises	197	1	2	1.25	.436
Current working place is not commodious	197	1	5	4.68	.962
House rent is too high for my business	197	1	5	3.34	1.906
lack of appropriate location where they can get easy access to markets	197	1	5	4.86	.535
Valid N (listwise)	197				

The descriptive statistics on working place factors on table 4.6 indicates, the response to question number 1 is a mean score of 1.25 which is within the average (1.0-2.50); question numbers 2 and 4 have a mean score of 4.68 and 4.86 which is being within above the average (3.50-5.0) and for question number 3 has a mean score of 3.34, which is within the average (2.50-3.49). This indicates that MSEs owners/managers in Kolfe Keranio sub-city averagely have the premises factors that hinders their performance are lack of appropriate location where they can get easy access to markets and the current working place is not commodious. From secondary source of data about an operator of food processing it was confirmed that, lack of appropriate location where they can get easy access to markets and current working place is not commodious. The shades building designed and cites are not fit with sectors required standard qualifications and appropriate location and commodious to enterprises. They operated

in inappropriate location and current working place is not commodious have impeded the performance of their businesses. Similarly, in an interview conducted with owner managers of textile and garment was confirmed this idea. According to them, this lack of appropriate location where they can get easy access to markets is absence of well-organized feasibility study by Kolfe Keranio micro and small enterprise government office before the shades built.

Table 4- 7 Infrastructural factors that affect the performance of MSEs

Descriptive Statistics on Infrastructural factors

	N	Minimum	Maximum	Mean	Std. Deviation
Insufficient and interrupted electric supply	197	1	2	1.02	.141
Insufficient and interrupted water supply	197	1	5	4.36	1.281
Lack of business development services	197	1	5	1.72	1.373
Lack of accessibility of transportation	197	1	5	4.72	.729
Lack of appropriate dry wast and sewerage system	197	1	5	4.78	.775
Valid N (listwise)	197				

As shown table 4.7, MSEs owners/managers response to infrastructural factors, the response to question number 1 and 3 have mean scores of 1.02 and 1.72 which is within the average (1.0-2.50); question numbers 2, 4 and 5 have a mean score of 4.36, 4.72 and 4.78 which is being within above the average (3.50-5.0). This indicates that MSEs owners/managers in Kolfe Keranio sub-city averagely dry waste and sewerage system, Insufficient and interrupted water supply and Lack of accessibility of transportation hinders the business performance of all sectors.

Table 4- 8 Marketing factors that affect the performance of MSEs

Descriptive Statistics on Marketing factors

	N	Minimum	Maximum	Mean	Std. Deviation
Lack of product diversity	197	1	2	1.25	.436
Inability to compete with large companies	197	1	5	4.68	.962
Lack of promotion to attract potential users	197	1	5	3.34	1.906
Challenges of competitive product quality	197	1	5	4.86	.535
Challenges of competitive price setting	197	1	5	3.69	1.436
Poor customer relationship and handling	197	1	5	2.26	1.403
Valid N (listwise)	197				

As shown table 4.8, MSEs owners/managers response to Marketing Factors, the response to question number 1 and 6 have a mean score of 1.25 and 2.26 which is within the average (1.0-2.50); the response to question number 3 is a mean score of 3.34 which is within the average (2.50-3.49); and question numbers 2,4 and 5 have a mean score of 4.68, 4.86 and 3.69 which is being within above the average (3.50-5.0). As shown in the table, marketing factor is consisted of six items. From these factors Inability to compete with large companies, challenges of competitive price setting, lack of Promotion to attract potential users and challenges of competitive product quality are critical factors that affect the performance of MSEs and the respondents showed their disagreement on lack of product diversity that affects the performance of MSEs engaged in kolfe keranio sub-city.

Table 4- 9 Financial factors that affect the performance of MSEs

Descriptive Statistics on Financial factors

	N	Minimum	Maximum	Mean	Std. Deviation
High collateral requirement from lending institutions	197	1	5	4.6	1.936
High interest rate by lending institutions	197	1	5	4.68	.962
inadequate payback period	197	1	5	3.8	1.906
Lack of better record keeping and financial control mechanism	197	1	5	4.86	.535
Loan application procedures are complicated	197	1	5	4.8	1.476
Valid N (listwise)	197				

A response to financial factors items numbers 1,2,3,4 and 5 have a mean score of 4.6, 4.7, 3.8, 4.8 and 4.8 respectively, which is all within above the average (3.50-5.0). This shows that those operators engaged in Kolfe Keranio sub-city have faced the problem related to high collateral requirement from banks and other lending institutions, lack of better record keeping and financial control Mechanism, high interest rate by lending institutions, and similarly, inadequate payback period. By the same token, respondents of the three sectors in Kolfe Keranio sub-city agreed with the complexity of loan application procedures of banks and other lending institutions. Thus, MSEs owners/managers in Kolfe Keranio sub-city affected to high level of financial factors.

Table 4- 10 Management factors that affect the performance of MSEs

Descriptive Statistics on Management factors

	N	Minimum	Maximum	Mean	Std. Deviation
Lack of tolerance	197	1	5	2.42	1.237

among members groups					
Poor organization and ineffective communication	197	1	5	2.57	1.314
Lack of low cost and accessible training facilities	197	1	2	1.68	.470
Lack of strategic business planning	197	1	3	1.99	.824
Lack of well trained and experienced employees in the enterprise	196	1	5	3.88	1.536
Lack of financial, human and material management	197	1	5	2.70	1.351
Valid N (listwise)	196				

The descriptive statistics on Management factors on table 4.10 indicates, the response to question numbers 1, 3 and 4 have a mean score of 2.42, 1.68 and 1.99 which is within the average (1-2.49); for question numbers, 2 and 6 have a mean score of 2.57 and 2.7, which is within average (2.50-3.49); and for question numbers, 5 have a mean score of 3.88, which is within average (3.50-5.0). This indicates that MSEs owners/managers in Kolfe Keranio sub-city averagely have the ability to grasp high-quality business opportunities; and they are good in identifying goods and services that the customer wants, treat new problems as opportunities and in observing unmet consumer needs. This indicates that the respondents showed their disagreement on lack of tolerance among members groups, lack of low cost and accessible training facilities and lack of strategic business planning and agreed on lack of well trained and experienced employees in the enterprise.

Likewise, enterprises in all sectors undecided with the availability of the problems like lack of financial, human and material Management and poor organization and ineffective communication.

In this regard from secondary source of data investigated with some operators, it was confirmed that they have lack of well trained and experienced employees in the enterprise for their business activities.

4.5 The Descriptive Statistics on Factors and MSEs Performance

In order to analyze the effect of factors on MSE's performance, business performance and five factors were identified and the score of the responses of the enterprise's owner /managers on the practices of these variables has been analyzed on SPSS v 23.

