

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**A RESEARCH PROJECT ON CHALLENGES AND
OPPORTUNITIES OF SMALL AND MEDIUM SCALE
ENTERPRISES (SMEs) IN ADDIS ABABA**

(The Case of Arada Sub City)

**BY
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ADDIS ABABA UNIVERSITY
School of Graduate Studies

Challenges and Opportunities of Small and Medium Scale Enterprises

(SMEs) in Addis Ababa

(The Case of Arada Sub City)

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Declaration

I, the undersigned, declare that this study is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

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ABSTRACT

Despite the tremendous increase in number of SMEs, little research exists that examines challenges and opportunities of small and medium enterprises (SMEs) in developing countries, especially in Ethiopia.

SMEs occupy a prominent position in the development agenda of many developing countries like Ethiopia. SMEs are long recognized as important vehicles of economic diversification, employment creation, income generation and distribution, and poverty alleviation. The number of SMEs in Ethiopia is steadily growing. But, much more important than their number is their current status, stage and pace of development. The government of Ethiopia has been promoting the development of SMEs through the formulation and implementation of Micro and Small Enterprises Development Strategy as of November 1997.

The purpose of the study is to identify the challenges and opportunities of the SMEs in Arda sub city and to give recommendations based on the problems. Primary data were collected from 115 SMEs in Arada Sub city of the capital city; Addis Ababa. The study covers almost all sectors that identified by Addis Ababa city administration SMEs office. Therefore the study identifies the major factors towards the success of the SMEs by considering all sectors

The findings indicated that SMEs face different problems. These problems are financial factors, marketing, management and HRM factors, environmental factors and the like. Inadequacy and costly of credit facilities and sources is the major problem of the SMEs in the sub city. More over Shortage of working capital, intensity of competition, like lack of business development services, collateral requirement by financial institutions, conflict with neighbors and lack of transparency among SMEs office at the time of allocating the working place were the major problems identified in the study.

The study shows that sole proprietorship form of SMEs is most common in Arda sub city. All of the sample firms were owned by citizens only. The findings indicated that SMEs use informal sources finance than formal sources. The sources of capital for SMEs in the sub city falls under the two traditional sources; borrowing from friends & relatives and personal saving. Other informal sources like “Equib” play the great role than the formal sources like microfinance. Most of SMEs prepare business plan but they did not have business associations.

The findings of the study have important implications for SMEs, support agencies and future research by academics, consultants and researchers.

CHAPTER ONE

INTRODUCTION

Although Ethiopia has a long history of artisan manufacturing activity, the development of modern manufacturing enterprises took place mainly in the post World War II period. The evolution of the sector falls into three broad phases: the import-substitution period which lasted from the early 1950s to 1974; the centrally planned economic system from 1974/1975 to 1991; and liberalization and market-orientation since 1991.

During the second period, private sector industrial activities, consisting mainly of SMEs, were openly discouraged through restrictive policies, including regulations and direct controls that prevented access to credit and imported inputs by private enterprises. Not surprisingly, therefore, during this phase, the number of officially registered small-scale manufacturing enterprises was reduced.

Since 1991, there has been significant improvement in the incentive system and the macro economic environment with positive implications for manufacturing activities. A liberal investment code has been introduced. Domestic price controls have been removed. The financial system has been partially liberalized. Tariffs have been reduced and non-tariff barriers have been removed. A public sector reform programme has also been introduced and one of its main objectives being to privatize SMEs that were nationalized in the 1970s. All these reforms have immensely improved the domestic policy environment for SMEs. In fact, the Government has gone a step further in its support for small enterprises by formulating a National Micro and Small Enterprises (MSEs) Development and Promotion Strategy. This is an important beginning and should be

followed by refinements of micro-policies and incentive schemes aimed at promoting learning and technical change at the enterprise level. Some of these policies are identified below.

The Government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of SMEs 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 MSE Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of SMEs.

According to the CSA survey, over 89% of the informal sector operators are concentrated in manufacturing, trade, hotel and restaurant activities. Of the small scale manufacturing industries 85% are engaged in the manufacture of food, fabricated metal furniture and wearing apparels. The survey also revealed that the number of people earning their livelihood from the informal sector activities and small scale manufacturing industries is eight times larger than those engaged in the medium and large scale industrial establishments. (Survey conducted by the CSA, May 1997)

The survey also indicated that the increased role and contribution that the MSE sector could have provided to the national economy is largely constrained by the various policy, structural and institutional related problems and bottlenecks. Lack of smooth supply of raw materials and working premises were reported to be the major bottlenecks facing small scale manufacturing industries, while lack of sufficient capital and working

premises were the leading problems of the informal sector operators to start their businesses.

Ethiopian SMEs, which are based on local raw materials and labour intensive technologies, which have greater sectoral linkage, those engaged in import substitution and with a potential for export and those engaged in tourism activities are indicated to serve as important yardsticks to select the beneficiary SMEs.

The sample survey, conducted in 48 major towns, by the Central Statistical Authority (CSA), in May 1997, showed that there are 584,913 and 2,731 Informal Sector activity operators and Small Scale Manufacturing Industries respectively that absorb 739,898 labor forces. The survey revealed that a micro enterprise on an average engages one person, and the average annual operating surplus is about birr 1300.

Specifically in Addis Ababa SMEs creates job opportunity for 45,351 individuals (1996 E.C.), 107,283 individuals (1997 E.C.), 20,131 individuals (1998 E.C) & 15,991 individuals since 1999 E.C (half year report). Regarding loan amount; br 44,062,450(1996 E.C.), br 109,559,000 (1997 E.C.), 36,049,897birr (1998 E.C.) and birr 17,692,000 since 1999 E.C (half year report). Regarding training opportunity, the administration provide training and business development services (BDS) for 4,910 individuals (1996 E.C.), for 45,788 individuals (1997 E.C.), for 13,223 individuals (1998 E.C.) and for 6,154 individuals since 1999 E.C (half year report). Despite the fact that a substantial number of Ethiopians make their living from incomes generated from SMEs, the sector suffers from a range of constraints (Addis Ababa City Administration SMEs

office Annual report)

Regarding the diversity of the informal sector activity (Micro Enterprises), the survey indicated that a large number of informal sector operators are concentrated in a limited area of activities, i.e., 47% in manufacturing, 42% in Trade, Hotel and Restaurant activities, about 6% in Community and Personal services and the rest 5% are involved in Agriculture, Hunting, Forestry & Fishing, Mining & Quarrying, Construction and Transport activities.

On the other hand, the survey on Small Scale Manufacturing Industries showed that the small manufacturing industries are mainly engaged in the manufacture of food, fabricated metal, furniture, and wearing apparels. These sub-sectors constitute more than 85% of the surveyed small scale manufacturing industries. While in Addis Ababa city textile industry contribute the largest portion followed by wood work & metal work, food processing, construction and others.

The small scale manufacturing sector engages, including owners, on average 3 persons per industry and the average employee per industry is 2 persons, while the average annual wage per employee is birr 1914. The average operating surplus per industry is birr 18,934 which shows that income generated by the small manufacturing activities is much better than those engaged in the informal activities.

The average capital per Informal Sector activity during the survey period is birr 3,528 while the average capital per Small Scale Manufacturing Industries is found to be birr 38,354. Moreover the Informal and Small Manufacturing sector contributed value added

of Birr 8.3 million in 1996. Based on the 1992/93 data, this figure constitutes about 3.4% of the GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the same year.

The SMEs sector is characterized by highly diversified activities which can create job opportunities for a substantial segment of the population. This indicates that the sector is a quick remedy for unemployment problem. To curb unemployment and facilitate the environment for new job seekers and self-employment a direct intervention and support of the government is crucial. Hence, in order to channel the support facilities to this diversified sector, a definition is needed to categorize the sector accordingly.

The Central Statistics Authority for the purpose of its survey on Urban Informal Sector Activity Operators and Small Scale Manufacturing Industries has set a definition on different sectors, viz., Informal Sector, Cottage/Handicrafts, Small-Scale Manufacturing Industries, and Medium and Large Scale Manufacturing Industries.

The Authority based its definition on size of employment and automation for small, medium and large-scale enterprises and a combination of criteria for informal sector operators. However, this definition could possibly incorporate some capital-intensive establishments, which could fall solely under medium or large-scale categories. Thus, in order to exclude those capital intensive enterprises which will not be entitled for the support services and address the real target SMEs, it is advisable to use a definition that can take this into account. Hence, a definition that is based on capital and which takes into consideration the level of technical and technological capacities is adopted.

Micro Enterprises: are those small business enterprises with a paid-up capital of not exceeding birr 20,000, and excluding high tech. consultancy firms and other high tech. establishments.

Small Enterprises: are those business enterprises with a paid-up capital of above 20,000 and not exceeding birr 500,000, and excluding high tech. consultancy firms and other high tech. establishments.

The Federal Micro and Small Enterprises Development Agency (FeMSEDA)

Enterprise promotion efforts in Ethiopia have traditionally focused on urban based and small and micro enterprises. In the 1960s and early 1970s, a department within the then Ministry of Industry and Tourism was responsible for coordinating promotion activities which basically consisted of providing training on business management. In 1977, the Handicraft and Small Scale Industries Development Agency (HASIDA) was established to provide training mainly in management and technical skills and to serve as coordinating agency for Government policy on small enterprises. Shortage of funds and unfavourable Government policy toward the private sector in the 1980s made it extremely difficult for HASIDA to have an impact on the development of local small enterprises.

Specific objectives of the support strategy are:

- Create long-term jobs (through skills upgrading programs for micro and small enterprises and encouraging the use of appropriate and modern technologies to improve their capacity to create employment).
- Strengthen cooperation between small enterprises.

- Promote export (especially in areas where the country has a comparative advantage).
- Provide needed technical support for the graduation of small enterprises to medium and large scale enterprises.

The Regional Micro and Small Enterprises Development Agency (ReMSEDA)

The identification and selection of priority target beneficiaries will be the task of each region under the responsibility of ReMSEDA. However, broad guidelines are prepared by the federal agency to assist with the selection of the target beneficiaries. They will include micro and small enterprises which:

- Use local resources
- Have backward linkages with agriculture;
- Engage in import substitution and have the potential to export;
- Engage in activities that facilitate and promote tourism, etc.

1.1 Problem statement

The number of SMEs in Ethiopia is steadily growing. But, much more important than their number is their current status, stage and pace of development. The rate of development of SMEs in Ethiopia is very slow. This could be attributed to several factors. The business environment in which SMEs are operating today is different. Considerable changes have taken place in the world economic order during the past two or three decades. The growing intensity of international competition and globalization is affecting the growth of SMEs in developing economies. There are also firm-specific

factors such as financing problems, lack of managerial capabilities and entrepreneurial orientations.

