



# **Determinants and Project Management Mitigating Mechanisms of Business Formation Distress: The Case of Startups in Addis Ababa**

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**A Research Paper Submitted to College Of Business and Economics**

**Presented in Partial Fulfillment of the Requirements for Masters of Arts in Project  
Management**

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**Addis Ababa University School of Commerce**

**Addis Ababa, Ethiopia**

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**Addis Ababa University**  
**College Of Business and Economics**  
**School Of Commerce**  
**Department of Project Management**

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of Arts in project management

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## **Declaration**

I, Azeb Gizachew Wubishet, hereby declare that this thesis entitled “Determinants and Project Management Mitigating Mechanisms of Business Formation Distress: The Case of Startups in Addis Ababa” is my own original work and has not been submitted for any degree in any other University.

Name of the candidate: Azeb Gizachew Wubishet

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## **Letter of Certification**

This is to certify that Azeb Gizachew Wubishet has carried out this research on the topic "Determinants and Project Management Mitigating Mechanisms of Business Formation Distress: The Case of Startups in Addis Ababa" under my supervision. This work is original in the nature and suitable for submission in partial fulfillment of the requirement for the award of Masters of Arts Degree in Project Management and the student has my permission to present it for assessment.

Advisor: Wubeshet Bekalu (PhD)

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**Addis Ababa University**  
**School of Graduate Studies**

This is to certify that the thesis prepared by Azeb Gizachew Wubishet entitled: “Determinants and Project Management Mitigating Mechanisms of Business Formation Distress: The Case of Startups in Addis Ababa” submitted in partial fulfillment of the requirements for the degree of Degree of Master of Arts in Project Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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| Internal Examiner | Signature | Date  |
| _____             | _____     | _____ |
| External Examiner | Signature | Date  |
| _____             | _____     | _____ |
| Coordinator       | Signature | Date  |

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## **Abstract**

*This research claims that the characteristics of business formation stage corresponds with that of projects and thus studies the application of project management as a mitigating mechanism to tackle causes of business distress at the formation stage. Hence, as per its objective the study identifies 21 Internal (managerial/owner causes, firm-based causes), External (microenvironment causes, meso-environment causes and macro-environment causes), Inter-firm business environment determinants which cause business formation distress. 281 owners/managers of distressed startups in Addis Ababa responded that the identified causes are also responsible for the business formation distress in Addis Ababa. The respondents ranked Lack of adequate Financial and marketing resources, Erratic (inconsistent) supply of inputs, raw materials and equipment, Lack of managerial or technical skill and experience, Political and legal policies of the country, and Lack of adequate working premises (space) as top 5 underlying (root/fundamental) causes of business formation distress in startup projects in Addis Ababa. The research then analyzes the application of the 10 project management knowledge areas by integrating each knowledge area with an identified cause of distress.*

**Key words:** Project, Startup, Distress. Project Management

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## **List of Acronyms and Abbreviations**

|                |                                                          |
|----------------|----------------------------------------------------------|
| <b>AAU</b>     | Addis Ababa University                                   |
| <b>APA</b>     | American Psychological Association                       |
| <b>BFD</b>     | Business Formation Distress                              |
| <b>BIC</b>     | Business Incubation Centre                               |
| <b>FDRE</b>    | Federal Democratic Republic of Ethiopia                  |
| <b>GEM</b>     | Global Entrepreneurship Monitor                          |
| <b>IJMSR</b>   | International Journal of Managerial Studies and Research |
| <b>MSE</b>     | Micro and Small scale Enterprises                        |
| <b>PM</b>      | Project Management                                       |
| <b>PMBOK</b>   | Project Management Body of Knowledge                     |
| <b>PMI</b>     | Project Management Institute                             |
| <b>SME</b>     | Small And Medium-scaled Enterprises                      |
| <b>SPSSv20</b> | Statistical Package for Social Sciences Version 20       |
| <b>SSE</b>     | Small Scale Enterprises                                  |

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Of the numerous definitions of a project given by different scholars, one is that a project is a temporary endeavor designed to produce a unique product, service, or result with a defined beginning and end undertaken to meet unique goals and objectives, typically to bring about beneficial change or added value (Nokes, 2007). The temporary nature of projects stands in contrast with operations, which are repetitive, permanent, or semi-permanent functional activities to produce products or services (Paul C. Dinsmore, 2005). In a corresponding definition, a startup is “a temporary organization designed to look for a business model that is repeatable and scalable” while a company is “a permanent organization designed to execute a business model that is repeatable and scalable” (Steve Blank, Bob Dorf, 2012). With these definitions in mind, the researcher believes, it is only appropriate to treat the business formation stage as a project and apply the right project management knowledge areas to tackle distresses and smooth the transition of startup projects to operational companies.

Anyone who has ever worked on a project knows how difficult it is to make it a success. The issues show themselves as (severe) delays, (extreme) budget overruns, insufficient results, dissatisfied clients, excessive project team stress, and other undesired effects (Wouter, 2020). Correspondingly, the researcher believes that it is probably even an understatement to argue that anyone who has an experience as a business owner/manager, will know the words “startup” and “uncertainty” are pretty much synonyms. A 2014 article in Fortune estimated that 90% of startups in USA ultimately fail at their formation stage. This shows that the failure rate of startup projects is very high in its nature, let alone being in less developed country like Ethiopia with less favorable business environment.

Ethiopia ranks 159<sup>th</sup> out of 190 countries on the World Bank’s report called Ease of Doing Business index (2020). Likewise, according to Startup Blink global report (2020) Ethiopia ranks 105<sup>th</sup> globally among 202 countries, based on the strength of its

startup ecosystem. Businesses in Ethiopia face critical constraints both at the operation and startup level, which leads to distresses. A project is judged to be in distress, whenever its performance falls outside nominal values, due to several factors (Wysocki., 2014). Simply put distressed project are so troubled that without immediate intervention they will fail (Ward, 2007). However better project management could help many better manage that risk and prosper. Identifying significant elements generating distress in advance as a preventative approach and the intervention strategy after the project starts to drift from the nominal parameters, according to Wysocki (2014), is a critical topic that demands further investigation.

Therefore, the purpose of this research is identifying the determinants of business formation distress by taking startups in Addis Ababa as a case and relating them to project management knowledge areas as mitigating mechanisms. The research will also try to narrow down the number of causes to underlying causes in such a way that some action could be taken.

## **1.2 Background of the case study**

A business is defined as an organization or enterprising entity engaged in commercial, industrial, or professional activities (Hayes, 2020). A startup is simply a new company; a business that has been recently created and is typically in the early stages of its development.

This research takes the case when the evidence is from startup projects in Addis Ababa because according to Startup Bling global report (2020) the city with the most vibrant startup ecosystem in Ethiopia is Addis Ababa, though globally ranked 692<sup>nd</sup> out of 1000 cities in 2020. Referring back to definition of startup by different authors, this research considers businesses in the capital city which have been distressed (delayed/failed) on their initial or formation stage. i.e. young companies founded by one or more entrepreneurs to develop a unique product or service and bring it to market.

## **1.3 Statement of the Problem**

**Overlooking Project Management within start-ups:** The fact that many entrepreneurs undervalue the power of project management for their startup, is a problem which

initiated this research. There are a number of causes which distress business at its formation stage. Identifying those causes is taking a great step in talking the challenges but the most important thing that decides the success of the newly established business is how these causes are prevented and or intervened. Many startups often misjudge project management to be useful only in big organizations or companies that have become stable. But the fact is that, it's never too early for a business to engage in project management.

Project Management in start-ups has not been explored a lot in literature yet. Of course, different researchers have also shown that project management can benefit businesses with communication, planning, and general management. However, they have not paid much attention to how project management is employed in the start-up stage, where businesses evolve in an unstable and short-term vision setting; have a large workload to deal with daily; have limited financial and expertise resources; must meet critical milestones in order to receive additional funding, to get to the market on schedule, or as quickly as possible (Smith & Smith, 2000). All of these issues suggest that start-ups could benefit from the findings in the field of project management, as it might aid in planning, resource sharing, and other areas.

The closest available field of research is Project Management within Small and medium scale enterprises where most researchers tend to mistook newness and smallness on a business. Other than that, there is a limited but growing body of knowledge on the topic of project management within startups, on which researchers can base their investigations, especially in the business formation distress domain.

Another point worth mentioning here is the fact that that the owner/managers of many startups are not professional project managers nor have any educational background or training on the topic. Hence, the typical owner/managers of new businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (King and McGrath, 2002). This is far from the application of project management skills to startup business.

The work of different scholars who choose to pursue on the issue have profoundly shape the application of tools as a mitigating mechanism to tackle distresses caused at any stage of business formation, however most these available researches are not done by project managers. The articles found are just scattered across business, management, finance, psychology, entrepreneurship and many other journals, and no proof could be found that these researched have ever been comprehensively reviewed by a project manager. Of course, there is no specific body of science to which failure exclusively belongs (Pretorius, 2009). However, identification of the causes of the business formation distress, from a project manager point of view, helps to narrow down each cause to a specific project management knowledge area and help it be prevented or certain solutions that could contribute to the growth process could be identified.

#### **1.4 Research Questions**

There appears a lack of common list of determinants which cause business formation distress, as scholars see the issue in different perspective according to their professions. This research chose the classification of the determinants into three; namely internal causes, external causes and inter firm causes because it corresponds with business environment classification, which is essential in order to understand and truly see one business in its full context. Because business environment inserts its impacts on business success, scale, vision, and development strategy, having a full understanding about this issue is prioritized by this study to analyze a mitigating mechanism that tackles distress.

Thus the main research questions to be addressed in this research are:

- i. What are the internal causes of business formation distress in startup projects in Addis Ababa?
- ii. What are the external causes of business formation distress in startup projects in Addis Ababa?
- iii. What are the inter-firm causes of business formation distress in startup projects in Addis Ababa?
- iv. What are project management oriented mitigating mechanisms which can tackle business formation distress causes?

## **1.5 Research Objectives**

### **1.5.1 General Objective**

The General objective of the research is to identify the determinants that cause business formation distress and their corresponding project management oriented mitigating mechanisms.

### **1.5.2 Specific Objectives**

The following are the specific objectives of this research:

- i. To identify the internal causes of business formation distress in startup projects in Addis Ababa
- ii. To identify the external causes of business formation distress in startup projects in Addis Ababa
- iii. To identify the inter-firm causes of business formation distress in startup projects in Addis Ababa
- iv. To identify project management oriented mitigating mechanisms which can tackle business formation distress causes.

## **1.6 Significance of the study**

According to a study conducted by the Kauffman Foundation and the Institute for Competitiveness and Prosperity (2014), successful startups produce the majority of new jobs, attract international talent, and attract foreign direct investments to a country. The study shows that almost all private sector jobs created in the past twenty-five years are created by businesses that are less than five years old. Besides creating jobs for more employment, startups can also boost economic vitality of their home country by bringing fresh perspectives to the table which is critical for stimulating innovation and generating competition. Noticing such facts on how startups are undeniably invaluable for a country's economy, calls for researches on the sector, specifically identifying the underlying causes behind their distresses.

It has been established that startups are very important for the economy of a country: which means the success of startups is as equally important. The presumed significance

attached to this research rests on the belief that if the underlying causes that cause distress on business formation are identified, then certain solutions that could contribute to the growth process can also be identified. Therefore, the main significance of this research is to be a reference for concerned stakeholders to find solutions to the causes militating against startup projects in Addis Ababa so that they can improve and stabilize their performance and hence fulfill their expected roles in economic development of the country.

This research will also serve as a guide for future startup projects because according to Wysocki (2014) identifying major determinants causing distress in advance as a prevention strategy is a pressing issue and requires looking into in detail rather than coming up with an intervention strategy once the project starts to distress.

The findings of this research work are also expected to come up with new information for concerned stakeholders about the determinants and project management mitigating mechanisms of business formation distress specifically in the case of startup projects in Addis Ababa. Moreover, the result of this research would serve as a stepping-stone for further studies on the issue of project management in startups. The research is also expected to initiate a business incubation centre that guide entrepreneurs in the early stages of their business formations.

## **1.7 Scope of the study**

### **1.7.1 Theoretical scope**

The theoretical scope of this research is as far as identifying the determinants and project management mitigating mechanisms of business formation distress in startup projects based in Addis Ababa.

### **1.7.2 Geographical scope**

The geographical scope of this research is Addis Ababa, the city with the most vibrant startup ecosystem in Ethiopia according to Startup Bling global report (2020).

## **1.8 Limitation**

Of the limitations the research experienced, the major one is the inadequacy of existing local literature regarding startups. Hence, it examined various international researches on the topic and local researches on related project distress issues on SMEs while acknowledging the difference.

The fact that the geographical scope is only the capital city is also a limitation because a country scale research would have been necessary to improve the results, to identify more underlying causes and compare the difference between different settings.

