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## **SCHOOL OF GRADUATE STUDIES**

### **FACTORS INFLUENCING THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES (MSEs) IN ADDIS ABABA: THE CASE OF NIFAS SILK LAFTO SUB-CITY**

**A Thesis Submitted to the Department of General MBA,  
St. Mary's University School of Graduate Studies in Partial Fulfillment of the  
Requirements for the Degree of Master of Business Administration (MBA)**

**By**

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**ADDIS ABABA, ETHIOPIA**

## **Declaration**

I declare that this thesis work entitled “**An Assessment of Major factors Influencing the Performance of Micro and Small Enterprises (MSEs) in Addis Ababa: the case of Nifas Silk Lafto Sub-Cities**” is my original work, has not been presented earlier for award of any degree or diploma to any other university and that all sources of materials used for the thesis have been duly acknowledged. I have produced it independently except for the guidance and suggestion of my research advisors.

Declared by: Name Endalkachew Seifemichael

Sign \_\_\_\_\_

Date \_\_\_\_\_

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

TITLE: “Influencing the Performance of Micro and Small Enterprise (MSEs) In  
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## **Letter of Certification**

This is to certify that Endalkachew Seifemichael has carried out his research work on the topic of **“Factors Influencing the Performance of Micro and Small Enterprises (MSEs) in Addis Ababa: the case of Nifas Silk Lafto Sub-Cities”** under my supervision. This work is original in its nature and it is suitable for Submission in partial fulfillment of the requirement for the award of Master’s Degree in Business Administration (MBA).

---

**Dr. Berihun Muche**

(Advisor)

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## **ABSTRACT**

*The objective of the study was to assess the major factors influencing the performance of MSEs in Nifas Silk Lafto sub-cities in Addis Ababa. The study was confined only Nifas Silk Lafto sub-cities which includes five different sectors such as manufacturing, construction, trade, service and urban agriculture. It was employed through descriptive research design and explanatory research design in which stratified random sampling method was used to collect data from MSEs owners (operators). Moreover, out of the total population of 696; only 248 samples were selected and distributed questionnaire, and interview were conducted from MSEs four owners (operators) and two managers of MSEs in the sub-cities. Moreover, the quantitative data was analyzed using statistical tools like descriptive statistics (mean, standard deviation, frequency and percentage) and inferential statistics (Pearson correlation, multiple linear regression by SPSS software version 20.0 & qualitative data be analyzed & Interpreted qualitatively. The findings of the study indicate that the major factors influencing the performance of MSEs in Nifas Silk Lafto sub-cities are: lack of finance, lack of working place, lack of infrastructure facilities, inaccessibility of market, technology and management problems. Finally, the study also attempted to forward possible recommendations such as the government and other stakeholders should expand financial institutions and accessibility of credit, construction of sheds and common facility centers at suitable locations, improving infrastructure facilities, enterprises should develop sufficient marketing skills and diversified their product as well as creating market opportunities, adapting production technologies that involve adequate knowledge and skill ; and the owners (operators) of MSEs should enhance their management knowledge and skills through proper training and experience sharing with other MSEs.*

**Key words:** *performance, factors, influence, micro and small enterprises*

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## **List of Abbreviations/Acronyms**

ANOVA:	Analysis of Variance
CSA:	Central Statistics Authority
DFID:	Department for International Development
DTI:	Department of Trade and Industry.
E.C:	Ethiopian Calendar
EU:	European Union
FDRE:	Federal Democracy Republic of Ethiopia
FeMSEDA:	Federal Micro and Small Enterprise Development Agency
ILO:	International Labor Organization
MFI:	Micro Finance Institution
MoFED:	Ministry of Finance and Economic Development
MoTI:	Ministry of Trade and Industry
MSE:	Micro and Small Enterprises
NGO:	Non-Governmental Organization
OECD:	Organization for Economic Co-operation and Development
SED:	Small Enterprise Development
SPSS:	Statistical Package for Social Science
TVET:	Technical and Vocational Education and Training
UNIDO:	United Nations Industrial Development Organizatio

# CHAPTER ONE

## 1.1 BACKGROUND OF THE STUDY

Micro and small-scale enterprises have been accepted worldwide as instrument of economic growth and development. Micro and Small enterprises have been considered as the engine of economic growth and for promoting equitable development. Over the last decade, the potential of micro and small enterprises to contribute to social and economic development in developing countries has captured the attention of national governments and international development organizations alike. Support for the economic activities of the poor majority is also seen as an effective avenue for improving the skewed distribution of income prevalent in most developing countries. From an economic perspective, small and micro-enterprises represent a growing source of productive employment, especially for the lowest income groups, because these firms are more Labor intensive than large industry, and require fewer technical skills. Strategies to create productive jobs are of increasing Importance in developing countries. Employment and under employment issues are quickly moving to the forefront of economic policy and resource allocation considerations, and yet promising strategies for productive employment creation remain scarce. Recent findings indicate that, in the aggregate, micro and small enterprises make important contributions to economic growth at low capital costs (Robert et al, 1985).

In most fast-developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology. In all the successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress at large (MoTI,1997).

Recently, a number of sub-Saharan Africa countries adopted poverty reduction strategies that mainly emphasize promotion of MSEs as a major way to reduce poverty particularly among the urban dwellers. Consequently, governments and the donor community increase their involvement with MSEs assistance programs that include; improving availability of credit, vocational training programs and short trainings to entrepreneurs and their workers, and facilitating markets services among others. The Ethiopian government recognizes the significance of this sector and shows its dedication to promote the MSEs development by the Issuance of National Micro and Small

Enterprises Strategy in 1997 and the Establishment of the Federal Micro and Small Enterprises Development Agency. Ethiopia's industrial development strategy issued in 2003 also singled out the promotion of MSEs development as one of the important instruments to create productive and dynamic private sector. The promotion of this sector is justified on the grounds that enhancing growth with equity, creating long-term jobs, providing the basis for medium and large enterprise and promoting exports etc. The strategy puts a means to support the MSEs such as, infrastructure, financial facilities, supply of raw materials, and training (Gebrehiwot Ageba et al,2004).

The Government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National MSEs Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (MoFED,2010). In Ethiopia, MSEs are confronted with various problems, which are of structural, institutional and economic in nature. Lack of capital, working premises, marketing problems, shortage of supply of raw materials and lack of qualified human resources are the most pressing problems facing MSEs. Although the economic policy of Ethiopia has attached due emphasis to entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, imbalance Preferential treatment and many others, which therefore need proper attention and Improvement (MoTI. 1997).

Moreover, the Addis Ababa Micro and Small Enterprises Development Agency had taken several measures to support the MSEs sectors. The agency extends its structure down to Woreda level to reach the vast majority of the people. It also makes a network forum with major stakeholders like Chambers of Commerce, the micro financial institutions, municipalities and other government organizations. But the problems that face the development of micro and small enterprises are Shortage of finance, raw materials supply, skilled man power, lack of working place, marketing, credit access, business advisory and counseling services, inappropriate information and technology, poor networking, limited training and counseling services, less access to infrastructural services, Problems of awareness, problems related on taxation and licensing (DTI, 2004).

Overall, MSEs have numerous roles to the national economy in general and to the sub-cities in particular, but still their performances are influenced by different factors. Therefore, these factors should have been identified and appropriate solution should have been given. Hence, in this study

the researcher assessed the major factors influencing the performance of MSE in the case of Nifas Silk Lafto sub-cities of Addis Ababa.

## **1.2 Statement of the Problem**

Micro and Small-scale Enterprises (MSEs) are life blood of most economies. The main argument for favoring MSEs in developing countries is that they are increasingly playing a strategic role in economic growth and development through their contribution to the creation of wealth, employment, and income generation. In more developed economies, the dynamic arguments for the existence of MSEs have been stressed in terms of their being more innovative and constituting a seedbed for the development of new firms (United Nation, 2001) Small and micro- enterprise promotion translates in to support activity for the economic activity of the poor, and in turn, enhancement of their capacity to earn incomes. Development of small and micro- enterprises offers one possibility for creating productive jobs and increase income for the poor a nonpublic sector strategy (Robert et al, 1985).

Micro and small enterprise in Ethiopia is, however, confronted with several factors that hindered the development & success of MSE. The major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and shortage of work place, etc. Besides, environmental factor affects the business which includes social, economic, legal, political, cultural and technological factors. In addition, there are also personal attitudes or internal factors that affect the performance of MSEs, which are related to the person's individual attitude, technical know-how and training (Werotaw Bezabih, 2010).

Furthermore, according to the Survey on Micro and Small Enterprises (MSEs) in Selected Major Cities of Ethiopia studied by EFDRE (2013) indicates that, there are many challenges MSEs face in their operations that hinder their growth in whatever terms we measure; be it in terms of capital, technology or employment. Some of these challenges are internal while others are external to the enterprise. The data collected from the enterprises from the regional towns reveals that most of the MSEs complain about lack of finance to expand their business followed by the lack of working premise; while the third constraining factor is identified to be lack of access to market or absence of linkage to market. This shows that there needs to be a concerted effort from both the government and other public & private side to reduce these barriers that actually stifled the growth of the enterprises, of which the main is finance. This goes in line with the supposition that regions do have better access to land than those in the city of Addis Ababa. On the other hand, the major factor which constrained the growth of MSEs in Addis Ababa is found to be lack of access to land.

The data respondents provided indicate that access to land has been one of the most crucial bottlenecks against the growth of firms. The next most important challenge raised as a constraining factor is access to finance, and, still in this city, the third strong factor inhibiting the growth of these enterprises is access to market. This overlapping view of enterprises in many of the sampled towns indicates that a concerted effort should be exerted from all the concerned bodies to create a vibrant, growing and shock resilient sector depending on further studies that specifically identifies many of these location specific problems along with their remedies. Other MSEs in cities like Hawassa, Bahirdar, Dessie, Jimma, Shashamane, Dire Dawa, Bishoftu, Adama and Jijiga have strongly rated access to finance as their main factor working against their growth. Like the city of Addis Ababa, these towns too gave the second place to the access to working premise. However, in Addis Ababa the MSEs faced a severe problem from the lack of access to market in the first place. The second place is occupied by both access to land and finance (ibid, 2013).

So, with the presence of the above problems, it is very difficult for the sector to achieve their primary goal of reducing poverty and unemployment. Micro and small enterprises in Addis Ababa City are also one of the enterprises supposed to face the problems mentioned above. In addition, to this, the researcher carried out pilot study at Nifas Silk Lafto sub cities to have preliminary information to study the situation further. As results from the pilot study shows that there are many MSEs owners (operators) who become out of the business. Besides, those who are currently working MSEs owners (operators) and included in the pilot study are also not satisfied with the situation that currently exist. They said that they have challenges concerning access of market, working place, access of infrastructure, access of finance, availability of technology and managerial problems. Thus, this calls for studying the issue in details. To address these issues, the study in Addis Ababa's Nifas Silk Lafto sub-cities identified the root causes of the sources of finance for the start-up of MSEs internal factors that affect the performance of MSEs and the external factors affecting the performance of MSEs and evaluated the main issues of performance gaps in the same sectors and addressed Addis Ababa's Nifas Silk Lafto sub-cities practical solutions. It is intended to help MSEs achieve their goals.

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

#### **1.3.1 General Objective**

The main objective of this study is to assess the major factors influencing the Performance of MSEs in Nifas Silk Lafto sub-cities of Addis Ababa.

### **1.3.2 Specific Objectives**

The specific objectives of this study are:

- 1) To investigate the sources of finance for the start-up of MSEs.
- 2) To assess the internal factors that affects the performance of MSEs.
- 3) To identify the external factors that hindered the performance of MSEs.
- 4) To identify the factor that highly affects the performance of MSEs.
- 5) To examine the difference of performance among sectors.

### **1.4 Research Questionnaire**

The study tries to answer the following questions:

- 1) What are the sources of finance for the start-up of MSEs?
- 2) What are the internal factors that affect the performance of MSEs?
- 3) What are the external factors that hindered the performance of MSEs?
- 4) Which factor does highly affect the performance of MSEs?
- 5) which Is there any difference in performance among sectors?

### **1.5 Research Hypothesis**

In order to address the main objective of the research, this study has the following hypotheses:

- Ho<sub>1</sub>: There is significant relationship between access of market and performance of MSEs.  
Ha<sub>1</sub>: There is no significant relationship between access of market and performance of MSEs.  
Ho<sub>2</sub>: There is significant relationship between working place and performance of MSEs.  
Ha<sub>2</sub>: There is no significant relationship between working place and performance of MSEs.  
Ho<sub>3</sub>: There is significant relationship between infrastructural facility and performance of MSEs.  
Ha<sub>3</sub>: There is no significant relationship between infrastructural facility and performance of MSEs.  
Ho<sub>4</sub>: There is significant relationship between availability of finance and performance of MSEs.  
Ha<sub>4</sub>: There is no significant relationship between availability of finance and performance of MSEs.  
Ho<sub>5</sub>: There is significant relationship between availability of technology and performance of MSEs.  
Ha<sub>5</sub>: There is no significant relationship between availability of technology and performance of MSEs.  
Ho<sub>6</sub>: There is significant relationship between management constraint and performance of MSEs.  
Ha<sub>6</sub>: There is no significant relationship between management constraint and performance of MSEs.  
Ho<sub>7</sub>: There is significant difference in performance among sectors.  
Ha<sub>7</sub>: There is no significant difference in performance among sectors.

## **1.6 Significance of Study**

This study has a number of significances. Principally, it contributed to the efforts being made towards improving the involvements of MSEs in the country's economy in the form of poverty reduction, job opportunity and source of income. Thus, the research expected to provide some insights for more informed interventions as feasibly designed in the sectors development strategies. Accordingly, the following points were the beliefs of the researcher of this thesis that the findings have the following contributions:

It forwards possible solutions to the stakeholders to design targeted policies and programs that actively stimulate innovation as well as helping those policy makers to support, encourage and promote MSEs for unemployment and poverty alleviation through minimizing the influencing factors that affect the performance of MSEs.

The result of this study is vital to MSEs owners (operators) to aware the issues & to make MSEs sustainable as well as improve their performance. It provides information about the nature & extent of MSEs performance and status for those who are interested to make further studies on the issues.

## **1.7 Scope of the Study**

The study was delimited to investigate the factors that influencing the performance of Micro and Small-Scale Industries in Addis Ababa city particularly in Nifas Silk Lafto Sub-city. This study is delimited to the politico-legal, financial, working place, infrastructural, technological, marketing, management and entrepreneurial factors. Besides, the scope of this study was spread across micro and small-scale industries especially in the business sector of Manufactural industry wood work and metal work located in Nifas Silk Lafto sub-city. In this study mainly questionnaires used to collect data from selected micro and small-scale industries interview and for the purpose of selecting target respondents from the total population; the researcher used stratified random sampling method.

## **1.8 Limitation of the Study**

Even though different efforts have been made, the researcher faced some challenges while doing this study. Respondents were given incomplete answers to the distributed questionnaires particularly for open ended questions and there was a probability of rejecting the incomplete responses. Besides, respondents have been in a tight work, some were not as such willing to fill the questionnaires. Some do not give values to the questionnaire and very few others do not return it totally.

Accordingly, the questionnaire was not returned immediate by respondents because they were busy throughout the day. Finally, their impact does not compromise its validity because the necessary data were collected through questionnaires and interview with a continuous effort and consensus of the researcher.

### **1.9 Organization of the Study**

This research has been organized into five chapters. The first Chapter deals with background of the study, statement of the problem, objectives of the study, research hypothesis, significant of the study, scope of the study, limitation of the study, operational definition of terms and Organization of the study. The second chapter reviews related literatures, which includes both theoretical and empirical literatures. Chapter three focuses on research methodology. Chapter four discusses presentation, analysis interpretation of data. Finally, in chapter five, the major findings are summarized; conclusions were drawn based on the findings and possible recommendations were forwarded by the researcher based on investigation.

## **CHAPTER TWO**

### **2. REVIEW RELATED LITERATURE**

This chapter reviews related literature under different sub-topics relevant to the study objectives. This includes definition of Micro and small enterprises (MSEs), Characteristics of Micro and Small Enterprise Development in Ethiopia contribution of micro and small enterprises to the economic development. It also discusses the theoretical background and empirical study on micro and small-scale enterprises (MSEs) included the factors that influence performance of MSEs such as Internal Factors and External Factors Finance, marketing work premises, technology, infrastructure, Policy Legal and Environmental Factors and Research Gap Previous Studies on Ethiopian Micro and Small Enterprises. Finally presents the conceptual framework, which gives a grasp picture of the study.

#### **2.1 Theoretical Literature**

##### **2.2.1 Theoretical Background on Micro and Small Enterprises**

A theory represents the coherent set of hypotheticals, conceptual, and pragmatic principles forming the general frame for reference for the field of enquiry. These are some of the theories that have been, advanced for micro and small Enterprises, which are part of entrepreneurship. Entrepreneurship considered as an approach to management, defined as a process by which individuals either on their own or inside organizations pursue opportunities without regard to the resources they currently control in an innovative, risk-taking and proactive manner (Todorovic, 2006)

From the above definitions, entrepreneurship covers an individual's motivation and capacity independently or within an organization to identify an opportunity and to pursue it in order to produce new value or economic success. Entrepreneurs pursue opportunities to grow a business by changing, revolutionizing, transforming or introducing new products or services (Hansen, 2011). The three important themes in this definition are (1) the pursuit of opportunities, (2) innovation, and (3) growth link entrepreneurship to industrialization process.

According to Kruger (2004), the relationship between entrepreneurial process and performance is an important empirical question and prevents the assumption that first movers or firms that incur the greatest business and financial, risk spending the most on innovation always rewarded in the market place. MSEs are managed by their own owners and are family businesses, and therefore their success depends primarily on the entrepreneurial and managerial capabilities of the owners.

Behavioral theory argues that the managerial skills such as ability to search business related information, identify opportunities, deal with risk, establish relationships and networks,

make decisions under pressure and learn from experience are crucial for the success of an enterprises (Veciana, 2007). According to trait theory, entrepreneurs have different psychological profile than the rest of the population, and successful entrepreneurs have a psychological profile distinct from the less successful ones (Veciana, 2007). According to Kuratko and Hodgetts (2007), persistence considered as one of the most important attributes of successful entrepreneurs and the decision to start a business a single time but they must make the decision to persist with the venture many times. Often individuals make the decision to persist, almost automatically, with little thought for alternative actions. Persistence is one of the essential characteristics for success entrepreneurship (e.g., Kuratko and Hodgetts, 2007). As an entrepreneur considers whether to persist with an existing venture or to pursue a new opportunity, a higher value of persisting will have a more substantial impact on the decision when expectancy is low than when expectancy is high. Hence, conditions that prompted a more serious evaluation will likely influence the way that expectancy and value used in the decision policy (Grilli, 2011). Even more, the persistence decision is fundamentally different than the start-up decision in that the entrepreneur is choosing whether to continue with a decision that has been previously made. This simple difference may introduce potential biases into the decision- making process, such as self-justification or normative pressure to persist (De,Tienne Shepherd and De Castro, 2008)

Entrepreneurs utilize the contacts in their social networks to found firms, because individuals' contact networks concentrate in the region in which they work and live, and because established firms produce many of the resources consumed in new venture creation new firms in an industry tend to arise in the same locations as existing ones (Sorenson and Audia,2000). The concentration of a prospective entrepreneur's network contacts in space, together with the multifaceted influence of networks on the entrepreneurial process, implies that those individuals most able to enter an industry reside in the regions that have concentrations of those businesses already (Sorenson and Audia ,2000) According to Simpeh (2011), explaining personality traits means making inference from behavior. Some of the characteristics or behaviors associated with entrepreneurs are that they tend to be more opportunity driven, demonstrate high level of creativity and innovation, and show high level of management skills and business knowledge. They have also been found to be optimistic, emotionally resilient and have mental energy, they are hard workers, show intense commitment and perseverance, thrive on competitive desire to excel and win, tend to be dissatisfied with the status quo and desire improvement,

entrepreneurs are also transformational in nature, who are lifelong learners and use failure as a tool and springboard. They also believe that they can personally make a difference, are individuals of integrity and above all visionary.