The survey by the Central Statistical Authority of Ethiopia (CSA), in May 1997 indicated that the increased role and contribution that the SMEs sector could have provided to the national economy is largely constrained by the various policy, structural and institutional related problems and bottlenecks. Lack of smooth supply of raw materials and working premises were reported to be the major bottlenecks facing small scale manufacturing industries, while lack of sufficient capital and working premises were the leading problems of the informal sector operators to start their businesses.

In Ethiopia's situation, since there have not been any organized policy and support systems that cater for the sector, SMEs have been confronted by various problems which are of policy, structural and institutional in nature. To start with, lack of smooth supply of raw materials and lack of working premises were the major bottlenecks for small scale manufacturing industries to commence their activities. On the other hand, lack of sufficient capital and working premises were the leading problems facing the informal sector operators from the start.

Serious marketing problems, shortage of supply of raw materials, lack of working capital are the first and most pressing problems facing small manufacturing industries for survival of the business. Whereas lack of capital, market and working premises are affecting informal sector operators not to expand their businesses.

For instance, the result of the survey on Urban Informal Sector activities showed that out of the 584,913 Informal Sector Activity Operators, about 50% replied that their first major difficulty when starting their operation was lack of sufficient initial capital. According to their responses, this problem has become more critical when they intend to expand their businesses (CSA).

In Ethiopia, the existing business associations are financially weak and most of them have a very limited capacity to actually support and strengthen their members. Most SMEs have not also been embraced by the existing business associations and chambers, thus excluding them from any form of support that could be obtained from them. And hence in this study the major problems of SMEs will be identify and recommendations will be given.

The study tries to answer the following questions:

- What restrain peoples from investing on SMEs?
- What are the problems to run SMEs?
- What are the opportunities of SMEs?

1.2 Objectives of the study

The overall objective of the study is to examine the general problems of SMEs sector and to give recommendation for the problems identified.

The specific objectives of the study are:

- To identify problems with regard to Finance, Marketing, management and HRM, infrastructures etc.

- To assess the existing policy, programs, institutional networks and involvement of supportive agencies in promoting SMEs.
- To forward possible suggestions and strategies to solve the problems

1.3 Significance of the study

The findings of this study are expected to be significant for the following reasons. Government and other parties involved in the promotion of the development of SMEs may use the findings of the study as additional information to address the problems uncovered in the development of SMEs. There is very limited research output and literature regarding strategic orientation of SMEs in Ethiopia. Academics, consultants, and government agencies may therefore use the study as a stepping-stone for further study in the area at an advanced level. Both graduate and undergraduate students may find the study relevant for their academic work. The findings may also be considered as important additions to the existing knowledge and literature in the area for the public at large.

1.4 Scopes and Limitation of the Study

The scopes of the study were limited to a manageable size because of time and resource constraints. Therefore, the population for the study was limited to SMEs registered in Addis Ababa specifically Arada Sub city under small and medium scale enterprises level.

The limitations of the study are;

- a) The registered and actual SMEs are not equal. Most of SMEs were closed due to different problems. The SMEs office doesn't have updated information and hence it affects the sampling of the study.

- b) Unwillingness of the respondents to fill the questionnaire if they are rented the working place from others. This is because the owners warn them not to fill any forms from any body

1.5 Methodology

1.5.1 Research Methodology

To achieve the aforementioned objective, the researcher has collected and reviewed relevant documents & information from both secondary and primary data sources. The secondary data source includes pertinent documents, published and unpublished. Relevant data were extracted from statistical bulletin prepared by the Central Statistical Authority and Federal SMEs agency. The primary data were obtained by questionnaire from different sectors of SMEs in Arada Sub city.

1.5.2 Method data collection

Both primary and secondary data were collected through literature reviews, field survey and questionnaire.

Literature review

For background discussion and theoretical explanation, the researchers relied on secondary data. Variety of books, published and/or unpublished government documents, websites, reports and newsletters were reviewed to make the study fruitful.

Fieldwork

150 questionnaires were distributed in 6 different sectors and collected only 130 and from this only 115 of them were relevant.

1.5.3 Data Analysis

After the data collected it is analyzed through manual and computerized system (SPSS).

1.5.4 Sample Size

Stratified random sampling method was used for the study. The strata's are the sectors (i.e. Textile, Block factory, food processing etc). For the study 10% of the total will be taken as a sample. Therefore the sample size in different sectors is as follows;

Table 1: Sample distribution

Sector	Number	Size (10%)
Textile and Garment	61	7
Block Factory	51	6
Food Processing	35	4
Wood work and metal work	119	12
Container shops and others	1166	116
Fruits and vegetables	11	-
Pepsi Shops	13	-
Bamboo	2	-
“Gulit market”	48	5
Compost	1	
Total	1507	150

Source: Arada sub city SMEs office

1.6 Organization of the Research Report

The paper is organized under four chapters. The first chapter deals with the problem and its approach, which includes background to the study, statement of the problem, research objectives, scope and limitations of the study, significance of the study and organization of the research report. The second chapter is exclusively devoted to the review of related literature on the need to identify critical success factors. Chapter three deals with data analysis and presentation of the findings of the study. The last chapter, chapter four, presents the conclusions drawn from the findings, the recommendations made to address the problems uncovered, and the implications of the findings for future research, practitioners, government and other support agencies. All the reference materials used in the study are listed under bibliography

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 An Overview of SMEs

Definition and Scope

Small Medium Enterprises (SMEs) have been defined in a variety of ways using various factors. Although many countries around the globe seem to be using common factors in their definitions, the degree of emphasis and measures used differ quite considerably. These factors include number of employees, volume of sales, and the capital value of the business. Generally there are two types of definitions -operational definitions, which are largely used for working purposes and theoretical definitions, which are generally, employed to characterize the sector.

In recent times, there has been some degree of convergence in SMEs definitions particularly in Europe. The European Commission defines SMEs using a combination of employee numbers, annual turnover or balance sheet total and ownership (Hillary, 2000). However, the above convergence does not in any way suggest a common agreement of the specific numbers in terms of these variables. To this end, different governments and writers in SMEs differ considerably. This difference is influenced largely by two factors.

(a) Population and stage of a country's economic development.

A definition of SME in the developed world would differ from how SMEs is defined in the third world. Given the number of businesses in the United States of America (USA) and Europe, SMEs (if defined according to the number of employees and turnover) would be a definition adopted for large enterprise in Africa. For example, Fay (2000), Clarck (2000), the European Commission and the Organization for Economic Cooperation and Development (whose membership includes European and Asian countries like Japan) define SMEs as having below 250 employees. On the other hand, Ethiopia defines SMEs as having employees not exceeding 10 (CSA).

The second factor commonly used in defining SMEs is annual turnover. Again, the acceptable figures differ from country to country, depending among other factors on population and stage of economic development. For example, the accepted definition of small enterprises in Vietnam is VND10 billion (USD700, 000). In the USA, the accepted definition of a small business is “an entity with average annual gross revenues for the preceding three years not to exceed \$15 million, and very small business as an entity with

average annual gross revenues for the preceding three years not to exceed \$3 million” (Weaver, 1999). In Ethiopia, small enterprises defined in their paid up capital which is more than Birr 20,000 (\$2,500) but not more than Birr 500,000 (\$62,500).

(b) Industry within which the SME is competing

The definition of SMEs as perceived above does not take into account the fact that the SMEs sector is diverse. As Hillary (2000) argues, while the convergence in SMEs definitions “is certainly a welcome move for the standardization of data collection on enterprises (a major reason for defining SMEs), it does little to help us understand the diversity of the sector. In fact, harmonizing definitions may obscure characteristics that more varied definitions try to draw out.” A definition of SME, even using the above-mentioned variables should necessarily take into consideration the industry within which the firm is participating.

Duncombe and Heeks (2001) categorized small enterprises into survivalist, trundlers and flyer classifications. *Survivalists* are defined as those enterprises, *which have no choice*, but to take up the income-generating activity because they have no other source of livelihood. The enterprise is mainly meant to keep the business owner alive. Income provided may be poverty line or even sub-poverty-line. They argue that most of ‘entrepreneurs’ in less developed countries are of this type. *Trundlers* are defined as those enterprises whose turnover is roughly static and who show no great desire or no great capacity to expand. Income provided will be enough to meet basic needs. They also argue that such enterprises form the second-largest group of small entrepreneurs in Less

Developed Countries. *Flyers* are defined as those true entrepreneurs who have taken up enterprise because they see opportunities for growth. Income levels may meet more than basic needs, and enterprises may graduate to the medium-scale category. Only a very small proportion of Less Developed Countries small entrepreneurs fall into this category.

Recognizing that there are no standard definitions of SMEs and that their definitions vary from country to country depending largely on the size of the economy, the levels of development, culture and population size of a country involved, a working definition for the purposes of this paper is one given by the Ministry of Trade and Industry and Central Statistical Authority (CSA) which defines enterprises according to the number of employees and paid up capital.

Ministry of Trade and Industry adopted official definition of Micro and a Small enterprise in Ethiopia is as follow: Micro enterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments. Small Enterprises are business enterprises with a paid-up capital of more than Birr 20,000 (\$2,500) but not more than Birr 500,000 (\$62,500) but excluding high-tech consultancy firms and other high-tech establishments

The **Central Statistical Authority (CSA)**, for the purposes of its survey on "Urban Informal Sector Activity Operators and Small-scale Manufacturing Industries", attached various definitions to enterprises in different sectors, viz: the informal sector, cottage or handicrafts, small-scale manufacturing industries and medium- and large-scale

manufacturing industries. The CSA based its definitions on the size of employment and extent of automation for small-, medium- and large-scale enterprises and used a combination of criteria for defining informal sector operators.

CSA definition of enterprises:

- "Large and medium scale manufacturing enterprises have been classified as establishments with more than ten employees using automated machinery.
- Small and medium enterprises are establishments that engage less than 10 persons using power driven machinery.
- Cottage/handicrafts are household type enterprises located in households or workshops normally using own or family labour and mostly manual rather than automated/mechanical machinery."