Another drawback is that the research aimed for the achievement of a meaningful, rather than an elaborate and massive, model for problem solution, however it end up being board due to the vastness of the topic. In relation to this point, this research did not include the issue of the COVID-19 in consideration of the issue's broadness and as that would have turned the direction of the research. However, it is undeniable determinant and a practically seen cause of distress for businesses at every stage, which is very exceptional and rare case, which requires a whole lot of another broad research and approach to tackle.

## **1.9 Organization of the study**

This study is divided into five chapters. The first chapter, which is the introduction part, includes the background of the study, the statement of the problems, the research question and objectives, the significance of the study, its scope and limitations. In the second chapter, the relevant literatures related with the study are reviewed and presented as theoretical, empirical and conceptual reviews. The third chapter discusses about the research methodologies, which include the research approach and design, answers to what the sample is and why it is selected, the sources of data and data collection instruments. The fourth chapter is reserved for discussing the research finding and its interpretation, while the fifth is for conclusions and recommendation.

### **1.10 Definition of key terms**

**Project:** a temporary endeavor undertaken to create a unique result (PMI, 2017)

**Project Management:** the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements, effectively and efficiently (PMI, 2017)

**Project Management Knowledge Area:** a complete set of activities that create a specialized professional field known as project management (PMI, 2017)

**Business:** an organization or enterprising entity engaged in commercial, industrial, or professional activities (Hayes, 2020).

**Startup:** a temporary organization designed to look for a business model that is repeatable and scalable (Steve Blank, 2012)

**Distress:** a project where the difference between what is expected and what has been accomplished exceeds the acceptable tolerance limits, pushing into a course that will inevitably lead to failure (Vargas, 2007).

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Introduction**

This second chapter is devoted to presenting a review of literatures that are related to the research questions being analyzed, identifying study gaps and preparing a theoretical buildup for the study and familiarizing readers with the study area. The reviewed literatures help to identify and bring out an explanation about existing knowledge on causes of distress in business formation and concepts put forward by different authors and scholars that are relevant to the research area. The chapter discusses project management knowledge areas as mitigating mechanisms along with theoretical review of business, business formation, business formation distress; empirical review of causes of business formation distress; and conceptual framework used for the study.

#### **2.2 Theoretical Review**

While searching for literatures to review, the focus was on finding different project management techniques in startup businesses and how they worked or if they worked in tackling distress at business formation stage. However, the result was more information on startups and their functioning and less on how project management helped them. Project Management techniques have been helping to structure already established businesses for years. However, there is a problem with how project management is implemented in startups (early stages of business), especially in developing countries.

Therefore, it is important to understand first the definition of business, the formation stage and the causes of distress, to provide a better understanding into project management's application in a way that is suitable for startups. Since project management is important to have in every organization, including startups, it is important to find where this issue might present itself and look at successful ways to implement project management knowledge areas into startups.

### 2.2.1 Business

An article shared by Maitrayee P. on EconomicsDiscussion.net (2020) summarizes meaning and definitions of business suggested by different professionals. According to this article, the business scholar Melvin Anshen defined business as the activity, which is pursued by a human being of the acquisition of wealth. Literally, “Business” means the state of being busy. It is associated with any activity that one can be busy about. So, a person who remains busy in some work is said to be doing some business. In the broadest sense all activities which a man performs all day for a better living may be described as business activities.

Other literatures by different authors also gave different definition to business. According to the profit-oriented definition given by the American economist and professor Haney, L.H. (1939), Business is a human activity directed towards producing or acquiring wealth through buying and selling of goods. According to the societal definition of business by Buskirk, Green and Rodgers (1973) “Business is a system created to satisfy society’s needs & desired.” Based on these two sets of authors, a business is an activity organized and operated to make available goods and services to the society under the profit motive.

### 2.2.2 Business Formation

Business Formation is the first stage in developing a business. ‘Develop’ is defined in the Oxford Advanced Learner's Dictionary of Current English (p. 995) as "to start or cause something to start to exist and then become greater." Penrose (1959) conceptualizes the ‘development’ of a firm as an increase in its size or an improvement in its quality. Further, Kind and zu Knyphausen-Aufseß (2007, p. 185) define business formation as all activities intended to "creating value and revenue potentials for the company, developing products and technologies so that they can be commercialized, building relationships with potential partners, customers and other stakeholders, and maintaining and enhancing those relations in the interest of the company.” Firms go through three stages before they reach the medium stage, according to the FDRE Ministry of Trade and Industry's (1997) policy: **the start-up stage, the young/early growth stage and the established stage.**

### **2.2.3 Startup**

The definition of a ‘startup’ that is most accepted by business schools was defined by SteveBlank, a serial entrepreneur and professor at business schools such as Stanford, Berkeley and Imperial College. According to Blank (2012) a startup is “a temporary organization designed to look for a business model that is repeatable and scalable.” The difference between startup and company is that startups look for an attractive business model, while companies already have such a business model and are focused on successfully executing it. This distinction affects the nature and needs of both kinds of organizations.

A company at the early stages of its operation is called a startup (B.Gurel, 2015). A start-up is a business entity “which did not exist before during a given time period (new), which starts hiring at least one paid employee during the given time period (active), and which is neither a subsidiary nor a branch of an existing firm (independent)” (Luger & Koo, 2005, p.19). Startups can enter an existing market or in other times unbolt new market with new and innovative products or service (S.Stubner, 2007). Startups are vital to the economy of countries especially for developing once like Ethiopia (P.Basu, 2015). The history of new businesses and organizations supports the evolution of organizations, but lacks enough attention on the very early stages of a company which is the startup phase (Salamzadeh A., 2015).

#### **2.2.3.1 Characteristics of startups**

It's difficult to express the features of startups in a single sentence or paragraph because it's difficult to do so in one dimension; so, different dimensions are used. Eleni Gebrewahd (2020) divided startup characteristics into four separate dimensions, as illustrated in the following table, based on literature (R.E Quinn, 1983; D. Miller, 1984; D.L Lester, 2008; M. Scott, 1987; Lippi, 2013).

Table 1: Characteristics of startups

| <b>Dimension</b>      | <b>Characteristics</b>                                                                                                                              |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| Organization          | Small scale organization<br>Young age<br>Homogeny environment<br>Informal structure<br>Few differentiation                                          |
| Ownership             | Centralized<br>Owner/Manager<br>Intuitive decision making<br>Direct Supervision                                                                     |
| Strategy & Innovation | Niche marketing strategy<br>Prefer risky decision than the secure one<br>Fast innovation<br>First mover or second mover<br>Lack of product research |
| Financial             | Funding from personal savings or relative                                                                                                           |

Source: Eleni Gebrewahd, 2020

### 2.2.3.2 Newness Vs Smallness of a business

Newness and smallness are two main features of a business at beginning of its life, which should be studied in distinction (Bruderl & Schussler, 1990). Because the risks of newness and smallness coexist, it is necessary to cognitively distinguish between the two (Bruderl & Schussler, 1990).

Smallness is about size. There are a variety of context-specific methods for determining the size of a company (Shepherd & Wiklund, 2009).

The 'newness' of a business, according to Stinchcombe (1965), is defined as new roles and tasks to be learned and invented, social interactions in the organization among strangers lacking a common normative basis or informal information structure, and stable links not being established with clients, supporters, or customers when the company first starts up. Furthermore, the term 'new' is employed in relation to age and the amount of gained experience (Aldrich & Ruef, 2006). The term 'experience' refers to the extent to which someone has really engaged in activities before (Heidegger, 1962). There is a

greater accumulation of experience as there is more participation. As a result, newness refers to a business's earlier engagement with stakeholders and internal processes (Aldrich & Ruef, 2006). Hanks, Watson, Jansen, and Chandler (1994) looked at stage models and grouped the stages into five categories: start-up, expansion, maturity, diversification, and decline. They characterize firms in the first three stages in young businesses (Hanks et al., 1994).

#### **2.2.4 Business Formation Distress**

Of course, business failure is widespread not only among new start-ups, but also among established businesses, and it can strike businesses of any size (Wu, 2010); yet, most startups fail in their early phases (Vesper, 1990). In the United States, over 90% of businesses fail during their first five years of existence (Forbes, 2017).

Those that turn into companies will play a significant role in the economy's success stories (Martinsons, 2002). Particularly for developing countries like Ethiopia, as more startups thrive into large companies, they fuel the economy. Studies conducted by Endalkachew (2008) shows that the small business sector is an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, enhance productivity, and bring technical change through the combination of all of these measures, to stimulate local economic development.

Since it has been established in the previous sections that business formation stage should be treated as a project, understanding business formation distress requires understanding project distress and applying the relatable project management skill.

##### **2.2.4.1 Distressed Project**

There is no single definition of distressed or troubled project in PMBOK, however different authors gave their definition of distress projects. Vargas elaborate it more by saying distressed project as a project where the difference between what is expected and what has been accomplished exceeds the acceptable tolerance limits, pushing into a course that will inevitably lead to failure (Vargas, 2007). Based on these and other literatures it can be understood that whenever the performance of a project falls outside

nominal values, it is judged to be a project in distress. How it got to that state is a question that this study ought to answer.

#### **2.2.4.2 Delay and Failure**

There are numerous features identified for distressed project. Among the frequently illustrated characteristics, the relevant once are articulated below.

As noted by Wysocki (2014) a project is distressed if it has exhibited a performance trend that, if continued, will result in its failure. According to Alaskar (2013), it is one or combination of metrics exceeds the acceptable tolerance limit that could lead the project to fail. Ignoring these metrics will lead to multiple interrelated problems rather than arise of single problem, which may complicate the project or might lead the project to failure. This metrics can be expressed as delays or failure.

**Delay** or schedule/time over run, as defined by different scholars, is the gap or difference between the estimated completion time of the project and the actual completion (Aibinu & Odeyinka, 2006). If projects do not fulfill their deadlines, budgets, or quality expectations, the project will suffer big time (Abdurezak Mohammed Kuhil and Neway Seifu, 2019).

**Business failure** can be defined as a desire or necessity to sell or liquidate a business in order to prevent losses or pay off creditors, or a general inability to earn a profit (Gaskill et al., 1993). There are issues connected to the use of various terminologies in business failure study. Business "disappearance," "closure," "exit," and "failure" terminology, in particular, are muddled and frequently overlapping.

A firm may "disappear" because it failed, was acquired by or merged into another company, or was deliberately liquidated by its owners (Cardozo and Borchert, 2004). Closure can be defined as a business's incapacity to survive, and so symbolizes a business's discontinuance. The term "exit" has multiple meanings: it can refer to a company's decision to stop trading in a particular market or stop producing a certain product. It also refers to the end of the owner's involvement in the business, such as when entrepreneurs looking to sell or depart a business look for "exit routes" (Stokes and

Blackburn, 2002). Failure is defined as the closure of a business due to a lack of adequate financial resources (Everet and Watson, 1998), the cessation of operations with a loss to creditors (Cardozo and Borchert, 2004), and the exit from the business population because it is no longer a viable concern (Cardozo and Borchert, 2004). (Bickerdyke et al., 2000).

New businesses produce new jobs, provide chances for upward social mobility, increase economic flexibility, and improve competition and efficiency (Liao et al., 2009). Although the loss of a single startup will never be covered by the media, the repercussions of the delay or failure of new and small businesses are unquestionably substantial for those directly engaged (FEE, 2004). Firm closure is a common occurrence in dynamic economies, and business entry and exit are tightly linked (Bosma et al., 2009). It is hard to discuss entrepreneurship theory wisely without understanding the central role of entrepreneurial failure. The majority of entrepreneurship research focuses on successful businesses. As a result, there is little understanding of why startups fail. What's more, nothing is known about how they fail. We will never have a thorough grasp of entrepreneurship until we grasp what causes discontinuation. Developing a deeper knowledge of new business failures should provide crucial information to a number of key stakeholders in a new firm, including individual entrepreneurs, business financiers, and government policymakers (Liao et al., 2009).

### **2.3 Empirical Review**

Ethiopian start-ups, like those in other African countries, confront specific difficulties that limit their ability to survive and expand. Most African entrepreneurs operate in comparable political, economic, and bureaucratic environments, despite the fact that each country faces distinct difficulties and possibilities that must be considered when establishing successful policies to support entrepreneurship. Although entrepreneurs may become well-respected citizens when they become wealthy, public service positions and engaging in a commercial venture have not historically been regarded high-status professions in Africa. This case also appears to be true in Ethiopia (Mersha, Sriram, and Hailu, 2010).

Taxes, bribery, and bureaucratic problems drive many developing countries' businesses to function in the informal economy (Azuma & Grossman, 2002). Businesses that aren't legally registered and/or don't pay taxes "are one frequent form of firm activity that falls within the parameters of the informal economy"; these businesses "make up the informal economy and account for 40-60 percent of GDP" in developing economies (De Castro, Khavul & Bruton, 2014, p. 75).