Table 4- 11 Respondents Perception Mean about Variables

Descriptive Statistics			
Variables	N	Mean	Std. Deviation
Working place factors	197	3.5305	.71542
Infrastructural factors	197	3.3198	.48347
Marketing factors	197	3.3452	.56306
Financial factors	197	3.6000	.92890
Management factors	197	2.5396	.70340
Enterprise Performance	197	3.3269	.67547
Valid N (listwise)	197		

Source: ***field survey 2021***

Based on table 4.11, Financial factor has the highest mean 3.6 with a standard deviation of 0.92, While Management factor has the lowest mean 2.53 with a standard deviation of 0.703, Working place factor, Marketing factor and infrastructural factor has the mean of 3.53, 3.34 and 3.31 with a standard deviation of 0.71, 0.56 and 0.48 respectively. The performance of MSEs has a mean of 3.33 with a standard deviation of 0.675. Financial factor and Working place factor mean response are above the average (3.50-5.00), this indicates that MSEs owners/managers in Kolfe Keranio Sub-city highly affected by Financial and Working place factors and which affects the performance of micro and small enterprises.

In another words, the result shows that financial factor was the top most factors that affected the performance of MSE in the selected area. It can now be seen that financial and working premises factors has the biggest potential to contribute to the performance, followed by marketing, infrastructural and management factors. This result is supported by Haftu Berihun etal. (2009:84-86) who found that lack of finance and working space rank on top being reported as the major constraints by a large proportion of the enterprises. It can, therefore, be concluded that finance and working premises factors do largely affect the performance of MSEs. The finding revealed that for majority of MSEs in study area the financial and work premise factors were affect for doing their business. During the interview financial, working and selling premises were mentioned as factors affect the performance of MSEs. In addition, the MSEs owners/managers raised issues such as shade build for MSEs purpose is not transparently distributed to them and some of MSEs transferring premises to third party.

4.6 Analysis of the Association between Factors and MSEs Performance

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

Table 4- 12 Rules of Thumb Pearson Correlation Coefficient

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

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

The Pearson correlation coefficient is used to measure the degree of strength and direction of the relationship between two variables. Correlation analysis between Factors components and MSEs Performance was carried out. Table 4.13 below shows the correlation between Factors components and Enterprises Performance.

Table 4- 13 Correlation between Factors and MSEs Performance

Correlations

		WPF	IF	MF	FF	MAF	EP
WPF	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	197					
IF	Pearson Correlation	.411**	1				
	Sig. (2-tailed)	.000					
	N	197	197				
MF	Pearson Correlation	.798**	.379**	1			
	Sig. (2-tailed)	.000	.000				
	N	197	197	197			
FF	Pearson Correlation	.799**	.237**	.782**	1		
	Sig. (2-tailed)	.000	.001	.000			
	N	197	197	197	197		
MAF	Pearson Correlation	.507**	-.007	.575**	.647**	1	
	Sig. (2-tailed)	.000	.921	.000	.000		
	N	197	197	197	197	197	
EP	Pearson Correlation	.913**	.319**	.813**	.946**	.606**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	197	197	197	197	197	197

**. Correlation is significant at the 0.01 level (2-tailed).

Where WPF = working place factor, IF= infrastructural factor, MF= marketing factor, FF= financial factor, MAF = management factor and EP= enterprise performance

Source: ***field survey 2021***

As indicated in the above table 4.13, the correlation of working place and enterprise performance variables indicating an (r=.913, P<0.01) that represented a very strong and positive linear relationship between working place and MSEs Performance. Therefore, the more working place, MSEs Performance increases and when the working place decreases MSEs Performance decreases. The correlation between infrastructural factor and business Performance indicating an (r=.319, P<0.01) that represented small but definite linear relationship between infrastructural factor and MSEs Performance. Therefore, when more infrastructural, MSEs Performance increases slightly and when less infrastructural MSEs Performance decreases slightly. The correlation of marketing factor and business Performance variables indicating an (r=.813, P<0.01) that represented a high and positive linear relationship between marketing factor and MSEs Performance. Therefore, when more market, MSEs Performance increases and when the market decreases MSEs Performance decreases. The correlation of financial factor and enterprise performance variables indicating a very strong correlation comparing from others with an (r=.946, P<0.01) that represented a strong and positive linear relationship between financial factor and MSEs Performance. Therefore, when finance increase, enterprise Performance increases, and vice versa. The correlation between management factor and business Performance indicating an (r=.606, P<0.01) that represented moderate but definite linear relationship between management factor and MSEs Performance. Therefore, when more management, MSEs Performance increases moderately and when less management decreases MSEs Performance decreases moderately.

The above results imply that factors components have a relationship with business performance with a high Pearson correlation coefficient and this means that changes in one variable are correlated with changes in the other one. For this reason, it is possible to conclude that there is a strong relationship between factors components and business performance and when factors increases, the business performance also increases and vice versa.

However, correlation analysis shows only the strength and direction of one independent and dependent variables, it doesn't the researcher to make analysis of more than one independent and dependent

variables, and have a deficit in predicting the beta value of independent variables that explains the dependent variable, and in making inferences regarding the overall relationship between the identified variables. Hence, to analyze the effect of factors on business performance of MSEs the researcher uses regression analysis that overcomes the shortcomings of correlation analysis.

4.7 Assumptions in Multiple Regression Analysis

A number of assumptions need to be met before performing regression analysis with confidence. The important assumptions that are to be tested in this section are; independent variables should not be too strongly correlated to one another (Multicollinearity), the value of residuals to be independent of one another, the residuals should be normally distributed and the relationship between the dependent and independent variables (linearity). The following tests performed to check whether the data fit the assumptions of linear regression in order to conclude the analysis results are valid and reliable.

4.7.1 Normality Test

A very important assumption in regression analysis is that the dependent variable should be tested for normal distribution. This assumption is used to determine whether the residuals are normally distributed. Normality is used to describe a symmetrical, bell-shaped curve which has the greatest frequency of scores around in the middle combined with smaller frequencies towards the extremes (Pallant, & John, 2005). The bell shape of a normal distribution can be accessed along two dimensions; its degree of flatness or peakness (i.e. kurtosis) and its lack of balance (i.e. skewness).