2.2 Approaches to the Study of Problems of SMEs

Different studies have employed different approaches to study the problems of SMEs. Keats and Bracker (1988), recognizing the dynamic relationship between the firm and its operating and entrepreneurial characteristics, proposed a conceptual model of SME performance. This model suggests that performance outcomes are a function of many variables, including individual owner characteristics, owner behavior and entrepreneurial influences. The model transcends the belief that SMEs are merely miniature versions of large businesses and recognizes small firms as unique entities. Dodge and Robbins (1992) used organizational life cycle model. Organizational structures in one stage of development of SME are not the same as that in the preceding or following stage. Thus, with different emphasis and operating context, each stage of development will have a different set of problems. The other assumption in this model is that what management of

SME does or does not do with respect to current problems push the transition to the next stage. Problems therefore may be carried from stage to stage or be unique to a particular stage. They argue that greater knowledge of how SMEs involve and the major obstacles or critical factors faced in various life cycle stages is strongly needed to fully understand their developmental processes and the types of assistance for their survival and growth.

Although Dodge and Robins (1992) divided the stages of development of SME into four (formation, early growth, expansion and stability) while Vozikis and Glueck (1991) divided them into three (start-up, early growth, and later growth stages), both studies stress on the existence of problems unique to each stage. The formation stage is characterized by turning a venture or idea into business entity. The major problems SMEs are facing during this stage include product /service capability, marketing, planning, and gaining customer acceptance. The early growth stage deals with positive growth with a commercially feasible product and/or marketing approaches. The major problem during this stage of development include monitoring the market, adapting initial strategies to major changes, environmental scanning, gaining supplier support and collaboration, short-term performance oriented style, product/service stabilization and reliability, matching demand increases, maintaining cash flow, formalizing organizational structure. During the expansion stage growth begin to slow down due to new entrants into the market. The major problem is developing control and security mechanisms, and achieving adequate selling capacity. In their final stage SMEs are stable and operate much as a small bureaucracy and characterized by such problems as participative management, decentralization, retrenchment, initiating change, eliminating inefficiencies

(Steiner and Solam, 1988; Dodge and Robins, 1992; Gaskill, et al, 1993; Keats and Bracker, 1988).

Weitzel and Jonsson (1989) discuss business failure as being the last stage of organizational life cycle. They found that the numerous characteristics shared by failed firms are directly related to personal decision-based characteristics of the owner (e.g., lack of insight, inflexibility, emphasis on technical skills etc), managerial deficiencies (e.g., lack of managerial skills, appropriate management training, and previous managerial experience) and financial shortages (e.g., no accounting background, cash flow analysis, financial records). In contrast, Star and Massel (1981) related business failure rates to types of businesses. They found that failure rates were higher for firms that :

- (1) Were smaller in size,
- (2) Were located in rural areas,
- (3) Sold low priced merchandise, and
- (4) Operated as sole proprietorship.

A study by Peterson, Kozmetsky and Ridgway (1983) concluded that whatever is their size or location, managerial expertise and financial related factors are critical for the survival of SMEs. Boardman, Bartley and Ratliff (1981) reported financial distress as major problem of rapidly growing SMEs. O'Neill and Ducker (1986) found that the government and government related policies are important factors affecting SMEs failure. Haswell and Holms (1989) studied problems of SMEs in different industries and

found that managerial inadequacy; incompetence and inexperience are major problems regardless of industry.

Welsh (1988) grouped organizational problems into five areas based on a pre-specified scheme [(1) human relations, (2) accounting finance; (3) marketing; (4) internal management, and (5) external management]. Although they have generally concluded that the most prevalent areas in which SME have problems are sales/marketing, human resource management, and general management, they specifically reported promotion, marketing research and training as the most frequently encountered problems. Marketing has been widely acknowledged as being the most important of all activities and critical for the survival and growth of SMEs (Romanno and Ratnatunga, 1995). However, many studies found owner/managers of SMEs as having a very limited understanding of the marketing concept generally to be little more than advertising and public relations and lacking adequate marketing skills. Specifically, problems in promotion and marketing research were frequently encountered by SMEs. These problems include the selection of promotional media (local news paper or radio, direct mails, outdoors, etc), difficulty in getting customers to pay, low purchasing power of customers, advertising, content design and format of the promotional materials, market size, location and addresses of potential customers. Lack of financial resources to employ specialists has also been attributed to this marketing inefficiency in SMEs (Weinrauch, Mann , Robinson and Pharr, 1991).

Hguang and Brown (1999) studied the problems of SMEs under industry type and size, and found that firms in the service industry report fewer problems in obtaining external

finance, compared with those in other industries. Manufacturing firms are more likely to have problems in operations and production management. Wholesalers and retailers are found to have more problems with internal financial management. Specifically, cash flow and debt management were identified as the two most frequently occurring problems. They have also found statistically significant relationships between firm size and problems like obtaining external finance, operation/production management and human resources management. Small sized firms are more likely to encounter problems in obtaining external finance and less likely in human resources and operations management.

Ivy (1997) grouped problems of SMEs into five - finance, government, marketing, equipment and infrastructure, and labor, and finally found that finance was the most crucial problem. Poor banking services, with high interest rates, high cost of premises and tax, difficulty in obtaining loans for start-ups all were cited but stringent loan repayment terms was mentioned as jeopardizing the viability of SMEs. Ivy also found government bureaucracy and perceived corruption as major problems.

Monk (2000) also found that lack of working capital, poor market selection, and rapidly changing external market conditions the major reasons for failures in SMEs. He argues that these are results of the inabilities of SMEs to make adequate use of essential business and management practices. He further argues that many SMEs fail to develop an initial plan, those that do establish a plan fail to continuously adjust and use it as a benchmarking tool. Either because of lack of awareness of management processes and

tools or because of lack of funds to outsource management skills, proper business planning takes a second seat to the technical side of the business. The owner/managers of SME feel comfortable in the environment with which they are accustomed. As the business grows and managerial planning becomes more critical, the owner/managers will look to hire someone to help but are often resistant to giving up some of the control (Monk, 2000). Newton (cited in Monk, 2000) attempted to find out why SMEs fail to develop basic business skills and has identified nine major problems facing SMEs in successfully acquiring, maintaining and applying business. These include a lack of clear approach to the definition of business skills, a lack of knowledge of skills required to prosper; a lack of awareness of particular needs for business skills; the misdiagnosis of needs or problem areas; a lack of critical information about the performance impact of investment in business skills development; a lack of awareness's of sources of information on skills; Limited time for training; limited financial resources to hire professional advisors/mentors; and lack of continuous learning philosophy. SMEs do not make extensive use of performance management processes and benchmarking tools. They are not aware of the benefits of these tools. They do not have access to professionally qualified and economical business advisory services that can apply them. Some SMEs do not even understand how business skills development will increase their bottom line.

A study by Hornsby and Kuratko (1990) has developed a long list of major problems of SMEs. The list includes -lack of planning, lack of management experience, general management problems, problem of growth management, training and development,

recruitment and selection, inability to identify relevant training courses, lack of information on traineeship schemes, inability to attract skilled staff, employee performance problems, lack of advice on employment conditions, Owner's lack of management and business planning skills, inability to manage growth, lack of advice and referral to relevant government or other agencies for assistance, lack of understanding of the importance personnel management, lack of updating of job analysis, job descriptions, recruitment and selection, compensation and benefits, training and performance appraisals, wages benefits, and availability of quality or skilled workers are all critical factors.

2.3 Classification of Critical Factors

Small firms are an important mechanism through which new jobs are created. Unfortunately, the gap between new business creations and failures is increasing at an alarming rate requiring an improved public policy approaches. The most commonly cited cause of business failure is "poor management". Although it is not easy to understand what constitutes 'poor management', the majority of small business problems are managerial. The literature on small business problems shows that problems in marketing, finance, operation, personnel and distribution are essentially managerial. Thus, it can be argued that no matter what disaster befalls a firm in the market place, sufficient managerial training, experience and foresight could by definition have avoided it. In other words, whatever the problem is, be internal or external to the firm, it could have been successfully solved and controlled if there was managerial adequacy and competency in the organization. Most firms fail because of poor management and nothing else.

However, for ease of presentation and analysis small business problems presented under two major categories—Functional and strategic classifications.

2.3.1 Functional Classifications

Traditionally, small business problems are divided according to business functions. This classification assumes that different business functions have different problems. It is the failure of owner/managers to effectively carry out the various business functions that consequently lead to business failure. In this paper we discuss small business problems under four categories –Finance, Marketing, managerial, and environmental.

2.3.1.1 External Environment Related Problems

The environment is defined as the relevant physical and social factors outside the boundary of an organization that are taken into consideration during organizational decision-making. Several studies on environmental scanning and strategic planning (Daft and Weick, 1984, Elenkov, 1997; Sawyer, 1993, Hambrick, 1983) conceptualized the environment as having several sectors that exist in two-layers- the task and general environment. The task environment involves environmental elements that are commonly defined to include competitors, suppliers, customers and technological factors. The general environment refers to sectors that affect organizations indirectly and include economic, political, demographic, cultural, regulatory and social sectors. These sectors are expected to influence the performance of small firms because they differ in uncertainty. Thus, it is critical that small firms be aware of the nature of the environment

that they currently face and anticipate facing, and the need to incorporate changes in their strategy formulation and implementation.

Table2: External Environmental Problems

<ul style="list-style-type: none"> ➤ Intensity of completion among different companies ➤ Poor relationship with suppliers of key input ➤ Small market and population size impact ➤ Inability to compete with larger firms. ➤ Bureaucracy in company registration and licensing ➤ Prevalence of crime and violence in the vicinity ➤ The impact of HIV/Aids on productivity ➤ The impact of national culture; values and beliefs. ➤ Availability of business premises 	<ul style="list-style-type: none"> ➤ Unsuitable business sites, premises or offices ➤ Inadequate linkage with large firms & subcontracting Low spending power of customers ➤ Rapid and costly technological changes ➤ Impact of Inflation, interest and exchange rates ➤ Cost of buying land for business ➤ Inadequate space for current business operation ➤ Insufficient space for expansion
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Sources: Daft and Weick, 1984, Elenkov, 1997; Sawyer, 1993, Hambrick, 1983

Environmental scanning is the means through which managers perceive external factors, events and trends. Scanning represents a difficult organizational problem because the environment is vast, complex, and changing. As managers in small firms have limited cognitive capacity to comprehensively understand the environment (Elenkov, 1997), they must find scanning mechanisms that yield adequate information displays of external events. While a number of studies (Hambrick, 1983; Thomas, 1980; and Daft and Langel, 1986) have explored the fit between organization and environment, there is less knowledge, particularly in small firms, about how impressions of the environment are

formed among owner/managers who are responsible for responding with new strategies and approaches.

Establishing strong collaboration with suppliers is vital to achieve competitive advantages. Although it is beyond the control of small firms to change the supply base, the economic trends, the direction of competition, the purchasing power of buyers, technological changes, inflation, market size, culture, trade union, labor legislation etc... they must be able to proactively respond to all changes. But, most SMEs are reactive to changes in their external environment.