Nonetheless, as their development processes progress, firms in developing economies gradually become formal entities, either through institutional enforcement or voluntarily. This also means that one of the most difficult challenges for new enterprises is to evaluate institutional incentives, the opportunity costs of not forming formal entities, and the costs of forming formal companies, such as application processes, taxes, and the cost of complying with laws (Nelson & De Bruijn, 2005). Firms may formalize their operations when the costs of formalization are unclear, but they use coping strategies to avoid formal obligations, such as avoiding necessary investments, withholding or falsifying information given to authorities, and making informal arrangements with government officials (Nelson & De Bruijn, 2005, p. 589).

Because the government of Ethiopia is interfering in new business creation through industrial policies (Mkandawire, 2001) and there are large economic activities in the informal sectors, the Ethiopian economy provides a background for analyzing new business development (Franken & Van Dijk, 2008). Firms go through three stages before they reach the medium stage, according to the FDRE Ministry of Trade and Industry's (1997) policy.

The first step is **the start-up stage**, during which the new business must establish itself as a legal organization and begin producing and providing services. Lack of early funding, lack of knowledge of legal business procedures, lack of expertise in bookkeeping and business operations, and lack of entrepreneurial abilities are among obstacles faced at the start-up phase.

After the start-up stage, **the young/early growth stage** begins. A new firm in this stage tries to become competitive in terms of costs, quality, supply, and profits by utilizing the

resources available to it. The fledgling company expands in terms of employees and total assets. A business has obstacles during this stage, such as a lack of timely and enough funding for the nature of its activity. In addition, the entrepreneur lacks the essential skills and technology to increase production and product quality. The young company is unaware of the required requirements and is unable to get suitable premises and sales outlets. As a result, the business may engage in illegal commercial practices (FDRE, 2011; Ministry of Trade and Industry, 1997). The policy statement suggests measures such as enabling the provision of regular loans, assisting in the creation of company strategies, bolstering skill and technological assistance, offering inexpensive working and sales spaces, and assisting businesses in operating within the legal framework (FDRE, 2011).

The **established stage** is the last step of a business as defined by the policy. The business is competitive and lucrative at this point, and it can also attract additional investment. At this stage, the challenges include an inability to produce sustainable and high-quality products in order to compete in the market, a lack of awareness of international production and productivity standards, and a limited capacity to obtain technology and means of production in order to maintain market competitiveness (FDRE, 2011). Creating a competitive enterprise (providing training that capacitates production and productivity and providing market expansion support in the relevant sectors), identifying the means of production and lease that helps a business move to the early medium growth stage, and certifying the enterprises are all interventions required at this stage (FDRE, 2011; Ministry of Trade and Industry, 1997). As a new company progresses through these stages, it is promoted from the small to the medium stage of development (FDRE, 2011).

While a considerable amount is known about the determinants that affect the success of new, small and medium-sized businesses, this knowledge continues to be imperfect and a large number of questions remain unanswered regarding the new business sector in developing countries. Since developing countries are expected to adopt different economic policies and they are occupying different phases of economic development, causes that distress businesses would vary accordingly. In this study, the attempt is made

to investigate underlying causes that might contribute to the business formation distress on start up projects in Addis Ababa, Ethiopia.

In recent times, there is an extensive amount of literary and empirical research devoted to the finding of causes of distress on businesses. Nevertheless, the bulk of such research tends to concentrate on businesses and projects in developed countries; very limited studies have provided such research in Africa, and even less in Ethiopia. Among the few researches on causes of distress on businesses, many of them have the following research gaps.

- The bulk of the researches tends to concentrate on SMEs; very limited studies have provided such research on all startups. Even if some of these researches bring the issues of startups, they ambiguously mix them up with SMEs. But startup is not a smaller version of a big company and is different from SME so the causes of its distress should be studied exclusively in order to find appropriate solutions.
- When defining startups, some researches assume that they all have to do with technology while in reality a ‘startup’ does not necessarily entail tech, innovation or invention. Some other researches on the other hand mistook newness and smallness of businesses of businesses (Bruderl & Schussler, 1990).
- Most studied business cases were selected from the manufacturing sector. Some of the findings may therefore be sector-specific and therefore generalization of such findings to other sectors is inappropriate. While cultural issues are more likely to be pervasive across all sectors, those that relate to regulatory, financial and competitive issues are more likely to be sector-specific.
- According to Tiruneh (2011) the determinants that affect the performance of businesses could vary from one country to another due to the economic, geographical and cultural differences. Hence, this kind of investigation on researches done on other cities of Ethiopia may not be fully relatable for startups in Addis Ababa.

In this empirical review, those researches with relatable cases are taken while still considering the above points.

### **2.3.1 Determinants that Cause Business Formation Distresses**

Shonesy and Gulbro (2004) cited in Tiruneh Abebe (2011), reported from their review of literatures on small business success studies, that there appears a problem to develop a common list of the determinants which contribute for failure and success of new small business performance operating in various business environments and regions. This study also encounter that different authors see causes of project distress or failure from different perspective according to their professions. (Mochal, 2007; PM solution, 2011; Kliem, 2011; Wysocki, 2014; and Sompura &Roessling, 2019) provide a general summary for the causes of distress in project while others give illustration by categorizing the causes of distress into groups (Kerzner, 2010; and Alaskar, 2013). According to Kerzner (2010) the causes of project stress ultimately failure are sorted into three broad categories as management mistakes; planning mistakes; and external influences. On the other hand, Alaskar (2013) categorize cause for troubled project as out of project boundaries and in project boundaries.

This research chose the classification of the causes by Ishengoma and Kappel (2006) who categorized determinants hindering the performance of Micro and small enterprises into three, namely internal, external and inter firm. This classification is chose because it corresponds with business environment classification and is essential in order to understand and truly see one business in its full context. Because business environment inserts its impacts on business success, scale, vision, and development strategy, having fully understanding about this issue is prioritized by this study. On this point, other reviewed literatures also argued that a multi-dimensional analysis, where a number of external and internal determinants are taken into account would yield a clearer understanding of success help produce suitable strategies to handle any predicted and unpredicted causes of distress.

### **2.3.1.1 Internal Causes of Business Formation Distress**

The internal business environment refers to everything that is within the firm and under its control, whether tangible or immaterial. The internal environment can either be a source of strategic strength or a source of weakness.

Internal business environment determinants, as collected from different literatures, include corporate image and brand equity, human resource, financial, and marketing resources, value proposition labor management, plant/ machinery/ equipment/ physical assets employee interpersonal relationships, internal technology dependencies & resources, organizational structure, code of conduct, infrastructure quality and scale, task execution or operations, financial forecast, founders' connection and decision-making power, and financial forecast.

Earliest empirical studies on business distress by different scholars classifies these internal causes as the **Managerial/owner causes** and **Firm-based causes**.

#### **2.3.1.1.1 Managerial/owner causes**

Certain personal background characteristics on one hand, and entrepreneurial activity on the other, have been found to have consistent connections. Many empirical studies have tended to focus on the relationship between the owner/manager characteristics and business growth as an internal determinant of a startup's delay/failure or success. The startup's human resource could be a strength or a weakness depending on the amount of practical skills, attitudes toward work, performance, and other aspects.

Having a self-employed parent (Stanworth, 1991); being an immigrant or from certain ethnic minorities (Shapero, 1975); Attitude towards Self-Employment (Ajzen & Madden, 1986); Motivation of the owner/manager (Poorter, 1994); Formal education of owner/manager (Carter and Jones-Evans, 2000) are some of the personal backgrounds of manager/owner which can cause distress or bring success to the startup. The following Managerial/owner causes are selected to be reviewed in detail since related empirical researches are found.

### **Age of owner/manager**

Age is a significant element in affecting a person's likelihood of starting and well managing a business (Reynolds, 1995). The argument in most reviewed literatures is that the younger owner/manager has the requisite ambition, energy, and devotion to work, and is more willing to take chances, whereas the elder owner/manager is more likely to have achieved his/her initial objective (Watkins et al., 2002).

The statistical result of a research done on the performance of MSEs operating in Kirkos sub city by Bethelhem (2017) indicates that, there is no significant relation on the performance of the MSEs in relation to the age difference of the owners/manager even though, enterprises owned by individuals with the age of below 30 shows higher performance than the other.

### **Gender of owner/manager**

Because the proportion of enterprises owned by males surpasses that of women (Chell, 2001), research on gender of owner/managers tends to focus on male owners/managers, with most studies stating that delay/failure rates for female-owned enterprises are higher than those for male-owned enterprises. Limited access to credit, high collateral requirements, and women's dual responsibilities are all reasons for this (Riding and Swift, 1990; Carter and Jones-Evans, 2000). Other studies, on the other hand, have found no evidence of a relation between gender and growth (see, for example, Cooper et al., 1994; Cliff, 1998).

According to the Ethiopian Central Statistical Authority (2004), women owned around 49% of new enterprises that started up between 1991 and 2003. (quoted in Eshetu and Zeleke, 2008). In Ethiopia, more than half of all female entrepreneurs confront gender-related hurdles while starting new enterprises, as well as operating or developing current ones (Amha and Admassie, 2004). Due to socio-cultural constraints, various duties, an underdeveloped entrepreneurship culture, an inadequate support system for firms, and underdeveloped markets and infrastructure, Ethiopian women entrepreneurs face gender discrimination in society (Desta Solomon, 2010). Even when a government focal point

for women's entrepreneurship exists, according to these literatures, limited resources are committed to its purpose, demonstrating the gap between government policy and its implementation.

### **Managerial/Technical Skills and Experience of owner/manager**

The owner's poor knowledge and skill, or a lack of competent employees to advise the owner on management policies, cause challenges in business management (Stephen & Wasiu, 2013). New and small scaled enterprises operators in developing nations have very poor decision-making abilities, sound management, and accounting processes (Aremu & Adeyemi, 2011). The bulk of people who start and run new and small enterprises are regular people with little educational backgrounds. As a result, they may be ill-equipped to carry out managerial tasks for their businesses (King and McGrath, 2002).

A study by Bethlehem (2017) on relationship between performance of MSEs operating in Kirkos sub city and the difference in management and business experience of owners shows that businesses operated by owners/managers with more than 5 years of management experience and owners/managers who have founded at least one independent business prior to the current enterprises performed better.

#### **2.3.1.1.2 Firm-Based Causes**

##### **Working Premises**

The first condition, which the Ethiopian government considers obligatory, is working space with the least amount of leasing price change (GFDRE, 2011). According to the government's three-year performance report on determinants affecting the performance of small-scale enterprises in Inraya Azebo Wereda, published in the International Journal of Managerial Studies and Research (IJMSR) FMSEA (2013), the government has provided 23,263,938 square kilometers of land for buildings, sheds, and displaying places. Despite these efforts, it is the second most difficult difficulty in regional towns and the most difficult in Addis Ababa (Habtamu, et al., 2013; MUDC, 2013).

### **Adequate Financial and marketing resources**

Financial capital, in general, refers to the finances required to expand and sustain a business. The business owner/manager uses financial capital to invest in both tangible and intangible resources, such as determinants, machinery, tools, and other productive equipment used to produce an output, such as marketing and employee training. Financial restrictions, such as a lack of investment capital, a shortage of loans, and an inefficient financial market, are the most significant barriers to doing business, and most MSEs are high-risk ventures with high administrative costs and a lack of experience dealing with financial institutions (CLEP, 2006).

Financial institutions in Africa, such as microfinance and banking systems, are unable to provide enough financial support to the establishment of new and small firms, according to Habtamu et al. (2013). MUDC (2013) also identified financing as a major challenge for Ethiopian small businesses; banks in Ethiopia do not provide finance in the form of loans to MSEs due to collateral obligations and other requirements, with the exception of city administrations and regional microfinance institutions, their savings, and family support.

Without capital resources, no company can survive. When a company has sufficient funds, it may readily initiate projects, scale them up, and even achieve amazing results. According to Birhanu Alemu's (2015) research on the challenges of financing growth oriented micro and small enterprises which takes the case of Hawassa city MSEs and Fikite Wolde and Endrias Geta's (2015) research on determinants of growth and diversification of micro and small enterprises taking the case of Dire Dawa, the major sources of finance for start up and expansion of MSEs are personal saving, microfinance, money from family or friends, *iqub* and very less from banks. Microfinance institutions value collateral, guarantee, and capital over financial facts when deciding whether or not to provide a loan. It is worth noting that more than half of the surveyed MSEs in these studies did not acquire credit, and the majority of those who did complain about loan size insufficiency. Furthermore, the investigations revealed that collateral, loan term, interest rate, timely disbursement of loans, and other issues are the biggest obstacles to startups'

financing and growth. Access to money is limited due to a lack of competition in financial institutions. High risk and process costs associated with MSE creditors obstruct access to capital as well. According to the surveys, the government has made significant efforts to provide numerous support services, but only a few of them are frequently used.