Similarly, Li (2009) argues that personal factors influence business success in MSEs consists of personality traits and competencies of the individuals in the process of entrepreneurship. Study on personality traits often conducted to examine the factors that determine the business successes at small business are the characteristics of an entrepreneur.

In MSEs, the key entrepreneurs or founders function as the CEOs (Burger-Helmchen, 2008) and play a dominant role in the development of the firm and their powerful and influential position will affect firm performance (Wincent & Westerberg, 2005).

Entrepreneur trait has been, extensively studied in the literature with mixed results (Wincent & Westerberg, 2005; Cools and van den Broeck, 2007). Some studies convincingly asserted that that some traits have positive and significant relationship with firm performance (Hmieleski & Carr, 2008) while other studies find insignificant relationships.

As part, one's personality Entrepreneur trait also shows a stable and inherent character (Ciavarella et al., 2004) that will affect how the entrepreneurs conduct their businesses. Entrepreneurs also tend to choose businesses that show a fit between their entrepreneur trait and the requirements for success. Additionally, they will also tend to manage their firms based on the strengths of their specific traits (Dvir, Sadeh, & Malach-Pines, 2010).

Poon, Ainuddin and Junit (2006) examined relationships among three self-concept traits, entrepreneurial orientation, and firm performance using survey data from 96 entrepreneurs by applying path analysis to test the direct and indirect effects of the trait variables on perceptual measures of firm performance. Entrepreneurial orientation-operationalized to reflect the dimensions of innovativeness, pro activeness, and propensity to take risks-was used as the mediating variable for explaining the relationship between self-concept traits and firm performance.

The results indicated that internal locus of control positively related to firm performance, and entrepreneurial orientation did not play a mediating role in this relationship. In contrast, generalized self-efficacy had no direct effects on firm performance; however, it influenced firm performance positively through its effect on entrepreneurial orientation. Finally, self-attributed achievement motive was not significantly related to entrepreneurial orientation or firm performance (Poon, Ainuddin and Junit, 2006).

Based on the above, discussions it is clear that the field of entrepreneurship have some interesting and relevant theories, which supported by empirical research evidence. This development holds a rather brighter future for the study, research, and practice of entrepreneurship.

## **2.3 Definition & meaning of Small and Micro Enterprise**

### **2.3.1 The definition of micro, small and medium-sized enterprise in European Union**

The European Commission Communication defines SMEs as follow: “An enterprise is any entity engaged in an economic activity, irrespective of its legal form”. “Enterprises qualify as micro, small and medium-sized enterprises (SMEs) if they fulfill the criteria laid down in the Recommendation which are summarized in the table below. In addition to the staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both.

**Table 2.1: The definition of micro, small and medium-sized enterprise in European Union**

<b>Enterprise category</b>	<b>Manpower</b>	<b>income</b>	<b>Net Total asset</b>
medium-sized	< 250	≤ € 50 million	≤ € 43 million
small	< 50	≤ € 10 million	≤ € 10 million
micro	< 10	≤ € 2 million	≤ € 2 million

([Httpwww//ec.europa.eu/enterprise/policies/sme/facts-figure analysis/semidefinite/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figure-analysis/semidefinite/index_en.htm))

#### **2.2.3 Definition of Micro & Small Enterprises in Sub-Saharan Africa**

Micro & Small Enterprises in various countries of Sub-Saharan Africa are defined based on several parameters, but mostly on size of employment. However, in many of the countries, there is no clear definition available. The Tanzanian government defines MSEs according to sector, employment size, and capital investment in machinery. Accordingly, MSEs are defined as micro, small, and medium-size enterprises in nonfarm activities, including manufacturing, mining, commerce and services. A micro-enterprise is one with fewer than five employees, a small enterprise with 5-49 employees. In Kenya, there is about 2.2million micro, small and medium enterprises, and there is no standard definition of MSE in Kenya. Often, they define MSEs as businesses with six to 50 employees or with annual revenues less than 50 million Kenyan shillings. The definition of MSE in Mozambique varies from sector to sector. However, most of the existing definitions are based on the number of employees and the initial in-vestment capital. Industries with less than 25 are defined as / and more than 25 and less than 125 is as known small Industry. Nigeria defines small enterprise that has investment and working capital not exceeding 750,000. Ghana defines a small enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles)

not exceeding 10 million Ghanaian cedi. In Malawi, manufacturing enterprises having less than 50 employees are small enterprises (Global Journal of Management and Business Research, 2012).

### **2.3.3 Definition of Micro and Small Enterprises in Ethiopia**

#### **2.3.3.1 The 1998 definition of MSE development strategy**

When the 1998 definition of MSE development strategy is formulated, it considered other countries experience especially the South Africa experience. The definition given on that time was only based on paid capital or capital investment as most business was confined to family man power basis and lack of availability of manpower information of the sector. Hence the following are identified as short comings/gaps of the 1998 definition.

- a) Although the main objective of MSE is to create job opportunity, it was difficult to compare the achievements in job creation with the definition. And it does not show enterprise capital size/amount/ when it is compared with the experience of other counties.
- b) The existing definition of the sector considered a paid-up capital without considering the experience in reality. It also does not show the full pictures of MSE as they are established based on self-paid-up capital and credit from banks.
- c) As the existing definition lasts for more than 17 years, it does not reflect the current situation due to inflation and currency fluctuation. For instance, the current paid up capital- ETB20, 000 or 3000 USD to micro enterprise is what was 1200 USD or 900 Euro in the past. Similarly, the paid-up capital allowed to small enterprise, i.e., ETB 500,000 or 76,000 USD what was 30,000. In other words, the paid-up capital existed before 17 years was better by 2.5-fold, due to currency fluctuations.
- d) The transfer from micro to small and from small to middle was on the basis of total asset though the definition underlines a paid-up capital.
- e) Since the definition of small enterprise does not include higher technology and consultancy/advise/ services, it should be revised from the angle of technology and construction services. Thus, based on the above-mentioned reasons the existing definitions of the sector should be reviewed on international experience and current process of the sector basis.

**Table 2.2: MSE definition from the Ethiopian context**

Sector	Manpower	A paid-up capital
Micro enterprise	-----	≤20,000 ETB (1,200 USD)
Small enterprise	-----	≤ 500,000 ETB (30,000 USD)

(GFDRE, 2011)

**2.3.3.2 The improved definition of MSE**

Based on the gathered experience, by identifying the gaps of the existing definition of MSE, ignoring the size of employee and by taking total asset as criteria and by dividing it in to industry and service sector; and considering the coming 5 years inflation and fluctuation/irregularity of currency the improved definition is presented as follows.

**A. Improved definition of micro enterprise**

- a) Under industry sector (manufacturing, construction and mining): an enterprise operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000 (one hundred thousand).
- b) Under service sector (retailer, transport, hotel and Tourism, ICT and maintenance service). It operates with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000(fifty thousand)

**B. Improved definition of small enterprises**

- a) Industrial sectors (manufacturing, construction and mining): it operates with 6-30 persons and/or with a paid-up capital of total asset Birr 100,000(one hundred thousand) and not exceeding Birr 1.5 million.
- b) Service sector (retailer, transport, hotel and Tourism, ICT and maintenance service): It operates with 6-30 persons or/and total asset, or a paid-up capital is with Birr 50,001 and not exceeding Birr 500,000. The improved definition of MSE is presented in the following table.

**Table 2.3: Improved definition of MSE from the Ethiopian context**

Enterprises	Sector	Human power	Total asset
<b>Micro enterprise</b>	Industry	≤5	≤100,000(\$6000 or E4,500)
	Service	≤5	≤50,000(\$3,000 or E2,200)
<b>Small enterprise</b>	Industry	6-30	≤birr 1.5 million (\$9,000 or E7,000)
	Service	6-30	≤birr 500,000(\$30,000 or E 23,000)

(GFDRE, 2011)

## 2.4 Characteristics of MSEs

Microenterprise is characterized by a business with no more than five employees and startup costs of \$35,000 or less. A microenterprise is a sole proprietorship, partnership or family business that has fewer than five employees. It is small enough to benefit from loans under \$35,000 and generally too small to access commercial banking services. Microenterprises are a subset of small businesses (which can have up to 500 employees and still be considered “small”). But, in the majority of microenterprises, the owner is the sole operator and worker, leading many to refer to this phenomenon as self-employment. Although these two terms are often used interchangeably, self-employment refers to the status of the business owner while microenterprise refers to a very small business. The size and type of production of these businesses varies considerably; however, they generally have a few common characteristics:

**Job Creation:** Most microenterprises create employment for the owner and often other family members.

**Local Market:** Microenterprises serve the needs of their neighbors and their communities.

**Tiny Businesses:** Microenterprises are often businesses that are unseen; perhaps the work is done from home or within another business. Microenterprises span a wide range of business types, of which most are within the service or retail sector.

The University of Montana research and Training Center on Rural Issues for People with disabilities has documented that entrepreneurs with disabilities have successfully operated a wide variety of micro businesses: Accounting Service, Air Condition Repair Service, Auto Body Repair Shop, Bakery, Chiropractic Practice, Counseling Service, Real Estate Office, Restaurant, and Welding Shop (<http://www.abilitiesfund.org/resources/>).

Zewde and et al (2002) identified that, the MSE sector is characterized by a number of highly diversified activities, which can create job opportunity for a large segment of the population especially for lower income earners. The characteristics of the informal sector (small and micro enterprises) have also been described as it is easy to enter, it is financed mainly from personal and family resources, it requires low starting capital, it uses labor-intensive techniques, and it relies on the non-formal school system such as apprenticeship and on-the-job training. Lindholm et al (1999) also identified the following distinguishing features, namely more labor intensive, more efficient, more equitable in distributing the income they generated, geographically more widely diversified, and more nurturing of entrepreneurs.

### **2.4.1 Micro and Small Enterprise Development in Ethiopia**

The development of micro and small-scale Enterprises is the central focus of the industrial development strategy. In 2010/11, one of the primary tasks was to comprehensively overhaul the micro and small enterprises development strategy based on the experience gained so far in Ethiopia and the experiences of other successful countries. Accordingly, a comprehensive micro and small enterprises development strategy was devised and approved by the government in consultation with all relevant actors. In addition, the Federal executive agency responsible for the execution of the strategy was reorganized to strengthen its institutional capacity.

A strategy was also devised to ensure that all public programs are executed in such a way that they create productive employment opportunities, nurture skill development and promote the development of competitive micro and small enterprises. These targets of employment generation, skill and business development were in particular planned to be realized through the construction of public universities, sugar factories, integrated housing construction, road development, train network development, power generation schemes, and cobblestone development activities. On top of providing jobs to the people, the establishments are also hoped to bring about the technological transfer and new corporate management skills to the nation. In this strategy also new set of areas are identified as requiring attention and priority from the government.

These are the manufacturing sector that encompasses the majority of the previously identified areas, the service sector which is a relatively new one, though not completely new, construction sector (partly exists in the previous one), the urban agriculture sector (partly exists in the previous one), and the retail sector. These sectors got attention because they are expected to substitute imports or are categorized in the manufacturing sector. The other new and important concept raised in the new MSE strategy is about the stage of growth of the MSEs. According to this strategy the supports these enterprises receive is dependent up on their level of growth and is relatively a tailored one. The growth stages of the MSEs are three in number and they are: the start-up stage, the growth stage and the maturity stage. The strategy further outlined the criteria which qualifies MSEs into any of these classifications. Following this, trials will be made to analyze the kinds of problems MSEs face in these three different growth stages and solutions will, independently, be recommended. This appears a very innovative way of dealing with the problems of MSEs unlike some of the policy instruments of the previous strategies (MoFED, 2010). On top of providing jobs to the people, the establishments

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## **2.5 Empirical Review**

### **2.5.1 Empirical Study on Factors that Affecting the Performance of MSEs**

#### **2.5.1.1 Internal Factor Limited management skills**

Limited management skills are a problem that is very difficult to deal with in most MSEs as the size of the senior management team is necessarily limited. These areas of weakness could be in finance, human resources & marketing any area where the current management does not have the expertise, or the time to deal with the issues. The solution is to determine what those areas of weakness are and then to develop a plan for dealing with those challenges. Once you spend the time to recognize a weakness as long as it is not in a core area for the specific business and it often can be compensated for without a lot of time, effort or money. Solutions can be as simple as assigning the responsibility to an existing manager with a requirement to watch for the obvious pitfalls, to hiring a person part- time or a consultant. The solutions are often obvious if one spends a little time planning and assigning responsibility.

And yes, it often is effective to assign that responsibility to yourself as you then know that you have to deal with the issues rather than waiting for an issue to become a real problem (James, 2007).

As Drucker (1982), noted they require “a few highly competent people, dedicated to the task, driven by it, working full time and very hard”. For many firms, the attraction, development and maintenance of successful individuals are a critical success factor. Recruiting new employee is one of the biggest challenges facing small firms, and a key component of organizational success. Micro and Small business are owned by one person or small group of people and managed by their owners, who with all management usually with the other little help. In our country most of micro and small enterprises. launched without a feasibility report. Moreover, wherever such reports were prepared, the purpose was to use them as advice to obtain institutional finance than to serve as a plan to make the unit a success. Though majoring of the entrepreneur possesses production skills, there are weak in aspects like marketing, finance, personnel management, general administration, accountings and public rapport (Hill, 1987).

#### **2.5.1.2 Limited of information, Lack of Good plan and Poor procedures**

Lack of information about what is working, and what is not working, in the business can be an issue. Often companies do not measure their results and when something specific causes a blip (positive or negative) in results they do not know what has caused the success or problem. Implementing a process for measuring and tracking key performance indicators (KPIs) on a weekly, or at least monthly, basis is key to enabling management to react to challenges and opportunities alike.

The old saying that you cannot manage what you do not measure is so true. Lack of a plan is often a fundamental problem for many MSEs. The arguments for planning are many and irrefutable and yet this is a very common failing for most MSEs except those that are enjoying very rapid growth. Poor procedures are a constant challenge for MSEs trying to manage with limited resources. Most entrepreneurs do not realize that the procedures in place for managing the business need to be well designed to reduce the incidence of errors. Error correction is often a major waste of time and particularly management time. Good procedures with a little time and effort invested up front will usually pay enormous dividends in time and cost savings on an ongoing basis. Many entrepreneurs ignore risk in their assessment of alternatives and opportunities (James, 2007).

#### **2.5.1.3 Employee skills and productivity in small enterprises**

The objectives of improved productivity, employment growth and development in small enterprises require special attention.

Such enterprises constitute the majority of enterprises in both developed and developing countries and they present special development challenges as far as improving skills, productivity and competitiveness is concerned.

The main issues include: Productivity, incomes and working conditions tend to deteriorate as the size of the enterprise decreases (Vandenberg, 2004). Training and skills development are important factors in improving the conditions of employment for the vast majority of workers. Furthermore, for enterprises in the informal economy, training and increased productivity are important strategies for making the transition to the formal economy. Small enterprises have specific skill development needs. Small enterprise owners often need training in a number of entrepreneurial skills.

They also need workers who are multi-skilled. For example, a small trained in many aspects of work, such as answering the telephone, keeping records, replacing sold stock and displaying products, with particular knowledge of the shop's products. Small enterprise owners and managers therefore need skills that can be of immediate use and are relevant to their particular scale of operations. Small enterprises face many constraints in training entrepreneurs and workers.

They are disadvantaged in the labor market in recruiting skilled workers, thus increasing the need for in-house training. However, smaller enterprises are much less likely than larger enterprises to engage in formal training (Ashtonetal, 2008). Smaller enterprises often cannot meet the costs of training, particularly if workers who are trained move quickly to other employers; they lose time and may face disruption in enterprise operations if entrepreneurs and workers attend training courses (Joshi, 2005). retailer serving a local market cannot afford a marketing specialist but may need workers.

#### **2.5.2.1 External Factors Limited marketing facilities**

Micro and small enterprises entrepreneur face problems in the matter of marketing his product. In free market economy especially with stiff competition marketing is a key factor for the success of small business (Gebretinsea Hailay, 2003). Besides, a bulk of units is engaged the production of consumer grades where tastes, altitude needs continue to change with quick frequencies. In this matter, this unites suffer from inadequacy of market research, intelligence and a good information system. Even when this information is available, these units lack flexibility to adopt themselves to the changing situation (Hill, 1987).

A marketing manual prepared by FeMSEDA identifies three market opportunities for MSEs. These markets are classified based on the geographic outreach of MSEs. In the beginning,

the manual suggests that MSEs should target their immediate local markets where the rural-urban linkages could be strengthened through identifying and meeting the demand of the market. Once the local market is served, MSEs could broaden their scope and get more competent to serve the regional markets. Finally, MSEs could target supplying national and export markets. FeMSEDA has designed detailed marketing support schemes through which the government could facilitate the creation of sustainable market linkages. First, the federal agency and its regional affiliates will identify and avail detailed information about market opportunities to MSEs. To help the MSEs augment their competitiveness in terms of price, quality and supply, the agency will provide financial and industrial extension support packages. Second, the agency shall organize MSEs into cooperatives and create special marketing and sales strategies. These include wholesales and sales to consumers associations, exhibitions and bazaars, credit sales to government and private companies, taking part in governmental bids and creating subcontracting opportunities especially in the various governmental projects (Ethiopian Development Research Institute, 2014).

#### **2.5.2.2 Lack of good infrastructure facilities**

The physical infrastructure facilities are not adequately developed and expanded in Ethiopia to meet the growing demand of MSEs activities. 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. 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 Bekele et al, 2009).

According to Commission on Legal Empowerment of the Poor (2006), though not directly linked, inadequacy of infrastructure (road, banking service, electricity, telecommunication) and other services in facilitating smooth operation of private investment are serious impediments.

Ombura (1997), points out that infrastructure networks are useful instruments within network economies. Infrastructure and related services help to make things happen, it feeds and it is fed by trade, it fuels foreign direct investment, it backs up the creation and sustainability of industrial clusters, it cuts costs and raises competitiveness. The inadequacy of the physical infrastructure is a principal cause of low levels of investment and unsatisfactory performance of small and micro enterprises. The infrastructure problem includes poor state of roads, inaccessibility to land, work space, electricity and utility. Lack of allocation of suitable land to MSEs in most urban and rural areas is a major impediment to growth and development.

Inaccessibility to land and lack of property rights hamper access to infrastructure and utilities by line MSEs. It becomes an ongoing, enduring process of managing change by a range of actors, in the interests of sustainable development (Tewdwr, 2004).

### **2.5.2.3 Limited Access to Finance**

Limited finance is often the most critical challenge that a successful MSEs faces as its very success creates this and it quickly becomes a vicious circle. Without very diligent cash flow management and/or rising of more capital, including debt, the business often is constrained by capital as it grows. Often the profit in one operating cycle is insufficient to fund the extra working capital required for the next operating cycle. This is especially the case where a business is either inventory or receivables intensive and/or the operating cycle is a long one. The operating cycle is the average time that it takes from the first receipt of inventory to when the customer pays for the goods sold.

### **2.5.2.4 Working and Sales Space Constraints**

Access to working and sales premises are also the other challenges to MSEs operating in the country. To this end, a national strategy was designed to construct appropriate working shades in different parts of the country. As a result, considerable number of manufacturing and service rendering premises have been built and offered to both MSEs that are working in the manufacturing and service sectors. For enterprises at a start-up stage, the government has set a generous rent arrangement. Accordingly, in the first year of operation, MSEs are expected to pay 25% of the monthly price of the rent, in the second year 50 %, in the third year 75% and at the fourth year they will be obliged to pay the full price of the monthly rent.