2.3.1.2 Internal Management Related Problems

These problems are usually labeled as critical success/failure factors as they are internal to the organization and within its control. These problems need immediate managerial actions and include human resources management, business planning, organizing, and directing.

The future of small firms depends on the development and maintenance of human resources. 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.

Table 3: Internal Management Related Problems

➤ Lack of formal recruitment and hiring	➤ High employee turnover
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<p>procedures</p> <ul style="list-style-type: none"> ➤ Lack of open communication b/n owner/manager and employees ➤ Negligence in developing & empowering employees ➤ Lack of experienced employees in the market ➤ Lack of proper organizational structure ➤ Centralized one man decision/making ➤ Low level of standardization of products and services ➤ Inaccessible/unavailability of training facilities ➤ Lack of general managerial, experience skills and training ➤ Lack of strategic business planning ➤ Fear of failure, bankruptcy and risk taking ➤ Lack of interest in non-financial rewards ➤ More emphasis on firefighting issues than on strategic issues 	<ul style="list-style-type: none"> ➤ Dependence on family and relatives for labor ➤ Lack of well trained employees in the market ➤ Lack of clear division of activities and duties ➤ Personal problems (health, social etc) of owner/manager ➤ Lack of experience in owning/running a business ➤ Lack of vision and growth orientation ➤ Lack of competitive benchmarking ➤ Lack of evaluating results against plans on continuous basis ➤ Overemphasis on short term profitability ➤ Rigid decision making patterns/ inflexibility ➤ Inability to compete with large companies ➤ Lack of quality control systems ➤ High family commitment and responsibility
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Sources: Drucker (1982)

The ability of managers to perform has very important bearings on the performance of the business. The sources of many of managerial problems in SMEs are lack of education and professional training. Today, owners/managers of small firms must be familiar with

many aspects of management such as finance, personnel, sales, production, and so forth. Many studies indicated that entrepreneurs perform poorly in many areas of management such as bookkeeping, marketing, costing, warehousing, stock control, production scheduling, and quality control. The owner/managers in some cases either do not understand financial statements or do not use them for planning purposes. Some owner/managers still do not differentiate between personal expenditure and business expenses, and have no accurate perception of their production costs (such as unit cost of labor; cost per unit of capital; marketing cost per unit of product etc.).

It is obvious that inability to evaluate results on continuous basis may result in not recognizing problems at an early stage when changes can be made at reasonable costs. SMEs seldom evaluate organizational progress against plans. This can serve as early warning system by providing clues for further study.

2.3.1.3 Marketing Related Problems

Today it is widely accepted that small businesses are not just “little big” businesses. Rather it is acknowledged that small businesses have their own peculiar characteristics, which affect the way they operate and which largely determine their preoccupation and concerns. Owners/managers of most small firms conform to a number of stereotypes such as being mainly concerned with the problem of the immediate future rather than consideration of the long term future; being essentially pragmatic as opposed to accepting new concepts; and preferring to tackle problems and decisions themselves and as they occur, rather than working to clear procedures and programmes (Ford and Rowley,

1979). The implication of this for marketing is that an intuitive approach exists among small firms. Marketing activity is founded largely on traditional practices and experiences. Any attempt to formulating marketing plan using recognized marketing concept would seem to be non-existent in newly established firms. Small business marketing is entirely dependent on the depth of experience and knowledge of owners/managers. Often, marketing planning activities are limited to planning for “selling” within a narrow industry perspective (Carson, 1985).

As shown in the following table, the marketing problems of small firms are numerous and complex. It is obvious that information about markets and customers is crucial for managerial decisions. However, due to lack of resources and expertise, many small firms do not conduct marketing research, keep customer records, make follow up on their customers and study customers’ characteristics and preferences. The first few years of small firms require aggressive marketing of products and services. But, lack of understanding the strategic importance of marketing in achieving competitive advantage, start up firms do not sufficiently market their products and services.

Table 4: Marketing Related Problems

➤ Lack of marketing research or	➤ Poor location/business site
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<p>studies Little knowledge of customers characteristics</p> <ul style="list-style-type: none"> ➤ Lack of keeping customer records ➤ Lack of follow up on customers ➤ Lack of market segmentation ➤ Lack of product/service marketing ➤ Lack of clear pricing policy and strategy ➤ Lack of demand forecasting ➤ Lack of knowledge of low-cost marketing strategies 	<ul style="list-style-type: none"> ➤ Poor customer relationship ➤ Lack of knowledge of market ➤ Poorly trained sales staff ➤ Lack of marketing expertise ➤ Lack of money to buy advertising space and time ➤ Inability to extend credits to customers ➤ Lack of knowledge of sources of marketing information ➤ Misperception of marketing benefits
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Sources: Ford and Rowley (1979), Carson (1985), Weinrautch and Mann (1991)

Start up firms do not usually put greater emphasis on establishing customer relationship through an extension of credits and provision of warranties and guarantees. Weinrautch and Mann (1991) have studied the marketing problems of small businesses and identified lack of knowledge of the true cost-benefit association of marketing as one of the major problems. Most small businesses especially start up firms usually misinterpreted the cost involved in and the benefits derived from marketing both in the long and short run. Lack of knowledge of low-cost marketing strategies is also prohibiting small firms from conducting formal beneficial marketing and selling. Moreover, researchers, practitioners, consultants and policy makers in marketing have paid only very little attention to the development of marketing models and frameworks appropriate to small firms. New businesses cannot afford the services of qualified marketing people. They do not have both the time and the money to buy advertising time in Television and Radio stations or space in newspapers or magazines. The apparent resource constraints in small firm have

made it difficult for them to develop new markets, to extend credits to customers and to service warrantees and guarantees. Business locations or sites also have important marketing implications. Gartner and Bhat (2000) found that characteristics of a location could significantly influence all types of firms, as well as their growth patterns.

2.3.1.4 Finance related Problems

Despite the fact that there are many financial institutions to extend credit facilities, it is observed that small firms are still generally short of credit. The lack of credit has been identified by many researchers as one of the major factors inhibiting the success of small firms (Abdullah and Baker, 2000). Many smaller enterprises seldom approach financial institutions when they are short of funds because they are not confident of obtaining bank loans and credits. In addition, their limited experience with bank's officials has done little to change their perceptions of the difficulties and bureaucracies in obtaining credits. Commercial banks are usually reluctant to provide credit facilities to smaller firms because lending to them is less profitable as compared to larger firms. Lending to small firms also involve high credit administration costs and greater risks. This is especially true when many small firms are typically deficient in equity and acceptable collateral. They are generally considered as less credit worthy as their incomes are relatively unstable (Abdullah and Baker, 2000).

One of the most critical mistakes in small firms is that of starting a business with insufficient capital, which does not allow small firms any room for error or give them the time they need to collect amounts due from customers. Thus, small businesses require a careful and conservative estimate of start up capital. The following table summarizes the various finance related problems contributing toward small business failure.

Table 5: Finance Related Problems

<ul style="list-style-type: none"> ➤ Inadequate credit facilities and sources ➤ Inadequately estimated capital requirement ➤ Poor cash flow analysis and management ➤ Failure to analyze financial statements ➤ Lack of record keeping and documentation ➤ Poor management of loans and grants ➤ Poor management of inventory ➤ Poor management of cash ➤ Lack/inaccessibility of growth financing sources ➤ Poor receivables and payables management 	<ul style="list-style-type: none"> ➤ High investment in fixed assets during start-up ➤ Unplanned withdrawal of cash for personal use ➤ Misperception of turnover as Profit ➤ Underutilization of company assets (space, machines etc) ➤ High interest rates on loans ➤ High collateral requirement by lenders ➤ Mismatching the sources and uses of funds
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Sources: Abdullah and Baker (2000) and Pairat Wacharaphun (2000).

Managers in small firms usually lack the ability to prepare cash flow statements to make important decisions regarding working capital requirements. Inadequate accounting systems are also the major problems of small businesses as they lack systematically recorded financial data for future decision making purposes. It is not uncommon that many start-ups do not keep up-to-date records or analyze the information in it for the purpose of decision-making and planning. As a result, they fail to determine the appropriate level of risk and return for their investment.

Poor management of working capital (e.g., cash, inventory, payables and receivables) is also a major problem of small firms, who often misperceive profit with cash and personal

expenses with business expenditures. Sometimes cash will be tied up in accounts receivable as credit sales to customer's increases. Sometimes they postpone repayment of short-term liabilities until it becomes a threat to them. Sometimes they hold unnecessarily large inventory tying up their limited capital. Mismatching sources and uses of funds is also a major problem. The liquidity problem of start-ups is associated with day-to-day decisions. Small firms often fail to distinguish between long and short term financing needs and to find appropriate sources. It is not uncommon to see start ups using short term financing for long-term assets. Many starts up firms experience a mismatching of funding sources and uses (Pairat Wacharaphun, 2000).

2.3.2 Strategic Classification

Based on literature review, particularly drawing from the original work of Doyle and Desai, (1991), this paper proposes an integrated model of SME problem classification. As shown below in the following table, the model is a simple 2X2 matrix, with the vertical axis distinguishes between internal and external problems based on whether they are part of the firm's internal environment and are under management's control or whether they are part of the firm's external environment and are beyond management's control. This division of SME problems as internal-external will help separate the critical factors within and outside the control of management, which in turn help to redirect organizational efforts to effectively address controllable factors while still operating under some uncontrollable factors.

Table 6: Small business problem classification matrix

The horizontal axis divides the factors based on whether they are operational, administrative, or strategic in nature. Although it is not easy to put a clear demarcation between operation and strategic issues, some SME problems exert greater influence in the short term than in the long term, and vice versa. This classification of problems as operational-strategic will help both SMEs and SME support agencies to differentiate between problems that affect long-term competitiveness and short-term operational efficiency.

CHAPTER THREE

DATA ANALYSIS, INTERPRETATION AND FINDINGS

The objective of the study is to investigate the critical factors that affecting the performance and development of Small and Medium Enterprises (SMEs) in Arda sub city, and analyze the relationship between these factors and firm specific demographical variables. Data were collected from SMEs found in Arda Sub city through questionnaire from 115 SMEs during the period July 2007 and analyzed using descriptive statistics.