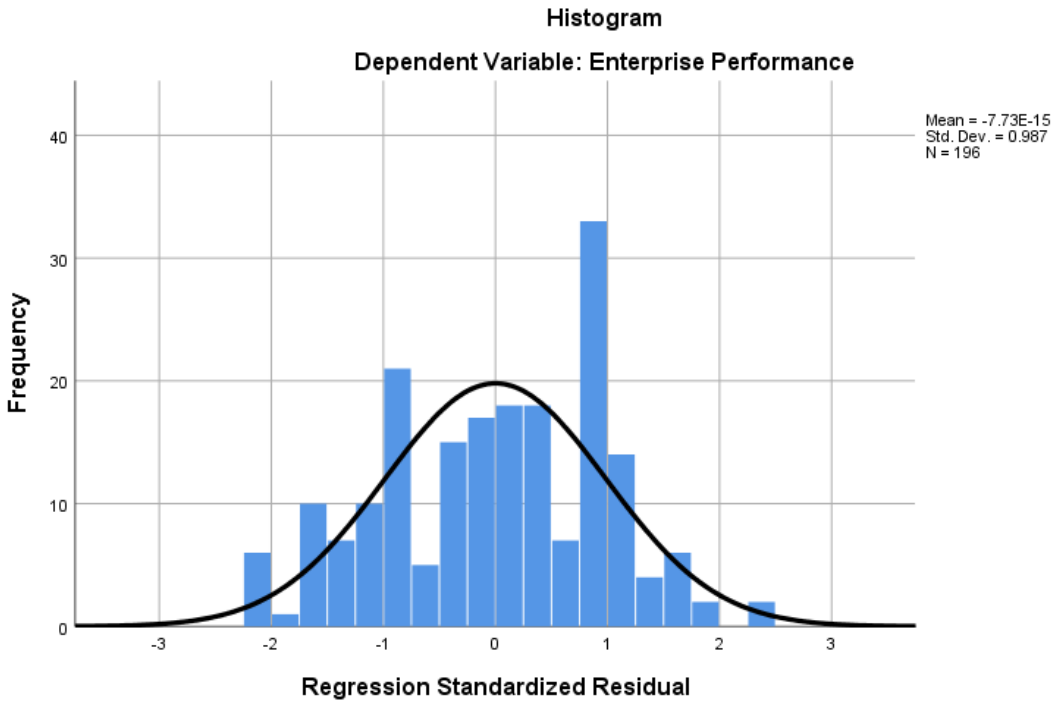

Figure 4-2 Histogram for MSEs Performance

Source: ***field survey 2021***

This can be tested by looking at the Histogram and P-P plot for the model. To say the Normality assumption of this study is met, the Histogram should be symmetric along the center 0 and the dots at the P-P Plot should be closer to the diagonal line; Normal P-P plot –points should lie in a reasonably straight diagonal line from bottom left to top right. When we look at the above histogram and p-p plot, Histogram is symmetric and the P-P plots of the dots are drawn closer to the diagonal line, indicating that the assumption of normality is met.

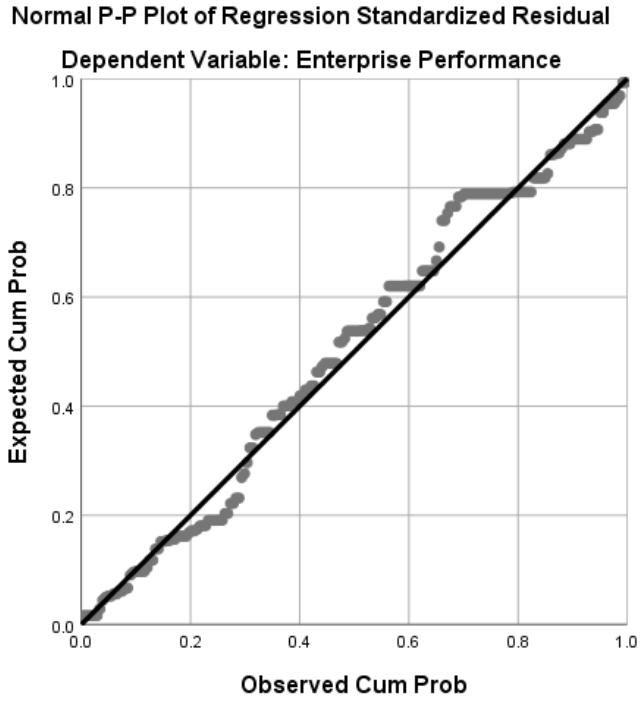

Figure 4-3 Normal P-P Plot for MSEs Performance

Source: ***field survey 2021***

4.7.2 Multicollinearity Test

The researcher had checked the multicollinearity problem with the assumption of tolerance and VIF statistics. Multicollinearity was not a problem in the regression as none of the independent variables had a variance inflation factor values of greater than 10 and none of the independent variables had a tolerance value of less than 0.1 (Norusis, 1995).

Table 4- 14 Collinearity Statistics

Collinearity Statistics		
Independent variables	**Tolerance**	**VIF**
Working place factor	.135	7.389
Infrastructural factor	.687	1.456
Marketing factor	.304	3.287

Financial factor	.131	7.616
Management factor	.502	1.991

Source: ***field survey 2021***

As seen from table 4.14, the tolerance values are 0.135, 0.687, 0.304, 0.131 and 0.502 respectively for working place factor, Infrastructural factor, Marketing factor, Financial factor and Management factor respectively. The variance inflation are 7.389, 1.456, 3.287, 7.616 and 1.991 for Working place factor, Infrastructural factor, Marketing factor, Financial factor and Management factor respectively. The tolerance values of all variables are above 0.1 and also their variance inflation factor value is below 10 which indicate that there is a small degree of multicollinearity among variables.

4.7.3. Autocorrelation Test

It is an assumption that the value of residuals to be independent of one another. To check this assumption, we need to look at the regression output of the model summary.

Table 4- 15 Durbin-Watson Statistics

Model	Durbin-Watson
1	1.427

Source: ***field survey 2021***

Durbin-Watson statistic uses to test the assumption that our residuals are independent. This statistic can vary from 0 to 4. For no Autocorrelation assumption, the Durbin-Watson statistic value needs to be close to 2. A value of two indicates no autocorrelation. A value of towards zero indicates positive autocorrelation. A value towards four indicates negative autocorrelation (Saunders et al., 2012).

Based on table 4.15 above, the Durbin-Watson value of this study is 1.427 which is near to 2. That means, this is met the requirement and did not violate the assumption of independence of error terms. Therefore, multiple regression analysis is considered suitable for testing the research hypotheses.

4.7.4 Linearity Test

The model that relates the response Y to the predictors X1, X2, …. XN is assumed to be linear in the regression parameter (Anol, 2012). This means that standard multiple regressions can only accurately estimate the relationship between dependent and independent variables if the relationships are linear. To check the linearity, this study used residual scatterplot.

If the assumption is satisfied, the residuals should scatter around 0 or most of the scores shall concentrate in the center along 0 points. The scatterplots between the factors constructs and SMEs performance displays in the following scatter plot diagram.