### **2.3.1.2 External Causes of Business Formation Distress**

A number of determinants have an impact on any business. To put it another way, a company can never exist and run in a vacuum. It is a component of a broader entity known as the business environment, which includes external elements that give opportunities and threats to business operations. External aspects, in contrast to internal variables, influence aspects that are beyond of the company's control (Gudien et al., 2013). Taking into account the external environment allows business owners and managers to make appropriate changes to their marketing strategy to make it more responsive to the external environment.

In broad terms, this environment can be divided into three categories. The first one is the **microenvironment**. This category influences the functionality of a particular business itself. The latter one is **mesoenvironment** and the last one is the **macroenvironment** which affects the operation of all existing business entities out there (Belassi and Tukel, 1996; Walker, 1989; Hughes, 1989).

#### **2.3.1.2.1 Micro-Environment Causes of Business Formation Distress**

Micro Environment, also known as the task environment, according to Walker (1989) and Hughes (1989) literatures, contains determinants that have a direct influence on the operations of the business and affect its performance and decision-making freedom. They have the power to influence your everyday operations and the company's overall performance. Nonetheless, the effect they have is not long lasting. The microenvironment includes Customers, Input or Suppliers, Intermediaries, Competitors, and the General Public (Belassi and Tukel, 1996).

## **Customers**

The type of consumer base a business attracts, as well as the reasons people buy its product, will have a big impact on how one builds marketing campaigns. Customers are influenced by elements like as demand stability, sales growth prospects, relative profitability, and competitive intensity.

Marketing knowledge is critical for the promotion, expansion, and success of new and small businesses. In this context, the Ethiopian government has devised MSE initiatives to address marketing difficulties by establishing inter-institutional linkages, offering marketing training, implementing export support programs, and establishing a marketing information center (MoTI, 1997). However, inability to sell products and services, as well as a lack of suitable marketing channels and marketing expertise, are obstacles to launching a firm and furthering the sector's growth (MUDC, 2013).

## **Input or Suppliers**

Linking Small Scaled Enterprises to production input suppliers, increasing suppliers' capacity, and providing quality information on input supply sources on a regular basis all help Small Scaled Enterprises succeed (Siva, 2012). One of the primary issues limiting the Small Scaled Enterprise's development in Ethiopia, according to MUDC (2013), is the unpredictable availability of raw materials. To address such a challenge, a bold strategy must be devised to encourage local and foreign investors to participate in businesses that supply inputs, raw materials, plant and equipment, human resources, and technology.

## **Intermediaries**

Most informal businesses obtain raw materials from formal businesses and/or supply completed goods to formal businesses through intermediaries (Che.M, 2005). If a company decides to sell its goods through a third-party reseller or middleman, such as wholesalers, agents, transporters, warehouses, ad agencies, and retailers, the marketing success will be heavily reliant on them. If a retailer has a good reputation, it will carry over to the product. They are crucial in terms of elements like promotion, selling,

distribution, marketing, and financial mediation as a link between the business and the customer.

### **Competitors**

Using case studies from Ethiopia, Amentie C, Negash E, and Kumera L (2016) investigated barriers to growth of medium and small enterprises in developing countries and discovered that strong market rivalry was a significant obstacle to growth for small and medium businesses. This finding is consistent with Porter (1985), who listed five external forces as determinants of an industry's attractiveness: threat of new entrants, threat of substitutes, power of buyers, power of suppliers, and competitive rivalry among existing players. The greater the strength of these determinants, the more competitive the marketplaces become and the fewer the prospects for new enterprises to thrive. Other research have found that competitive dynamics have a major impact on small business growth (Heinonen J, Nummela N, Pukkinen T, 2004).

### **The General Public**

It is in the best interests of every commercial entity to appease the general population. Every step it takes must be considered in the context of public opinion and the media. It's critical to consider how startups' actions influence others because their perception could be the deciding determinant in whether the company succeeds or fails.

#### **2.3.1.2.2 Meso-environment Causes of Business Formation Distress**

The macro-level and the micro-level are bridged by the meso-level. This topic deals with the layout of the physical infrastructure, which is crucial to the creation of the specialized environment of the business (transport, communication and power distribution systems).

### **Infrastructure**

The majority of new and small enterprises struggled to find a suitable location for their operations. Some of them are in areas where there is a scarcity of resources or where governmental services and economic infrastructure are lacking (water and electricity, transport systems, telecommunication system, sanitation services). Small businesses that

have access to these services have a comparatively high cost per unit of service as compared to middle or high-income neighborhoods. Furthermore, small businesses cannot afford to invest in private public goods (Reinikka & Svensson, 2002) or to purchase services from private providers, which would be more costly than supplying from government sources (Ishengoma, 2004). Poor economic infrastructure and limited access to public services raises small business running costs, reduces their ability to fulfill quality requirements, and makes it difficult for them to participate in linkage agreements (Collier, 2000).

Poor infrastructure was rated as the second highest barrier to small and medium business growth in Amentie C, Negash E, Kumera L (2016)'s study on Barriers to Growth of Medium and Small Enterprises in Ethiopia. This study found that the state of a region's infrastructure, such as roads, telecommunications, transportation, and energy, has an impact on the growth of new and small enterprises.

Unfavorable roads, power outages, water shortages, and inaccessible telecommunications, according to Daniel (2012), are the major issues without which primary, secondary, and tertiary production cannot function. Furthermore, Habtamu et al. (2013) found that SSEs operating with available infrastructure facilities have a higher likelihood of long-term existence and growth than SSEs operating without adequate infrastructures; and electric power outages and insufficient water supply in Ethiopia had a significant impact on business growth. As a result, focus should be placed on the availability and efficiency of infrastructure utilization, as the success or failure of startup business growth and development is dependent on it.

#### **2.3.1.2.3 Macro-Environment Causes of Business Formation Distress**

The macro-environment is more general - it is the environment in the economy itself. It has an effect on how all business groups operate, perform, make decisions, and form strategies simultaneously. It is quite dynamic, which means that a business has to constantly track its changes and take suitable adjustments to their marketing plan to make it more adaptable to the external environment. It consists of external determinants that the company itself does not control but is certainly affected by. The causes that make up the

macro-environment are economic determinants, demographic determinants, technological determinants, natural and physical determinants, political and legal determinants, and social and cultural determinants (Ooghe and Waeyaert, 2004).

### **Economic causes**

Even though it is an external issue, the economy, according to several evaluated literatures, is one of the most determining variables in the success of startups. Positive economic conditions can help businesses grow, while bad ones might lead to negative effects such as reduced business scale, capital shortages, or even bankruptcy. Interest rates, inflation rates, patterns in the growth of the gross national product, unemployment rates, globalization of the economy and outsourcing, Recession, Taxes, Demand / Supply, and economic crises are some examples of economic determinants affecting business formation.

According to Tewodros Million (2014), Ethiopian banks' time-consuming procedures for delivering credit facilities, along with a less transparent credit facility system, make it difficult to meet the needs of small and medium-sized businesses. Furthermore, the government enforces several monetary and fiscal policies that must be rigidly observed by commercial banks, such as a "credit cap," forced purchase of low-interest government bonds, and bank capital that is insufficient to grant as much as loans, limiting lending (Tewodros Million, 2014).

A study by Antenane Abeiy (2017) on determinants affecting performance of Micro and Small Enterprises in Addis Ketema Sub City also discusses that credit access for MSEs is limited and institutions involved in providing loan are likewise limited. Higher interest rates for loans, higher collateral requirements of loan providers, short loan repayment periods, and limited institutions willing to provide loans for MSEs were all identified as major barriers to accessing finance in the study. In addition, Micro Finance Institutions were identified as the single most important source of loan providers for MSEs (Antenane Abeiy, 2017).

## **Demographic Causes**

Universal demographic determinants have an impact on every market segment. Age, education level, cultural features, country and location, lifestyle, and so on are some of these determinants. Buying habits are influenced by determinants such as income, education, age, family structure, and others.

## **Technological Causes**

Automation, Internet connectivity, 3D technology, speed/power of computer calculation, engine performance and efficiency, and security in terms of cryptography are some of the most prevalent technological elements shared by the evaluated literatures. Wireless charging, AI, smart internet searches, and other high-tech features are all available. For many years, this type of technology has been at the forefront of many developed country businesses. Technology infrastructure, in particular, has an evident impact on a company's culture, efficiency, and connections. It also has an influence on the confidentiality of secret information and commercial advantages. Today's business environment is so competitive that technology may either be an entrepreneur's best friend or greatest enemy, depending on how it is employed.

## **Natural and Physical causes**

Every new business must also consider the environment and its resources. Forests and agricultural products are examples of renewable resources, while coal, minerals, oil, and other fossil fuels are not. Both have a strong connection to productivity. Climate change, pollution, weather, nonrenewable and renewable resource availability, habitat and biodiversity loss, environmental laws, and the survival of certain biological species can all be sources of commercial concern for startups that rely on natural resources as inputs.

## **Political and legal causes**

Government and its related policies are significant determinant affecting business failures (Gaskill et al., 1993; Burns, 2001; Oparanma et al., 2010). Copyright law, employment law, fraud law, discrimination law, health and safety law, import/export law, fair-trade

decisions, tax programs, minimum wage legislation, pricing policies, registration and licensing, the extent of government official involvement, and the accessibility of rules and regulations are all examples of legal determinants. Some industries, on the other hand, enjoy positive and consistent backing from local governments through their laws and regulations. Furthermore, allowing organizations from outside the country to invest in local industry will provide an immense source of financial support for local businesses.

High start-up expenses for licensing and registration requirements, the cost of settling legal claims, and excessive delays in court procedures, according to Dlitso, K., and Peter Q. (2000), might impose excessive and needless constraints on MSE operations. Despite the fact that registration and licensing assist SSEs in gaining legal status and reducing the prevalence of informality, more than 12% of MSEs in Addis Ababa lacked a registration license (MUDC, 2013). According to the findings of the study, the gaps in service delivery of business start-up registration are primarily due to lack of skilled man power in every registration center, a lack of adequate customer orientation, and a lack of office to office coordination, even within the Ministry of Trade. In Ethiopia, there is a lack of continuous electric power supply and various obstacles to facilitate daily tasks; the cost of business start-up as well as the cost of business closure is high; there is also an insufficient service delivery to other bureaus with direct relationships to business start-up registration offices; and there is a lack of computerized databases and proper filing systems. There are difficulties in obtaining a business license, registering a company when starting a new business, renewing a business license, processing the addition of another business license, replacing a lost commercial registration, registering in other regions, and, of course, returning a business registration certificate or closing a business (Tewodros Million, 2014). The most pressing challenges, according to respondents in Antenane Abeiy's (2017) study on determinants affecting the performance of Micro and Small Enterprises in Addis Ketema Sub City, are obtaining VAT registration, obtaining a TIN, and obtaining a certificate of competence. The most important finding of this study is that businesses spend more than six months or more to obtain operational premises and begin operations.

## **Social and Cultural Causes**

Finally, it is critical to recognize that the product that the firm brings to market has the potential to make a significant impact on society. For example, its manufacturing must eliminate all practices that are harmful to society and demonstrate that it is socially responsible. Purchasing habits, level of education, awareness of health issues, social classes, family structure and size, population growth rate, emigration and immigration rates, life expectancy rates and age distribution, and different lifestyles, Beliefs & Values, attitudes opinions, cultural conditioning, religion are just a few examples of social and cultural determinants.

### **2.3.1.3 Inter-firm Causes of Business Formation Distress**

The causes of business formation distress can be categorized as internal, external and inter-firm determinants. Although several studies address the first two categories, the later is not well covered which may limit initiatives taken to overcome the determinants comprising the determinant (Sethuramann, 1997).

## **Knowledge sharing**

According to Yared Bekele (2016) Knowledge sharing can play a critical role to transfer the required information to manufacture sector entrepreneurs. The researcher studied determinants affecting knowledge sharing for entrepreneurial development on the case of micro and small enterprises engaged in manufacturing in Addis Ababa and showed that technological, individual, organizational and intrinsic determinants are the main challenges to knowledge sharing in MSE engaged in the manufacturing sectors. The finding from the study also clearly shows that the MSE should put considerable efforts in creating suitable environment for manufacture sector new entry entrepreneurs to get the required knowledge from existing entrepreneurs.

Marketing knowledge is critical for the promotion, expansion, and success of small businesses. In this context, the Ethiopian government has devised MSE initiatives to address marketing difficulties by establishing inter-institutional linkages, offering

marketing training, implementing export support programs, and establishing a marketing information center (MoTI, 1997).