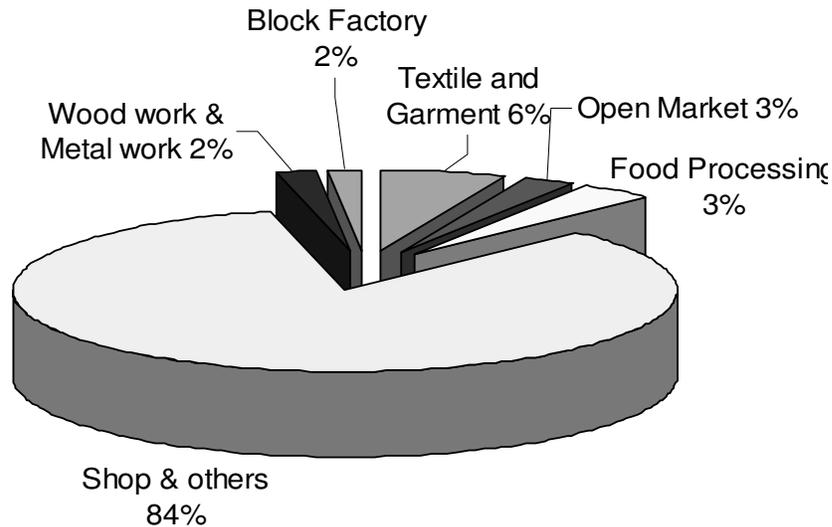
First, demographic characteristics of the respondents were tabulated and presented to show distribution of the sample firms in different demographic variables. Second, opportunities and future plans of the respondents to wards their activity were tabulated. Third, the extent of problems of SMEs rated by respondents were measured and tabulated. Forth, the relationship between demographic variables like sector and problems were measured using cross tabulation. Finally, a summary of the findings of the study were presented.

3.1 Demographic Characteristics of the Sample Firms

The first part of the questionnaire was designed to gather information about firm characteristics. Although 150 questionnaires were expected as stated in the original research proposal, only 125 were completed and returned during the data collection. Out of these, 115 (92 percent) were found useable for the study. Only 10 questionnaires were discarded due to incompleteness and large number of missing values. Some respondents

did not fill some parts of the questioner and in the analysis part reported as “missing system”.

Figure 1: Demographic Characteristics of the Sample Firms



Sources: questionnaire

As shown in above pie chart, the sample firms were operating in different sectors of the economy. Most of them (84.3 percent) were from the Shops and others while 6.1 percent were operating in the Textile and Garment sector. Only 3.5 and 2.6 percent were from the Food Processing and “Gulit market”/open market respectively. Wood work & Metal work and Block Factory consist 1.7 percent each. This division of SMEs by sector type was believed to be helpful to study critical problems/ factors that affect the performances of SMEs. This is because firms in different sectors of the economy face different types of problems. This shows that most of the SMEs run shops and other related activities.

3.2 Status of the Respondents and Education level

The majority of the respondents were owner managers (86.1 percent) indicating low participation of managers only (1.7 percent). Regarding the educational level of the respondents 62.3 percent were below high school, 31 percent high school graduate and 9.6percent college certificate & diploma. In Ethiopia it is believed that SMEs is for uneducated individuals, but the study shows that college certificate & diploma holders also involved.

Table 7: Education level and status of the respondents

Status of respondents	No.	Percent	Education level of	No.	Percent
			the respondents		
Owner Manager	99	86.1	Below high school	72	63.2
Partly owner and manger	10	8.7	High school graduate	31	27.2
Manger only	2	1.7	College certificate & Diploma	11	9.6
Others(employees)	4	3.5	Missing System	1	
Total	115	100.0	Total	115	100.0

Sources: questionnaire

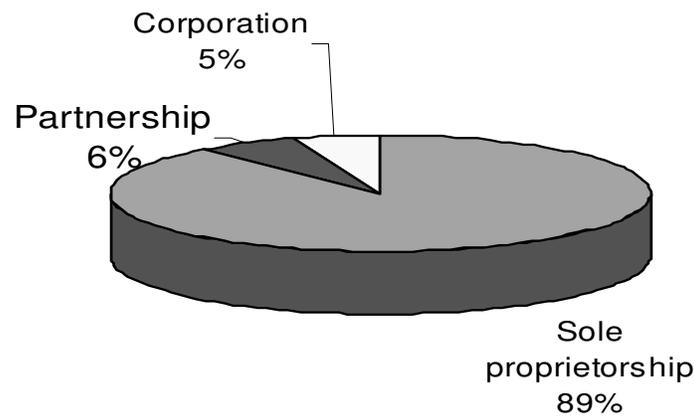
3.3 Employment and Legal Forms of the Organizations

In Ethiopia, Central Statistic Authority (CAS), defines SMEs as having employees not exceeding 10 (CSA). In the study except four samples which have employees more than 10, all the sample firms' have from one to ten employees. CSA also defines small enterprises interims of paid up capital of more than Birr 20,000 (\$2,500) but not more

than Birr 500,000 (\$62,500). But in this study, it is difficult to identify the sample based on the paid up capital. This is due to the fact that respondents were not willing to respond for the paid up capital.

The legal form of organizations is also believed to be related to types of problems that affect the performance of SMEs. Most (89 percent) of the firms were established as sole proprietorship whereas 6 and 5 percent of the firm were partnership and corporation respectively. And all of the owners are Ethiopian. This shows that most SMEs owners want to start and run their business alone.

Figure 2: legal forms of the sample firm



Sources: questionnaire

3.4 Work experiences

The respondents were also asked to indicate whether they have experience on their activity. The study shows that 67.8 percent of them respond as they have previous experience and the rest (37 percent) respond no experiences at all. This shows that most SMEs in Arada sub city start the businesses with out prior experiences.

3.5 Support to establish the SMEs

The respondents were also asked to indicate who assist them at the time of establishing the business/SMEs. And the result shows that 50.4 percent of them respond as no one supports them, 33.9 percent of them respond as government support and the rest (15.7 percent) by NGO's support. This shows that government support to establish the business is weak.

Table 8: Support to establish the business

Support	No.	Percent	Work experience	No.	Percent
Government	39	33.9	Yes	78	67.8
NGO's	18	15.7	No	37	32.2
No one	58	50.4			
Total	115	100.0	Total	115	100.0

Sources: questionnaire

3.6 Sources of Finance

Small firms often fail to distinguish between long and short term financing needs and to find appropriate sources. Respondents were asked to identify their sources of capital at the establishment of the business. O'Neil and Ducker (1986) studied the impact of government financial assistance and policies on small firms and found them to be critical for the survival of many smaller start-up firms. The sources of finance also analyzed by cross tabulation to show the relation of the problems with the sectors.

Table 9: Sources of Finance

Sources of Finance	No.	Percent (%)
Borrowed from friends & relatives	37	32.7
Personal saving	34	30.1
Microfinance	17	15.0
Equib	16	14.2
Assistance from NGOs	8	7.1
Others	1	0.9
Total	113	100
Missing system	2	
Total	115	

Sources: questionnaire

As the above table shows, 32.7 percent respond that borrowing from friends & relatives were their sources of finance, personal saving (30.1 percent), microfinance (15 percent), “Equib” (14.2 percent), assistance from NGOs (7.1 percent) and others (0.9 percent). This shows that the main source of finance for SMEs in Arada sub city is borrowing from friends & relatives. But other traditional source like “Equib” plays the greatest role. In the sub city informal sources play the greatest role in establishment of SMEs than the formal sources like microfinance.

3.7 Business plan

Business planning is the core managerial function upon which all others depend. Planning determines where a firm intends to go and how it intends to reach there. The approaches to business planning vary from informal to formal; and from deductive to incremental planning depending on type of industry and the nature of business. In case of SMEs, the planning approach is non-formal and unsystematic. Respondents were asked whether they prepare business plan or not. The study shows that 60.2 percent of them replied that they prepare business plan and the rest (39.8 percent) did not prepare.

3.8 Business Association and Future plan

Most business organizations establish associations like food processing association, textile association and the like. Where as the finding shows that 67.3 percent responded as they did not have any business association and the rest (32.7 percent) have business association. This shows that most of SMEs in the Arda sub city does not have any form of business association.

Respondents were also asked to identify their future plan in their activity. And, most of the respondents replied that they want to expand their business (77.9 percent), 11.5 percent replied that they will maintain production at the same level. And only 8.8 and 0.9 percent replied to stop the business and to reduce their capacity respectively. This shows that most of the owners have a plan to expand their business if their requirements fulfilled by the government and other stake holders.

Table 10: Business Plan and Business Association

Buss. Plan	No.	Percent	Future Plan	No.	Percent
Yes	65	60.2	Stop operation	10	8.8
No	43	39.8	Maintain production at the same level	13	11.5
Missing	7				
Total	115	100.00	Expand Capacity	88	77.9
Business Association	No.	Percent	Reduce capacity	1	0.9
Yes	36	32.7	others	1	0.9
No	74	67.3	Missing	2	
Missing	5		Total	115	100.00
Total		100.00			

Sources: questionnaire

3.9 Critical Problems/ Factor Analysis

The questioner contained 41 items (factors) and the respondents were asked to evaluate the problems that have impact on the performance of SMEs on a scale ranging from strongly agree to strongly disagree and “I don’t know”.

Since it is difficult to analyse and compare these 41 items, it is important to group them into manageable number of problem categories. The 41 items were originally developed under six theoretical categories: Environmental, Managerial, Marketing, and Financial, Control and Evaluation and Others factors. Each factor has Five to Eight lists of problems/factors.

As shown in the questionnaire, Appendix 3, an environmental factor consists of socio-economic and techno-regulatory factors. An item related to managerial issues consists of organizational developments, HRM development, management background and managerial action. Marketing factors consists of customer relationship and marketing action. Items related to finance consists of investment analysis, credit facility and working capital management. Control and evaluation consists of responsibility and accountability of members and quality control. Similarly, others factor consists of infrastructure, tax and waste disposal factors. The grouping was based on the similarity of the factors.

3.9.1 Environmental Factors

Socio economic issues include social, cultural, economical, technological and demographic changes in the external environment that affects the performance of SMEs. Economic issues include impacts of inflation, recession, changes in interest and exchange rates, market size, spending power of customers, availability of business premises in the community, intensity of competition in the market and the like. SMEs are facing challenges brought by changes in social, cultural, economical, technological, demographic changes and political-legal environment. Technology changes the way

SMEs are doing business. New technology is usually expected to reduce cost of product or service. Failure not to employ the latest technology means producing at higher unit cost than do others who use new technology. Changes in the political and legal environment also affect SMEs. Civil war, political instability, market policy, taxation policy, price control, regulation or deregulation of some industries may affect small business success.