In a focus group discussion with the Tigray Regional Micro and Small Enterprises Development Bureau, officials indicated that the regional government has built five big industrial workshops in an attempt to create linkages with Mesfin Industrial Engineering (MIE). The workshops were equipped with state-of-the-art machineries which are used to undertake sub contract works from Mesfin Industrial Engineering. Currently, the MSEs are only responsible for handling the labor contract while Mesfin Industrial Engineering does the installation of the machines, the design, and quality control of the final produces of the MSEs (Ethiopian Development Research Institute, 2014).

According to the regional MSE development bureau, they have ordered the purchase of machineries from abroad to be installed in the workshops so that the MSEs could further be linked with other industrial firms in the region. When the workshops are equipped with these machines, the MSEs are expected to independently design, produce and control their produces from beginning to end.

The metal and engineering technology corporation of Ethiopia (METC) is building industrial workshops in a bid to strengthen its market linkages with MSEs. Accordingly, metal and engineering technology corporation of Ethiopia has built several workshops in many regional cities which are financed and equipped with financial outlays budgeted by metal and engineering technology corporation of Ethiopia.

The MSEs are benefited in two ways; first, the MSEs are provided with industrial working spaces and second, metal and engineering technology corporation of Ethiopia sub contracts a portion of its industrial undertakings especially in the manufacturing of automotive parts for its assembly lines. Furthermore, the MSEs will be trained on the job to meet the quality and production standards of METC. Even though the government pays due attention on the construction and expansion of working shades, the implementation has its own drawback. The working premises that are constructed to the manufacturing MSEs are located far from large and medium enterprises' industry zones. This has created problem to integrate or network MSEs with large and medium manufacturing enterprises.

Many MSEs sale to retailers and wholesalers reducing their profit margins which they could have garnered if they were to sell their produces (Ethiopian Development Research Institute, 2014).

#### **2.5.2.5 Technological factors and businesses environment**

The rapid development of technology requires quick reaction by businesses in order to survive in an emerging competitive environment and keep up with new trends and innovative services which other competitors might be offering. These technological factors can include both products and processes and can present opportunities and threats but it is vital for competitive advantage and is a successful driver in globalization. Products can be marketed in new ways and processes present immense Value to the business.

Some of these technological factors affecting businesses proved to be dramatic for some. Some companies seriously invested in certain type of equipment only to see a more innovative and cost-effective technology emerges. Spending money on the latest technology can be daunting for some organizations and questions such as ('Ignore it., Ignore it for now., Evaluate it carefully., Adopt it enthusiastically?') always come up in their response to Innovation. Organizational changes usually quite difficult especially when a high number of people are involved as routines will be modified.

It is recommended to inform employees in advance and keep them up to date encouraging feedback when making such change.

Business processes integrating modern technology solicits identifying the business requirements and evaluating the business processes according to its objectives and goals. These changes should benefit the company and the consumers. Traditional models are changing and advantages can be achieved by investing in modern technology but just purchasing technology for the sake of having it is not enough, implementing a strategic plan is the key in order to succeed. Costs involved a necessary expense in today's emerging environment. However, it's understandable that some organizations are hesitant to invest due to systems being outdated quite often, but the ones who view this investment as an opportunity to gain competitive advantage and have a well-developed strategy attached, could benefit immensely.

Efficiency productivity, reducing manual labor costs, cost-effective overall factor as it can simplify, speed up and enhance accuracy (or e.g., departments can interact or check a particular issue or status of an order/delivery/service from different locations in the Value Chain). Information Security/Contingency Planning Technology provides a lot of advantages but we should also take into consideration the responsibilities that come with it. Businesses should take into account the rise in data breaching and various cyber-crime elements and must invest in effective ways of preventing or combating these factors. Imagine if an important process becomes unavailable suddenly or a system is hacked. Businesses must have these contingency plans in place in order to protect their valuable assets. Mostly, technology is beneficial and businesses should try to counter the negatives in order to find the beneficial impact in its adoption (<https://www.learningbusinessinitiative.wordpress.com>).

#### **2.5.2.6 Policy, Legal and Environmental Factors**

A legal and regulatory system that calls for complex registration and licensing requirements and demands tedious and costly reporting practices imposes heavy costs on MSEs. By contrast, larger firms benefit from “administrative economies of scale”, and often pass the burden of compliance requirements down their supply chains to MSEs. In such an environment, informal sector enterprises are discouraged from entering the formal sector, and in more extreme cases, formal sector enterprises are induced to change their activities. Many studies emphasize enabling business environment as major factors determining small enterprise success in developing countries. The institutional, regulatory and legal frameworks are in these days the three important pillars shaping business environments (ILO, 2000).

According to the ILO (2000) report, institutional frameworks determine effectiveness and efficiency of key business infrastructures such as business development support (BDS), microfinance institutions, marketing and research and development.

A good institutional framework enables access of these services to the needy with minimum cost. Poor institutions in general, lead to higher transaction costs. ILO (2002), indicates signs of poor/good institutions based on several checklists: the number of steps/ procedures to obtain a business license and the costs paid for it, enforcement of contracts and access to legal redress, ease of access to information about markets, access to credit facilities, ease of acquisition to land titles/ lease and tax costs to a business.

In many developing countries, lack of enabling business environments has hampered the development of the informal sector and kept entrepreneurs mired in the informal sector (Sethuraman, 1997). Therefore, according to Sethuraman, poor enabling environments are growth barriers and hence negatively influence success.

However, the impact of devolution of MSEs development depends on the architecture of the regulatory and institutional framework inclined to support MSEs in an economy (Kiggundu, 2000). Without careful attention, government policies could crush the small business sector in any economy. However, for MSEs to fully develop and use this potential, they need specific policy measures to ensure that technology services and infrastructure are provided (Wanjohi, 2009). Policy initiatives in revitalizing the MSEs sub-sector should not be only government engineered, but all the stakeholders in development arena should take frontline.

Contextual factors play a major role in shaping the opportunities of MSEs in developing countries. Most obviously, the overall state of the economy directly influences the availability of profitable business opportunities. Growth opportunities within existing markets, as well as the prevalence of untapped, profitable market niches, wax and wane as the business cycle evolves. It is hardly a surprise, then, that MSEs tend to grow more quickly during periods of overall economic growth.

There are, however, some important nuances in the relationship between MSE growth and the overall business cycle: the overall MSE sector expands during economic downturns due to an increase in survivalist-type activities, although individual MSEs may stagnate or contract. Further, during severe economic crises MSEs may be more resilient than their larger counterparts. Macroeconomic and relative price volatility is also an important issue, as experience has shown in Latin America and Sub-Saharan Africa. The International Finance Corporation recently conducted surveys of more than 10,000 firms in 80 countries, finding that both inflation and the exchange rate tend to afflict MSEs more than larger firms.

Macroeconomic trends may also affect MSEs indirectly, for example, credit constraints can limit firm capabilities, as discussed in the previous section (Simeon,2005).

## **2.6 Research Gap Literature**

### **2.6.1 Previous Studies on Ethiopian Micro and Small Enterprises**

According to Abiyu Jiru (2011), the most common factors that affect the growth and survival of MSEs in Burayu are marketing constraints such as lack of market access with 4.1026 mean or 76.9 percent, lack of setting clear and competitive price for products with 3.9359 mean or 64.41 percent, lack of promotion (3.8462)/76.9 percent, lack of marketing information with mean of 3.8205 or 66.7 percent and followed by lack of product improvement with mean of 3.8077 or 65.4 percent are the major marketing constraints identified influencing the growth and survival of MSEs.

When there is limited market access, the probability that MSEs experience growth is less in which limited customers coupled. Lack of knowledge related to marketing strategies, mixes, information, lack of adaptation to changing environment and networks with successful businesses and knowledgeable persons are other factors related to marketing constraints. Lack of product improvement especially MSEs in the same sector sell identical products without any additional distinctiveness, innovative activities and modification and this lack made similar products are over 77 crowding the market in and round Burayu without matching their products as there is change in demand and flexibility with environment.

Thus, since marketing is one of the most activities required by businesses to growth through satisfying the needs and wants of customers, its constraints on the other hand hinders the growth of firms. On the other hand, management practices constraints include: lack of multi- skill training of employees with 3.2308 mean, lack of well -rounded experience in basic business activities with 3.1410 mean and lack of management ability in creating external relationship with 2.9359 mean are the major factors affecting the growth of MSEs. Lack of access to credit is almost universally indicated as a key problem for MSEs. Accordingly, lack of working capital with mean value of 4.2692 or 85.9 percent and lack of providing convincing business plan with 3.9359 or 66.7 percent are the major financial constraints.

The limitations and complexities of obtaining loans from financial institutions were cited as major hindrances to small business development and most MSEs are unable to secure badly needed loans from the financial institutions because of collateral requirement to get loan these institutions is required highly and it is beyond their capacity and business. On the other hand, the loans provided by the institution are small and short repayment period. Due to this MSEs forced to rely and use other informal sources like self-financing or borrowing from friends which are short term finance, costly and risky.

In addition to this, businesses have lack of knowledge in providing convincing business plan to get loan and this blocks their access to credit. Financial constraints limit the number of preferable alternatives that can be considered and force them to use inappropriate technology & others because it is the only one, they can afford.

This limited growth and survival of MSEs. Government support related constraints of MSEs include: lack of right working premises with 4.3077 mean & lack of adequate business infrastructure with 4.2436 mean values. Since good infrastructure has the effect of promoting MSEs by lowering the cost of doing business, lack of key and adequate infrastructure related to adequate supply of electrical power, access to roads, water and sewerage, telecommunications can directly or indirectly lag the growth of businesses behind.

Moreover, the research studied by (Admasu Abera, 2012) states that, 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. The workings premises factors include absence of own premises and the rent of house is too high. 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. Infrastructural factors incorporate power interruptions, and lack of sufficient and quick transportation service that hinder the business performance of all sectors. The main internal factors identified were management factors which include poor selection of associates in business, lack of strategic business planning, and costly and inaccessible training facilities. Lastly, the major entrepreneurial factors include lack of persistence and courage to take responsibility for one's failure and absence of initiative to assess one's strengths and weakness. Berhanu Tereda (2014), has identified the most basic factors which affect the growth and success of MSEs such as infrastructural factor which includes power interruptions, lack of sufficient and quick transportation service, lack of communication services and Insufficient and interrupted water supply.

The workings premises factors include absence of own premises and inadequate working premises. 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.

And the marketing factors include Lack of skill to set competitive price, inability to promote the products, Lack of efficient distribution channel and networking, Poor customer handling and relationship and Lack of product diversity and inability to modify existing products are factors which affect the growth and success of MSEs for all sectors. The statistical result indicates that, there is a strong positive significant correlation between working Place factors, Management and experience factors, marketing factors, infrastructural factor, financial factors, external environmental factor and success of MSEs and the existence of Favorable business environment has a positive significant contribution to the success of MSEs.

Enterprises in unfavorable environment are facing challenges and are not able to improve their performance. Survey on Micro and Small Enterprises (MSEs) in Selected Major Cities of Ethiopia conducted by FDRE (2013) also indicates that, there are a number of challenges and constraints hindering the growth of MSEs. These challenges were manifested in terms of capital, technology and employment growth trends. Enterprises from the regional cities indicated that shortage of finance (42%) to expand their business was their principal challenge, followed by lack of working premise (28.3%); and lack of access to market or absence of linkage to market. The study also showed that lack of access to land has been one of the most crucial bottlenecks (26.4%) in Addis Ababa, problem of finance (25.6%) and access to market (25.1%) were among the strong factors inhibiting the growth of these enterprises in the capital.

## **2.7 Conceptual Framework**

In developing countries large number of populations are live with absolute poverty. They strive to generate enough income in each county but their living standard is still hand to mouth. The low economic growth of these countries was perceived to be cause of lack of capital resources, low production and saving capacity, therefore lack of capital resources and the like factors caused permanent poverty .In order to overcome their state of poverty and low employment rate in developing countries, micro and small enterprises are the alternative to all poor countries which provides considerable social protection and income and employment opportunities to their societies(Tiruneh Abebe, 2011). So far in the literature, it is attempted to show the major contributions of micro and small enterprises in improving income, reduction of poverty and unemployment. Moreover, the factors that affect the performance of MSEs are also clearly discussed. This study will have both independent and dependent variables. Dependent variable is the performance of MSEs. On the other hand, the independent variables

will be Limited access of working place, Infrastructural facilities, access of market, access of finance, availability of technology and managerial constraints. The framework shows that the manipulation of the independent variables will lead to more or less in the performance of MSEs. Thus, the finding will be depending on the relationship and outputs of the independent and dependent variables. Therefore, the following model shows the relationship between independent and dependent variable.

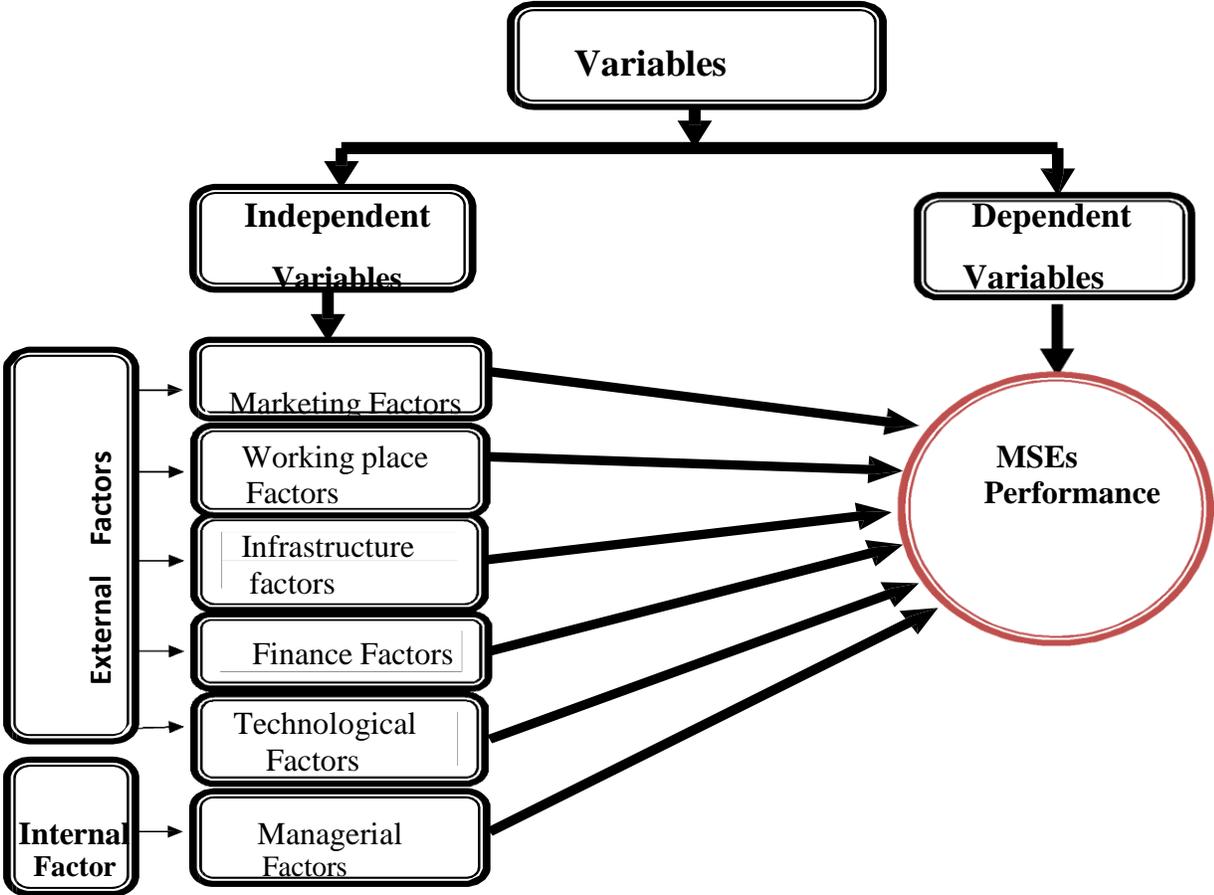


Figure 2.1 Conceptual frameworks (Source: Own Model)

In this study profitability was opted to measure performance of these MSEs. This is mainly because of the following three reasons. First, as the pilot study clearly indicates these MSEs are more focusing on profitability than other modes of performance measures. Second, the MSEs were not applying balanced score card to measure their overall performance. Third, as recommended by Rami and Ahmed (2007:6) a profit has been widely adopted by most researchers and practitioners in business performance mode

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

This chapter gives an outline of research methods that were followed in the study. It provides information on the participants, that is, the criteria for inclusion in the study, who the participants were and how they were sampled. The researcher describes the research design that was chosen for the purpose of this study and the reasons for this choice. The instrument that was used for data collection is also described and the procedures that were followed to carry out this study are included. The researcher also discusses the methods used to analyze the data. Lastly, the ethical issues that were followed in the process are also discussed.

#### **3.1 Description of Study Area**

The study area is only MSEs at Addis Ababa City one selected sub-cities, therefore; this study did not include the population of all MSEs at Addis Ababa City. Nifas Silk Lafto sub-cities were selected purposely among the Eleven sub-cities of Addis Ababa because the one sub-cities chosen based on their nearness and convenience to collect data in short time with minimum cost. Therefore, the total population of the study consists of 696 which are engaged in different kinds of MSEs activities.

#### **3.2 Research Design**

According to John et al (2007), there are three types of research design, namely exploratory (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables) and explanatory (concerned with determining the cause-and-effect relationships). Therefore, to achieve the aforementioned objectives, the researcher employed descriptive and explanatory research design by using both quantitative and qualitative method (mixed approach) to get valuable information and it's appropriate for the research objective. The major purpose of descriptive research is description of the state of affairs as it exists at present. Then this study described and critically assessed the factors influencing the performance of MSEs in one sub-cities of Addis Ababa. The study also employed through explanatory research design in that the relationship between variables is correlated with an aim of estimating the integrated influence of the factors on performance.

#### **3.3 Sources of Data**

In order to gather reliable information, both primary and secondary sources were employed. Primary data sources were obtained from owners (operators) of MSEs and managers of MSEs in the sub-cities. This source was selected by the researcher because it is important for maximizing the validity

& Reliability of data. In addition to this the researcher obtained secondary data sources from relevant manuals, journals, magazines and books.

### 3.4 Sample Technique and Size

The research was employed through stratified random sampling technique in selecting the representatives of selected enterprises, following the method of proportional allocation under which the sizes of the samples from different strata are relatively kept proportional to the sizes of the strata. Stratified random sampling is a modification of random sampling in which the population is divided into two or more relevant and significant strata based on one or more attributes (Saunders et al, 2007). This sampling technique was used because it is deemed suitable for a highly concentrated geographical area where face to face contact is required and also where the population can be divided into two or more sub units based on certain internal characteristics (Mugenda et al, 1999). Each of the stratum to which the population is divided obtains an equal chance of being sampled. Further, Kothari (2004), recommends stratified random sampling because it is accurate, easily accessible, divisible into relevant strata and it enhances better comparison; hence representation across strata. The advantage of stratified sampling is said to be its ability to ensure inclusion of subgroups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population. Accordingly, the study includes five different sectors in Nifas Silk Lafto sub-cities such as manufacturing (136), construction (27), trade (386), service (118) and urban agriculture (29) with a total of 696 MSEs owners (operators). Therefore, the researcher used the following sample size determination formula developed by Kothari (2004).

$$N_2 = \frac{n_1}{1 + \frac{(n_1 - 1)}{N}} \quad \text{where, } n_1 = \frac{z^2 (p \times (1-p))}{c^2}$$

$N_2$ =sample size when the population size is known

$N$ =population size=696

$n_1$ = sample size when the population size is unknown

$Z$ =z value from z table corresponding to confidential level (95%) = 1.96

$P$ =standard deviation in percentage=50%  $C_2$ =margin of error=5%

$$n_1 = \frac{1.96^2 \times 0.5 \times (1-0.5)}{0.05^2} = 384.16$$

$$0.05^2$$

$$\text{Therefore, } n_2 = \frac{384.16}{1 + \frac{384.16 - 1}{1.5505}} = \frac{384.16}{1.5505} = 247.76 \approx \underline{\underline{248}} \text{ (sample size)}$$

696

Moreover, proportional sample size from each stratum is calculated by using the following formula:

$$n_i = \frac{N_i}{N} * n \dots\dots\dots (\text{Israel, 1992})$$

- Where,  $n_i$  = sample size for each sectors
- $n$  = total sample size
- $N_i$  = the total number of population (owners/operators) in each sector
- $N$  = the total number of population (owners/operators),

Accordingly, the sample for this study consists of owners (operators) of MSEs in responding the questionnaires and out of a total sample size of 248; the researcher proportionally allocate as 48 (136/696 x 248) from manufacturing, 10 (27/696 x 248) from construction, 138 (386/696 x 248) from trade, 42 (118/696 x 248) from service and 10 (29/696 x 248) from urban agriculture and distributed questionnaire, and interview were conducted from four MSEs owners (operators) and the two sub-cities two managers those who organize the overall activities of MSEs.