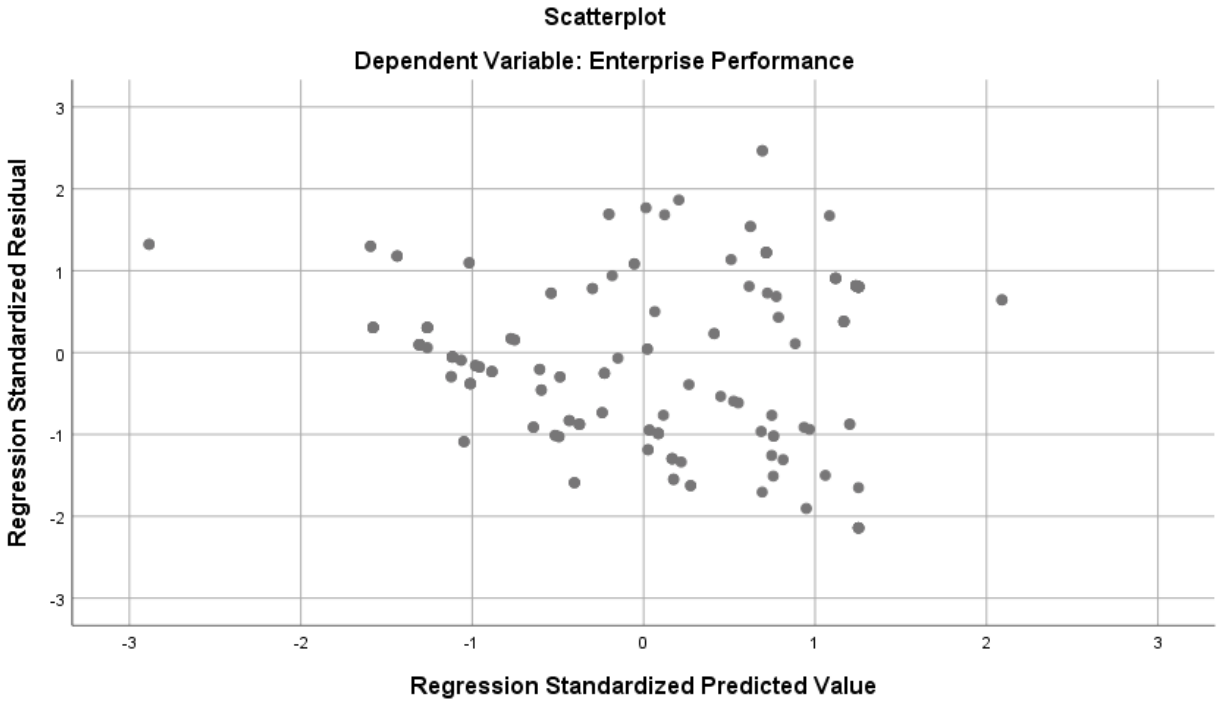

Figure 4- 4 Scatterplot Plot for MSEs Performance

Source: *field survey 2021*

The above scatter plot picture shows that the residual scores are concentrated at the center along with the zero points. Thus, suggesting the linearity assumption was not violated.

4.8 Analysis of the Effects of Factors on MSEs Performance

Multiple regression analysis was used to measure the link between two or more variables (Saunders et al., 2012). This technique implemented to explore the most sophisticated interrelationship among variables. the technique uses to identify which Factors (working place factors, infrastructural factors, marketing factors, financial factors and management factors) is the best predictor of MSEs performance and the amount of variance explained in MSEs performance by all factors practices. Generally, this method enables the researcher to make stronger causal inferences from observed interrelationships among variables and to predict a dependent variable based on values of independent variables.

Table 4- 16 Multiple Regression Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.959[a]	.920	.918	.19338

a. Predictors: (Constant), Management factors mean, Infrastructural factors mean, Working place factors mean, Marketing factors mean, Financial factors mean

Source: ***field survey 2021***

As indicated in the above table 4.16, R = .959 indicates that there is a very strong effect between the dependent variable (MSEs performance) and the independent factors. From the model summary, the adjusted R Square value is .920 which means that the independent variables (working place factors, infrastructural factors, marketing factors, financial factors and management factors) explained 92 % of the variation in the dependent variable (MSEs performance). However, there is 8 % of the variance remained unexplained in this study.

Table 4- 17 ANOVA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	82.285	5	16.457	440.096	.000[b]
	Residual	7.142	191	.037		
	Total	89.427	196			

a. Dependent Variable: Enterprise Performance

b. Predictors: (Constant), Management factors mean, Infrastructural factors mean, Working place factors mean, Marketing factors mean, Financial factors mean

Source: field survey 2021

F test is a statistical test used to examine whether the independent variable taken together have a significant effect on the dependent variable. As shown in the above table, ANOVA (F-test) was performed to test the significance of the model. From the ANOVA table 4.17, it can be observed that the model as a whole is significant (F (5, 191) = 440.096, P=.000).

Table 4- 18 Regression Coefficient

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.262	.113		2.325	.021
	Working place factors	.234	.052	.248	4.461	.000
	Infrastructural	.041	.034	.029	1.1	.23

factors				85	8
Marketing factors	.132	.044	.110	2.9	.00
				66	3
Financial factors	.450	.041	.618	10.	.00
				955	0
Management	.017	.028	.017	.60	.54
factors				5	6

Source: ***field survey 2021***

The regression model is Y = B0+B1X1+B2X2 + B3X3 + B4 X4+ ε where (Y= MSE performance, X1= Working Place Factor, X2= Infrastructural Factor, X3 = Marketing Factor, X4 = Financial Factor and X5 = Management Factor). Based on the above table 4.18, the B0=0.262, B1=0.234, B2=0.041, B3=0.132, B4=0.450 and B5=0.017.

Therefore, Y= 0.262 + 0.234X1 + 0.132X3 + 0.450X4

The B values indicate about the effect of performance predictors on MSEs performance. If the value is positive, we can understand that there is a positive relationship between the predictor and the outcome, whereas a negative coefficient represents a negative relationship.

For these data, three predictors (working place factors, marketing factors and financial factors) have positive B- values indicating positive effect on the dependent variable. Working place factor (B- 0.234, p = 0.00) indicates that when the Working place factor of an enterprise owner/manager increases by one unit, MSEs performance increases by 0.234; Infrastructural factor (B- 0.041, p > 0.05) does not have a significant effect on MSEs performance; the Marketing factor (B-0.132, p<0.05) indicates that when the Marketing factor of an enterprise owner/manager increases by one unit, MSEs performance increases by 0.132; the Financial factor (B-0.45, p= 0.05) indicates that when the Financial factor of an enterprise owner/manager increases by one unit, MSEs performance increases by 0.45 and the Management Factor (B-0.017, p>0.05) does not have a significant effect on MSEs performance.

If the p-value is less than (0.05) then the predictor is making a significant contribution to the model. Therefore, Three predictors (Working place, Financial and Marketing factors) were statistically

significant since all of them had ($p<0.05$), where as if the p-value is greater than (0.05) then the predictor is making an insignificant contribution to the model. So that, two predictors (Infrastructural and Management factors) were statically insignificantly since all of them had ($p>0.05$).