Table 11: Environmental Factors

S/ n	Environmental Factors	Agree	Disagree	I don't Know	missing
1	Intensity of competition	73(63.3%)	24(20.9%)	18(15.7%)	
2	Availability/affordability of business license	58(50.9%)	48(42.1%)	8(7%)	1
3	Rapid and costly technological changes	57(50.4%)	36(31.3%)	20(17.3%)	2
4	Climate conditions	49(42.6%)	44(38.2%)	22(19.1%)	
5	Bureaucracy in company registration & licensing	49(43.4%)	47(41.6%)	17(15.1%)	
6	Lack of government encouraging Policy	48(42.1%)	53(46.5%)	13(11.4%)	1
7	The impact of national culture; values, norms	47(41.2%)	52(45.6%)	15(13.2%)	1
8	Inability to compete with foreign firms/products	34(29.6%)	48(41.8%)	33(28.6%)	

Sources: questionnaire

The above table shows that the environmental factors that affect performance of SMEs. As it is shown, the respondents agree on the five problems from the eight lists of problems. And the result shows that 73.3% agree on the intensity of competition (only 20.9% disagree), 50.9% agree on availability/affordability of business license (42.1% disagree), 50.4% agree on rapid and costly technological changes (31.3% disagree), 42.6% agree on climate conditions and 43.4% agree on bureaucracy in company registration & licensing (38.2% disagree). Although most of the respondents disagree on other three problems like culture, norms and values, it is difficult to conclude that SMEs did not face such problems.

3.9.2 Managerial & HRM Factors

Many researchers and practitioners claim that the major cause of small business failure is “poor management”. Whether the causes are labeled as financing, competition, marketing, inventory, etc, they can be safely avoided if good management was in place. Although it has become difficult to explain what constitutes ‘poor management’, small business owners/managers need to develop basic managerial skills and knowledge. If they are to succeed, managers need to have adequate skills in the area of planning, organizing, directing and controlling organizational resources.

Table 12: Managerial & HRM Factors

S/ n	Managerial & HRM Factors	Agree	Disagree	I don't Know	missing
1	Lack of strategic business planning	60(52.2%)	48(41.7%)	7(6.1%)	
2	Lack of low cost and accessible training facilities	57(50%)	44(38.6%)	13(11.4%)	1
3	Lack of experience in owning/ managerial a business	56(49.6%)	51(45.1%)	6(5.3%)	2
4	Lack of well trained &	52(45.6%)	51(44.8%)	11(9.6%)	1

	experienced employees in the market				
5	Lack of clear division of activities and duties	44(38.6%)	56(49.2%)	14(12.2%)	1
6	Dependence on family and relatives for labor	37(32.2%)	61(53.1%)	17(14.7%)	
7	Personal problems (health, social) of owner/manager	46(40%)	51(44.3%)	18(15.7%)	
8	High employee turnover	23(28.9%)	59(51.8%)	22(19.3%)	1

Sources: questionnaire

The above table shows that the managerial and human resources factors that affect performance of SMEs. Respondents were asked to agree or disagree on the presence and impact of problems on their performance. As it is shown, the respondents agree only on the first four problems. The main managerial and HRM factors that affect the performance of SMEs are lack of strategic business planning (52.2% agree, 41.7% disagree), lack of low cost and accessible training facilities (agree 50%, disagree 38.6%), lack of experience in owning/ managerial a business (agree 49.6%, disagree 45.1%), lack of well trained & experienced employees in the market (agree 45.6%, disagree 44.8%). Majority of the respondents disagree on the other four problems like high employee turnover.

3.9.3 Control and Evaluation

Small businesses are characterized by lack of control and evaluation skill. Lack of raw material & inventory control may have serious impact production cost and selling price. If the price is high (due to high in production cost), SMEs cannot be competent enough. Today quality control has become the basis of global competition. Competitiveness and survival are possible if only SMEs can provide quality product/services and achieve customer satisfaction.

Table 13: Control and Evaluation

S/n	Control and Evaluation	Agree	Disagree	I don't Know	missing
1	Overemphasis on short term profitability	57(49.6%)	52(45.2%)	6(5.2%)	
2	High family commitment and responsibility	60(47%)	47(40.8%)	8 (7%)	
3	Lack of quality control systems	42(36.5%)	55(47.8%)	18(15.7%)	
4	Lack of raw material & inventory control	41(36.3%)	53(46.9%)	19(16.8%)	2
5	Fear of failure, bankruptcy and risk taking	39(33.9%)	57(49.6%)	19(16.5%)	
6	Lack of delegation responsibility and accountability	36(31.6%)	70(61.4%)	8(7%)	1

Sources: questionnaire

Table 13 shows that the presence and impact of control and valuation problems. The respondents agree only on the two problems from the lists of six problems. These problems are overemphasis on short term profitability 49.6% of them agree, high family commitment and responsibility 47% of them agrees. Although SMEs fear of failure, bankruptcy and risk taking to take or evaluate loan and contract, only 33.9% agree on the problem.

3.9.4 Marketing Factors

Marketing problems are the major problems of all SMEs. As Greursen (1996) noted most SMEs have a very limited knowledge of the marketing concept. Makenna (1991) also found that most managers/owners of SMEs lack basic marketing skills. Romano and Ratnatung (1995) also acknowledged marketing activities as being most important factors affecting small business success. Customer relationship include keeping customers

record, making follow-up on customers behaviours, improving knowledge of their characteristics, understanding the market complexity and having adequately trained staff.

Table 14: Marketing Factors

S/n	Marketing Factors	Agree	Disagree	I don't Know	missing
1	Lack of skill to set clear & competitive pricing policy	61(53%)	47(40.9%)	7(6.1%)	
2	Lack of demand and Supply forecasting	57(49.6%)	49(42.8%)	10(7.6%)	
3	Lack of knowledge of market	56(48.7%)	48(41.7%)	11(9.6%)	
4	Poor location/business site	56(49.1%)	58(50.9%)	-	1
5	Poor customer relationship & Handling	49(42.6%)	66(57.4%)		

Sources: questionnaire

As shown in the above table, marketing factor is consisted of 5 items. From these problems, lack of skill to set clear & competitive pricing policy is the major critical problem in which 53% of the respondents were agree and 49.6% agree that lack of demand and supply forecasting is another problem. 48.7% of the respondents agree on lack of knowledge of market. This is in line with the findings of previous studies. Harvey (1994) found marketing activities to be the most important factor affecting the performance of small firms. Welsh (1988), for example, found sales and marketing issues as critical success factors for SMEs. Mekenna (1991) and Romano and Ratnatung (1995) also acknowledged marketing activities as being most important factors affecting small business success.

3.9.5 Financial Factors

The performance of SMEs is affected by lack of financial record keeping and documentations, insufficient provision for contingencies, high investment in fixed assets particularly during start up stage, inadequately estimated capital requirements, inability of failure to analyze financial statements, misperception of turnover as profit, and under utilization of company assets. High investment in fixed assets means that a huge sum is unnecessarily tied up in fixed assets. Start up firms must not tie their initial capital in fixed assets because the return from fixed assets cannot be realized in the near future. Investment analysis often produces alternative ways of financing current and fixed assets and identifies appropriate sources of funds. Although the fixed assets can be used as collateral for bank loans, it is mostly difficult for new start-ups to get adequate credits and overdrafts to be used as working capital.

Table 15: Financial Factors

S/n	Financial Factors	Agree	Disagree	I don't Know	missing
1	Inadequacy and costly of credit facilities and sources	71(62.3%)	36(34.8%)	3(2.6%)	1
2	Shortage of working capital	71(61.7%)	39(34%)	5(4.3%)	
3	High investment in fixed assets during start-up time	64(55.7%)	44(38.2%)	7(6.1%)	
4	Lack of record keeping	56(48.7%)	49(42.6%)	10(8.7%)	
5	Failure to analyze F/statements	52(46%)	46(40.7%)	1(13.3%)	2
6	Unplanned withdrawal of cash	47(50%)	48(42.1%)	9(7.9%)	1
7	Poor management of Current Assets (like inventory, A/R)	42(36.5%)	55(47.8%)	18(15.7%)	
8	Underutilization of company assets (space, machines)	28(25%)	60(53.6%)	24(21.4%)	3

Sources: questionnaire

As shown in above table, financial factor is consisted of nine items. Respondents agree on the five problem/factors. The major contributors to this factor as indicated from table 15 is inadequacy and costly of credit facilities and sources (62.3% agree), Shortage of working capital (61.7% agree), high investment in fixed assets during start-up time (55.7% agree), lack of record keeping and documentation (48.7% agree), failure to analyze financial statements (46% agree). Although 47% agree and 48% disagree, unplanned withdrawal of cash for personal use can be another other factor. Where as respondents disagree on poor management of current Assets (like inventory, Accounts receivables) and underutilization of company assets (space, machines).

The finding is in line with Abdullah and Baker's (2000) finding that lack of credit as one of the major factors inhibiting the success of small firms. Many studies have also found that investment analysis is a critical success factor for SMEs.

3.9.6 Other Factors

Other factors include tax burden, waste disposal system, lack of infrastructure, lack of business development services (BDS) and political intervention.

Table 16: Other Factors

S/n	Other Factors	Agree	Disagree	I.D Know	missing
1	Lack of business development services	63(54.7%)	38(34%)	14(12.3%)	
2	Poor waste disposal system	57(49.6%)	48(41.7%)	10(8.7%)	1
3	Tax Burden	51(44.7%)	49(43%)	14(12.3%)	1

4	Lack of infrastructure	44(38.3%)	63(54.7%)	8(7%)	
5	Political intervention	36(31.3)	55(47.8%)	24(20.9%)	

Sources: questionnaire

As shown in table 16, respondents agree on the three problem/factors out of the five. The major contributors to this factor, as indicated from table 14, is lack of business development services (BDS) (62.3% agree), poor waste disposal system (49.6% agree), Tax Burden (44.7% agree). Where as the last two factors, lack of infrastructure and political intervention, is not major problem as compared to the other three factors. Most of SMEs firms located in one place with high condensation. Moreover they did not have any proper sewerage system and toilet.

3.9.7 Cross tabulation of variables

Cross tabulation shows the relation between the sectors with identified problems. Each sector has its own unique and critical problem. For instances the finding shows that food processing, open market, wood work and block factory sector is more affected by shortage of working capital than other sectors.

A. Sources of Capital

As it is shown in the appendix 1 ,Shop & others, Textile and Garment and Open market use borrowed from friends & relatives as sources of finance, Food Processing sector use personal saving, while Wood work & Metal work and Block Factory sector use microfinance. And “Equip” also major sources of finance for Shop & others sector. These shows that, in Arda sub city informal sources of finance (like Equip, borrowing from friends & relatives) is more important than formal sources of finance like microfinance.