### **Linkage Relationships**

Most new businesses obtain raw materials from established businesses and/or supply finished goods to them directly or through intermediaries. Although this may vary depending on the circumstances, the commercial relationship between these two is likely to be unbalanced and unregulated (Che.M, 2005). In developing nations, the most common type of linkage relationship between these two sectors is one in which existing and formal businesses supply inputs to emerging and informal businesses. According to Arimah, however, this connection is exploitative (2001). One of the determinants that explains low competency in the informal sector is the uneven connectivity of the sectors (Ishengoma and Kappel, 2006).

Endalkachew (2008) conducted research on the causes of small business failure in the Addis Ketema sub-city with the goal of assisting business owners in developing business plans and collaborating with one another, believing that if followed, Micro and Small Business Enterprises could move from where they are now to where their owners, investors, and managers want them to be.

### **Associations**

Associations such as chambers of commerce reflect formal economic interests in municipal governance. Informal workers and their businesses should have the same right to have forums where they may express their concerns. However, only a few developed countries offer businesses that haven't yet registered the ability to obtain licenses.

A self-help business or employee association's goal is to provide services to its members that are tailored to their own requirements and priorities. Given the internal and external sources of business formation distress that hampered the development of startups, the startup sector has struggled to organize a powerful association that will advocate for its members' interests. Many remain small, weak, and isolated, with most formal trade unions in their own nations and the international trade union movement refusing to

recognize them as real worker groups (Chen et al., 2002). Employees in the sector are in the same boat. Workers' unions have little bargaining leverage due to the endless supply of labor (Ishengoma and Kappel, 2006).

## **Incubation**

In comparison to other regions of the world, business incubation in Africa, particularly in Sub-Saharan Africa, is still in its infancy, and prospects for innovation and entrepreneurial networking are not as developed as they are in places with a longer history of incubation. Many African countries are increasingly establishing business incubators to encourage young people and women to become entrepreneurs (Kamoun et al, 2009; Joshua, Joseph, Lena and Kariko, 2010).

In Ethiopia, as in many other African countries, company incubation is a relatively recent notion. Ethiopia has a few government-owned incubators, such as the Ministry of Communication and Information Technology and government-owned universities. The Ministry of Communications and Information Technology (MCIT) previously operated five BICs in the Amhara, Tigray, Oromia, SNNPR, and Addis Ababa (Virtual) areas, but only the Amhara area BIC is currently functioning. Only a few universities, including AAU, Hawassa University, and Bahir Dar University, have an incubation center. Other university-based incubation centers are about to emerge, following the directive provided to them to establish a contact with the industry. Such programs are critical in boosting entrepreneurship in the country, which in turn adds to the economy's general development (Konjit Desalegn, 2016). Due to a lack of experience, materialization is difficult for universities. Privately operated incubation centers such as X-Hub and ICE Addis are available in the country. Among the NGOs working on youth and entrepreneurship, UNDP and Climate Incubation Center might be recognized as two main proponents of BICs. According to Konjit Desalegn's (2016) analysis, 78 percent of incubators are focused on the IT sector.

### **2.3.1.4 Underlying Causes of Business Formation Distress**

This study stresses that the vulnerable and isolated situation of the startups can only be treated by attacking the underlying causes. Thus, this section of the empirical review is

done by assessing what different literatures ranked on top of causes of business formation distress.

Habtamu (2012) examined the causes of distress in MSE growth in Mekelle city, taking into account entrepreneur characteristics (gender), company characteristics (starting employment size, initial investment size, company age, location, sector), and inter-firm determinants (market linkage). Initial investment amount, location, sector, and gender are the primary determinants of MSE growth, according to his research.

Solomon (2004) and Siyoum (2012) found that MSE operators that obtain their own working space and buildings are in a better position to plan with greater certainty and have a better probability of acquiring the necessary infrastructure, hence enhancing their growth. The availability of infrastructural inputs such as water, electricity, and a road network, among others, helps enterprises grow. MSEs with adequate infrastructure facilities have a 51.9 percent higher rate of employment growth than those without (Solomon, 2004).

Lack of/inadequate business premise, lack of/inadequate business support services, and lack of/inadequate access to credit are among the variables that are regarded as serious problems or higher on MSE Development in Ethiopia (Gebrehiwot and Wolday, 2006).

Ooghe and Waeyaert (2004) provided a conceptual failure model that explained the reasons of failure and the mutual relationships between the company's general and immediate environments as external causes of failure.

MSEs' expansion potential is being hampered by a lack of debt finance (Siyoum, 2012). According to Eshetu and Zeleke (2008), the lack of a loan from a formal financial institution for investment is the most important determinant affecting MSEs' long-term viability in Ethiopia. Despite the fact that financial concerns are important to all businesses, 75 percent of micro companies and 72 percent of small businesses fail owing to a lack of funds. Financial problems were cited as the reason for quitting the business by no more than 55 percent of all respondents in the annual report Global Entrepreneurship Monitor (2008) Executive Report; it was cited more often by

respondents in determinant- and efficiency-driven economies (just over 50 percent) than in innovation-driven economies (just over 40 percent) (Bosman et al., 2009).

Most of these studies result shows differences. This difference indicates that the underlying causes of business formation distress vary from country to country, place to place, and person to person (Tiruneh, 2011). The effect of the environment depends upon the time period, geographic area, and market sector in which the firm operates (Burns, 2001). In most cases, a complex mixture of causes contribute to business failure; it is very rare for one single determinant to be involved (FEE, 2004). Hence, this study has an objective of identifying the underlying causes of business formation distress in startups in the geographic scope of the city Addis Ababa.

### **2.3.2 Project Management as Mitigating Mechanism in Tackling Distress**

According to the Project Management Institute (PMI), project management (PM) is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements (PMI, 2017). PM encompasses all areas of a project's planning, organization, monitoring, and control, as well as the management, leadership, and motivation of all parties involved in order to meet the project's objectives within the agreed-upon time, cost, quality, safety, and performance parameters.

In all businesses, even startups, project management is critical. In industrialized countries, various academics have investigated how startups might successfully adopt and use project management as a strategy in their business plans. Given that startups differ from larger businesses in a number of ways, such as a lack of funding and qualified human resources, (Pollman, 2019, p.170), they must consider how to execute project management and embrace technologies and processes that will benefit them in the long run. More organizations in the developed world are utilizing project management as a strategy to stay competitive, increase value, and bring in new business, according to Markovi, Mihi, and Obradovi (2015, p.25). Project management methods and criteria can have a direct impact on better project planning, realization, and control in this sector (Markovi et al, 2015, p. 29).

According to the 2017 PMI Pulse of the Profession global survey, organizations that used well-known project management principles wasted 28 times less money as a result of their strategic efforts. Similarly, according to the 2015 edition of PMI's Pulse of the Profession, project management can enhance project success rates by minimizing risks and lowering overall costs. Only 58 percent of firms are aware of the value of project management, according to a PMI worldwide survey performed in 2018. The Project Management Survey 2017 conducted by KPMG showed that 60 % of organizations managed their projects using a portfolio structure and 80% of organizations used more multiple project management knowledge areas.

#### **2.3.2.1 Project Management Knowledge Areas**

According to Duncan (1996), the project management body of knowledge is "an inclusive term that describes the collective (accumulated) knowledge within the profession of project management. Most of the time, the knowledge and practices provided are applicable, and there is universal agreement on their value and use. Based on PMI (2017), this study examined the ten knowledge categories listed below. The objective is to understand the knowledge areas now so that it is possible to integrate them to the identified causes of distress later as mitigating mechanisms.

#### **Project Integration Management**

The procedures and actions for recognizing, defining, merging, integrating, and coordinating the many processes and project management activities are referred to as Project Integration Management. Project integration management expertise areas include making resource allocation decisions, balancing conflicting objectives and alternatives, and managing project management interdependencies (PMI, 2017). Change tracking is one of the biggest victims when project management isn't taken seriously by companies. When teams and procedures are decentralized, the risk of everyone changing their own area of the project without consideration for the overall strategy increases. Regardless of the project planning approach used for project management, all changes to a project plan must be approved and tracked effectively. When someone makes a hasty change to a plan, it might cause confusion among other team members who are unaware of the

changes. If sufficient agreement is not obtained for each update, it may result in changes that are wholly incompatible with the overall plan and strategy.

### **Project Scope Management**

The methods that must be followed to ensure that the project includes all of the work that is required, and only the work that is required, in order to be completed efficiently are referred to as project scope management. Project scope management's major purpose is to define and regulate what is and is not included in the project (PMI, 2017). The scope of a project has been misunderstood in the past since the scope was assumed to be fluid and prone to change. Even if this happens, it's vital to set a baseline for establishing a project's scope so that management and the project team are on the same page.

### **Project Schedule Management**

The procedures that must be followed to ensure that the project is completed on time are referred to as project schedule/time management (PMI, 2017). The overall purpose of time management is to set a project timeline, keep to it, and ensure that the project is completed on time. Time management includes defining project tasks, creating a schedule, executing the schedule, and monitoring the plans as the project progresses.

It's never easy to plan a project because not all of the variables are understood. A huge number of estimates must be produced when a product is released for the first time. Some of these predictions will almost certainly be incorrect, while others will almost certainly be true. It's easy to avoid committing to a specific delivery date. It can be justified in a number of ways, including: we'll figure it out later, there are too many variables to figure out right now, or it's a fruitless process for a company to be locked in. These arguments may appear fair, yet they could have disastrous consequences. The act of creating established schedules, on the other hand, aids in focusing everyone on the goal and may also lead to the identification of risks.

## **Project Cost Management**

Project cost management refers to the actions involved in planning, estimating, budgeting, financing, funding, managing, and controlling expenses so that the project can be completed within the assigned budget (PMI, 2017). The overall purpose of cost management is to determine a project's total expenses, control those expenses, and ensure that the project is finished within the budgetary constraints.

## **Project Quality Management**

Many sources disagree on a definition, claiming that quality is determined by the client. However, the most widely recognized definition to date is that it meets or exceeds the customer's demands and expectations at a cost that provides exceptional value. Quality-control processes ensure that the project meets the operational objectives for which it was created as well as the organization's policy objectives. This comprises quality assurance, quality control, and quality planning activities (PMI, 2017). Exceed the customer's needs and expectations at a cost that provides exceptional value. Quality is considered an important outcome of a project, along with cost and time. Project Quality Management refers to the procedures for implementing the organization's quality policy into project and product quality requirements planning, management, and control in order to achieve stakeholders' goals (PMI, 2017).

## **Project Resource Management**

Project resource management refers to the procedures for identifying, acquiring, and managing the resources needed to complete a project successfully. These procedures ensure that the project manager and team have access to the right resources at the right time and in the right place (PMI, 2017).

## **Project Communications Management**

The procedures that must be followed to ensure that project information is collected, developed, distributed, saved, retrieved, managed, controlled, monitored, and finally disposed of in a timely and appropriate manner are referred to as Project

Communications Management. The majority of project managers' time is spent conversing with team members and other project stakeholders, whether internal (at all levels of the firm) or external. Effective communication creates a link between a variety of stakeholders with different cultural and organizational backgrounds, levels of knowledge, viewpoints, and interests, all of whom have an impact on the project's execution or outcome (PMI, 2017).

### **Project Risk Management**

Project risk management encompasses all of the steps involved in risk management planning, identification, analysis, reaction planning, and control on a project. The fundamental objective of project risk management are to increase the likelihood and impact of positive events or opportunities while lowering the likelihood and impact of unfavorable events or threats to the project (PMI, 2017).

### **Project Procurement Management**

Procurement management institute defines Project Procurement Management as the processes required to obtain products and services from outside the performing company. According to PMI (2017), this procedure entails the need to acquire things, services, or results from sources outside than the project team. The procurement planning process sets the policy framework for obtaining project supplies and personnel from external sources.

### **Project Stakeholder Management**

Identification of people, groups, or organizations who may influence or be influenced by the project, analysis of stakeholder expectations and their impact on the project, and development of appropriate management strategies for effectively involving stakeholders in project decisions and execution are all part of project stakeholder management (PMI, 2017).

## 2.4 Conceptual Framework of the study

Conceptual framework means that concepts that relate to one another were used to explain the research problem. As discussed in the above sections, the causes of business formation distress can be categorized into Internal, External and Inter-firm based on the business environment. The list of causes in these environments are then ranked as underlying causes. The application of project management as a mitigating mechanism in tackling the causes is discussed alongside each cause.

**Independent Variables:** Internal (managerial/owner causes, firm-based causes), External (microenvironment causes, meso-environment causes and macro-environment causes), Inter-firm Causes and Underlying causes.

**Dependent Variable:** Business Formation Distress

The relationship between these variables can be expressed and shown in the following figure.