As shown in the above table 4.18, Financial factor is the predictor variable contributes the highest to the variation of MSEs performance because the Standardized Beta value for this predictor variable is the highest (0.45). This makes the strongest contribution to explain the variation in the dependent variable (MSE performance), when the variance explained by all other predictor variables in the model is controlled. Next to Financial factor, Working place factor and Marketing factor are the predictor variables with Standardized Beta value 0.234 & 0.132 respectively contribute to the variation of MSEs performance.

As shown in the above table 4.18, Infrastructural factor is the predictor variable contributes the insignificant to the variation of MSEs performance because the Standardized Beta value for this predictor variable is the lowest (0.041). This shows that Infrastructural factor has insignificant contribution to explain the variation in the dependent variable (MSE performance), next to infrastructural factor management factor is insignificant predictor variables with Standardized Beta value 0.017 to the variation of MSEs performance.

4.9 Hypothesis Testing

To test the formulated hypothesis in this research, the above multiple regression was used to determine the multiple effects of Working place factor, Infrastructural factor, Marketing factor, Financial factor and Management Factor on the performance of MSEs in Kolfe Keranio sub-city administration.

H1: Working premises factor significantly and positively affects the performance of MSEs in Kolfe Keranio sub-city.

The regression coefficient table 4.18 shows that Working premises factor can positively and significantly predict MSEs performance (Beta=0.234, p=0.000). Based on this, the alternative hypothesis one is accepted.

H2: Infrastructural factor significantly affects the performance of MSEs in Kolfe Keranio sub-city

Infrastructural factor can insignificantly predict MSEs performance (Beta=0.041, p=0.238). Therefore, the hypothesis is not accepted or rejected.

H3: Marketing factor significantly and positively affects the performance of MSEs in Kolfe Keranio sub-city.

Based on the regression coefficient table 4.18, the Marketing factor positively and significantly affects the performance of MSEs (Beta=0.132, p=0.003). Thus, the hypothesis is accepted.

H4: Financial factor significantly and positively affects the performance of MSEs Kolfe Keranio sub-city.

Based on the regression coefficient table the Financial factor positively and significantly affects the performance of MSEs (Beta=0.45, p=0.000). Thus, the hypothesis is accepted.

H5: Management factor significantly and positively affects the performance of MSEs Kolfe Keranio sub-city.

Based on the regression coefficient table the Management factor positively and insignificantly affects the performance of MSEs (Beta=0.017, p=0.546). Thus, the hypothesis is rejected.

Table 4- 19 Summary of Hypothesis Testing

Hypothesis	Hypothesis statement	Decision
H_1	Working place factor significantly affects the performance of MSEs in Kolfe Keranio sub-city	Accepted
H_2	Infrastructural factor significantly affects the performance of MSEs in Kolfe Keranio sub-city.	Rejected
H_3	Marketing factor significantly and positively affects the	Accepted

	performance of MSEs in Kolfe Keranio sub-city.	
H_4	Financial factor significantly and positively affects the performance of MSEs in Kolfe Keranio sub-city.	Accepted
H_5	Management factor significantly and positively affects the performance of MSEs in Kolfe Keranio sub-city.	Rejected

Source: field survey 2021

4.10 Discussion of Findings

In the regression summery, financial factors was found the first most statistically significance and determinant factor. Similarly, the descriptive analysis ranked as the first several factors that affecting the enterprises. These factor ranked shortage of working capital, high collateral requirement from banks and other lending institutions and lack of cash management skill respectively coined as the key challenging issues of MSEs **(**table 4.11). In contrary with this finding, Admasu Abera(2012) and Haftu Berihun et al. (2009) found that financial factors were the second most significant influential factors affecting the performance of the enterprises and prioritized descriptively as the first most affecting factors but in consistency with the items as mentioned above. Abiy Serawitu (2016) found financial factors were the fourth most statistically significance and determinant factor and the descriptive analysis ranked as the third severe factor that affecting the enterprises.

In the above regression output, working premise factors was found the second most significant and determinant factor and ranked descriptively as the second most affecting problems (Table 4.11). Under working place factor, absence of own premises, the rent of house is too high and the current working place is not convenient for the business respectively were found the second influential factor of the MSEs performance. In contrary with the findings, Haftu Berihun et al. (2009) and Admasu Abera(2012) found that working premise factors were the first most significant influential factors affecting the performance of the enterprises and ranked descriptively as the second most affecting problems but in consistency with the items as mentioned above. Abiy Serawitu (2016) found working premise factors was the second most significant and determinant factor and ranked descriptively as the second most affecting problems and it is consistency with this study.

According to the finding of this research marketing factors were the third significantly affect the performance of MSEs. In contrary with this finding, Haftu Berihun et al. (2009) and Admasu Abera(2012) found that marketing factors were the third significance Influential factors affecting the performance of the enterprises and Abiy Serawitu (2016) found marketing factors were identified as the leading positive significant influential factors of MSEs. The Pearson correlation in this research also shows that marketing factors such as poor pricing, poor location, absence of promotion, and lack of efficient distribution channel affect significantly the performance of MSEs. The findings are also consistent with earlier studies conducted by Rahel & Paul (2010), Asegedech (2004), and Eshetu & Mammo (2009) who found that various marketing factors affect the micro and small business performance.

Infrastructure factors were found as insignificantly affects the performance of MSEs. In descriptive analysis it was ranked as the fourth least problems that affecting MSEs .Under this factor, power interruption, insufficient and interrupted water supply and lack of appropriate dry waste and sewerage system respectively were found the poorest factors that affect the performance of MSEs, (Table 4.11). Admasu Abera(2012) found that infrastructure factors were the fourth most significant influential factors affecting the performance of the enterprises and Abiy Serawitu (2016) found as infrastructure factors moderately significant effect on performance of MSEs and In descriptive analysis it was ranked as the six least problems that affecting MSEs. According to this research infrastructural and management factors insignificantly affect the performance of MSEs. This finding is consistent with the finding of Rahel & Paul (2010) in which access to infrastructure and management factor are not reported as significantly affects the performance of micro and small enterprise. But, this finding contradicts with the finding of Fatoki Olawale and David Garwe (2010).

The finding result exhibited that management factor contributed insignificant influence on the performance of MSEs. Based on results of central tendency, it was ranked as the fifth least problem that affecting MSEs. Admasu Abera(2012) and Abiy Serawitu (2016) founds the management factor as the poorest predictor of performance and the fifth ranked problems of the enterprises from eight independent variables. In contrary to the study, the Theory of the Growth of the Firm, Edith Penrose (1959) advocate that managerial resource is critical influential factor for business growth. Similarly, According to

Peterson et al. (1983), two third small business failures are caused by internal factors (including management factor).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study was conducted to investigate determinant factors affecting the performance of MSE's in Kolfe Keranio sub-city, Addis Ababa. The main sources of finance for startup and expansion of most MSEs in Kolfe keranio Sub City was from Informal sources, which comprised of Personal savings comprised of 52.28%, the second major sources of finance was Family comprised of 41.12% and Iquib/Idir comprised of 4.57%. The formal financial institutions were only 2.03%, this was mainly because the formal institutions have difficult application procedures, collateral requirement and high interest rate. Therefore there observed poor institutional frame work that lead to a big gap in the accessibility to finance. According to the ILO (2000) report, institutional frameworks determine effectiveness and efficiency of key business infrastructures such as, microfinance institutions, Poor institutions in general, lead to higher transaction costs.