B. Business Association

Most business establishes business associations to overcome common or sectoral problems. The respondents were asked whether they have business association or not. As it is shown in the appendix 1, almost all have businesses association except Food Processing and Block Factory sector.

C. Major Factors/Problems

As it is shown in the critical problems/ factor analysis part of the paper, problems that were agreed by the respondents were identified. In this section one major problem from each factor tabulated with the type of sector to show the sensitivity of the problems. And as shown in the appendix 1;

- Inadequacy and costly of credit facilities and sources is a major problem all sector.
- Lack of strategic business planning is a major problem for all sectors except “Gulit Market” sector.
- Lack of business development services is a major problem for all sector except for Wood work & Metal work sector.
- Intensity of competition is a major problem for major problem for Food Processing and Shop & others only.
- Overemphasis on short term profitability is a major problem for shops & others sector only.
- Lack of skill to set clear and competitive pricing policy is a major problem for only shops & others sector.

The problems identified in the open ended part of the questionnaire were as follows;

1. Lack of transparency at the time of organizing and giving working place for the unemployed. Initially SMEs is designed for unemployed people, but most of the respondents replied that the SMEs office give the working place for those who are not capable and willing to do the business. Even to the extent employed people have working place. It is also observed at the time of data collection that some respondents refuse to respond for the study. This is due to that fact that they run the business by renting from owners and the owners warn them to not fill any type of forms whether it is from the government or intuitions. Due to this the researcher unable to collect 25 questioner out of 150.
2. Collateral requirement to get loan from microfinance and other institutions. Most of the respondents replied that the collateral required by institutions is beyond their capacity and their business. Due to this they force to use other informal sources which are costly and risky than the formal one.
3. Some respondents also replied that conflict with neighbours is the major problem. These conflicts include space conflict due to illegal expansion, disturbance like sound (since the working place is give for different activities in one place/site) and the like.

CHAPTER FOUR

CONCLUSIONS AND RECOMMENDATIONS

4.1 Summary and Conclusion

Characteristics of the Sample Firms

The study covers almost all sectors that identified by Addis Ababa city administration SMEs office. Therefore the study identifies the major factors towards the success of the SMEs by considering all sectors. From the sectors Shops and others sector is the largest one. This shows that in Arda sub city, SMEs business dominated by Shops & Others sector. The majority of the sample firms were legally organized as sole proprietorship firms. The data shows that sole proprietorship form of SMEs is most common in Arda sub city. All of the sample firms were owned by citizens only.

Most respondent replied that lack of credit facility is the major problem of all sectors. The sources of capital fall under the two traditional sources; borrowing from friends & relatives and personal saving. But other informal sources like “Equib” also play a great role in establishing SMEs. As compared to the formal sources like microfinance, SMEs in the sub city use informal sources. This shows that further studies should be conducted towards microfinance for SMEs and the way to strength other traditional informal sources of finance.

Most of SMEs prepare business plan but they did not have business associations. This shows that government and other institutions should motivate and help them to establish business association. Most of the sample firms have plan to expand their business if their request fulfilled by the government and other institutions.

Critical Factors/Problems

Although the performance of SMEs can be affected by a plethora of factors, the scope of this study is limited to only the major factors. The respondents rated the perceived impact of 41 items on the performance of their business. All the 41 items grouped in to six tables of Environmental, Marketing, Financial, Managerial & HRM, Control & evaluation and other factors. As it is shown in appendix 2 respondents agree on the 22 problems from the 41 list of problems. The factors are listed as follows:

- The study showed that environmental factors like intensity of competition, availability/affordability of business license, rapid and costly technological changes, climate conditions and bureaucracy in company registration & licensing are their major problems. Problems related to business license and company registration procedure can be easily solved by the government.
- Human resource development and managerial factors were also considered by the respondents as impacting the performance of SMEs. These are lack of strategic business planning ,lack of low cost and accessible training facilities ,lack of experience in owning/ managerial a business and lack of well trained & experienced employees in the market. Any educational or material assistance to the development of SMEs should also address these problems.
- Overemphasis on short term profitability and high family commitment and responsibility also the other challenges of the sector. Since most of the owners are unemployed house holds, they have high family commitment and responsibility.
- The study showed that marketing activities such as product marketing, demand and supply forecasting and knowledge of market were perceived by the

respondents to have greater impact on their business than any other factor. Service and merchandising firms spent much time and resources to retain their customers. Customer loyalty and retention have been the main strategy for these firms to achieve competitiveness.

- Financial factors and related problems were also rated by the respondents as having significant impact on small business performance. These factors are inadequacy and costly of credit facilities and sources, shortage of working capital, high investment in fixed assets during start-up time, lack of record keeping , documentation and failure to analyze financial statements and the like. Proper management of fixed capital may lead to proper implementation of strategic plans. While proper management of working capital minimizes short-term obstacles to achieve competitive advantages in the market place.
- Other factors like lack of business development services, poor waste disposal system and tax burden challenge the performances of SMEs sector.
- Finally collateral requirement by financial institutions, conflict with neighbours and lack of transparency among SMEs office at the time allocating working place also identified in the open ended part of the questionnaire.

4.2 Recommendation

The findings show three important implications for SME support groups including the government, practitioners in SMEs, and researchers and academics in the areas of entrepreneurship and small business development.

The nature of the problems that identified in the study varies in their complexity from sector to sector, place to place. Some of them can be easily solved by the owners of the SMEs with out the help of government and NGOs for instances poor waste disposal system can be easily solved by the business. Some problems can also solve easily by the governmental and non governmental stake holder's for instances problems with business license and company registration procedure can be easily improved by the government. Some other problems may not be solved easily by the governmental and non governmental stake holder's like environmental factors. My recommendations to the problems are as follows;

- The designing and implementation of small business assistance programs should be based on the identification and prioritization of critical factors. All problems do not have equal degree of complexities, magnitude or impact on small business performance. Different problems with different degree of perceived impact on SMEs can be addressed at different times in different ways depending on the availability of resources and situations in the operating environment. A proactive entrepreneurial development programs requires long-term view of current problems. The study of small business problems must target on finding long lasting and sustainable solutions. And hence detail research on each sector should be undertaken to identify the major problems not only in Arda sub city but also in other nine sub cites.
- Most of the problems can be solved by designing effective and efficient business development services (BDS). Efforts must be made to incorporate

entrepreneurship into the national culture and way of life. This calls for the integration of entrepreneurship with school curriculum starting from kindergarten. In this case the new educational police, TVET, is good practice. Students at TVET program took different business courses like business growth, entrepreneurship and the like. But the training is limited to TVET students only and it should be incorporated to other programs like degree level. But a wide gap between educational institutions (schools, colleges and university) and the actual world of work should be considered.

- The Kebele and Arda SMEs office should improve its services specially the business license and company registration procedure. To this implementation of information technology with skilled manpower is crucial.
- The SMEs office should undertake detailed study on the site to be given, the people to be organized, and the talent of the people and their capability of doing the intended business before giving the working place and licenses. Poor waste disposal system, conflict with neighbours may not be a problem if prior study were undertaken at the time of organizing and allocating working place.
- The SMEs office should be transparent at the time of allocating the working place to the unemployed. At the same time close supervisor of the SMEs should be designed. Although the office assigns SMEs extension workers in each Kebele, they are not supervising or controlling whether the right owners working in the palace or third party rent the working place. Although the SMEs agree with the

office to not transfer/rent the working place to third party, the office is weak to control and implement the regulation.

- To solve conflicts between SMEs business, the organizer, SMEs office should force them to develop their own rules and regulations. Although the office elects representative's from each site/location, except in few sites most of them resign. For this establishing the business association may solve the problem between owners.
- By nature SMEs have small value asset than any other forms of business. Since SMEs is for unemployed, SMEs owners require loan especially at the time of start up the business. To solve the problem of finance, the government should develop specially loan system/strategy for SMEs with minimum collateral amount at fair interest rate. At the same time the government should support other informal sources association like "Equib" to reduce the risk. Motivating SMEs for group saving also important.
- Finally the increase in the number of small businesses in the sub city should not be equated with the development of entrepreneurship in the sub city. These are two different constructs. It is the development of entrepreneurship that leads to an increasing number of viable small firms, not vice versa. Thus, the implication of this paper for small business support group is that the development of a proactive entrepreneurial program should be based on an empirical investigation of small business problems, with the view to achieve long-term sustainable solution. SMEs

support group including the government should focus on building competitive potential of indigenous firms through not only material and financial assistance but also through education, training, strategic awareness programs, and entrepreneurial orientation. The target should not be increasing the number of SMEs but to achieve changes in entrepreneurial attitude of the people at large.

In sum, the future research agenda must strongly focus on the development, testing and validation of a measurement scale designed to identify critical success factors for firms operating under different financial and managerial environment. Regarding the implementation of research findings by small business support agencies, problem areas should not be considered as independent of themselves. SMEs critical factors are highly interdependent. Failure to effectively address operational problems may lead to the compounding of strategic problems. The final remark of this study is to investigate the causes of small business problems. Lack of marketing or financing is not a problem by itself. It is the consequence of other factors such as lack of skill, information or other resources.