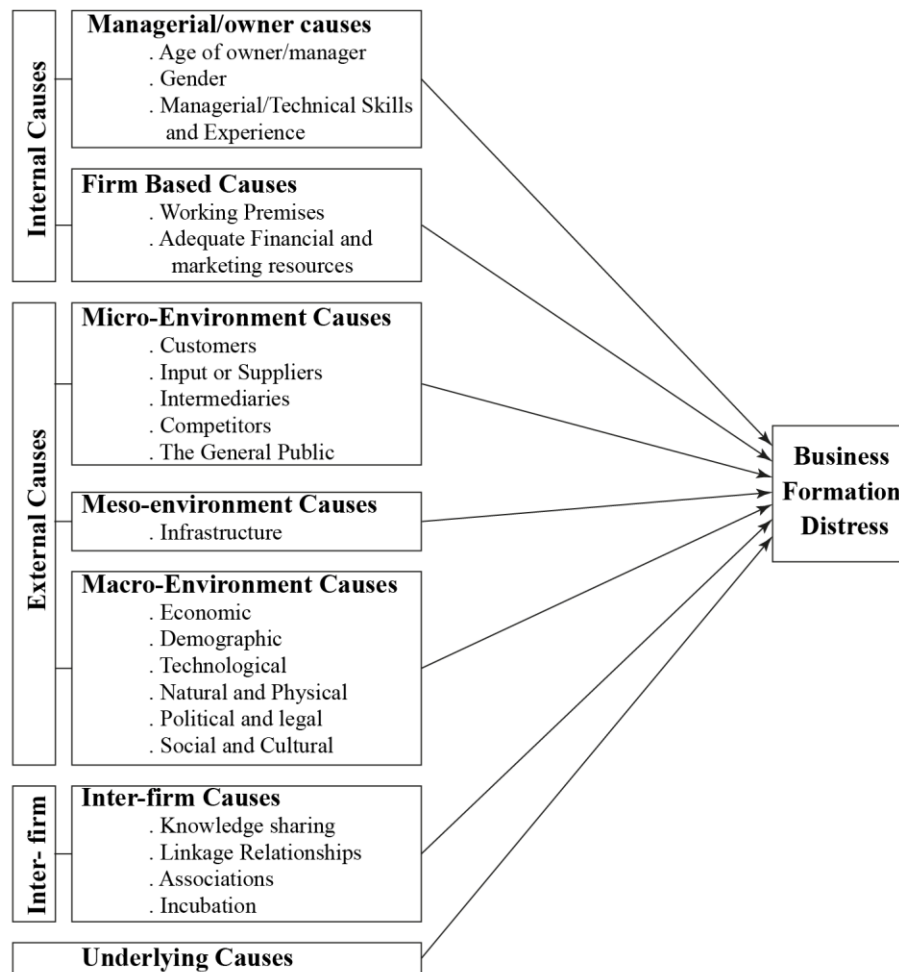


Figure 1: Conceptual Diagram of the study

Source: Self compiled from reviewed literatures

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter is devoted to the presentation and discussion of the suitable research method used to achieve the purpose of this research. It contains the different approaches used for making a scientific research identifying on the relevant approaches.

Presented in the chapter are the research approach, methods and design to be used by the study, while highlighting the population and issues related to sampling technique, sample size determination, and data collection instrument. Besides, the chapter outlines the approach to data collection and analysis along with Scale Reliability and Validity.

#### **3.2 Research Approach**

Quantitative and qualitative research approaches are the two most used research methods in the research world. Quantitative research frequently entails the use of statistical analysis to connect what is known with what can be learned through study (Trochim, 2000), whereas qualitative research is centered on description (Jebreen, 2012).

This research uses quantitative research approach where the numeric data collected is quantitatively examined in two ways using the statistical program SPSS: The statistical description, grouping, and presentation of the constructs of interest or their relations is known as descriptive analysis. Inferential analysis refers to the statistical testing of variables (theory testing).

#### **3.3 Research design**

The blueprint for achieving research objectives and answering research questions is the research design (John A.H. et al., 2007:20-84). In other words, it's a master plan that lays out the processes and procedures for gathering and evaluating data. It guarantees that the study is relevant to the topic and that it employs cost-effective methods. The same authors discuss three types of research designs: exploratory (which emphasizes the discovery of new ideas and insights), descriptive (which is concerned with determining

the frequency with which an event occurs or the relationship between variables), and explanatory (which is concerned with determining the frequency with which an event occurs or the relationship between variables, concerned with determining the cause and effect relationships).

The particular type followed in a piece of research is determined by the research questions being skewed (Saunders et al., 2012). Thus, this research is Explanatory Research since its research questions desire to look for causes and reasons to explain.

Moreover, the study will be utilized cross-sectional in the sense that all relevant data will be collected at a single point in time. The reason for preferring a cross-sectional study is due to the vast nature of the study and the limitation of time (Janet M. Ruane, 2006:94).

### **3.4 Research Population and Sampling**

The research population of this study is the business owner/manager of a startup, based in Addis Ababa, who has experienced business distress (delay or failure) at the formation stage of his/her business and or is not on the stage he/she planned to be on now or stops his/her business activities voluntary or involuntary.

Due to the various political and legal reasons discussed in the literature review, many startups in Addis Ababa do not have registration license (MUDC, 2013). This by default makes the population of the study infinite. Infinite population universe is a population whose number of items is infinite, i.e. total number of items can not be known.

Other than that, one of the greatest barriers to study about business formation distress is to identify ex-owners/managers who failed in their business. Therefore, this study developed its own sampling frame that sought to be as representative as possible of the range of business delay and failure types, rather than relying on one source. This was derived with the help of social media platforms which bring together entrepreneurs dispersed all over the city. The researcher did not put any limitation in the business sector, failure phase and sub city location of business, to study more cases of distressed businesses.

### 3.4.1 Sample Design

Normally, accurate information about a given population will expect to be obtaining from a census study. However, due to large number of population size, in many of the cases, a complete coverage of a population is not possible. Thus, sampling is one of the methods, which allows the researcher to study a relatively small number of units representing the whole population.

To select the sample of respondents in this study, the combination of Non-probability (Heterogeneity Purposive) and Probability (Simple random) sampling methods was employed one after the other.

First, the study will use Heterogeneity Purposive Non-probability Sampling design to select samples from its infinite population. Purposive sampling can be very useful for situations where there is a need to reach a targeted sample quickly and where sampling for proportionality is not the primary concern. The study sample for heterogeneity because it wants to include all opinions or views, and isn't concerned about representing these views proportionately. Another term for this is sampling for *diversity*. This form of heterogeneity sampling is preferred for this study because in effect, what the study would like to be sampling is not people, but ideas. Clearly, in order to get all of the ideas, and especially the "outlier" or unusual ones, the study have to include a broad and diverse range of participants.

- Therefore, using Heterogeneity Purposive Non-probability Sampling, the researcher chose to take those startup managers/owners, which are part of different social media platforms, which bring together entrepreneurs from Addis Ababa. This brings down the population to a finite number of 973.

Then the study uses Probability sampling. Probability sampling method is any method of sampling that utilizes some form of random selection. Simple random sampling is a process in which every item of the population has equal probability of being chosen. It is preferred for this study because it is a fair way to select a sample and is reasonable to generalize the results from the sample back to the population.

- Therefore, the researcher used Simple random sampling from the social media platforms by not putting any limitation in the business sector, failure phase and sub city location of business, to study more cases of distressed businesses.

### 3.4.2 Sample size

In order to determine sample size Yamane's (1967) finite and large population sample size formula with 95% confidence level is employed.

The Sample size determination formula:

$$n = \frac{N}{1 + N(e)^2} = \frac{973}{1 + 973(0.05)^2} = 278$$

Where:

N = Number of sample taken

N = Population size

e = sampling error /level of precision.

N.B. Had the research used Heterogeneity Purposive Non-probability Sampling only, it would have infinite population. If that was the case, sample sized would have been calculated by the formula proposed by Cochran (1963), and become 386.

### 3.5 Data collection

The method through which a researcher collects relevant data to answer the study questions is referred to as data collecting method. The primary and secondary sources are the two main methods by which researchers can gather data. When a researcher gathers new data, such as through observations, interviews, or questionnaires, and then analyzes it, this is referred to be a primary data source (Saunders et al., 2009) Secondary data, on the other hand, is when a study employs data that was already collected, used, and archived for another reason.

The data collection method used for this research work was only from primary sources. In order to realize the target, the study used well-designed questionnaire as best

instrument of a primary source. The questionnaires were completed by the owner/managers of the startups who experienced business formation distress.

The questionnaire had three sections. The first section contained questions associated with the general demographic characteristics of the respondents. Then in the second part, the participants were questioned about the causes of their business formation distress. This part of the questionnaire was developed based on the literature review. Finally, part of the questionnaire contains questions regarding to ranking the causes to know the underlying cause of business formation distress.

### **3.6 Data Analysis**

The collected data was summarized by using Microsoft Excel and transferred to SPSS Version 20 for analysis.

### **3.7 Scale Reliability and Validity**

Content validity of the questionnaire was estimated by submitting the questionnaire to few experts in entrepreneurship and be revised until all approve the content. To test the reliability, the internal consistency of the questionnaire was assessed by Cronbach's alpha coefficient that was 0.790 for the questionnaire on the causes of business failure, and alpha equal to or greater than 0.70 was considered satisfactory.

Table 2: Cronbach's alpha coefficient check

| <b>Cronbach's Alpha</b> | <b>Cronbach's Alpha Based<br/>on Standardized Items</b> | <b>Number of Items</b> |
|-------------------------|---------------------------------------------------------|------------------------|
| .790                    | .804                                                    | 7                      |

Source: - Own survey SPSSv20, 2021

### **3.8 Ethical Considerations**

All of the research participants in this study were given adequate information about the study's purpose, and their willingness and consent were obtained prior to the distribution of questionnaires. The nature of the research endeavor was explained to the participants. The research objectives, significance, and purpose were all known to the participants. As

a result, attempts were made to elicit as much participation from the participants as possible.

The respondents' right to privacy was respected, as was the secrecy and anonymity of research participants. As a result, individuals were not asked to write their names in the questionnaire and would be referred to as "research participants" or "respondents." To limit the researcher's bias while avoiding sensitive and leading questions, and to prevent offending the research participants, a standard instrument for data collecting was utilized.

To avoid any potential of plagiarism, the study ensured that all resources and literatures referred to, consulted, and/or quoted are correctly credited.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter deals with the presentation, analysis, and interpretation of the data collected from participants for this particular study. The first part is the background information of the respondents and then data collected from respondents were analyzed and interpreted using statistical procedures carried out using SPSS (statistical package for social studies) version 20. The chapter also presents the findings of the research in accordance to the research objectives and questions in detail.

#### **4.2 Response rate and demographic data**

According to Mugenda (2003) a response rate of more than 70% can be considered as excellent response rate that is sufficient enough for analysis and reporting. Fortunately to the study objective, 281 people responded for the questionnaire distributed for this study, which was more than the expected minimum number of 278 respondents. Therefore, the response rate obtained was stood obvious to be highly satisfactory to support the analysis of this study.

To see the demographic composition of respondents in the study gender, age, highest level of education attained and previous experience in managing business were considered. The section also checked if the respondents have had educational background, training or experience on project management field. The collected data is summarized and presented in the table below.

Out of the 281 respondents, 66.2% are male and 33.8% are female. As can be seen from the table below, majority of the respondents are within the age category of 20–30 years (74.7%) followed by those under the category of 31–40 years (19.2%). The respondents under the age of 20 are 1.4% and age category of 41–50 years are 4.6% of the total population respectively. This gives a preliminary indication on the dominance of male and younger people in owning/managing businesses that are distressed at the formation stage.

Table 3: Respondents demographic data

| No. | Variable            | Frequency   | Percentile |
|-----|---------------------|-------------|------------|
| 1   | Gender              | Female      | 95         |
|     |                     | Male        | 186        |
| 2   | Age                 | <20         | 4          |
|     |                     | 20 - 30     | 210        |
|     |                     | 31 - 40     | 54         |
|     |                     | 41-50       | 13         |
| 3   | Education           | High school | 10         |
|     |                     | Diploma     | 20         |
|     |                     | Degree      | 190        |
|     |                     | Masters     | 61         |
| 4   | Business Experience | Yes         | 141        |
|     |                     | No          | 140        |
| 5   | PM Experience       | Yes         | 70         |
|     |                     | No          | 211        |

Source: - Own survey SPSSv20, 2021

When we see the educational level of the respondents, it is clearly seen from the table that majority of the respondents (67.6%) have attained a degree while 21.7% have masters, 7.1% have diploma and 3.6% of them have completed high school. Out of these, 50.2% have an experience in managing a business before the distressed business. The demographic data also shows that 75.1% of the respondents do not have an educational background, training or experience on project management field.