Financial, Working premises and marketing factors have shown strong positive relationship as stated in the hypothesis ($r = .946$, $p < .01$, $r = .913$, $p< .01$, $r = .813$, $p < .01$ respectively). This implies that improved situation in the independent variables will have a positive effect on performance. The Multiple Regression analysis result also showed that the Beta weight largest influence on the performance of MSEs is from the Financial factor (0.450), the Working premises factor (0.234) and at the third place from Marketing factors (.132), this is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant). Since the majority of operators of Micro enterprises are very poor, have no capital, no education and skill, have no permanent resident because they don't have their Owen houses, the above factors are immediate and direct for startup of business. Although previous research showed that, financial, working premises and marketing factor were the main cause of failure (Peterson et al., 1983:15-19). The descriptive analysis findings indicate that financial, working premises and marketing factors respectively were found the three top most prevailing influential significant factors on the performance of MSEs.

On the other hand infrastructure factors with the beta value of 0.041 and management factors with the beta value of 0.017 is the poorest predictor of performance when it is compared with the other explanatory variables under study. It can be understood from the infrastructure factors analysis MSEs Operators were worked on environment with better power and water supply and had appropriate dry waste and sewerage system respectively, as a result the study currently found that those factors poorly affect the performance of MSEs. Understanding from Management factors and the study found that noble selection of associates in business, better strategic business planning, inexpensive and accessible training facilities and honorable initiative to assess ones strengths and weakness.

5.2 Conclusion

The study investigated determinant factors (working place, infrastructural, marketing, financial and management factors) affecting the performance of MSEs in Kolfe Keranio sub-city.

The finding showed that financial factors have a significant effect on the performance of MSEs in Kolfe Keranio sub-city. The most important contextual factors identified are financial factors which include high collateral requirement from banks and other lending institutions, shortage of working capital, high interest rate charged by banks and other lending institutions, and too complicated loan application procedures of banks and other lending institutions.

Working place factors has also a significant effect on the performance of MSEs in Kolfe Keranio sub-city. The workings premises factors include absence of own premises and the rent of house is too high.

Marketing factors have also a significant effect on the performance of MSEs in Kolfe Keranio sub-city. Marketing factors include inadequacy of market, difficulty of searching new market, lack of demand forecasting, lack of market information and absence of relationship with an organization/association that conduct marketing research.

Finally, the study has further identified that the different influences in which each of the factors under study have in different categories of the business. The research clearly illustrates that, even if the degree of those critical factors in food processing sector slightly differ from the factors that are critical to textile

and garment, and wood and metal work sectors, most of the factors are considerably common for three sectors. It has been noted that the contextual factors are prevalent to the businesses such as financial, workings premises, and marketing had very high effects on the performance of MSEs compared to other factors in the research area.

5.3 Recommendation

Based on the findings of this study, the researcher found it important to make some recommendations to guide the enterprises, other concerned bodies and researches.

- Financial factors have a significant effect on the performance of MSEs in Kolfe Keranio sub-city. Therefore, MSEs owners/leaders and stockholders should be needed to resolve high collateral requirement from lending Institutions, high interest rate by lending institutions, inadequate payback period, lack of better record keeping and financial control Mechanism and complicated Loan application procedures.

- Working place factors has also a significant effect on the performance of MSEs in Kolfe Keranio sub-city. Therefore, it is advised that MSEs owners/leaders and stockholders resolve Absence of own Premises, incommodious working place, maximum house rent and lack of appropriate location where they can get easy access to markets.
- Marketing factors have also a significant effect on the performance of MSEs in Kolfe Keranio sub-city. Therefore, it is advised that MSEs owners/leaders and stockholders resolve lack of product diversity, Inability to compete with large companies' lack of product diversity, Lack of Promotion to attract potential Users, Challenges of competitive product quality, and Challenges of competitive price setting and Poor customer relationship and handling.
- The stiff competition among MSEs and other medium and big enterprises better to also minimize by diversifying the products of the enterprises.
- Furthermore, advises government to offer favorable business environment in corporation with the society and other potential organizations.
- It is advised that MSEDO undertake detailed study on the appropriateness of the working place to be given to each type of the enterprises.
- It is better the government develop comfortable source of finance for MSEs by organizing and supporting the performance of MFIs and other source of finance.

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Appendix – A

ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES MBA PROGRAMME
QUESTIONNAIRE FOR MSE OPERATORS

SECTION 1: INTRODUCTION

This is to conduct a research entitled **'Factors Affecting the Performance of Micro and Small Enterprises in Kolfe Keranio Sub-Cities of Addis Ababa'**. So you are one of the respondents selected to participate in this study. The information you are providing will play a great roll of importance in producing UPDATED, PRACTICAL AND RELIABLE output for readers of this study.

The information you give will be confidential and only used for the academic purpose.

Thank you in advance for your kind cooperation.

Instructions

- ✓ No need of writing your name
- ✓ For multiple choice questions indicate your answers with a check mark (√) in the appropriate block.

SECTION 2: GENERAL INFORMATION ON BUSINESS ENTERPRISES

1. Gender: 1. Male 2. Female

2. Age of the respondent 1) 18-30 years 3) 40- 49 years

2) 31-39 years 4) 50 years and above

3. What is the highest level of education you have completed?

1) No
2) 1^{st} -8^{th} grade
3) 9th-12^{th} grade
4) TVET level 1-4
5) degree and above

4. What is the Category of the Enterprise?

A) Textile and garment ☐ B) Food processing ☐ C) Wood and metal work ☐

5. How did you raise funds to start-up your business?

A) Personal saving ☐ D) NGOs ☐ G) Micro finance institutions ☐

B) Family ☐ E) Friends/Relatives ☐ H) Others (specify)----------

C) Banks ☐ F) Iqub/Idir ☐

6. What is the age of your enterprise? ----------

7. How many employees do you have? ----------

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

Please indicate the degree to which the following factors are affecting the performance of your business enterprise. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (√) under the choices below. Where, **1**= strongly disagree, **2** = disagree, **3** = Neutral, **4** = agree and **5** = strongly agree.