**Table 3.4: Summary of total population and sample Size**

Sectors	Population(strata) of MSEs owners (operators)	Sample size (proportional allocation)	%
Manufacturing	136	(136/696x248) =48	19.35
Construction	27	(27/696 x 248) =10	4
Trade	386	(386/696 x 248) =138	55.65
Service	118	(118/696 x 248) =42	17
Urban Agriculture	29	(29/696 x 248) =10	4
<b>Total</b>	<b>696</b>	<b>248</b>	<b>100%</b>

### 3.5 Data collection instruments

The primary data collected through administrated type of questionnaires for MSEs owners (operators) in order to collect information on various aspects of enterprises and it is convenient to reach wide participants and appropriate to get relatively uniform data regarding the research problem and with the given resources. Data collections through questionnaires were selected due to there were different strata in the population and to identify different confronting situations influencing the enterprises' operation of these strata. In addition, questionnaire have two main types of questions

that are close ended and open ended, the close ended questions have the Likert scale ranges from 'Strongly agree' to 'strongly disagree' (5=strongly agree 4=agree 3=undecided 2=disagree 1=strongly disagree) which are used for to get the degree of agreement of the respondents. Besides, the open-ended questions encourage the respondents to confess their opinion freely. For the sake of mutual understanding the researcher distributed the questionnaire and completed by the owner (operators) of the enterprises. Primary data was also collected through unstructured type of interview because of its advantageous to raise multidirectional questions to respondents and it is conducted from four MSEs owners (operators) and the sub-cities two managers those who organize the overall activities of MSEs. In interview, the personal contact between interviewer and respondent often results in more meaningful answers and generates a higher rate of responses (McLafferty, 2003). Beside primary sources of data, the researcher used secondary sources of data. The secondary data was collected from journals, magazine, books, reports and various literatures on the title of the research.

### **3.6 variables and measurement**

Independent variable and dependent variable: If X may be considered to be the cause of Y, then X is described as explanatory variable (also termed as causal or independent variable) and Y is described as criterion variable (also termed as resultant or dependent variable). In some cases, both explanatory variable and criterion variable may consist of a set of many variables in which case set  $(X_1, X_2, X_3, \dots, X_p)$  may be called a set of explanatory variables and the set  $(Y_1, Y_2, Y_3, \dots, Y_q)$  may be called a set of criterion variables if the variation of the former may be supposed to cause the variation of the latter as a whole (Kothari, 2004). A regression model was developed to test the hypotheses so as to determine the influence of various factors on the performance of MSEs. This model incorporated the factors (independent variables) to predict the performance of MSEs (dependent). The dependent variable was the performance of MSEs (Increase/decrease in profitability). Accordingly, change in profit is used as a dependent variable to measure the performance of MSEs because MSEs more focuses on profitability than other modes of performance measures. The independent variables are managerial, marketing, working place, infrastructural, financial and technological factors. A regression is used to predict the value of certain variable based on the other variable. Generally, the equation of regressions on this study is built around two sets of variables, namely dependent variable (performance of MSEs) and independent variables (managerial, marketing, working place, infrastructural, financial and technological factors). The

basic objective of using regression equation on this study is to make the study more effective at describing, understanding and predicting the stated variables.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6$$

Where,  $x_1$ =management,  $x_2$ = marketing,  $x_3$ = working place,  $x_4$ =infrastructure,  $x_5$ = finance,  $x_6$ = technology is the explanatory

$Y$ = is dependent variable  $a$ =is constant

$b_1, b_2, b_3, b_4, b_5$  and  $b_6$  are the coefficients associated with each independent variable.

### **3.6.1 Validity of the instruments**

Validity of research instruments ensure scientific usefulness of the findings arising thereof (Serakan et al, 2000). It refers to accuracy and meaningfulness of the inferences which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represents the phenomena under the study (Admasu, 2012). The instruments were developed based on research questions and objectives; it is possible to collect necessary data from respondents. Issues raised by respondents were corrected and questionnaires were refined. Besides, the advisor had taken proper correction to ensure validity of the instruments.

In addition, for the validity of the instrument's experienced academics were used to review the questions. Furthermore, to have valid conclusion, inferential statistical model used to test the relationship between the variables. Finally, the improved version of the questionnaires was printed, duplicated and dispatched.

### **3.6.2 Reliability of data**

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 (Admasu, 2012). The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. The present study is reliable because it used valid strategies and techniques appropriate to the research objectives. It has been tried also to present detailed evidence of the research plan (that is details of the research site, method of sample selection, instruments used) and its implementation in the methodology section to assure the study's reliability. Pilot-testing of the tools was done in order to make the instrument reliable. In this study the questionnaire was piloted to determine the reliability of the instruments. As described by Andy (2006) the values of Cronbach's alpha 0.8 which is good. Accordingly, the reliability test was conducted in Nifas Silk Lafto sub-cities with a sample of 20 owners (operators)

of MSEs and the Cronbach's alpha coefficient for the instrument was found as 0.831 which is reliable. It was also capturing important comments and suggestions from the respondents that enable the researcher to improve efficiency of instruments, adjust strategies and approaches to maximize response rate. Accordingly, after the improvement has made Cronbach's alpha coefficient for the instrument was 0.889 and the instruments are consistent with the objectives of the study. Therefore, based on the test, the results for the items are reliable and acceptable.

### **3.7 Method of data analysis**

Data analysis is the further transformation of the unprocessed data to look for patterns and relationship between and/or among data groups by using descriptive statistics and inferential statistics analysis (Admasu Abera, 2012). The Statistical Package for Social Science (SPSS) software version 20.0 used to analyze the data obtained from primary sources. Specifically, descriptive statistics (mean, standard deviation, frequencies and percentage) and inferential statistics (Pearson correlation, linear multiple regression and ANOVA) used in order to transform raw data in to meaningful information. According to Sekaran (2000), inferential statistics allows to infer from the data through analysis the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable. Besides, the qualitative data obtained from interview was analyzed using descriptive narrations and summarizations.

### **3.8 Collinearity test**

Collinearity occurs when two or more predictors in the model are correlated and provide redundant information about the response. Collinearity occurs when two predictor variables in a multiple regression have a non-zero correlation. Therefore, the following table shows the Collinearity test of variables.

**Table 3.5: Collinearity test**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.188	.051		-3.716	.000		
Managerial factors	.159	.011	.205	14.924	.000	.729	1.372
Marketing factors	.173	.011	.222	15.791	.000	.700	1.428
Working factors	.173	.009	.266	18.703	.000	.683	1.464
Infrastructure factors	.180	.008	.287	21.609	.000	.783	1.277
Financial factors	.187	.012	.222	15.851	.000	.707	1.415
Technological factors	.178	.009	.274	20.554	.000	.777	1.287

VIF=Variance Inflation Factor

Table 3.4 presents the Collinearity test of variables. Unstandardized coefficients are the coefficients of the estimated regression model. Whereas standardize coefficients are or beta are an attempt to make the regression coefficients more comparable. The t statistics can help us to determine the relative importance of each variable in the model. As a guide regarding useful predictors, look for t values well below -2 or above +2. Collinearity is the undesirable situation where the correlations among the independent variables are strong. Tolerance is a statistic used to determine how much the independent variable are linearly related to one another. Tolerance is the proportion of variables variance not accounted for by other independent variables in the model. A variance with a very; low tolerance contributes little information in to a model, and can cause computational problems. VIF or the variance inflation factor is the reciprocal of the tolerance. As the variance inflation factor increases, so does the variance of the regression coefficient, making it an unstable estimate. Large VIF values are an indicator of multicollinearity. One can use VIF and Tolerance value for each predictor as a check for multicollinearity. The tolerance is an indication of the percent of variance in the predictor that cannot be accounted for by the other

predictors, hence very small values indicate that a predictor is redundant, and values that are less than 0.20 may merit further investigation. The VIF, which stands for variance inflation factor, is  $(1/\text{tolerance})$  and as a rule of thumb, a variable whose VIF values are greater than 10 may merit further investigation. If two explanatory variables are highly correlated with each other, they can cause problems during multivariable analysis because they are explaining almost the same variability in the outcome. Therefore, it is beneficial to examine associations/correlation between explanatory variables and exclude one of a pair of highly correlated variables before conducting multivariable analysis. Generally, if VIF is greater than ten, the variable is rejected; but from the above table 3.4 VIF is less than ten so that the independent (variable) is accepted. On the other hand, if tolerance is less than 0.2, the variable is rejected; but from the above table 3.4 tolerance is greater than 0.2 so that the independent variable (factors) is accepted. Therefore, as we can see from the table 3.4 above the tolerance and VIF are all quite acceptable.

### **3.9 Ethical considerations**

The researcher first informed participants about the nature of the study and requested their consent to participate. One common practice suggested by Leedy et al (2005) is to present a written informed consent form describing the nature of the research project and the purpose of one's participation in it. Therefore, the researcher considered the research values of voluntary participation, anonymity and protection of respondents from any possible harm that could arise from participating in the study. Thus, the researcher introduced the purpose of the study as a fulfillment of master degree program and not for any other hidden agenda by the researcher and requested the respondents to participate in the study on a voluntary basis and refusal or abstaining from participating was permitted. The researcher also assured the respondents of confidentiality of the information given and protection from any possible harm that could arise from the study since the findings would be used for the intended purposes only. The researcher also committed to report the research findings in a complete and honest fashion, without misleading others about the nature of the findings. Under no circumstance, the researcher fabricated data to support a particular conclusion. Giving appropriate credit to the use of another person's ideas is mandatory (Leedy et al,2005). In this regard, all materials belonging to another person or Organizations have been duly acknowledged.

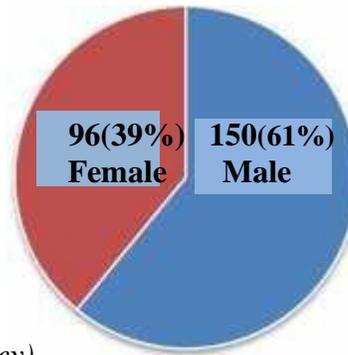
## CHAPTER FOUR

### 4. DATA ANALYSIS AND INTERPRETATION

In this chapter, both descriptive and inferential data analysis and procedures are presented. The data analysis includes the following procedures. The first phase involves editing, coding and the tabulation of data. This assisted in identifying any anomalies in the responses and the assignment of numerical values to the responses in order to continue with the analysis. The data was then checked for possible erroneous entries and corrections made appropriately. The data were entered by using SPSS software version 20. Questionnaires and interviews were the tools selected and used throughout the analysis of the data. Accordingly, 248 questionnaires were distributed across the five sectors in the sub-cities, out of which 246 were completed and retrieved successfully, representing 99.19 % response rate. Out of the 248 questionnaires administered 48,10, 138, 42 and 10 were distributed to manufacturing, construction, trade, service and urban agriculture respectively. The numbers of questionnaires retrieved from manufacturing, construction, trade, service and urban agriculture are 48, 10, 136, 42 and 10 respectively. This represents a response rate of 100%, 100%, 98.55 %, 100% and 100% for manufacturing, construction, trade, service and urban agriculture respectively. In general, this section is organized in the following ways: First, the general information about MSEs were presented and analyzed. Second, data collected through questionnaires and interviews were analyzed concurrently. Moreover, the results of Pearson's Correlation Coefficient, multiple linear regressions and ANOVA were analyzed.

#### 4.1 General Profiles of Respondents

##### 4.1.1 Gender of Respondents

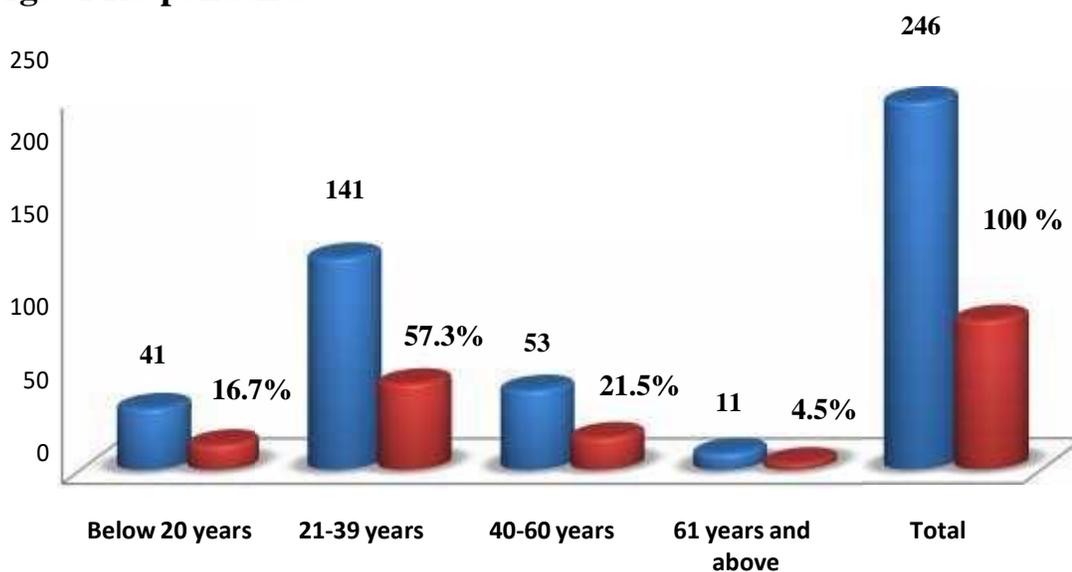


(Source: Researcher's Survey)

### Figure 4.1: Sex of respondents

As it can be seen from figure 4.1, majority of the respondents 150(61%) were male business owners while 96 (39 %) were female business owners. From this it can be concluded that most of MSEs are owned (operated) by male. Therefore, like other countries, in Ethiopia both females and males are operating in MSEs at different positions as owners or employees and the percentage of their involvement in such enterprises is not equal.

### 4.1.2 The Age of Respondents

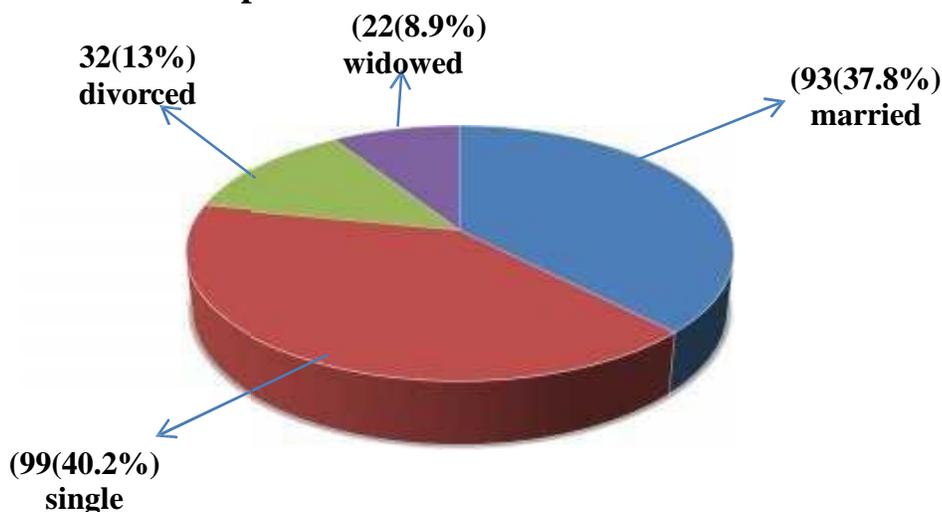


(Source: Researcher's Survey)

### Figure 4.2: The Age of Respondents

As it is presented in figure 4.2, the researcher divided respondent's age into four age groups. Accordingly, 41(16.7%) of the respondents fall below the age of 20 years, whereas, 141(57.3%) of respondents' age is between 21-39 years. 53(21.5%) of the respondents are found between 40 - 59 years, while, 11(4.5%) of them have above 60 years age. This shows the majority of respondents are between ages of 21 and 39 years in which they are active work force ready to act where there is comfortable situation is prepared for them because of they are in young and adult age and have many responsibilities in the future. Also, they are the age group expected to imitate and flexible according to the environment.

### 4.1.3 Marital Status of Respondents



(Source: Researcher's Survey)

**Figure 4.3: Marital Status of Respondents**

As shown in figure 4.3, 99(40.2%) of the respondents are found to be single, 93(37.8%) married, 32(13%) divorced and 22(8.9%) widowed. The figure shows that the program has absorbed mainly single and married men and women and this indicates which group of the society are benefiting from micro and small enterprises.

### 4.1.4 Educational Level of Respondents

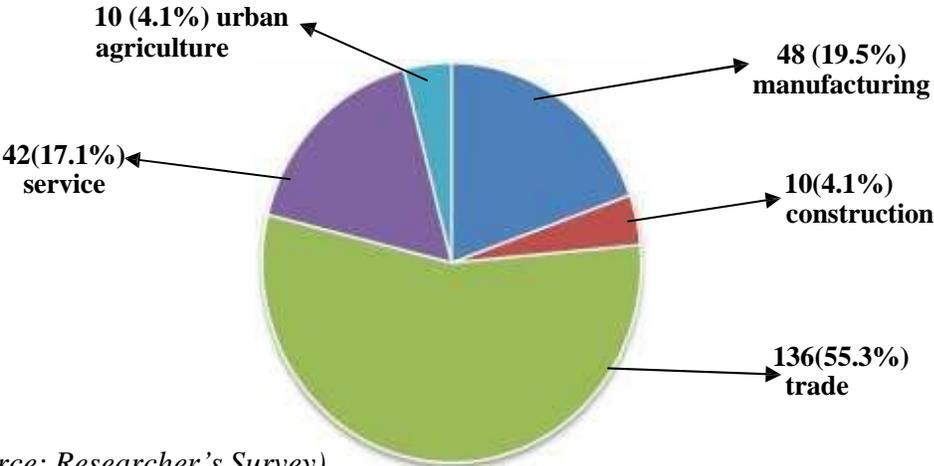
**Table 4.1: Educational Background of Respondents**

Educational qualification		
Level of education	Frequency	Percent
Cannot read and write	19	7.7
Grade 1-8	44	17.9
Grade 9-12	46	18.7
Certificate	50	20.3
Diploma	56	22.8
First degree and above	31	12.6
Total	246	100.0

(Source: Researcher's Survey)

Table 4.1 vividly indicates regarding to educational qualification, 19(7.7%) of the respondents cannot read and write, 44(17.9%) of them are grade1-8, 46(18.7%) were grade 9-12, 50(20.3) have certificate, 56(22.8%) had graduated in diploma and 31(12.6%) were holding first degree and above. Therefore, their educational qualifications of the respondents or business owners (operators) were proportionally, between elementary and diploma level. From this data one can understand that the educational status of owners (operators) is relatively low and they may face a problem in business decision making processes.