### 4.3 Reliability test

Validity is an important criterion to check the degree to which an instrument measures what it supposed to measure. One of the methods of testing validity is content validity. The term "content validity" refers to whether the variable's manifest content is appropriate for measuring the latent variable that the study is attempting to measure. The constructs in this study were created by carefully evaluating a variety of well-known studies. All of the items used to measure constructs were taken from credible sources in the literature. Data was first cleansed for non-response, invalid answers, and incomplete questionnaires, and 12 replies were excluded as a result of these issues. Besides the

questionnaire was evaluated by the researcher's advisor and few experts in entrepreneurship and be revised until all approve the content.

As per Bryman and Cramer (1997) internal reliability is measured through Cronbach's alpha this measure expected to be 0.7 and above in order to say there is internal consistency of measurement of scale. Based on the reliability test summary shown in table 4, the questionnaire used for this study is found to be reliable with Cronbach's alpha of 0.790. The individually constructed Cronbach's alpha scale is found to be between .732 and .819 as shown in the table below. Thus based on the test of the scale and constructs included, it is clear that each scale represents valid and reliable data.

Table 4: Reliability test for all variables: Cronbach's Alpha coefficients

| <b>Constructs</b>                                | <b>Cronbach's<br/>alpha</b> | <b>Internal<br/>Consistency</b> |
|--------------------------------------------------|-----------------------------|---------------------------------|
| Internal Causes of Business Formation Distress   |                             |                                 |
| Managerial/owner causes                          | .819                        | Good                            |
| Firm Based Causes                                | .772                        | Good                            |
| External Causes of Business Formation Distress   |                             |                                 |
| Micro-Environment Causes                         | .756                        | Good                            |
| Meso-environment Causes                          | .763                        | Good                            |
| Macro-Environment Causes                         | .740                        | Good                            |
| Inter-firm Causes of Business Formation Distress |                             |                                 |
| Inter-firm Causes                                | .732                        | Good                            |
| Dependent Variable                               |                             |                                 |
| Business Formation Distress                      | .750                        | Good                            |

Source: - Own survey SPSSv20, 2021

#### 4.4 Descriptive Statistics

Table 5: General Descriptive Statistics

|                   |         | <b>Manag<br/>Owner</b> | <b>Firm<br/>Based</b> | <b>Micro<br/>enviro</b> | <b>Meso<br/>enviro</b> | <b>Macro<br/>enviro</b> | <b>Inter<br/>firm</b> | <b>BF<br/>Distress</b> |
|-------------------|---------|------------------------|-----------------------|-------------------------|------------------------|-------------------------|-----------------------|------------------------|
| N                 | Valid   | 281                    | 281                   | 281                     | 281                    | 281                     | 281                   | 281                    |
|                   | Missing | 0                      | 0                     | 0                       | 0                      | 0                       | 0                     | 0                      |
| Mean              |         | 2.9549                 | 4.1851                | 3.5075                  | 4.1566                 | 3.7610                  | 3.9564                | 4.1210                 |
| Std.<br>Deviation |         | .95885                 | .87091                | .68638                  | 1.04729                | .67927                  | .93761                | .78956                 |

Source: - Own survey SPSSv20, 2021

Table 6: Descriptive Statistics for each construct

| Rank by<br>means | Variables          | N     |         | Mean   | Std.<br>Deviation |
|------------------|--------------------|-------|---------|--------|-------------------|
|                  |                    | Valid | Missing |        |                   |
| 1                | Financial          | 281   | 0       | 4.4484 | .88540            |
| 2                | Political          | 281   | 0       | 4.3737 | .92537            |
| 3                | Economic           | 281   | 0       | 4.3132 | .99721            |
| 4                | Infrastructure     | 281   | 0       | 4.1566 | 1.04729           |
| 5                | Knowledge Sharing  | 281   | 0       | 4.0890 | 1.09671           |
| 6                | Customer           | 281   | 0       | 4.0463 | .83324            |
| 7                | Incubators         | 281   | 0       | 4.0427 | 1.14250           |
| 8                | Supply             | 281   | 0       | 4.0214 | 1.18000           |
| 9                | Working Space      | 281   | 0       | 3.9217 | 1.05607           |
| 10               | Technology         | 281   | 0       | 3.8897 | 1.16432           |
| 11               | Social             | 281   | 0       | 3.8861 | 1.05958           |
| 12               | Associations       | 281   | 0       | 3.8505 | 1.10150           |
| 13               | Commercial Linkage | 281   | 0       | 3.8434 | 1.20580           |
| 14               | Managerial Skill   | 281   | 0       | 3.8221 | 1.10049           |
| 15               | Demographic        | 281   | 0       | 3.6263 | 1.22440           |
| 16               | Intermediaries     | 281   | 0       | 3.3274 | 1.13685           |
| 17               | Competition        | 281   | 0       | 3.2313 | 1.45647           |
| 18               | Age                | 281   | 0       | 3.1744 | 1.40973           |
| 19               | The General Public | 281   | 0       | 2.9110 | 1.16615           |
| 20               | Natural            | 281   | 0       | 2.4769 | 1.13090           |
| 21               | Gender             | 281   | 0       | 1.8683 | 1.24804           |

Source: - Own survey SPSSv20, 2021

Descriptive statistics concern the development of certain indices from the raw data. These are mean scores, standard deviations and percentage for each subgroup. Interpreting the result of these values will also give us an indication of the impact of the independent variable (Pallant, 2010). The above table shows the mean and standard deviation of variables obtained from the 281 respondents.

The reason for the use of descriptive statistics is to compare the independent determinants (different causes that led to business formation distress (dependent variable)). As such, the table 5 shows the mean value of 4.1851 given to internal firm-based causes, which means these causes are the major causes of business distress. External meso-environment causes, inter-firm causes, external macro-environment causes, external microenvironment causes are ranked respectively as causes of business formation distress. Internal managerial/owner causes are ranked as the least cause by the respondents.

Following the same analysis, the table 6 shows the rank of each cause by comparing the mean given by the 281 respondents. It can be referred from the table that Lack of adequate financial and marketing resources, external political and legal determinants and external economic determinants are ranked as top 3 causes of business formation distress

## **4.5 Inferential Analysis**

The numeric data collected in this research is analyzed quantitatively in two different ways. Descriptive analysis is the statistical description, aggregation, and presentation of the constructs of interest or their connections as discussed above. The second way, called inferential analysis, the statistical testing of theory, is discussed below.

### **4.5.1 Correlation Analysis**

The study employs the Pearson correlation which “measures the linear association between two metric variables” (Hair et al., (2008)). The Pearson correlations were calculated as measures of relationships between the independent variables and dependent variable. This test gives an indication of both directions, positive (when one variable increases and so does the other one), or negative (when one variable increases and the other one decreases (Pallant, 2010)). The test also indicates the strength of a relationship

between variables by a value that can range from -1.00 to 1.00; when 0 indicates no relationship, - 1.00 indicates a negative correlation, and 1.00 indicates a perfect positive correlation (Pallant, 2010).

Table 7: Correlation Analysis

|                 |                     | <b>Manag<br/>Owner</b> | <b>Firm<br/>Based</b> | <b>Micro<br/>enviro</b> | <b>Meso<br/>enviro</b> | <b>Macro<br/>enviro</b> | <b>Inter<br/>firm</b> | <b>BF<br/>Distres</b> |
|-----------------|---------------------|------------------------|-----------------------|-------------------------|------------------------|-------------------------|-----------------------|-----------------------|
| Manag<br>Owner  | Pearson Correlation | 1                      | .396**                | .264**                  | .056                   | .164**                  | .139*                 | .072                  |
|                 | Sig. (2-tailed)     |                        | .000                  | .000                    | .353                   | .006                    | .019                  | .227                  |
|                 | N                   | 281                    | 281                   | 281                     | 281                    | 281                     | 281                   | 281                   |
| Firm<br>Based   | Pearson Correlation | .396**                 | 1                     | .244**                  | .242**                 | .432**                  | .297**                | .356**                |
|                 | Sig. (2-tailed)     | .000                   |                       | .000                    | .000                   | .000                    | .000                  | .000                  |
|                 | N                   | 281                    | 281                   | 281                     | 281                    | 281                     | 281                   | 281                   |
| Micro<br>enviro | Pearson Correlation | .264**                 | .244**                | 1                       | .351**                 | .554**                  | .552**                | .429**                |
|                 | Sig. (2-tailed)     | .000                   | .000                  |                         | .000                   | .000                    | .000                  | .000                  |
|                 | N                   | 281                    | 281                   | 281                     | 281                    | 281                     | 281                   | 281                   |
| Meso<br>enviro  | Pearson Correlation | .056                   | .242**                | .351**                  | 1                      | .540**                  | .474**                | .592**                |
|                 | Sig. (2-tailed)     | .353                   | .000                  | .000                    |                        | .000                    | .000                  | .000                  |
|                 | N                   | 281                    | 281                   | 281                     | 281                    | 281                     | 281                   | 281                   |
| Macro<br>enviro | Pearson Correlation | .164**                 | .432**                | .554**                  | .540**                 | 1                       | .703**                | .329**                |
|                 | Sig. (2-tailed)     | .006                   | .000                  | .000                    | .000                   |                         | .000                  | .000                  |
|                 | N                   | 281                    | 281                   | 281                     | 281                    | 281                     | 281                   | 281                   |
| Inter<br>firm   | Pearson Correlation | .139*                  | .297**                | .552**                  | .474**                 | .703**                  | 1                     | .587**                |
|                 | Sig. (2-tailed)     | .019                   | .000                  | .000                    | .000                   | .000                    |                       | .000                  |
|                 | N                   | 281                    | 281                   | 281                     | 281                    | 281                     | 281                   | 281                   |
| BF<br>Distr     | Pearson Correlation | .072                   | .356**                | .429**                  | .592**                 | .329**                  | .587**                | 1                     |
|                 | Sig. (2-tailed)     | .227                   | .000                  | .000                    | .000                   | .000                    | .000                  |                       |
|                 | N                   | 281                    | 281                   | 281                     | 281                    | 281                     | 281                   | 281                   |

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

\* . Correlation is significant at the 0.05 level (2-tailed).

Source: - Own survey SPSSv20, 2021

As one can observe from the correlation table (table 7), regarding the relationship between the dependent variable and other independent variables as a rule of thumb, strong correlation between dependent and independent variables is recommended. In this research the dependent variable business formation distress correlates with the independent variables internal managerial/owner causes, internal firm based causes,

external micro-environment causes, external meso-environment causes, external macro-environment causes and inter-firm causes positively with  $r=0.072$ ,  $r=0.356$ ,  $r=0.429$ ,  $r=0.592$ ,  $r=0.329$  and  $r=0.587$  respectively. These correlation coefficient values indicated that, there is a positive relationship between the independent variables and the dependent variable.

#### **4.5.2 Multicollinearity**

Ho (2006) defines multicollinearity as a situation in which more than two explanatory variables in are highly related. Multicollinearity reduces the precision of the estimated coefficients. Its existence implies the usage of redundant information, which can easily lead to unstable regression coefficient estimates. There are 4 steps to test multicollinearity.

##### **Test 1: Correlation analysis**

High correlation coefficient among the independent variables implies that multicollinearity is suspected. If it is 1, it means complete collinearity; if is 0. It means there is no foreign unity at all. If the coefficient is .7 or above the issue can be suspected; but if it exceeds .9 that means there is a serious threat.

As shown in table 7, all correlation coefficient are below .7 except that correlation coefficient between inter-firm environmental causes and external macro-environmental causes, which is is only 0.003 greater and so is safe.

##### **Test 2: Value of tolerance**

If is less than .1, then there is a problem of multicollinearity. As it can be referred from table 11, all values of tolerance are greater than .1, which implies no collinearity issue.

##### **Test 3: Variance Inflation Factor (VIF)**

VIF is derived from tolerance. If it is greater than 10, there is a problem of multicollinearity. The VIF value on table 12 shows no value greater than 10, which implies no collinearity issue.

##### **Test 4: Condition Index**

If it is greater than 15, collinearity is suspected, but is only a serious issue if it exceeds 30. As it can be referred from the following table, there are suspected issues of collinearity but no serious issue is suspected.