1. Please indicate the level of degree to which you agree or disagree with the following statements concerning factors.

S. No	**i. Working place factors(WPF)**	**Rating scale**				
		5	**4**	**3**	**2**	**1**
1	Absence of own Premises(WPF1)					
2	Current working place is not commodious(WPF2)					
3	House rent is too high for my business(WPF3)					
4	lack of appropriate location where they can get easy access to markets(WPF4)					

	ii. Infrastructural Factors:(IF)	**5**	**4**	**3**	**2**	**1**
1	Insufficient and interrupted electric supply(IF1)					
2	Insufficient and interrupted water supply(IF2)					
3	Lack of business development services(IF3)					
4	Lack of accessibility of transportation(IF4)					
5	Lack of appropriate dry waste and sewerage system(IF5)					
	iii. Marketing Factors(MF)	**5**	**4**	**3**	**2**	**1**
1	lack of product diversity(MF1)					
2	Inability to compete with large companies(MF2)					
3	Lack of Promotion to attract potential Users(MF3)					
4	Challenges of competitive product quality(MF4)					
5	Challenges of competitive price setting(MF5)					
6	Poor customer relationship and handling(MF6)					
	iv. Financial Factors:(FF)	**5**	**4**	**3**	**2**	**1**
1	High collateral requirement from lending Institutions(FF1)					
2	High interest rate by lending institutions(FF2)					
3	Inadequate payback period(FF3)					
4	Lack of better record keeping and financial control Mechanism(FF4)					
5	Loan application procedures are complicated(FF5)					
	v. Management Factors(MF)	**5**	**4**	**3**	**2**	**1**
1	Lack of tolerance among members groups(MAF1)					
2	Poor organization and ineffective Communication(MAF2)					
3	Lack of low cost and accessible training facilities(MAF3)					
4	Lack of strategic business planning(MAF4)					
5	Lack of well trained and experienced employees in the Enterprise(MAF5)					
6	Lack of financial ,human and material					

	Management(MAF6)					
	vi. Enterprise performance(EP)	**5**	**4**	**3**	**2**	**1**
1	The enterprise's customers are unhappy with the products we offer.					
2	The number of customers used products in the enterprise decrease over the last few years.					
3	Cash flow reduced over the last few years					
4	The number of new customers acquired reduced over the last few years.					
5	The number of loyal customers reduced over the last few years					

2. Please indicate the **level of degree** to which you agree with access the following factors that have a direct influence on the performance of your business?

S. No.	**vii. General Factors(GF)**	5	4	3	2	1
1	Working space factors(GF1)					
2	Infrastructural factors(GF2)					
3	Marketing factors(GF3)					
4	Financial factors(GF4)					
5	Managerial factors(GF5)					

Appendix – B

ቅድስተማሪያም ዩኒቨርሲቲ ኮሌጅ

የቢዝነስና አስተዳደር ት/ክፍል

የቢዝነስ አስተዳደር ድህረ ምረቃ ት/ቤት

ክፍል አንድ፡-

<u>መግቢያ</u>

<u>ውድ የጥናቱ ተሳታፊዎች፡-</u>

እኔ በቅድስተማሪያም ዩኒቨርስቲ ኮሌጅ የቢዝነስ አስተዳደር ትምህርት ክፍል የቢዝነስ የድህረ ምረቃ ተመራቂ ተማሪ ስሆን፤ በአሁን ሰዓት የመመረቂያ ፅሁፌን በማዘጋጀት ላይ እገኛለሁ፡፡ የጥናቴ ርዕስም "በኮልፌ ክፍለ ከተማ የሚገኙ የጥቃቅንና አነስተኛ የአምራች ተቋማት አፈፃፀም ላይ ተፅእኖ የሚያሳድሩ ተግዳሮቶችን" ይመለከታል፡፡ እርስዎም በዚህ ጥናት እንዲሳተፉ ተመርጠዋል፡፡ እርስዎ የሚሰጡት ትክክለኛ መረጃ ለጥናቱ ውጤታማነት በጣም አስፈላጊ መሆኑን በመገንዘብ መጠይቁን በጥንቃቄ እንዲሞሉ እጠይቃለሁ፡፡ ተሳትፎዎ በእርስዎ በጎ ፈቃደኝነት ላይ የተመሰረተ ነው፡፡ በመጨረሻም የሚሰጡት መረጃ ሚስጥራዊነቱ የተጠበቀና ለዚህ ጥናት ዓላማ ብቻ እንደሚውል አረጋግጣለሁ፡፡ የማንኛውም መልስ ሰጪ ማንነት በማንኛውም መልኩ የማይታተምና የማይሰራጭ ይሆናል፡፡ ሁሉም መረጃዎች ለትምህርታዊ ዓላማ ብቻ ይውላሉ፡፡ ጊዜዎን ሰውተው ስለሚያደርጉልኝ ትብብር በቅድሚያ አመሰግናለሁ፡፡

ሰይድ በረካ

ማሳሰቢያ

- በመጠይቁ ላይ ስም መፃፍ አያስፈልግም፡፡
- መልስዎትን በሳጥኑ ውስጥ የእርማት ምልክት (√) ያስቀምጡ ።

ክፍል ሁለት፡ ስለቢዝነስ ተቋማት አጠቃላይ መረጃ

መመሪያ: በተሰጠው ክፍት ቦታ ላይ ተገቢውን መልስ ይስጡ ወይም ምርጫዎት የሆነዉን ቁጠር ያክብቡ ።

I. ፆታ:- 1. ወንድ ☐ 2. ሴት ☐

II. ዕድሜ 1) ከ18-30 ዓመት ☐ 2) ከ31-39 ዓመት ☐ 3) 40- 49 ዓመት ☐ 4) 50 ዓመት እና በላይ

III. የትምህርት ደረጃ 1) አልተማርኩም ☐

2) ከ1 ኛ -8 ኛ ክፍል ☐

3) ከ9 ኛ -12 ኛ ክፍል ☐

4) ቴክኒክና ሙያ ከደረጃ 1 -4 ☐

5) ድግሪና ከዚያ በላይ ☐

IV. ድርጅትዎ የተሰማራበት የስራ ዘርፍ ምንድን ነው?

ሀ. ጨርቃ ጨርቅና አልባሳት ☐ ለ. የምግብ ተዋጽኦ ማቀነባበሪያ ☐ ሐ. እንጨትና ብረታ ብረት

V. በዘርፉ ለመንቀሳቀስ መነሻ ብር ከየት አገኙ?

ሀ. ከግል ቁጠባ ☐ መ. መንግስታዊ ካልሆኑ ድርጅቶች ☐ ሰ. ከማይክሮ ፋይናንስ ☐

ለ. ከቤተሰብ ☐ ሠ. ከጓደኛ ☐ ሸ. ሌላ ካለ ይግለፁ ------

ሐ. ከባንክ ☐ ረ. ከዕቁብ/እድር ☐

VI. ድርጅትዎ ከተቋቋመ ስንት አመቱ ነው? ----------

VII. ምን ያህል ሰራተኞች በድርጅትዎ አሉ? ----------

ክፍል ሶስት፡ <u>በጥቃቅንና አነስተኛ ተቋማት የስራ እንቅስቃሴ ላይ ተፅእኖ የሚያሳድሩ ጉዳዮች</u>

ከዚህ በታች ለጥቃቅንና አነስተኛ ተቋማት የአፈፃፀም ችግር ሊሆኑ የሚችሉ ነገሮች ተዘርዝረዋል። ከተዘረዘሩት ችግሮች የእርስዎን የስራ ዘርፍ ላይ ይበልጥ ተፅእኖ የሚያሳድሩትን በደረጃ ያመላክቱ።