**4.1.5 Category of Business Enterprise**



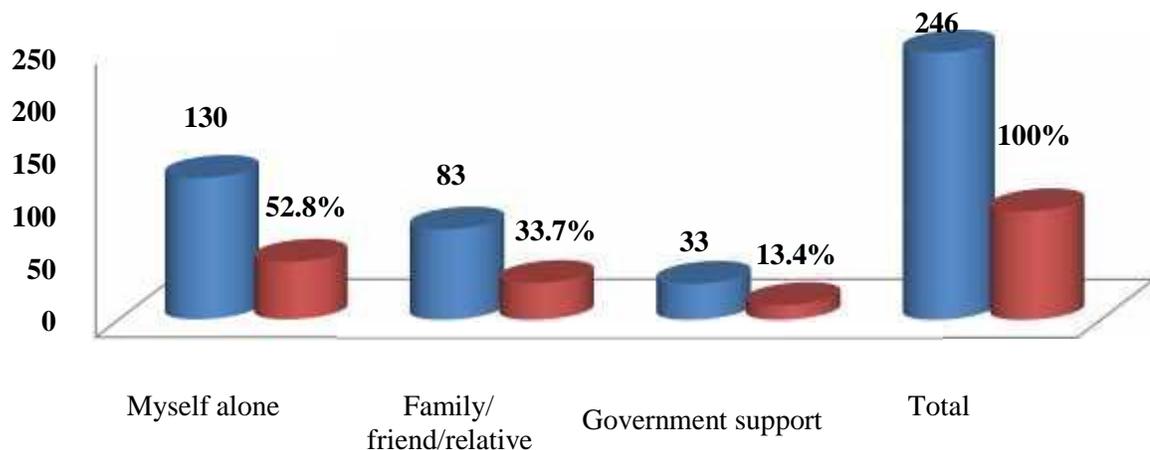
*(Source: Researcher’s Survey)*

**Figure 4.4: Respondents Business Category**

As it can be seen from figure 4.4 above, majority 135(55.3%) of the owners (operators) involved in trade, manufacturing 48(19.5%), service 42(17.1%), construction 10(4.1%) and urban agriculture 10(4.1%). This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the performance of MSEs because enterprises indifferent sectors face different types of problems.

**4.1.6 Reasons to start own business**

It is common that some start their own business with their own initiation and some others establish enterprises with family or friends or relatives or government support. The following graph shows the initiators of MSEs owners (operators) to start own enterprises.



(Source: Researcher's Survey)

**Figure 4.5: Respondent's reason to start a business**

Figure 4.5 above vividly shows that majority 130 (52.8%) of the respondents start enterprises with their own initiation for the reason that they want to self-employed as well as to create income, whereas, 83(33.7%) of the respondents start their own business for the reason that they are encouraged by family/friend/relatives in the form of finance or moral to be self-employed. Only 33(3.4%) of the respondents establish their own business because of the government encourages them by providing credit and other supports. This implies most of business owners (operators) start the business with their own initiation.

#### 4.1.7 Monthly Income of Respondents

The major objective of micro and small enterprises was to generate income and there by alleviate poverty. In order to see the contribution of MSEs in the source of income, it is very essential to assess the net income of the respondents Therefore; the following table shows the net income of owners (operators) of MSEs.

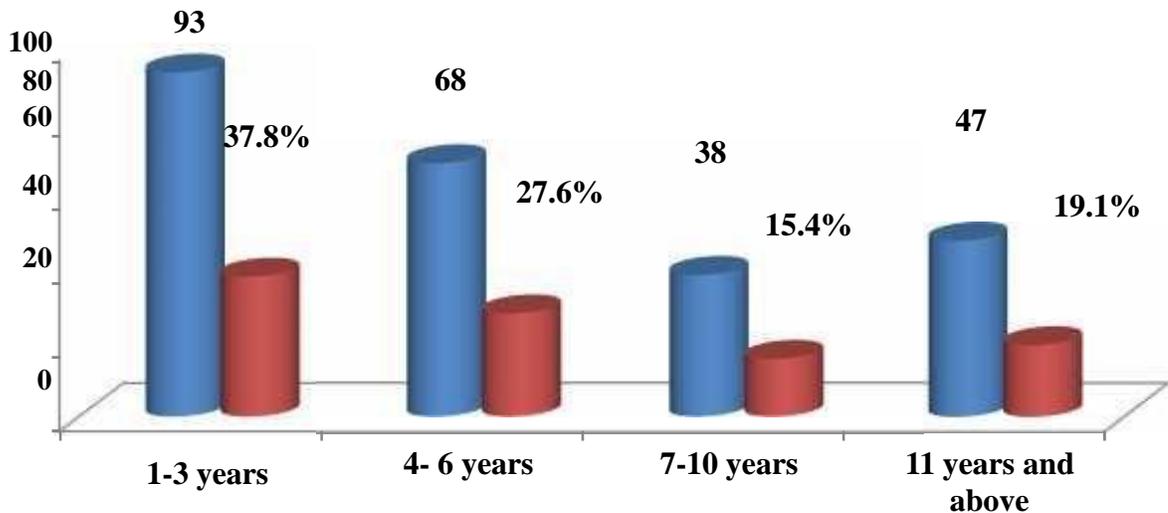
**Table 4.2: Net Income of Respondents**

Net income	Frequency	Percent
Below Birr 4999	58	23.6
Birr 5000-6999	90	36.6
Birr 7000-9999	67	27.2
10,000 Birr and above	31	12.6
<b>Total</b>	<b>246</b>	<b>100.0</b>

(Source: Researcher's Survey)

As depicted from table 4.2, 58(23.6%) of the respondents earn below Birr 4,999, Whereas, 90(36.6%) of respondents monthly net income was within the range of birr 5,000 – 6,999 and 67(27.2 %) of respondent earn between birr 7,000 and birr 9,999. The remaining 31(12.6 %) of respondents earn more than Birr 10,000. Therefore, majority of MSEs owners (operators) earn monthly net income below birr 7,000.

#### 4.1.8 Year of Experience in the enterprises



(Source: Researcher's Survey)

**Figure 4.6: Respondents Experience in the enterprises**

As figure 4.6 indicates, 93(37.8%) of the respondents have 1-3 years of experience, 68(27.6 %) of them have 4 - 6, 38(15.4%) have 7-10 and 47(19.1) have more than 10 years of experience in the enterprises. This implies most of business owners (operators) have 1-3 years' experience. Even though individuals can learn more from their experience that can help them to predict and flexible according the opportunities in the environment, can learn more from the colleagues in planning and in creating relationship with society/customers consuming their products.

## 4.2 Source of Finance for Start-up of MSEs

### 4.2.1 Basic Source of Finance to start MSEs

Finance is one of the critical requirements for start-up, survival and growth of business firms even though different firms most of the times fail to distinguish between long- and short-term financing needs and to find appropriate sources. Thus, as individuals cannot join businesses with empty mind, they also need have some sources of finance that helps them to start the business. The sources of this finance can differ from one another depending on different factors. Therefore, figure 4.7 shows the major source of finance for MSEs.

Source	Frequency	Percent
Personal Saving	56	22
Family Friends	51	20.7
Micro Finance institution	91	37
Ekub	14	5.7
Borrowed from Bank	17	6.9
NGO	14	5.7
Other Source	3	1.2
<b>Total</b>	<b>246</b>	

(Source: Researcher's Survey)

#### Figure 4.7: Source of Finance to start MSEs.

As depicted from figure 4.7, majority 91(37%) of respondents started their business by borrowing money from microfinance institutions, followed by money obtained from own personal saving 56(22.8%), families/friend/relatives 51(20.7%), borrowed from banks 17(6.9%), ekub 14(5.7%), NGOs 14(5.7%) and 3(1.2) from other sources. This shows that the main source of finance for MSEs in Nifas Silk Lafto sub-cities is MFIs followed by personal saving. Besides, the result of interview shows that majority of MSEs owners (operators) in the study area uses sources of finance such as MFIs. According to majority interviewee, the reason for emphasizing on MFIs is that the requirement of collateral/guarantor is relatively better, but the accessibility of credit from MFIs is limited to meet the credit needs of the MSEs. Therefore, such constraint of finance affects the performance of MSEs directly or indirectly.

With regard to the sources of finance for MSEs in Ethiopia, Wolday (2002) stated that, the major sources of initial/startup capital for MSEs are loans from micro finance institutions and personal savings.

#### 4.2.2 Amount of money obtained either credit or support for MSEs

Table 4.3: money obtained either credit or support

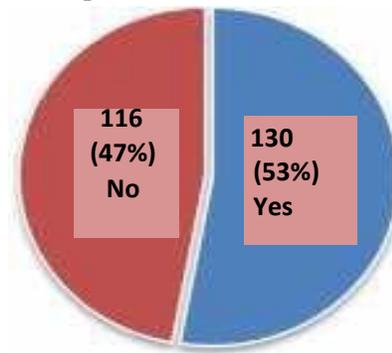
Amount of money obtained		
	Frequency	Percent
Below birr 9,999	99	40.2
Birr 10,000 –19,999	89	36.2
Birr 20,000--29,999	35	14.2
Birr 30,000 and above	23	9.3
<b>Total</b>	<b>246</b>	<b>100</b>

(Source: Researcher's Survey)

As presented table 4.3 above, 99 (40.2%) of the respondents are obtained credit or support below Birr 9,999, 89(36.2%) of the respondents are in the range of birr 10,000- 19, 999, 35(14.2%) are in the range of birr 20,000 – 29,999 and the remaining 23(9.3%) of the respondents received birr 30,000 and above. This implies that the majority 99 (40.2 %) of the respondents obtained the amount of money less than 9,999. Accordingly, from this one can conclude that most of owners (operators) of MSEs do not have sufficient amount of money to start and expand their business.

### 4.2.3 Interest Rate Payment

The degrees of interest rate charged by creditors are not the same in all financial institutions. Many of them pay high interest and very few others do not pay interest totally. To know the perception about the degree of interest rate, MSEs owners (operators) have asked about the interest rate imposed on them by credit providers and the response of them have been indicated in the following pie chart.



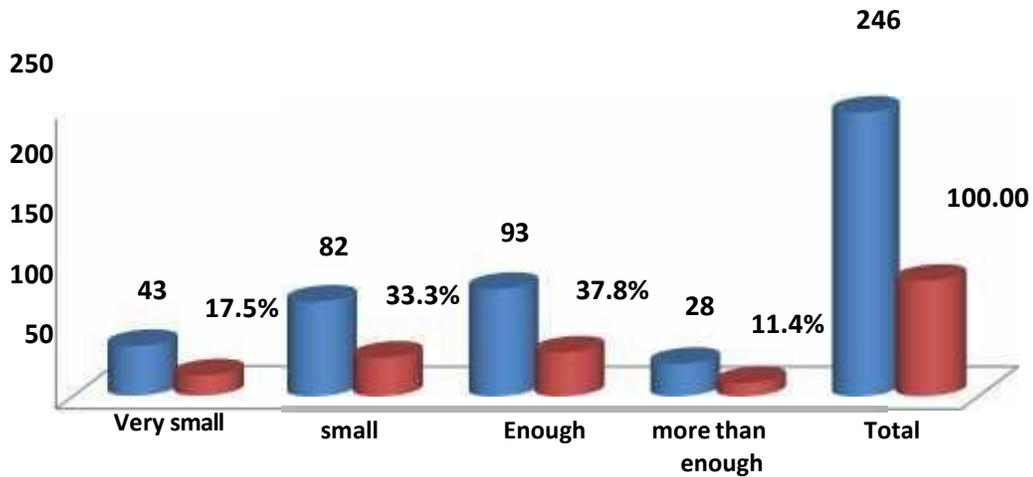
(Source: Researcher’s Survey)

**Figure 4.8: Respondents feedback on Interest Rate Payment**

As shown in figure 4.8, out of total respondents 130 (53 %) reported that they pay interest for the money that they get and 116(47 %) of the respondents said that they do not pay interest because they obtained the money from families, friends, relatives ekub and other sources. This indicates that MSEs owners (operators) pay interest for the money that they get.

### 4.2.4 Loan size given by financial Institutions

Due to fear of risk of repaying the money, many financial institutions lend a small amount of money for MSEs. In order to know the loan size given for MSEs by financial institutions, the researcher has asked respondents about the size or amount of money borrowed based on their perception and the response has been presented in the following figure.

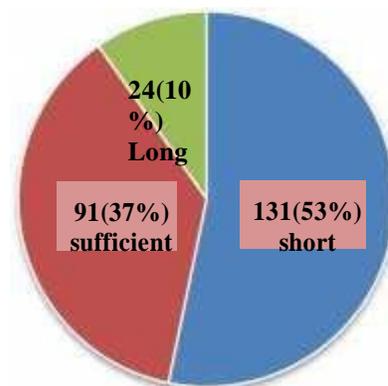


(Source: Researcher's Survey)

**Figure 4.9: Respondent's evaluation of Loan size given by financial Institutions.**

As indicated in above figure 4.9, 43(17.5%) of respondents reported that the size of loan given by financial institution is very small, 82(33.3%) of respondent said that it is small, whereas, 93(37.8%) of them said that the amount of loan size is enough. The remaining 28(11.4%) of the respondents said that the amount of loan size is more than enough. Thus, from this one can infer that the loan size given by financial institutions is relatively less than enough.

#### 4.2.5 Loan Repayment Period

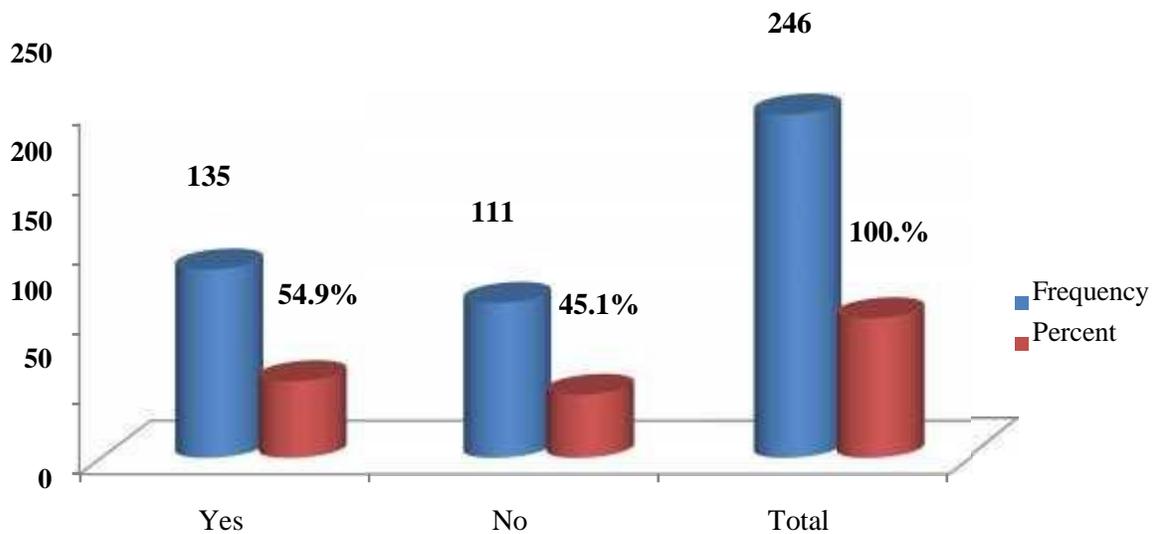


(Source: Researcher's Survey)

#### Figure 4.10: Loan Repayment Period of the Respondents

As depicted figure 4.10 regarding the loan repayment period, 131(53 %) of the business owners (operators) responded that the loan repayment period is short. The other 91(37 %) rated the loan repayment period as sufficient, while, 24(10%) of the respondents said that loan repayment period is long. This implies the loan repayment period is short. Besides, the result of interview confirms that most of the MSEs owners (operators) said that creditors are not waited us until we generate revenue. They forced us to pay the loan within short period of time whether by selling productive assets or penalize them if they failed to pay the loan on the already specified period.

#### 4.3.6 Need of money for MSEs



(Source: Researcher's Survey)

#### Figure 4.11: Respondents need of additional money

As indicated in figure 4.11 above, 135(54.9%) of the respondents said that they need additional money now because of in order to change, expand and improve their business, whereas, 111(45.1%) of the respondents reported that they did not need additional money. This implies relatively most of business owners (operators) need additional money. Even though the majority of business owners (operators) had not asset at the time of establishment, a significant number of respondents confirmed that they had an asset such as building, car, machineries, house, equipment's, land and other assets.

### 4.3 Factors Influencing the Performance of Micro and Small Enterprises

There are challenges that influence the performance of MSEs associated with different factors. Therefore, respondents were asked different questions regarding the factor's influence the performance of MSEs and their responses are organized in the following.

### 4.3.1 Results of Measures of Central Tendency and Dispersion

This part explains the descriptive statistics calculated on the basis of the factors that influence the performance of MSEs. The discussion here is related to the descriptive statistics result of the six independent variables in relation to the performance of MSEs operating in Nifas Silk Lafto sub-cities. Five points Likert scale has been used to distribute the respondents' options when study items. The levels of the scale were given the following rating: (5) strongly agree, (4) agree, (3) undecided, (2) disagree, (1) strongly disagree. The standard mean of all statements equals  $((5+4+3+2+1)/5) = 3$ , the study considered the value below (3) is disagree and above 3 is agree (Muhammad et al, 2015). Moreover, the results of measures of central tendency and dispersion were obtained from the sample of respondents of manufacturing, construction; trade, services, and urban agriculture are shown in the following tables.

**Table 4.4: Management Factors that Influence the Performance of MSEs**

Business Enterprise Sectors	Manu- facturing			Constr- uction			Trade			Service			Urban Agriculture			Grand Total	
	N	M	SD	N	M	SD	N	M	SD	N	M	SD	N	M	SD	M	SD
Lack of clear division of duties and responsibility among employees.	48	3.40	1.38	10	3.83	0.83	136	3.83	1.12	42	3.60	1.15	10	4.20	0.92	3.73	1.08
Poor organization and ineffective communication	48	3.25	1.26	10	3.92	1.24	136	3.65	1.17	42	3.58	1.11	10	3.50	1.08	3.58	1.18
Poor selection of associates in business	48	3.50	1.11	10	3.17	1.52	136	3.49	1.11	42	3.35	1.14	10	4.00	0.82	3.47	1.13
Lack of well trained and experienced employees	48	3.46	1.20	10	3.67	1.50	136	3.77	1.06	42	3.45	1.08	10	3.70	0.95	3.65	1.11
Lack of low cost and accessible training facilities	48	3.52	1.07	10	4.42	0.67	136	3.71	1.02	42	3.77	1.05	10	3.90	1.10	3.73	1.04
Lack of strategic business planning	48	3.50	1.20	10	3.75	1.05	136	3.73	1.01	42	3.45	0.99	10	4.10	0.32	3.66	1.04
High employee turnover	48	3.35	1.30	10	3.67	1.07	136	3.65	1.09	42	3.08	1.05	10	4.00	0.67	3.51	1.13
Depend on relatives and family labor	48	2.83	1.49	10	4.25	1.14	136	3.49	1.22	42	3.43	1.03	10	3.70	1.25	3.39	1.28
Lack of experience in managing a business	48	3.13	1.33	10	3.67	1.30	136	3.48	1.21	42	3.28	1.09	10	3.70	1.34	3.39	1.23
<b>Grand mean/standard deviation</b>																<b>3.57</b>	<b>1.13</b>

(Source: Researcher's Survey) M=mean SD=standard deviation

As it can be seen table 4.4 above, lack of low cost and accessible training facilities in business is the main problems that hamper the performance of MSEs. It shows a mean score of 4.42, 3.90, 3.77, 3.71, and 3.52 with a standard deviation of 0.67, 1.10, 1.05, 1.02 and 1.07 for MSEs owners (operators) were engaged in construction, urban agriculture, service, trade and manufacturing respectively. Therefore, the value of average mean scores and standard deviations clearly shows that respondent's agreement related on lack of low cost and accessible training facilities. Similarly, in relation to Lack of clear division of duties and responsibility among employees, table 4.4 above shows that, the mean score of 4.20, 3.83, 3.83, 3.60 and 3.40 with standard deviation of 0.92, 0.83, 1.12, 1.15 and 1.38 for MSEs engaged in urban agriculture, construction, trade, and service and manufacturing respectively. With regard to Lack of strategic business planning the mean scores are 4.10, 3.75, 3.73, 3.50 and 3.45 with standard deviation of 0.32, 1.05, 1.01, 1.20 and 0.99 for owners (operators) engaged in urban agriculture, construction, trade, manufacturing and service respectively.