Appendix-1: Cross tabulation

Sector wise Sources of Finance

Type of Business/Sector	Sources of Finance						
	Personal saving	Micro Finance	Borrowed from friends & relatives	Equib	Assistance from NGOs	Others	Total
Textile and Garment	2	0	4	0	1	0	7
“Gulit market”	0	0	2	0	0	0	2
Food Processing	3	0	1	0	0	0	4
Shop & others	28	14	30	16	7	1	96
Wood work & Metal work	1	1	0	0	0	0	2
Block Factory	0	2	0	0	0	0	2
Total	34	17	37	16	8	1	113*

*2 were missing

Sectoral problems

Intensity Of Competition						
Sector	Strongly Agree	Agree	Disagree	Strongly Disagree	ID Know	Total
Textile and Garment	2	0	0	3	2	7
“Gulit market”	0	0	0	2	1	3
Food Processing	2	2	0	0	0	4
Shop & others	32	34	5	11	15	97
Wood work & Metal work	1	0	0	1	0	2
Block Factory	0	0	2	0	0	2
Total	37	36	7	17	18	115

Lack Of Strategic Business Planning						
Sector	Strongly Agree	Agree	Disagree	Strongly Disagree	ID Know	Total
Textile and Garment	3	1	1	2	0	7
“Gulit market”	1	0	0	2	0	3
Food Processing	2	0	0	2	0	4
Shop & others	38	12	8	32	7	97
Wood work & Metal work	0	1	0	1	0	2
Block Factory	0	2	0	0	0	2
Total	44	16	9	39	7	115

Lack Of Business Development Services(BDS)						
Sector	Strongly Agree	Agree	Disagree	Strongly Disagree	ID Know	Total
Textile and Garment	3	1	1	2	0	7
“Gulit market”	2	0	0	0	1	3
Food Processing	3	0	0	1	0	4
Shop & others	49	11	14	17	6	97
Wood work & Metal work	0	0	0	2	0	2
Block Factory	2	0	0	0	0	2
Total	59	12	15	22	7	115

Overemphasis On Short Term Profitability						
Sector	Strongly Agree	Agree	Disagree	Strongly Disagree	ID Know	Total
Textile and Garment	1	0	0	6	0	7
“Gulit market”	1	0	0	2	0	3
Food Processing	2	0	0	2	0	4
Shop & others	42	11	15	25	4	97
Wood work & Metal work	0	0	0	2	0	2
Block Factory	0	0	0	0	2	2
Total	46	11	15	37	6	115

Lack Of Skill To Set Clear And Competitive Pricing Policy						
Sector	Strongly Agree	Agree	Disagree	Strongly Disagree	ID Know	Total
Textile and Garment	1	0	0	5	1	7
“Gulit market”	1	0	0	0	2	3
Food Processing	2	0	1	0	1	4
Shop & others	45	10	16	23	3	97
Wood work & Metal work	0	0	0	2	0	2
Block Factory	2	0	0	0	0	2
Total	51	10	17	30	7	115

Inadequacy And Costly Of Credit Facilities And Sources						
Sector	Strongly Agree	Agree	Disagree	Strongly Disagree	ID Know	Total
Textile and Garment	2	1	1	3	0	7
“Gulit market”	3	0	0	0	0	3
Food Processing	3	1	0	0	0	4
Shop & others	50	8	6	29	3	96
Wood work & Metal work	1	0	0	1	0	2
Block Factory	2	0	0	0	0	2
Total	61	10	7	33	3	114*

*1 were missing

Appendix 2: Summery of problems

S/n	Summery of Problems	Agree	Disagree	I don't Know	Missing
1	Intensity of competition	73(63.3%)	24(20.9%)	18(15.7%)	
2	Inadequacy and costly of credit facilities and sources	71(62.3%)	36(34.8%)	3(2.6%)	1
3	Shortage of working capital	71(61.7%)	39(34%)	5(4.3%)	
4	High investment in fixed assets during start-up times	64(55.7%)	44(38.2%)	7(6.1%)	
5	Lack of business development services	63(54.7%)	38(34%)	14(12.3%)	
6	Lack of skill to set clear & competitive pricing policy	61(53%)	47(40.9%)	7(6.1%)	
7	Lack of strategic business planning	60(52.2%)	48(41.7%)	7(6.1%)	
8	High family commitment and responsibility	60(47%)	47(40.8%)	8 (7%)	
9	Availability/affordability of business license	58(50.9%)	48(42.1%)	8(7%)	1
10	Rapid and costly technological changes	57(50.4%)	36(31.3%)	20(17.3%)	2
11	Lack of low cost and accessible training facilities	57(50%)	44(38.6%)	13(11.4%)	1
12	Overemphasis on short term profitability	57(49.6%)	52(45.2%)	6(5.2%)	
13	Lack of demand and Supply forecasting	57(49.6%)	49(42.8%)	10(7.6%)	
14	Poor waste deposal system	57(49.6%)	48(41.7%)	10(8.7%)	1
15	Lack of experience in owning/ managerial a business	56(49.6%)	51(45.1%)	6(5.3%)	2

16	Lack of knowledge of market	56(48.7%)	48(41.7%)	11(9.6%)	
17	Lack of record keeping and documentation	56(48.7%)	49(42.6%)	10(8.7%)	
18	Failure to analyze financial statements	52(46%)	46(40.7%)	1(13.3%)	2
19	Lack of well trained & experienced employees in the market	52(45.6%)	51(44.8%)	11(9.6%)	1
20	Tax Burden	51(44.7%)	49(43%)	14(12.3%)	1
21	Bureaucracy in company registration & licensing	49(43.4%)	47(41.6%)	17(15.1%)	
22	Climate conditions	49(42.6%)	44(38.2%)	22(19.1%)	

Appendix -3: Questionnaire

Questioner to be filled by SMEs owners or employees in Addis Ababa, Arada Sub city

I care for your opinion! What do you think about SMEs in Addis? Are you thinking about the opportunities or about the challenges that lie ahead? Please, take a few minutes to answer the questions.

Purpose: The purpose of this questionnaire is to collect information about the challenges and Opportunities those SMEs at Addis Ababa face. Your cooperation in providing genuine answers to the following questions is highly important for the success of this study. Your responses will be kept confidential. It is only for academic purpose.

Thank you for your cooperation!

Part one: General information

1. Type of the business/sector

Textile

food processing

Wood & metal works

“Gulit market”

Shops and other

Block factory

2. Year of establishment_____

3. Citizenship

Ethiopian

Non Ethiopian

4. Your Status in the enterprise

Owner manger

Employee

Manger only

Other (Specify) _____

5. Your highest educational qualification

Below high school

College certificate

University degree

High school graduate

& diploma

Postgraduate

Part Two: Basic Business Information

1. Who support you to start the business? Government NGO's No one

2. Do you have any work experience related to the business? Yes No

3. Why did you prefer to start this business?
 - To be self employed To generate own income
 - Small investment required No other alternative for incomes
 - others (specify)_____

4. Do you have business licenses?
 - Yes No

5. If your answer for question 4 is “yes”, how many days did it took? _____

6. Basically, an entrepreneur needs managerial, technical and marketing skills to carry out business effectively. Do you have these capabilities?
 - Yes No

7. If your answer for Q.6 is “yes”, how did you acquire these capabilities?
 - Training Experience Education Naturally others specify

8. If your answer for question 6 is “No”, why?-----

9. Are you making profit?
 - Yes No

10. If your answer is “yes” for Q9, how do you spend you profit?
 - On families To expand your business Others (specify)

11. How many employees do you have?

Type of employee	Male	Female	Total
Full time workers			
Part time workers			
Paid family members			
Unpaid family members			

12. Are your employees qualified/ trained in the area?

- Yes No

13. If your answer for Q.12 is “No”, don’t you think this affects your business success?

- Yes No

14. The legal form of ownership

- Sole proprietorship Joint venture
 Partnership Corporation

15. If you have partner, do you have a formal contractual agreement with your partner?

- Yes No

16. Who assisted you in establishing this arrangement/partnership?

- AA SMEs office NGO No one others (specify)

17. If you do not have partner, do you have plan to work with your partners?

- Yes No

If your answer is No, Why? _____

18. Initially paid up capital _____

19. What were the sources of your start-up capital?

- Personal saving “Equip”
 Micro finance Assistance from NGOs
 Borrowed from friends & relatives Others (please specify)

20. What are the three motivating factors to start your own business?

21. Does your company have a business plan?

- Yes No

22. If yes, what was the major reason to prepare the business plan

- to get loan from banks to guide the operations of the company
 to get loan/grants Other _____
 required by registrar of companies

23. Do you export your products? Yes No

If No? Why? _____

24. How far your business from main road? _____K.M.

25. Which promotion campaign your business use?

- Posters No advertisement Others(Specify)
 Trade fair Business card TV, Radio and magazines

26. Do you have formal or informal business association? Yes No

27. What is your future plan?

- Stop operation Reduce capacity
 Maintain production at the same level Others
 Expand Capacity

28. If your answer is Stop, why?

29. what were the problems you face

A. At the time of establishment of the business

B. At the time of establishment of the business

C. Running the business

What were your solutions?

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

E. For problems at the time of running the business

Please indicate the degree to which these factors are affecting the performance of your business. If the stated problem is high and repetitive put “√” mark on Strongly Agree, and if you only agree, put “√” mark on Agree. If you Disagree, strongly disagree on the listed problems put “√” mark on either strongly disagree and disagree box and if you don’t have information about the problem or if you don’t know the problem put “√” mark on I do not Know

S/n	1. ENVIRONMENTAL FACTORS	Strongly	Agree	Disagree	Strongly	I don't	Know
1	Intensity of competition						
2	Climate conditions						
3	Inability to compete with foreign firms/products						
4	Rapid and costly technological changes						
5	Availability/affordability of business license						
6	Bureaucracy in company registration and licensing						
7	The impact of national culture; values, norms						
8	Lack of government encouraging Policy						

S/n	2. MANAGERIAL FACTORS	S. Agree	Agree	Disagree	S. Disagree	ID Know
1	Lack of clear division of activities and duties					
2	High employee turnover					
3	Lack of well trained & experienced employees in the market					
4	Lack of low cost and accessible training facilities					
5	Dependence on family and relatives for labor					
6	Personal problems (health, social) of owner/manager					
7	Lack of experience in owning/ managerial a business					
8	Lack of strategic business planning					

3. Control and evaluation		Strongly Agree	Disagree	Strongly Disagree	I don't Know
S/n					
1	Overemphasis on short term profitability				
2	Lack of delegation responsibility and accountability				
3	Fear of failure, bankruptcy and risk taking				
4	Lack of quality control systems				
5	Inability to compete with large companies				
6	High family commitment and responsibility				
7	Lack of inventory control				

4. MARKETING FACTORS		Strongly agree	Agree	Strongly disagree	I don't Know
S/n					
1	Lack of product/service marketing				
2	Lack of skill to set clear and competitive pricing policy				
3	Lack of demand forecasting				
4	Poor location/business site				
5	Poor customer relationship & Handling				
6	Lack of knowledge of market				
7	Poorly trained sales staff				

5. FINANCIAL FACTORS		Strongly agree	Agree	Disagree	Strongly	I don't Know
S/n						
1	Inadequacy and costly of credit facilities and sources					
2	Lack of record keeping and documentation					
3	Poor cash flow analysis and management					
4	Poor management of Current Assets (like inventory, A/R)					
5	High investment in fixed assets during start-up time					
6	Failure to analyze financial statements					
7	Unplanned withdrawal of cash for personal use					
8	Underutilization of company assets (space, machines					
9	Shortage of working capital					

6. OTHER FACTORS		Strongly agree	Agree	Disagree	Strongly	I don't Know
S/n						
1	Tax Burden					
2	Political intervention					
3	Lack of infrastructure					
4	Lack of business development services					
5	Lack of sector wise incentives					
6	Poor waste disposal system					

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