1. ለእያንዳንዱ ጥያቄ ከአማራጮቹ አንድ ጊዜ ብቻ የ(√) ምልክት በማድረግ ምላሽ ይስጡ።

5 = በጣም እስማማለሁ 3 = ለመወሰን እቸገራለሁ 1 = በጣም አልስማማም

4 = እስማማለሁ 2 = አልስማማም

ተ.ቁ	**የስራ ቦታና ተዛማጅ ችግሮች**	**መለኪያ**				
		5	**4**	**3**	**2**	**1**
1	ስራዬን የማካሄድበት የግል ቦታ አለመኖር።					
2	አሁን ያለሁበት የስራ ቦታ ስፋት ለስራ አመቺ አለመሆን።					
3	ከፍተኛ የሆነ የቤት ኪራይ መጠን።					
4	ገበያ በቀላሉ ለማግኛት ሚያስችሉ የስራ ቦታዎችን የማግኘት ውስንነት።					
	ከመሰረተ ልማት ጋር የተያያዙ ችግሮች	**5**	**4**	**3**	**2**	**1**
1	የተቆራረጠና በቂ ያልሆነ የኤሌክትሪክ ሀይል አቅርቦት ።					
2	የተቆራረጠና በቂ ያልሆነ የውሃ አቅርቦት።					
3	በቂ የሆነ የንግድ ልማት አገልግሎት አለመኖር።					
4	በቂ እና ፈጣን የሆነ የትራንስፖርት አገልግሎት አለመኖር።					
5	በቂ የደረቅና ፍሳሽ ቆሻሻ ማስወገጃ ስርዓት አለመኖር።					

	ግብይትና ተዛማጅ ችግሮች	**5**	**4**	**3**	**2**	**1**
1	በብዛት የምናመርተው ምርት ገበያ ላይ ካለው ምርት ጋር አንድ አይነት መሆኑና ምርቱ ላይ እሴት ያላመጨመር ውስንነት ።					
2	በገበያው ላይ ከትልልቅ ድርጅቶች ጋር መወዳደር አለመቻል።					
3	ምርቶችን በአግባቡ አለማስተዋወቅ።					
4	ጥራት ያለው ምርት ይዞ መቅረብ አለመቻል።					
5	ከተፎካካሪዎች ጋር በዋጋ መወዳደር አለመቻል።					
6	ደካማ የሆነ የደንበኛ ግንኙነትና አያያዝ።					
	ከገንዘብ ጋር የተያያዙ ችግሮች	**5**	**4**	**3**	**2**	**1**
1	ባንኮችና ሌሎች አበዳሪ ተቋማት ለማበደር የሚጠይቁት ከፍተኛ የማስያዣ መጠን መኖር።					
2	ባንኮችና ሌሎች አበዳሪ ተቋማት የሚጥሉት ከፍተኛ የብድር ወለድ መጠን መሆን።					
3	አጭር የብድር መመለሻ ጊዜ።					
4	የብር አያያዝ እና ቁጥጥር ክህሎት ችግር።					
5	ባንኮችና ሌሎች አበዳሪ ተቋማት ለማበደር የሚከተሉት ውስብስብና አሰልቺ ሂደት።					
	የስራ አመራር ክህሎት ጋር የተያያዙ ችግሮች	**5**	**4**	**3**	**2**	**1**
1	በአባላትና በሰራተኞች መካከል ግልፅ የሆነ የስራና ሀላፊነት ክፍፍል አለመኖር እና አለመስማማት።					
2	ደካማ አደረጃጀትና ውጤታማ ያልሆነ የግንኙነት አሰራር።					
3	በዋጋቸው ተመጣጣኝና ተደራሽ የሆኑ የስልጠና እጥረት።					

4	የቢዝነስ እቅድ አለመኖር፡፡					
5	የሰለጠኑ እና ልምድ ያላቸው ሰራተኞች አለመኖር፡፡					
6	የገንዘብ ፣ የሰው ሃይል እና የግብአት ቁጥጥር ክዕሎት ማነስ፡፡					
	የኢንተርፕራይዝ አፈፃፀም	**5**	**4**	**3**	**2**	**1**
1	ደንበኞቻችን የኢንተርፕራይዙ ምርት ላይ ደስተኞች አይደሉም ፡፡					
2	ከጊዜ ወደ ጊዜ የኛን ምርት የሚጠቀሙ ደንበኞች ቁጥር እየቀነሰ መጥቶዋል ፡፡					
3	የኢንተርፕራይዙ የገንዘብ ፍሰት ከጊዜ ወደ ጊዜ እየቀነሰ መጥቶዎል፡፡					
4	ከጊዜ ወደ ጊዜ የኛን ምርት ለመግዛት የሚመጡ የአዳዲስ ደንበኞች ቁጥር እየቀነሰ ነው፡፡፡					
5	ባለፉት ጥቂት አመታት ውስጥ የቋሚ ደንበኞቻችን ቁጥር እየቀነሰ መጥቶዋል፡፡					

2. እባክዎትን ከዚህ በታች ከተዘረዘሩት አጠቃላይ ነጥቦች ውስጥ በስራዎ ውጤታማነት ላይ በደረጃ የትኛው ይበልጥ ተጽእኖ የሚሳድርቦትን ያመላክቱ፡፡

ተ.ቁ	**እባክዎትን ከዚህ በታች ከተዘረዘሩት አጠቃላይ ነጥቦች ውስጥ በስራዎ ውጤታማነት ላይ በደረጃ የትኛው ይበልጥ ተጽእኖ የሚሳድርቦትን ያመላክቱ፡፡**	**5**	**4**	**3**	**2**	**1**
1	የስራ ቦታ እና መሰል ጉዳዮች፡፡					
2	የመሰረተ ልማት አቅርቦት፡፡					
3	ገበያ እና መሰል ጉዳዮች፡፡					
4	ፋይናንስና ብድር ጉዳዮች፡፡					
5	የአመራር ክህሎት እና መሰል ጉዳዮች፡፡					

Appendix – C

Cronbach's alpha	**Internal consistency**
$\alpha \geq 0.9$	Excellent
$0.8 \leq \alpha \leq 0.9$	Good
$0.7 \leq \alpha < 0.8$	Acceptable
$0.6 \leq \alpha < 7$	Questionable
$0.5 \leq \alpha < 0.6$	Poor
$\alpha < 0.5$	Unacceptable
Reliability Statistics	
Cronbach's alpha	**N of Items**
0.883	48