This indicates that MSEs have a problem with developing and implementing the strategic business planning activities efficiently and effectively. As depicted from table 4.4 above concerning on the problem of well trained and experienced employees, the respondents were agreed with the mean scores of 3.77, 3.70, 3.67, 3.46 and 3.45, with standard deviations of 1.06, 0.95, 1.50, 1.20 and 1.08 of MSEs owners (operators) which are engaged in trade, urban agriculture, construction, manufacturing and services respectively.

The respondents of construction, trade, services, urban agriculture and manufacturing were consent about the problem of poor organization and ineffective communication; this can be assured by the mean scores of 3.92, 3.65, 3.58, 3.50 and 3.25 with standard deviations of 1.24, 1.17, 1.11, 1.08 and 1.26 respectively. Regarding high employee turnover, the respondents were agreed with the mean scores of 4.00, 3.67, 3.65, 3.35 and 3.08 with standard deviations of 0.67, 1.07, 1.09, 1.30 and 1.05 of MSEs (owners) operators which are engaged in urban agriculture, construction, trade, manufacturing and services respectively. In relation poor selection of associates in business, table 4.4 above shows that, the mean score of 4.00, 3.50, 3.49, 3.35 and 3.17 with standard deviation of 0.82, 1.11, 1.11, 1.14 and 1.52 for MSEs engaged in urban agriculture, manufacturing, trade, construction and service respectively.

Table 4.4 also shows that, depend on relatives and family labor is the problem of owners (Operators) engaged in construction, urban agriculture, trade and service with mean score of 4.25, 3.70, 3.49 and 3.43 with standard deviations of 1.14, 1.25, 1.22 and 1.03 respectively. But, depend on relatives and family labor for owners (operators) engaged in a manufacturing was disagreed with a mean of 2.83 and standard deviation of 1.49 respectively.

With the same level, regarding Lack of experience in managing a business, the respondents were agreed with the mean scores of 3.70, 3.67, 3.48, 3.28 and 3.13 with standard deviations of 1.34, 1.30, 1.21, 1.09 and 1.33 of MSEs owners (operators) which are engaged in urban agriculture, construction, trade, services and manufacturing respectively.

Besides, the result of interview shows that most of the MSEs owners (operators) have not efficient experience and management know how to perform their activities effectively and efficiently. Even though MSEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on MSEs. The lack of support services or their relatively higher unit cost can hamper MSEs efforts to improve their management because consulting firms often are not equipped with appropriate cost-effective management solutions for MSEs. The management skill and experience are very essential for the overall control of the enterprise activities effectively. Lack of effective management is a major cause for the failure of MSEs. Owners tend to manage these businesses themselves as a measure of reducing costs. Owners make independent decisions on the utilization of money generated from their businesses. Moreover, lack of management experience led to collapse of many businesses (Endalkachew Mulugeta, 2008).

Majority of those who run MSEs are ordinary lot whose educational background is lacking. Hence, they may not well equip to carry out managerial routines for their enterprises. Small business failure maintains that MSEs often have good ideas and are competent but they do not have a clue on how to run a business and have no underlying appreciation of business fundamentals. Professional experience has been cited as an important factor affecting many aspects of entrepreneurial firms. Experience takes many guises and breadth of experience is shown to be an important factor driving the performance of firms, with the number of previous jobs positively related to new firm performance.

The likelihood of failure was also found to be associated with the owner/manager's work experience prior to business launch and education on. Human capital is the most critical agent of SME performance. Marketing activities are one of the most accredited and imperative factors affecting small business achievement. Availability of marketing related information on the environment and internal realities of MSEs help them to effectively tapping of market opportunities and defense against emerging markets. The firm also can adjust its products and service to the needs and tastes of customers through marketing information.

to MSEs if the system is established. When such a system is established, not only regular information but information on future could also be supplied to MSEs (Assegedech Woldelul, 2004). Therefore, the following table shows the marketing factors that influence the performance of MSEs.

**Table 4.5: Marketing Factors that Influence the Performance of MSEs**

Business Enterprise Sectors	Manufacture			Construction			Trade			Service			Urban Agriculture			Grand Total	
	N	M	SD	N	M	SD	N	M	SD	N	M	SD	N	M	SD	M	SD
Inadequate market for my product	48	4.06	1.23	10	4.00	0.95	136	3.93	1.10	42	3.83	0.93	10	3.70	0.95	3.94	1.08
Searching new market is so difficult	48	3.60	1.23	10	4.25	0.97	136	3.88	1.09	42	3.85	1.12	10	3.90	0.99	3.84	1.11
lack of Demand forecasting	48	3.67	1.15	10	4.17	0.83	136	4.15	0.95	42	3.70	1.07	10	3.50	1.08	3.96	1.03
Lack of Market Information	48	3.88	1.04	10	4.0	0.74	136	4.10	0.91	42	3.88	0.85	10	3.50	0.97	3.99	0.93
Absence of relationship with an organization that conduct marketing research	48	3.60	1.25	10	3.42	1.08	136	4.10	0.93	42	4.05	0.85	10	3.60	0.97	3.94	1.02
poor customer relationship and handling	48	3.13	1.36	10	3.67	1.30	136	3.73	1.06	42	3.50	1.37	10	3.9	1.10	3.57	1.21
Shortage of promotion to attract potential users	48	3.54	1.30	10	4.17	1.03	136	3.82	1.00	42	3.43	1.03	10	3.9	0.88	3.72	1.08
<b>Grand mean/standard deviation</b>																<b>3.85</b>	<b>1.07</b>

(Source: Researcher's Survey) M=mean SD=standard deviation

As shown table 4.5 above, marketing factor consist of seven items. From these factors lack of market information, lack of demand forecasting, absence of relationship with an organization that conduct marketing research inadequate market for my product, searching new market is so difficult, shortage of promotion to attract potential users and poor customer relationship and handling are critical factors that affect the performance of MSEs engaged in all sectors. Therefore, the respondents of trade, construction, manufacturing, services and urban agriculture agree with problems of market information for their business activity and assure

with a mean of 4.10, 4.00, 3.88, 3.88 and 3.50 with standard deviation of 0.91, 0.74, 1.04, 0.85 and 0.97 respectively. From these it is possible to generalize that if there is lack of market information in the enterprises, the enterprises performance can be in doubt to guarantee for future operation. The mean scores of lacks of demand forecasting is 4.17, 4.15, 3.70, 3.67 and 3.50 with standard deviations of 0.83, 0.95, 1.07, 1.15 and 0.97 for MSEs engaged in construction, trade, services, manufacturing and urban agriculture respectively.

Thus, it implies that lack of demand forecasting is the factors that hindered the performance of MSEs engaged in the five sectors. Regarding absence of relationship with an organization that conduct marketing research, the respondents agreed the mean of 4.10, 4.05, 3.60, 3.60 and 3.42 with standard deviation of 0.93, 0.85, 1.25, 0.97 and 1.08 for owners (operator) engaged in trade, service, manufacturing, urban agriculture and construction respectively. Similarly, from table 4.5, it can be observed that, inadequate market is another marketing factor that influences the performance of MSEs. The mean score of 4.06, 4.00, 3.93, 3.83 and 3.70 with a standard deviation of 1.23, 0.95, 1.10, 0.93 and 0.95 for MSEs engaged in construction, manufacturing, trade, service and urban agriculture respectively.

In other case, table 4.5 shows that, searching new market is so difficult and the mean scores are

4.25, 3.90, 3.88, 3.85 and 3.60 and standard deviations are 0.97, 0.99, 1.09, 1.12 and 1.23 for MSEs engaged in construction, urban agriculture, trade, service and manufacturing respectively.

Moreover, the respondents agreed with the problem of promotion to attract potential users, this agreement is assured by the mean scores of 4.17, 3.90, 3.82, 3.54 and 3.43 and standard deviations are 1.03, 0.88

, 1.00, 1.30 and 1.03 for MSEs participated in construction, urban agriculture, trade, manufacturing and services respectively. Finally, the above table vividly shows poor customer relationship and handling was the other factor that affects the performance of MSEs in Nifas Silk Lafto sub-cities.

This is justified by the mean scores of 3.90, 3.73, 3.67, 3.50 and 3.13 and standard deviations of

1.10, 1.06, 1.30, 1.37 and 1.36 for MSEs engaged in urban agriculture, trade, construction, services and manufacturing respectively. From the response of the respondents, it can be possible to conclude that most MSEs have problems concerning marketing. In addition to this, the data from interview also support the problem of marketing in the operation of MSEs.

Even though marketing activities are one of the most recognized and important factors affecting small business success, it is one of the major problems of all MSEs because most of them have very limited knowledge of the marketing concepts and skills. Lack of market related knowledge and information is a serious problem that most of MSEs face. For the reason that they have lack of information where the best market areas are located, inability to analyze their respective market, lack of skills to set competitive prices, inability to effectively promote products, they face great challenges. Because, it is not the simple activity to have customer relationship, keeping customers' record, making follow-up on customers behaviors, improving knowledge of their characteristics, understanding the market complexity and having adequately trained staff (Bowen et al, 2009).

**Table 4.6: Working place factors that influence the performance of MSEs**

Business enterprise Sectors	Manufacturing			Construction			Trade			Service			Urban Agriculture			Grand Total	
	N	M	SD	N	M	SD	N	M	SD	N	M	SD	N	M	SD	M	SD
Absence of own premises	48	3.75	1.44	10	4.42	0.52	136	4.15	0.93	42	4.10	0.84	10	4.20	0.42	4.14	0.83
Current working place is not convenient	48	3.56	1.34	10	4.67	0.50	136	3.94	1.05	42	4.10	0.90	10	4.00	0.94	3.93	1.08
The rent of house is too high	48	3.63	1.36	10	4.00	1.04	136	4.19	0.96	42	4.28	0.75	10	4.20	0.63	4.09	1.04
Working place is far from the market	48	3.69	1.26	10	4.25	1.14	136	4.00	1.00	42	4.00	0.91	10	4.10	0.57	3.96	1.04
<b>Grand mean/standard deviation</b>																<b>4.01</b>	<b>0.99</b>

As clearly depicted from table 4.6 above, there are working place related factors that influence the performance of MSEs activities such as absence of their own premises, the rent of house is too high, working place is far from the market and the current working place is not convenient for their business.

As the mean score of absence of own premises indicate 4.42, 4.20, 4.15, 4.10 and 3.75 with standard of 0.52, 0.42, 0.93 ,0.84 and 1.44 for respondents engaged in construction, urban agriculture, trade, service and manufacturing respectively. With regard to high rent of house, the mean scores are 4.28,4.20,4.19,4.00 and 3.63 and standard deviations are 0.75,0.63 ,0.96,1.04 and 1.36 for owners (operators) engaged in service, urban agriculture, trade, construction and manufacturing respectively.

Therefore, this indicated many owners (operators) of MSEs in the sub-cities run their businesses in rented premises and pay high rental charge which is higher than their capacity to pay.

The respondents of construction, urban agriculture, trade, service and manufacturing agreed with their working place is far from the market. Their mean scores are 4.25, 4.10, 4.00, 4.00, and 3.69 and standard deviations are 1.14, 0.57, 1.00, 0.91, 1.06, 0.94 and 1.26 respectively. Regarding inconvenient working place, the respondents agree with a mean of 4.67, 4.10, 4.00, 3.94 and 3.56 with standard deviation of 0.50, 0.90, 0.94, 1.05 and 1.34 for owners (operators) engaged in construction, service, urban agriculture, trade and manufacturing respectively. Thus, it concluded that inconvenient working place is the fourth factors that hindered the performance of MSEs engaged in five sectors.

The issue of land provision and the land lease system has greatly constrained the chance of micro and small enterprises who aspire to start up business. The enterprises are facing owing to a lack space provided by the government and various short coming of the small business owners regarding their business (Eshetu Bekele et al, 2009).

**Table 4.7: Infrastructural Factors that Influence the performance of MSEs**

Sectors of the enterprises	Manufacturing			Construction			Trade			Service			Urban agriculture			Grand Total	
	N	M	SD	N	M	SD	N	M	SD	N	M	SD	N	M	SD	M	SD
power interruptions	48	4.02	1.19	10	4.00	0.95	136	3.92	1.02	42	4.68	0.47	10	3.70	1.06	4.06	1.02
Insufficient and interrupted water supply	48	3.29	1.38	10	4.33	0.98	136	3.82	1.03	42	4.55	0.60	10	3.50	1.27	3.85	1.13
lack of business Development services	48	3.33	1.34	10	3.92	1.00	136	3.75	1.09	42	4.36	0.63	10	3.70	1.16	3.77	1.12
lack of sufficient and quick transportation services	48	3.17	1.23	10	4.08	0.90	136	3.86	1.12	42	4.23	0.73	10	3.80	0.92	3.79	1.11
lack of appropriate dray waste and sewerage system	48	3.73	1.30	10	4.42	0.67	136	3.90	1.01	42	4.05	0.90	10	3.90	0.99	3.92	1.05
<b>Grand mean/standard deviation</b>																<b>3.88</b>	<b>1.09</b>

(Source: Researcher's Survey)

The availability of infrastructural facilities is essential and ingredients for business growth and expansion.

Thinking growth or survival without infrastructure is ideal and looks like a dream that is vanity and striving after wind. For most of MSEs their work is tied with these infrastructures and if it is unavailable even for minutes, they forced to stop their production or service deliver. Because, there are no other substitutions of infrastructure to these enterprises to use instead of like electricity, water, telecommunication, road etc.

An infrastructural facility is the other major resources or inputs for any business enterprises regardless of their sizes because without the availability of infrastructural facilities, the MSEs owners (operators) are unable to run or produce their products at a given period of time (Abiyu Jiru, 2011). Therefore, infrastructural factor is the other factor which affect the performance of MSEs and it is consists of five items.

The result presented in table 4.7 shows that power interruption is the main problem followed by lack of appropriate dry waste and sewerage system that hinders the business performance of all sectors. The mean scores of power interruption are 4.68,4.02,4.00,3.92 and 3.70 with standard deviations of 0.48,1.19,0.99,1.02 and 1.06 for service, manufacturing, construction, trade and urban agriculture respectively.

The mean scores of lacks of appropriate dry waste and sewerage system are 4.42,4.05,3.90,3.90 and

3.73 with the standard deviations of 0.67,0.90,1.01 ,0.99 and 1.30 for construction, service, trade, urban agriculture and manufacturing respectively. As it can be shown the above table 4.7, the respondents of services, construction, trade, urban agriculture and manufacturing were agreed on the issue of insufficient and interrupted water supply.

This can be justified by the mean scores of 4.55,4.33, 3.82, 3.50 and 3.29 with standard deviation of 0.60, 0.98, 1.03, 1.27and 1.38 respectively. Also, the respondents of MSEs operators which are engaged in Services, construction, trade, urban agriculture and manufacturing were agreed on the issue of lack of sufficient and quick transportation service and their mean scores are 4.23,4.08 ,3.86,3.80 and 3.17 with standard deviation of

0.73,0.90,1.12,0.92 and 1.23 respectively. Similarly, lack of business development services is the other factor that impede the performance of MSEs activities with the mean scores of 4.36 ,3.92, 3.75,3.70 and 3.33 with standard deviation of 0.63,1.00,1.09,1.16, and 1.34 for operators engaged in services, construction, trade, urban agriculture and manufacturing respectively. Besides, the result of interview shows that, most of MSEs owners (operators) had no adequate infrastructural

facilities at the given study area. These lead to them, unable to generate adequate profit by satisfying the needs of the customers.

This is obvious that mainly for production and delivery of goods and service it requires different infrastructure. Most of the enterprise use water, power, road and transportation to produce and distribute their products.

These infrastructures are required for smooth operation of MSEs, while their business operation is mostly affected due to this problem. This indicates poor infrastructures pose a major challenge to micro and small enterprises in Nifas Silk Lafto sub-cities. As the interviewees said that the provision of better infrastructures has lagged behind over years like poor roads, inadequate electricity supply, telecommunication problems and unavailability of water and still they stand in need of better infrastructures. Infrastructure is one of the basic factors required to enhance the pace of industrialization in any country.

The development of business and industrial premises (shops, offices, factories, market stands, etc.) and infrastructure facilities, including the supply of electricity, water, telecommunication connections, sewage systems, etc. are crucial infrastructural facilities and utilities which warrant the growth and expansion of business enterprises. The mentioned physical infrastructure elements are not adequately developed and expanded to meet the growing demand of business activities in Ethiopia.

The main factor for such underdevelopment is due to the obvious nature of infrastructural projects which entail huge investment cost outlays. Hence, most enterprises particularly the small and micro enterprises are facing serious problems in this regard (MoTI, 1997).

The inadequacy of the physical infrastructure is a principal cause of low levels of investment and unsatisfactory performance of small and micro enterprises. The economic recovery strategy has identified poor infrastructure as a critical factor that constrain profitable business in Kenya.

The infrastructure problem includes poor state of roads, inaccessibility to land, work space, electricity and utility. Lack of allocation of suitable land to SMEs in most urban and rural areas is a major impediment to growth and development. Inaccessibility to land and lack of property rights hamper access to infrastructure and utilities by line MSEs (Ombura, 1997). Lack of essential infrastructure is another obstacle to business development. Although there is some development going on in Ethiopia due to the transformation program, key infrastructure and services such as water, a reliable telephone system could not adequately available.

The local chamber of commerce is planning a strategy to attract businesses and service providers to Ethiopia so that residents will benefit through skills transfer and job creation, but poor infrastructure has hindered this move. Entrepreneurs are also affected by poor infrastructure.

The micro and small-scale enterprises (MSEs) sector Ethiopia operate in an environment with very poor infrastructure which constitutes a barrier to entry and hinders competitiveness. In many States in the country, nonexistent of infrastructure, inability to access market, communication, power, water etc. prevent development of micro and small-scale enterprises (FeMSEDA, 2012).

Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of MSEs. Physical infrastructure is the totality of basic physical facilities upon which all other economic activities in the system significantly depend. Infrastructures are those services without which primary, secondary and tertiary production cannot function.

These infrastructures can be extended to include education, public health to transportation, communication, power and water supply. Infrastructure therefore, can be seen as both a final good providing services directly to consumers and intermediate input that enter into the production function of other sectors and raises the productivity of the factors employed. Infrastructure contributes to economic development through the promotion of private sector development by increasing access to the factors of production and goods market.

The availability of infrastructural facilities such as power, communications, water and transport, represents another important constraint on both the choice of MSEs opportunities and the scale of operation of each respective enterprise production as well as distribution depends vitally on the availability as well as reliability of physical infrastructure (Aruwa ,2006).

**Table 4.8: Financial factors that influence the performance of MSEs**

Sectors of the enterprises	Manufacturing			Construction			Trade			Service			Urban Agriculture			Grand Total	
	N	M	SD	N	M	SD	N	M	SD	N	M	SD	N	M	SD	M	SD
Lack of credit institution	48	3.52	1.46	10	3.83	1.19	136	3.83	1.21	42	3.93	1.02	10	4.10	0.99	3.80	1.22
Shortage of cash management skills	48	3.81	1.41	10	4.00	1.28	136	3.90	0.95	42	4.08	0.94	10	4.50	0.53	3.94	1.06
Shortage of working capital	48	3.83	1.19	10	4.67	0.49	136	4.04	1.07	42	4.07	0.73	10	4.40	0.52	4.05	1.02
High collateral requirement from banks other lending institution	48	4.23	0.81	10	4.83	0.39	136	4.26	0.84	42	4.18	0.78	10	4.60	0.52	4.28	0.81
High interest rate charged by banks and other lending institution	48	4.46	0.54	10	4.76	0.45	136	4.57	0.50	42	4.48	0.51	10	4.50	0.53	4.54	0.51
Loan application Procedures of banks and other lending institutions are too complicated	48	4.08	0.87	10	4.75	0.45	136	4.10	0.94	42	3.95	0.81	10	3.40	1.07	4.07	0.91
<b>Grand mean/standard deviation</b>																<b>4.11</b>	<b>0.92</b>

(Source: Researcher's Survey)

As depicted table 4.8, financial factors are the other factors which influence the performance of MSEs. Accordingly, the mean scores of 4.76, 4.57, 4.50, 4.48 and 4.46 with standard deviation of 0.45, 0.50, 0.53, 0.51 and 0.54 of the respondents in table 4.8 shows that those owners (operators) engaged in construction, trade, urban agriculture, service and manufacturing have faced the problem related to high interest rate charged by banks and other lending institutions respectively. With regard to high collateral requirement from banks other lending institution the mean score of 4.83, 4.60, 4.26,

4.23 and 4.18 with standard deviation of 0.39, 0.52, 0.84, 0.81 and 0.78 for owners (operators) engaged in construction, urban agriculture, trade, manufacturing and service respectively. In the same way, respondents of the five sectors agreed with the complexity of loan application procedures of banks and other lending institutions.

This is justified by the mean scores of 4.75,4.10, 4.08, 3.95 and 3.40 with a deviation of 0.45, 0.94, 0.87, 0.81 and 1.07 for operators engaged in construction, trade, manufacturing, service and urban agriculture respectively. With regard to shortage of working capital the mean score of 4.67, 4.40, 4.07, 4.04 and 3.83 with standard deviation of 0.49, 0.52, 0.73, 1.07 and 1.19 for entrepreneurs engaged in construction, urban agriculture, service, trade and manufacturing respectively. In other case, shortage of cash management skills was the other factors that affect the performance of MSEs activities.

This can be assured by the mean scores of 4.50, 4.08,4.00, 3.90 and 3.81 with standard deviation of 0.53,0.94, 1.28, 0.95 and 1.41 for owners (operators) engaged in urban agriculture, services, construction, trade and manufacturing respectively. With regard to lack of credit institution the mean score of 4.10, 3.93, 3.83, 3.83 and 3.52 with standard deviation of 0.99, 1.02, 1.19, 1.21 and 1.46 for entrepreneurs engaged in urban agriculture, service, construction, and trade and manufacturing respectively. Besides, the result of interview confirms that, most of MSEs owners (operators) had no adequate financial facilities at the given study area because of high interest rate, loan guarantee or collateral were cited as the main barrier to borrow from financial institutions.

Most of MSEs supply the required collateral to borrow from the banks and MFIs this low ability to provide loan guarantee or collateral was the major factor that inhibited them from seeking finance to expand their business or to start new businesses. As interviewees explained lack of working capitals result from insufficient permitted loan, unable to provided collateral in order to access loan from financial institutions, high interest rate, shortage of loan repayment time, and long loan processing time.

The situation of lack working capital can be constraint for owners wishing to mobilize adequate working capital to expand their businesses. As the interviewees mentioned as lack of collateral, such as residential houses, cars or land negatively affect to get loan from banking sectors. Therefore, the researcher has argued that there are very large numbers of MSEs unable to access to formal credit to carry out their work. The banks are unwilling to lend to MSEs due to their perceived investment risk and lack of any formal information to provide risk analyses.

Thus, in general, it appears that there has been much less involvement of the formal financial support to MSEs. It can be understood that, the loan evaluating criteria have excluded MSEs from being part of the formal financial system. Therefore, many MSEs have faced the problem of access to finance; because credit providers are limited in number and amount. Accordingly, this could

hinder MSEs' growth, expansion, diversification and development. Finance is the back bone of for any business enterprises regardless of their sizes whether large, medium and small it was ranked as one of the firms' top challenges. In order to run their business activities effectively and efficiently, any business enterprises should have adequate funds unless and otherwise it is difficult to operate their activities in a proper manner and sustain in the business environments.

and advances from clients), hire purchases, and lease to-buy contracts Generally in Ethiopia, the potential sources of finance include conventional banks, MFIs, cooperatives, government projects, and other informal lenders, as well as trade credit. Equity finance is limited: although we have not direct evidence, one could reasonably expect much more equity finance to be forthcoming in a situation where equity holders (in partnerships, for example) could liquidate their holdings quickly and with relative ease when they want to (Gebrehiwot Ageba et al, 2004).

**Table 4.9: Technological factors that influence the performance of MSEs**

Sectors of the Enterprises	Manuf-uring			Constr-uction			Trade			Service			Urban Agriculture			Grand Total	
	N	M	SD	N	M	SD	N	M	SD	N	M	SD	N	M	SD	M	SD
Shortage of appropriate machineries and equipment	48	4.15	0.82	10	4.17	0.83	136	3.74	0.98	42	4.03	0.73	10	3.10	1.20	3.86	0.94
Shortage of skills to handle new technology	48	3.50	1.24	10	4.00	0.85	136	3.79	1.00	42	3.58	1.00	10	3.40	1.07	3.70	1.05
Shortage of money to acquire new technology	48	3.44	1.15	10	4.25	0.87	136	4.10	0.90	42	3.78	0.97	10	3.40	1.17	3.89	1.00
Unable to select proper technology	48	3.27	1.27	10	3.25	1.60	136	3.80	1.07	42	3.68	1.02	10	3.70	1.25	3.65	1.15
<b>Grand mean/standard deviation</b>																<b>3.77</b>	<b>1.03</b>

(Source: Researcher's Survey)

As presented table 4.9 above, among the technological factors, shortage of money to acquire new technology scores the highest mean as 4.25,4.10,3.78, 3.44 and 3.40 with standard deviation of 0.87, 0.90, 0.97,1.15 and 1.17 for owners (operators) engaged in construction, trade, service, manufacturing and urban agriculture respectively. The second factor that affects the performance of MSEs is shortage of appropriate machineries and equipment's. Their mean score of 4.17, 4.15,

4.03, 3.74 and 3.10 with standard deviation of 0.83, 0.82, 0.73, 0.98 and 1.20 for owners engaged in construction, manufacturing, service, trade and urban agriculture respectively. This shows that the owner's (operators) of sectors agreed with that they have faced the problem of shortage of appropriate machineries and equipment's. Furthermore, the mean and standard deviation indicates that shortage of skills to handle new technology is the third technological factors that hinder the performance of MSEs in all sectors. Given that a mean score of 4.00, 3.79, 3.58, 3.50 and 3.40 with standard deviation of 0.85, 1.00, 1.00, 1.24 and 1.07 for MSEs engaged in construction, trade, service, manufacturing and urban agriculture respectively. Regarding unable to select proper technology, the mean of 3.80, 3.70, 3.68, 3.27 and 3.25 with standard deviation of 1.07, 1.25, 1.02, 1.27 and 1.60 for an operator engaged in trade, urban agriculture, service, manufacturing and construction respectively.

Thus, it can be concluded that unable to select proper technology is the fourth factor that impede the performance of MSEs engaged in five sectors. Besides, the results of interview indicate that, they lack money to acquire new technology (equipment, machinery, tools, etc.). Moreover, interviewees replied that, if new and appropriate technologies obtained, the presence of them will result in performance improvement.

Major constraint and handicap that influenced the performance of MSEs is inaccessibility of appropriate technology. This applies to both ends of the technology spectrum, viz. sophisticated or appropriate. Identifying and selecting appropriate technology for MSEs operating in the labor intensive, and low skill spheres deserve more attention and justify some government support. A structural process of appropriate technology development involves such activities as technology search, assessment, transfer, absorption, adaptation and replication.

In countries where the manufacturing sector is better developed, the government's role has been confined to the dissemination of the results of search, assessment and evaluation of transfer mechanisms. Entrepreneurs then take over and affect the actual transfer, absorption, adaptation and replication. However, in Ethiopia, micro and small businesses have problems in getting information on appropriate technology and the process of transfer. To execute these crucial stages of technology transfer, the government will play catalytic role and lay-down the basis for technological development and transfer (MoTI, 1997).

Choice of technology and innovative capacity is another important factor determining growth of MSEs. Production technology has passed through three paradigms: technological development,

appropriate technology and technological capability paradigm. It is divided into production, investment, and innovative/ adaptive capability. Production capability is the static knowledge and skill required to use existing machine and investment capability is the capacity to identify, select. Technology development which is far less applicable to MSEs is the process of designing new machineries/ equipment's/ Processes/ products. The appropriate technology paradigm assumes MSEs as beneficiaries and not as active participant of development and improvements of technology; technology as a resource that can only be adapted by MSEs for improving factor productivity and reducing unit costs. It also focuses on incremental choice and suitability of available technologies to the production and market environment of MSEs operating in environment of unskilled and large labor market, low-income consumer market, and low-quality inputs. But appropriate technology paradigm is challenged for its limited impact and its failure to narrow gaps between MSEs and larger enterprises.

The technical capability paradigm has emerged as a result of unsatisfactory result with appropriate technology paradigm and with an objective to raise capacities of MSEs in making use of innovated technologies as most innovated technologies is adopted from separate workshops. It needs institutional, technical and engineering skills to adapt these technologies to different climate, raw materials and market demand and acquire new technologies or processes while innovative/ adaptive capabilities are knowledge and skills to imitate, replace and modify existing production processes (Moyi et al, 2005).

**Table 4.9: ANAVA T- test**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.188	.051		-3.716	.000		
Managerial factors	.159	.011	.205	14.924	.000	.729	1.372
Marketing factors	.173	.011	.222	15.791	.000	.700	1.428
Working factors	.173	.009	.266	18.703	.000	.683	1.464
Infrastructure factors	.180	.008	.287	21.609	.000	.783	1.277
Financial factors	.187	.012	.222	15.851	.000	.707	1.415
Technological factors	.178	.009	.274	20.554	.000	.777	1.287

VIF=Variance Inflation Factor

### 4.3.2 Comparison of Factors

Even though, all the Management factors, Marketing factors, working place factors, Infrastructural factors, financial factors and Technological factors are factors that influence the performance of MSEs, this does not mean that all factors are equally influence the performance of the business enterprises. The following table clearly compares the overall impact of all key factors discussed in detail above.

**Table 4.10: Comparison of the Major Factors**

S.No	Factors	Grand Mean	Grand Standard deviation	Rank of factors
1.	Management factors	3.57	1.13	6 <sup>th</sup>
2	Marketing factors	3.85	1.07	4 <sup>th</sup>
3	Working place factors	4.01	0.99	2 <sup>nd</sup>
4.	Infrastructural factors	3.88	1.09	3 <sup>rd</sup>
5	Financial factors	4.11	0.92	1 <sup>st</sup>
6.	Technological Factors	3.77	1.03	5 <sup>th</sup>

(Source: Researcher's Survey)

As it can be compared the above factors, financial factors (grand M=4.11 and grand SD=0.92) are the series factors that highly affect the performance of MSEs activities at a selected area of study followed by working place (grand M=4.03 and grand SD=0.99), infrastructure (grand M=3.88 and grand SD=1.09), marketing (grand M=3.85 and grand SD=1.07), technology (grand M=3.80 and grand SD 1.00) and management factors (grand M=3.58 and grand SD=0.99). As compared with the other factors, shortage of finances is the top most factors that influence the performance of MSEs at Nifas Silk Lafto sub-cities. This result is supported by Admasu Abera (2012) 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 financial factors affect highly the performance of MSEs in the study areas.

#### 4.4 Results of Inferential Statistics

In this part, the results of inferential statistics are presented. For the purpose of assessing the objectives of the study and testing of hypotheses, Pearson’s Correlation Coefficient, ANOVA and regression analyses were used. In this study, the null hypotheses are rejected because the entire alternative hypotheses are accepted. With the help of these statistical techniques, conclusions are drawn and decisions are made from the results of research hypothesis.

##### 4.4.1 Pearson’s Correlation Coefficient

In this section, Pearson’s Correlation Coefficient used to determine the relationship of Management factors, Marketing factors infrastructure, Working Place, financial and technological factors with the performance of MSEs. According to Admasu Abera (2012), correlation coefficient can range from -1 to +1. The value of -1 represents a perfect negative correlation while a value of +1 represents a perfect positive correlation. A value of 0 correlations represents no relationship. The results of correlation coefficient can be interpreted as follows.

**Table 4.11: Correlation coefficient interpretation**

Relationship	Correlation coefficient	Interpretation
Negative	(-0.80 to -1.00)	Very strong
	(-0.60 to - 0.79)	Strong
	(-0.40 to- 0.59)	Medium
	(-0.20 to-0.39)	Low
	(0.00 to-0.19)	Very Low
Positive	(0.00 to 0.19)	Very Low
	(0.20 to 0.39)	Low
	(0.40 to 0.59)	Medium
	(0.60 to 0.79)	Strong
	(0.80 to 1.00)	Very strong

(Yalew Endawoke,2011)

**Table 4.12: the relationship between independent variables and performance**

		Performance of MSE
Managerial factors	Pearson Correlation	<b>.619**</b>
	Sig.(2-tailed)	<b>.000</b>
	N	<b>246</b>
Marketing factors	Pearson Correlation	<b>.642**</b>
	Sig.(2-tailed)	<b>.000</b>
	N	<b>246</b>
Working place factors	Pearson Correlation	<b>.699**</b>
	Sig.(2-tailed)	<b>.000</b>
	N	<b>246</b>
Infrastructure factors	Pearson Correlation	<b>.647**</b>
	Sig.(2-tailed)	<b>.000</b>
	N	<b>246</b>
Financial factors	Pearson Correlation	<b>.670**</b>
	Sig.(2-tailed)	<b>.000</b>
	N	<b>246</b>
Technological factors	Pearson Correlation	<b>.646**</b>
	Sig.(2-tailed)	<b>.000</b>
	N	<b>246</b>
Correlation is significant at the 0.01 level (2-tailed). **		

(Source: Researcher's Survey)

As it is clearly shown in the above table 4.12, a strong positive relationship was found between working place and performance of MSEs ( $r = .699$ ,  $p < .01$ ), finance and performance of MSEs ( $r = .670$ ,  $p < .01$ ), and infrastructure and performance of MSEs ( $r = .647$ ,  $p < 0.01$ ), which are statistically significant at 99% confidence level of MSEs owners (operators) which are engaged in manufacturing, construction, trade, services and urban agriculture.

This implies that at a 1% level of significance it was discovered that the working place, finance and infrastructure plays a significant role in determining the performance of MSEs in Nifas Silk Lafto sub-cities. Moreover, there is a strong, however, statistically significant relationship between technology and performance of MSEs ( $r = .646$ ,  $p < .01$ ) which is statistically significant at 99% confidence level of MSEs owners(operators) which are engaged in manufacturing, construction, trade, services, and urban agriculture.

This implies that, the use of more technology improved the performance of MSEs. The result on table 4.12 above further indicates that, there is a strong positive correlation between marketing factors and performance of MSEs ( $r = .642$ ), which is statistically significant at 99% confidence level of MSEs owners (operators) which are engaged in manufacturing, construction, trade, services, and urban agriculture. This implies that the use of marketing opportunities

improves the performance of MSEs. Similarly, there was a strong positive relationship between management factors and performance of MSEs ( $r = .619, p < 0.01$ ), which are statistically significant at 99% confidence level of MSEs owners(operators) which are engaged in manufacturing, construction, trade, services and urban agriculture.

### 4.4.2 Regression Analysis

**Table 4.13: The Effects of Independent Variables on the Performance of MSEs**

Model summary	R	R Square	Adjusted R Square	Std. Error of the Estimate		Sig.
	.983	.967	.966	.08511		.000
Model Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std.Error	Beta			
Coefficients	(Constant)	-.188	.051		-3.716	.000
	Managerial factors( $X_1$ )	.159	.011	.205	14.924	.000
	Marketing factors( $X_2$ )	.173	.011	.222	15.791	.000
	Working place factors( $X_3$ )	.173	.009	.266	18.703	.000
	Infrastructure factors( $X_4$ )	.180	.008	.287	21.609	.000
	Financial factors( $X_5$ )	.187	.012	.222	15.851	.000
	Technological factors( $X_6$ )	.178	.009	.274	20.554	.000

Table 4.13 above depicted that, the result of the multiple regressions of performance against its variables for the sample of 246 MSEs owners (operators). The hypotheses state that the business activities of Nifas Silk Lafto sub-cities MSEs were affected by different factors.

These factors are management, marketing, working place, infrastructural, financial and technological factors; this can be tested at a 1 percent level of significance. Therefore, the above-mentioned independent factors play a significant role in determining the performance of MSEs activities at Nifas Silk Lafto sub- cities. As it can be presented from table 4.13, the correlation between the observed value of performance and the calculated value of the independent variables (Management Marketing, Working Place infrastructural, financial, working place and technological factors) is 0.983, as indicated by multiple R. Besides, given the R Square value of 0.967 and adjusted R square value of

0.966, it may be realized that 96.7 percent of the variation in performance can be explained by the independent variables. The remaining 3.3 percent of the variance is explained by other variables

not included in this study. The unstandardized coefficients B column gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below.

Predicted performance score =  $-.188 + .159(\text{Managerial factors}(X1)) + .173(\text{marketing factors}(X2)) + .173(\text{working factors}(X3)) + .180(\text{infrastructure factors}(X4)) + .187(\text{financial factors}(X5)) + .178(\text{technological factors}(X6))$ .

Moreover, table 4.13 revealed that, all the explanatory variables included in this study can significantly explain at 99% confidence level to the variation on the dependent variable. The standardized beta coefficient column shows the contribution that an individual variable makes to the model.

The beta weight is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant). As it can be compared them, the largest influence on the performance of MSEs is from the infrastructure factors (.287), technological factors (.274), working place factors (.266), financial factors (.222), marketing factors (.222) and managerial factors (.205). Therefore, as we compared with the Predicted performance value of the variables, all the independent variables influence the performance of MSEs at Nifas Silk Lafto sub-cities.

#### 4.4.3 Analysis of Variance (ANOVA)

**Table 4.14: Analysis of Variance (ANOVA) model test**

		Sum of		Mean		
1	Regression	50.728	6	8.455	1167.098	.000
	Residual	1.731	239	.00724		
	Total	52.460	245			

*(Source: Researcher's Survey)*

Analysis of variance (ANOVA) table 4.14 summarizes the output of the analysis of variance. In regression row, the output for regression displays information about the variation accounted for by the existing model. Residual displays information about the variation that is not accounted for by the model. And total in the table shows the sum of regression and residual. Mean square is the sum of squares divided by the degrees of freedom. And F statistics is the regression mean square divided by the residual mean square. If the significance value of the F statistics is small then the independent variable does a good situation in explaining the variation in the dependent variable.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, the major findings are summarized; conclusions are drawn based on the findings and recommendations are forwarded to owners (operators) of MSEs, to government bodies and for other researchers.

#### 5.1 Summary of Major Finding

This research was conducted in Nifas Silk Lafto sub-cities of Addis Ababa with the aim of critically assessing the major factors influencing the performance of MSEs owners (operators) engaged in manufacturing, construction, trade, service and urban agriculture activities. For conducting this study, 248 questionnaires were distributed across the five sectors in the sub-cities, out of which 246 were completed and retrieved successfully, representing 99.19 % response rate; and unstructured interviews were conducted from the MSEs four operators (owners) and two managers of MSEs in the sub-cities. Specifically, the study attempted to investigate the sources of finance for MSEs, to assess the internal factors, to identify the external factors, to identify the factors that highly affect the performance of MSEs and to examine the difference of performance among sectors. Based on the objectives, the major findings of this study are summarized as follows.

In terms of sex distributions, the survey reveals that larger proportions of MSEs 150(61%) in the study area are owned (operated) by male, which indicates the need for extra efforts to raise the involvements of the females in the sector. Most of the respondent business owners(operators)141 (57.3 %) are under the age category of 21-39 years which they are active work force ready to act where there is comfortable situation is prepared for them because of they are in young and adult age and have many responsibilities in the future. Regarding marital status of the respondents, MSEs has absorbed mainly single 99(40.2%) and married 93(37.8%) men and women. Regarding to educational qualification, 19(7.7%) of the respondents cannot read and write, 44(17.9%) of them are grade1-8, 46(18.7%) were grade 9-12, 50(20.3) have certificate, 56(22.8%) had graduated in diploma and 31(12.6%) were holding first degree and above. It was further noted from the survey that, majority 135 (55.3%) of the enterprises involved in trade sector. The study also discloses that, majority130 (52.8%) of the respondents Start enterprises with their own initiation for the reason that they want to self-employed as well as to create income.

Moreover, majority 90 (36.6%) of respondents monthly net income was within the range of birr

5000 - 6999 and 93(37.8%) of the respondents have 1-3 years of experience.

The most important sources of finance for MSEs are MFIs 91(37%), own personal saving 56 (22.8%), families/friend/relatives 51(20.7%), borrowed from banks 17 (6.9%), ekub 14 (5.7%), NGOs 14(5.7%) and 3(1.2%) from other sources. Therefore, majority of MSEs operators in the study area uses sources of finance such as MFIs. The formal financial institutions have not been able to meet the credit needs of the MSEs. The reason for emphasizing on MFIs is that the requirement of collateral/guarantor is relatively rare as compared with formal sectors like banks. On the other hand, the majority 99 (40.2 %) of the respondents obtained the amount of money less than 9,999 and 130(53 %) of the respondents pay interest for the money that they get and 116 (47 %) of the respondents said that they do not pay interest because they obtained the money from families, friends, relatives ekub and other sources. Likewise, the loan size given by financial institutions is relatively less than enough 125 (50.8%) and majority 131(53 %) of the business owners (operators) responded that the loan repayment period is short. In the same way, 135 (54.9%) of the respondents said that they need additional money now in order to change, expand and improve their business, whereas, 111(45.1 %) of the respondents reported that they did not need additional money. Even though the majority of business owners (operators) had not asset at the time of establishment, a significant number of respondents confirmed that they had an asset, such as building, car, machineries, house, equipment's, land and other assets.

The study also identified a number of factors that hindered the performance of MSEs. These challenges were manifested in terms of management, marketing, working place, infrastructure, finance and technological problems.

The major management factors that influence the performance of MSEs according to their severity order are lack of low cost and accessible training facilities in business (  $M=3.73$  and  $SD=1.04$ ), lack of clear division of duties and responsibility among employees( $M=3.73$  and  $SD=1.08$ ), lack of strategic business planning( $M=3.66$  and  $SD=1.04$ ), lack of well trained and experienced employees ( $M=3.65$  and  $M=1.15$ ), poor organization and ineffective communication ( $M=3.58$  and  $SD=1.18$ ),high employee turnover ( $M=, 3.51$  and  $SD= 1.13$ ), poor selection of associates in business ( $M=3.47$  and  $SD=1.13$ ), depend on relatives and family labor ( $M=3.39$  and  $SD=1.28$ ) and lack of experience in managing a business ( $M=3.39$  and  $SD=1.23$ ).The finding of this research shows that, most of the MSEs owners (operators) have

no efficient experience and management knowhow to perform their activities effectively and efficiently. These lead to them unsuccessful because they run their business activities without having adequate knowledge about the business environment.

The major marketing factors that influence the performance of MSEs in the study area according to their severity order are lack of lack of market information (M= 3.99 and SD=0.93), lack of demand forecasting (M=3.96 and SD=1.03), absence of relationship with an organization that conduct marketing research ( M =3.94and SD = 1.02,inadequate market for the product (M=3.94 and 1.08), searching new market is so difficult (M=3.84 and SD=1.11) ,shortage of promotion to attract potential users (M=3.72 and 1.08) and poor customer relationship and handling (M=3.57 and 1.21).

The major working place factors that influence the performance of MSEs according to their severity order are absence of own premises (M=4.14 and SD= 0.83), the rent of house is too high (M= 4.09 and SD=1.04), working place is far from the market (M =3.96 and SD=1.04) and current working place is not convenient (M =3.93 and SD=1.08). Therefore, this implies that majority of MSEs owners (operators) in the study area does not have enough working premises. Because of this, the MSEs operators are not perform their business-related activities effectively and efficiently. And also, the location of the working premises is not suitable for attracting the new customers that means, the working premises have no access to market.

Infrastructure factors that influence the performance of MSEs from the findings indicate: power interruptions (M=4.06 and SD=1.02), lack of appropriate dray waste and sewerage system (M=3.92 and SD =1.05), insufficient and interrupted water supply (M=3.85 and SD=1.13), lack of sufficient and quick transportation services (M=3.79 and SD=1.11) and lack of business development services (M= 3.77 and SD=1.12) are the major factors influencing the performance of MSEs. Financial related factors of MSEs includes: high interest rate charged by banks and other lending institution (M=4.54 and SD=0.51), high collateral requirement from banks other lending institution (M= 4.28 and SD=0.81), loan application procedures of banks and other lending institutions are too complicated (M=4.07 and SD=0.91), shortage of working capital (M=4.05 and SD=1.02), shortage of cash management skills (M=3.94 and SD=1.06) and lack of credit institution (M=3.80 and SD=1.22) are the major factors influencing the performance of MSEs.

The major technological factors that influence the performance of MSEs according to their severity order are shortage of money to acquire new technology (M=3.89 and SD=1.09), shortage of appropriate machineries and equipment (M=3.81 and SD=0.91), unable to select proper technology (M=3.77 and SD= 1.03) and shortage of skills to handle new technology (M=3.70 and SD=1.05) are the major factors influencing the performance of MSEs. Of the major factors that influence the performance of MSEs, financial factors take the leading position (grand M=4.11 and grand SD=0.92) followed by working place (grand M= 4.01 and grand SD=0.99), infrastructure factors (grand M=3.88 and grand SD=1.09), marketing factors (grand M=3.85 and grand SD=1.07), technological factors (grand M=3.77 and grand SD=1.03) and management factors (grand M=3.57 and grand SD=0.99) respectively.

Pearson correlation coefficient was also used to determine the relationship between factors related to management, marketing, working place, infrastructure, finance and technological factors with the performance of MSEs. The results findings from the correlations in table indicate the following:

There is a strong positive statistically significant correlation between management factors and performance of MSEs ( $r=.619$ ,  $p< .01$ ) which are statistically significant at 99% confidence level of MSEs owners (operators) which are engaged in manufacturing, construction, trade, services and urban agriculture.

There is a strong positive statistically significant correlation between marketing factors and performance of MSEs ( $r=.642$ ,  $p< .01$ ) which are statistically significant at 99% confidence level of MSEs owners (operators) which are engaged in manufacturing, construction, trade, services and urban agriculture.

There is a strong positive statistically significant correlation between working place factors and performance of MSEs ( $r=.699$ ,  $p< .01$ ), infrastructural factors and performance of MSEs ( $r=.647$ ,  $p<$

$.01$ ) and financial factors and performance of MSEs ( $r=.670$ ,  $p< .01$ ) which are statistically significant at 99% confidence level of MSEs owners (operators) which are engaged in manufacturing, construction, trade, services, and urban agriculture.

There is a strong positive statistically significant correlation between technological factors and performance of MSEs ( $r=.646$ ,  $p< .01$ ) which are statistically significant at 99% confidence level of MSEs owners (operators) which are engaged in manufacturing, construction, trade, services, and urban agriculture.

The multiple regressions in this study tested the determinants of enterprises performance by including a wide variety of factors that might influence business performance. Therefore, the largest influence on the performance of MSEs is from the Infrastructural factors (.287), technological factors (.274), working place factors (.266), financial factors (.222), marketing factors (.222) and management factors (.205). Furthermore, R Square value of 0.967 (96.7 %) of the variation in performance can be explained by the independent variables. On the other hand, the ANOVA test indicates that, there is a statistically significant difference in performance among sectors. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted.

## **5.2 Conclusions**

Based on the major findings obtained, the following conclusions were drawn. Regarding sex of the MSEs owners (operators) which are engaging in different sectors, majority of the MSEs operators are male business owners while the participation of female operators is less. The result of the finding shows that, majority of the MSEs owners (operators) of the business are lying their age in between 21-39 years, therefore majority of the owners of the business enterprises are Young and adult. Regarding marital status of the respondents, MSEs has absorbed mainly single and married men and women; and the educational qualifications of the respondents or business owners(operators) were between elementary and diploma level. The type of business operating at the given study area by the MSEs owners (operators) are trade type of business and the majority of the respondents start the business with their own initiation for the reason that they want to self-employed as well as to create income. Likewise, most of MSEs. owners (operators) monthly net income was less than birr 7,000 and the majority of MSEs owners(operators) have 1-3 years of experience.

The major sources of finance or funds for most of MSEs owners (operators) are by borrowing money from MFIs followed by own personal saving, families/friend/relatives, borrowed from banks, ekub, NGOs and from other sources. The result of the finding shows that majority of MSEs owners (operators) in the study area uses sources of finance such as MFIs, the reason for emphasizing on MFIs is that the requirement of collateral/guaranty is relatively less as compared with formal sectors like banks.

The most basic external factors which influence the performance of the MSEs are financial factors which include high interest rate charged by banks and other lending institution, high collateral requirement from banks other lending institution, loan application procedures of banks and other lending institutions are too complicated, shortage of working capital, Shortage of cash

management skills and lack of credit institution. However, lack of access to finance is one among the other obstacles of MSEs to expand, diversify, promote and growth. The workings premises factors include absence of own premises, the rent of house is too high, current working place is not convenient and working place is far from the market. Infrastructural factors incorporate power interruptions, lack of appropriate dray waste and sewerage system, insufficient and interrupted water supply, lack of sufficient and quick transportation services and lack of business . development services that hinder the business performance of all sectors. Marketing factors include lack of demand forecasting lack of market information, absence of relationship with an organization that conduct marketing research, inadequate market for the product, searching new market is so difficult, shortage of promotion to attract potential users and poor customer relationship and handling are factors which influence the performance of MSEs for all sectors. In addition, the other external factors which affect the performance of MSEs are technological factors which include shortage of money to acquire new technology, shortage of appropriate machineries and equipment, Shortage of skills to handle new technology and unable to select proper technology.

On the other hand, the major internal factors identified were management factors which include lack of low cost and accessible training facilities in business, lack of strategic business planning, lack of clear division of duties and responsibility among employees, lack of well trained and experienced employees, poor organization and ineffective communication, high employee turnover, poor selection of associates in business, depend on relatives and family labor and lack of experience in managing a business. Therefore, as compared with the other factors, financial is the top most factors that affect highly the performance of MSEs at Nifas Silk Lafto sub-cities. In this study, there is a positive statistically significant correlation between independent variables and dependent variable. Moreover, the selected independent variables may significantly explain the variations in the dependent variable in study area. Finally, there is a statistically significant difference in performance among sectors, therefore, the null hypothesis is rejected and alternative hypothesis is accepted.

### **5.3 Recommendations**

Based on the findings of this study, the researcher forwarded the following important suggestions/recommendations to operators of MSEs, to government bodies and for other researchers.

In relation to sources of finance, Nifas Silk Lafto sub-cities government bodies and other stakeholders should provide affordable alternative sources of finance for MSEs. This can be done by communicating with the banks and other credit institutions to minimize their requirements to provide fund and encourage and create an enabling environment for establishment of more financial institutions that avail funds.

Regarding to management constraints, the owners (operators) of MSEs attend management development courses to enhance their knowledge and skills in terms of managing their businesses. In addition, the government and other stakeholders should provide basic business and financial management skills as this will enable the Nifas Silk Lafto sub-cities MSEs owners (operators) to make informed business decisions. This will enhance their entrepreneurial skills that will enable them to recognize and exploit the available business opportunities. Moreover, owners (operators) of MSEs should enhance their management skills through proper training and experience sharing with other MSEs, medium and large-scale enterprises.

To overcome the problems of marketing, the government bodies and other shareholders should providing selling and display places in areas close to working area, link MSEs with medium and large firms to serve as market outlets, provide training on quality improvement and cost reduction modalities; provide update information on market opportunities & appropriate/improved technologies; establish market information centers and it is more successful if MSEs should promote their product and services to attract customer and get more market share through using different promotional means.

Regarding to working place problems, the construction of sheds and common facility centers at suitable locations by assistance of the government, donors and private sector could help to address this problem. Thus, government with support from donors could engage in constructing shades for MSEs to address the problem of work place, coupled with measures to encourage private investors to engage in construction of premises suitable for MSEs. In this regard, the government should provide certain incentives for private investors such as tax relief for some time and availing of lease-free land, etc. Creating work place would benefit MSEs in reducing costs of high rent, reducing displacement, reducing closures of an enterprise. In addition, if MSEs have a constant work place, they can draw long year strategic plans regarding expansion of the business.

To overcome infrastructural facility constraints, the government and other concerned body should have given attention to minimize such kind of problems to improve the performance

of MSEs. To address the problem, the government should have to design programs with regard to development of road networks, power supply, water, telecommunication, sewerage system, etc. and concerted efforts should be made to carry out such programs. In addition, the governments, development associations, NGOs, private sector and community development should be also encouraged to participate in the development of certain infrastructures facilities. Moreover, the establishment of industrial zones, incubators, commercial premises and other common facility centers is believed to ease the existing problems with regard to utility and other infrastructural facilities, through sharing installation costs among beneficiaries and making efficient use of resources. In order to facilitate access to finance for MSEs, banks and MFIs need to allocate a certain portion of their loan able funds for MSEs owners (operators). This has to be supported by special lending and repayment arrangements. MSEs Owners (operators) put lack of finance as a greatest constrain to the growth of their enterprise. Thus, in order to address the problem of finance; financial institutions, the Federal and Regional Governments, donors, NGOs can assist in creating lines of credit and expanding the accessibility of financial institutions. Microfinance and other institutions should provide facilitates of supply of finance and lease machine for MSEs and encourage them to save and to be users of credit facilities. The support of MFIs and Banks should be encouraged through varying methods, such as widening the kind or range of collaterals, providing credit by making longer repayment and increase the amount of loan provided for group-based lending.

Finally, to make MSEs competitive, profitable and generate a new idea for the purpose of producing a new product with a new design, style and quality, the government bodies as well as the other stakeholders are better to offer favorable business environments in relation to technology because it is very important for the purpose of producing their products in short time with best quality. Skilled manpower and the use of appropriate technology are critical inputs to nurture micro and small enterprises. In this regard, the national MSE promotion and development strategy and other shareholders also should give due attention to technological development and transfer, establishing a technology data base system, facilitating appropriate modern technology and production materials to MSEs in the form of purchase and lease. Generally, in order to solve problems and constraints that micro and small enterprises of the sub-cities have, all concerning bodies like government, owners(operators) of MSEs, and others whom it concerns should be aware about problems and cooperate for the implementation of recommendations, policies and strategies.

The study suggests further studies to be conducted on the same topic in other town to ascertain the results found. This will not only confirm what the study found, but also offer an opportunity for comparisons to be made. Studies can also be conducted on other factors that affect Micro and Small enterprises, including Developing and expanding work, career development, Opportunity for professional trainings, The opportunity to work together with other institutions.

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**APPENDIX-A**  
**ST. MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**  
**GENERAL MBA PROGRAM**  
**QUESTIONNAIRE**

**Dear Respondents: -**

The purpose of this questionnaire is to collect information on assessing major Factors influencing the performance of Micro and Small Enterprises in the case of Nifas Silk Lafto sub-cities of Addis Ababa. The study is only for academic purpose and cannot affect you in any case. So, your genuine, honest and timely response is vital for accomplishment of this study on time. Therefore, I kindly ask you to give your response to each items/question carefully. Thank you in advance for your kind cooperation and dedicating your time.

Instructions: No need of writing your n

For Likert scale type statements and multiple-choice questions indicate your answers with a checkmark (√) in the appropriate block.

**PART 1: Profile of Participants**

1.1 kindly tick your sex: A. Male B. Female

1.2 Age: A. below 20 years B. 21-39 years. 40-60 years D. 61 years and above

1.3 Marital status: A. Married B. Single C. Divorced D. Widowed

1.4 Educational Qualification:

A. Can't read and write B. grade 1-8 C. grade 9-12 D. Certificate E. diploma

F. First degree and above

1.5 What is the main activity of the enterprise?

A. Manufacturing B. Construction C. Trade

D. Service E. Urban Agriculture

1.6 Who initiated to start the business?

A. Myself alone B. Family/ friend/relative C. Government

1.7 What is your monthly Net income? A. Below Birr 4,999 B. Birr 5000-6999

C. Birr 7,000-9,999 D. 10,000 Birr and above

1.8 Year of experience in the enterprise:

A.1-3 years B.4- 6 years C.7-10 years D. 11 years and above

**PART TWO: Questions related with the sources of finance for MSEs**

2.1 What was your main source of finance to start your business?

A. Personal saving B. Family /Friends/Relatives C. NGO D. Borrowed from Banks

E. Equib F. Micro finance institution G. Others (Specify) -----

2.2 On average, how much money do you get either credit or support?

A. below birr 9,999 B. birr 10,000-19,999 C. birr 20,000 -29,999 D. birr 30,000 and above

2.3 Do you pay interest for the money that you get? A. Yes B. No If not, why? -----

2.4 How do you evaluate the loan size given by financial Institutions?

A. very small B. small C. Enough D. more than enough

2.5 How do you evaluate the loan repayment period? A. short B. Sufficient C. long

2.6 Do you want additional money now? A. Yes B. No If yes, why? -----

-----

2.7 Explain the equipment's or other assets you have used when starting the enterprise? -----

-----

**PART THREE: Assessing major factors influencing the performance of MSEs are listed**

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

Where, 5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree and 1= strongly disagree

**Section 1: Internal factors influencing the performance of MSEs are listed below. Please indicate the degree to which you agree with the following statements concerning managerial factors.**

S. No	1.Managerial factors	5	4	3	2	1
1.1	Lack of clear division of duties and responsibility among employees.					
1.2	Poor organization and ineffective communication					
1.3	Poor selection of associates in business					
1.4	Lack of well trained and experienced employees					
1.5	Lack of low cost and accessible training facilities					
1.6	Lack of strategic business planning					
1.7	High employee turnover					
1.8	Dependence on family and relatives for labor					
1.9	Lack of experience in managing a business					

**Section: 2 External factors influencing the performance of MSEs are listed below. Please indicate the degree to which you agree with the following statements concerning external factors.**

S. No	2.Marketing Factors	5	4	3	2	1
2.1	Inadequate market for my product					
2.2	Searching new market is so difficult					
2.3	Lack of demand forecasting					
2.4	Lack of market information					
2.5	Absence of relationship with an organization that conduct marketing research					
2.6	Poor customer relationship and handling					
2.7	shortage of promotion to attract potential users					

<b>3.</b>	<b>Working Place Factors</b>					
3.1	Absence of own premises					
3.2	Current working place is not convenient					
3.3	The rent of house is too high					
3.4	working place is far from the market					
<b>4.</b>	<b>Infrastructural factors</b>					

4.1	Power interruptions					
4.2	Insufficient and interrupted water supply					
4.3	Lack of business development services					
4.4	Lack of sufficient and quick transportation service					
4.5	Lack of appropriate dry waste and sewerage system					
<b>5.</b>	<b>Financial Factors</b>					
5.1	Lack of credit institution					
5.2	Shortage of cash management skills					
5.3	Shortage of working capital					
5.4	High collateral requirement from banks and other lending institutions					
5.5	High interest rate charged by banks and other lending institutions					
5.6	Loan application procedures of banks and other lending institutions are too complicated.					
<b>6.</b>	<b>Technological Factors</b>					
6.1	shortage of appropriate machinery and equipment					
6.2	shortage of skills to handle new technology					
6.3	shortage of money to acquire new technology					
6.4	Unable to select proper technology					

7. What measures should be taken in order to improve the performance of micro and small enterprises? Suggest based on type of sectors? -----  
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**This questionnaire was mostly adopted from Admasu Abera (2012) and few questions are developed by me.**