Table 8: Collinearity Diagnostics

|                 |                            | Model<br>1<br>Dimension |       |        |        |        |        |        |
|-----------------|----------------------------|-------------------------|-------|--------|--------|--------|--------|--------|
|                 |                            | 1                       | 2     | 3      | 4      | 5      | 6      | 7      |
| Eigenvalue      |                            | 6.800                   | .088  | .033   | .032   | .023   | .015   | .010   |
| Condition Index |                            | 1.000                   | 8.811 | 14.321 | 14.542 | 17.192 | 21.418 | 26.627 |
| Variance        | (Constant)                 | .00                     | .00   | .01    | .07    | .29    | .59    | .04    |
| Proportions     | Internal_Managerial_Owner  | .00                     | .62   | .06    | .26    | .01    | .03    | .02    |
|                 | Internal_Firm_Based        | .00                     | .01   | .00    | .50    | .17    | .21    | .11    |
|                 | External_MicroEnvironment  | .00                     | .00   | .10    | .04    | .23    | .58    | .04    |
|                 | External_MesoEnvironment   | .00                     | .07   | .82    | .04    | .00    | .02    | .05    |
|                 | External_MacroEnvironment_ | .00                     | .01   | .01    | .00    | .01    | .00    | .98    |
|                 | Inter_firm_causes          | .00                     | .02   | .10    | .10    | .31    | .14    | .33    |

Dependent Variable: Business\_Formation\_Distress

Source: - Own survey SPSSv20, 2021

### 4.5.3 Multiple Regression Modeling Approach

Regression analysis is a statistic technique used to investigate the relationships between a dependent variable and one or more independent variables. A multiple regression modeling approach is used in this study as an effective method for studying these relationships. Model Summary and ANOVA are computed to measure the strength of the relationship between the independent variables (the causes of business formation distress) and the dependent variable (business formation distress) and the acceptability of the relationship from statistical perspective respectively.  $R^2$  is the multiple correlation, which represent the percent of variance in the dependent variable explained collectively by all of the independent variables. i.e. the  $R^2$  value provides the predictive ability of the model. The closer the value to 1, the better the regression equation fit the data.

The Model Summary result indicates that correlation of the 21 independent variables with the dependent variable is 0.887 and the R-Square is 0.787, which means 78.7% percent of the variance on business formation distress is influenced by the 21 variables listed in the questionnaire. That is the amount of variance in the dependent variable (business formation distress) that is accounted for or explained by the independent variables (causes).

Table 9: Model summary

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .887 <sup>a</sup> | .787     | .770              | .37896                     |

a. Predictors: (Constant), Incubators, Managerial Skill, Natural, The General Public, Intermediaries, Financial, Gender, Supply, Infrastructure, Competition, Customer, Age, Technology, Economic, Social, Working Space, Knowledge Sharing, Political, Demographic, Associations, Commercial Linkage

Source: - Own survey SPSSv20, 2021

#### 4.5.4 The ANOVA test

The ANOVA test shows the acceptability of the model from statistical perspective. It is useful test of model's ability to explain any variation in the dependent variable(business formation distress). The regression row indicates information about the variation accounted by the model. While, the residual row indicates information about the variation that is not accounted for the model or show the variation as a result of extraneous variables.

Table 10: ANOVA result

| Model        | Sum of Squares | df  | Mean Square | F      | Sig.              |
|--------------|----------------|-----|-------------|--------|-------------------|
| 1 Regression | 137.357        | 21  | 6.541       | 45.544 | .000 <sup>b</sup> |
| Residual     | 37.196         | 259 | .144        |        |                   |
| Total        | 174.553        | 280 |             |        |                   |

a. Dependent Variable: Business\_Formation\_Distress

b. Predictors: Predictors: (Constant), Incubators, Managerial Skill, Natural, The General Public, Intermediaries, Financial, Gender, Supply, Infrastructure, Competition, Customer, Age, Technology, Economic, Social, Working Space, Knowledge Sharing, Political, Demographic, Associations, Commercial Linkage

Source: - Own survey SPSSv20, 2021

The F test is used to test the significance of the regression model as a whole. F is a function of  $R^2$ , the number of independents, and the number of respondents. As indicated in the above table, the significance value of the F statistic is less than 0.05, which indicates that the variation explained by the model is not due to chance. Since the critical

(significance) value of F is 0.000, the identified 21 variables significantly cause business formation distress.

#### 4.5.5 Testing the variables

As a rule of thumb in regression analysis, 0.05 significance level and below means that a variable is a predictor to another variable (independent variable to dependent variable), hence, a value higher than 0.05 significance level is not a predictor to another.

Table 11: Testing the variables

| Coefficients <sup>a</sup>              |                |            |              |        |              |           |       |
|----------------------------------------|----------------|------------|--------------|--------|--------------|-----------|-------|
| Model                                  | Unstandardized |            | Standardized |        | Collinearity |           |       |
|                                        | Coefficients   |            | Coefficients |        | Statistics   |           |       |
|                                        | B              | Std. Error | Beta         | t      | Sig.         | Tolerance | VIF   |
| (Constant)                             | 1.431          | .200       |              | 7.166  | .000         |           |       |
| Internal_Management_Owner              | -.099          | .034       | -.121        | -2.908 | .004         | .797      | 1.254 |
| Internal_Firm_Based                    | .280           | .040       | .309         | 6.968  | .000         | .700      | 1.429 |
| <sup>1</sup> External_MicroEnvironment | .251           | .055       | .218         | 4.588  | .000         | .608      | 1.645 |
| External_MesoEnvironment               | .365           | .034       | .485         | 10.838 | .000         | .687      | 1.455 |
| External_MacroEnvironment_             | -.646          | .070       | -.555        | -9.259 | .000         | .382      | 2.618 |
| Inter_firm_causes                      | .465           | .046       | .553         | 10.083 | .000         | .458      | 2.185 |

a. Dependent Variable: Business\_Formation\_Distress

Source: - Own survey SPSSv20, 2021

The regression output of the findings of this research supports the identified general classification of causes of business formation distress since their significance level is less than 0.05 as indicated in the table above. The regression analysis indicated that internal managerial/owner causes, internal firm based causes, external micro-environment causes, external meso-environment causes, external macro-environment causes and inter-firm causes had significantly positive effect on business formation distress with value of ( $p < 0.05$ ;  $\beta = -.121$   $\beta = .309$   $\beta = .218$   $\beta = .485$   $\beta = .555$  and  $\beta = .553$ ) respectively. That means all the causes identified in the research also causes of business formation distress in startup projects in Addis Ababa.

Similarly, 84.7% of the respondents have agreed and strongly agreed that the internal, external and inter-firm determinants discussed in the literature and presented on the questionnaire are causes of business formation delay/failure in Addis Ababa. Furthermore, 74% of the respondents have agreed that the causes of business formation delay/failure are similar among startups (new business) in same sector in Addis Ababa. Below is the interpretation of the findings of the research as per the order in the research.

## 4.6 Interpretation and Discussion of findings

### 4.6.1 Internal Causes of Business Formation Distress

As per the literature review, the research classified the internal causes of Business Formation Distress as the managerial/owner causes of failure and firm based causes, each containing 3 and 2 variables respectively. The internal consistency of these variables was found to be good in the reliability, since their Cronbach's Alpha coefficient is greater than 0.7. The descriptive analysis done on the variables show that among all causes identified in this research, internal firm-based causes are the major causes of business distress while managerial/owner causes are ranked as the least cause by the respondents.

#### 4.6.1.1.1 Managerial/owner causes

Table 12: Managerial/owner causes

| Variable | Strongly |       |          |       |         |       |       |       | Strongly |       |
|----------|----------|-------|----------|-------|---------|-------|-------|-------|----------|-------|
|          | Disagree |       | Disagree |       | Neutral |       | Agree |       | Agree    |       |
| Age      | 47       | 16.7% | 58       | 20.6% | 34      | 12.1% | 83    | 29.5% | 59       | 21.0% |
| Gender   | 157      | 55.9% | 68       | 24.2% | 10      | 3.6%  | 28    | 10.0% | 18       | 6.4%  |
| Skills   | 11       | 3.9%  | 27       | 9.6%  | 52      | 18.5% | 102   | 36.3% | 89       | 31.7% |

Source: - Own survey SPSSv20, 2021

#### Age of owner/manager

Age of owner/manager is ranked 20th underlying cause out of the 21 variables according to the ranking given by the respondents. Similarly, it can be referred from table above that 21% of the total respondents strongly agreed, 29.5% agreed, 20.6% disagreed and 16.7% strongly disagreed that their age is one of the causes for the distress of your

business. The following table shows that 100% of respondents whose age is below 20 agreed that their age is one of the causes for the distress of their business. 63 respondents out of the 210 respondents whose age is 20-30 agree and 43 of them strongly agree that their age is one of the causes for the distress of their business. The numbers show that the rest of the age groups have different opinion on the subject.

As shown in the demographic data table, 76.1% of the startup owners are young people under the age of 30. Besides the owners/managers being young, they are also likely to hire enthusiastic, dynamic and young people who will commit to their vision. In turn, these young employees are given a lot of responsibilities as they are expected to deliver by multitasking. These young, enthusiastic people often over commit but start to burn out without realizing it. Bigger companies have a lot more resources and can afford to spread the burden, but startups do not have this luxury.

Table 13: Age of owner/manager

| Age     | Count |    |    |    |    | Total |
|---------|-------|----|----|----|----|-------|
|         | 1     | 2  | 3  | 4  | 5  |       |
| < 20    |       |    |    | 4  |    | 4     |
| 20 - 30 | 39    | 31 | 34 | 63 | 43 | 210   |
| 31 - 40 | 8     | 21 |    | 14 | 11 | 54    |
| 41 -50  |       | 6  |    | 2  | 5  | 13    |
| Total   | 47    | 58 | 34 | 83 | 59 | 281   |

Source: - Own survey MS Excel, 2021

Here comes the need of understanding one of the project management knowledge areas, which is project resource management. A start up owner/manager who has a project management education, training or experience have a better chance of preventing business formation distress (delay/failure) caused by their age because he/she knows it is their responsibility to understand the team's limitations and that if people over commit, it will only lead to burnout and mistakes.

### Gender of owner/manager

Out of the total respondents, 55.9% strongly disagree and 24.2% disagree that their gender was one of the causes of their business formation distress while the 10% agree and the 6.4% strongly disagree. The demographic data of the total respondents show that 186 of the owners/managers are male while only 95 are female. Out of these 95 female respondents 18 of them strongly agree, 14 of them agree, 18 of them disagree and 35 of them strongly disagree that their gender was one of the causes of their business formation distress. Nevertheless, none of the male respondents strongly agreed that their gender was one of the causes of their business formation distress while 14 of them agreed, 50 of them disagreed and 122 of them strongly disagreed. Gender was ranked last by respondents for being responsible for the distress of their business.

Table 14: Gender of the owner/manager

| Gender      | count |    |    |    |    | Total |
|-------------|-------|----|----|----|----|-------|
|             | 1     | 2  | 3  | 4  | 5  |       |
| Female      | 35    | 18 | 10 | 14 | 18 | 95    |
| Male        | 122   | 50 |    | 14 |    | 186   |
| Grand Total | 157   | 68 | 10 | 28 | 18 | 281   |

Source: - Own survey MS Excel, 2021

### Managerial/Technical Skills and Experience of owner/manager

31.7 % of the total respondents strongly agreed and 36.3% agreed that their lack of managerial or technical skill and experience is one of the causes for the distress of their business while only 3.9% strongly disagreed and 9.6% disagreed. Even though it can be referred from the demographic data that 141 (50.2 %) respondents have previous experience in managing a business, 34 of the strongly agree and 49 of them agree that their lack of managerial or technical skill and experience is one of the causes for the distress of their business. Similarly out of the 140 respondents which do not have previous experience in managing a business, 53 of them agree and 55 of them strongly agree that their lack of managerial or technical skill and experience is one of the causes for the distress of their business.

Table 15: Previous experience in managing a business

|       | Previous experience in managing a business |    |    |     |    | Total |
|-------|--------------------------------------------|----|----|-----|----|-------|
|       | 1                                          | 2  | 3  | 4   | 5  |       |
| No    |                                            | 9  | 23 | 53  | 55 | 140   |
| Yes   | 11                                         | 18 | 29 | 49  | 34 | 141   |
| Total | 11                                         | 27 | 52 | 102 | 89 | 281   |

Source: - Own survey MS Excel, 2021

The lack of managerial skills leads to problems in production due to lack of practicing project integration management which result in lack of coordination of production process, and inability to troubleshoot failures on machinery and/or equipment's and they cannot afford to employ specialists in the fields of planning, finance and administration (CLEP, 2006). Hence, the typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their managerial style is more intuitive than analytical, focused on day-to-day operations rather than long-term challenges, and conceptualized as opportunistic rather than strategic. Although this mindset is a vital quality at the start-up stage of the business since it fosters creativity, it can generate challenges when making difficult judgments. Startup owners are ill equipped to meet changes in the business environment and plan adequate technological improvements as a result of weak managerial abilities.

#### 4.6.1.1.2 Firm-Based Causes

Table 16: Firm Based Causes

| Variable  | Strongly Disagree |      | Disagree |      | Neutral |       | Agree |       | Strongly Agree |       |
|-----------|-------------------|------|----------|------|---------|-------|-------|-------|----------------|-------|
| Premises  | 11                | 3.9% | 17       | 6.0% | 51      | 18.1% | 106   | 37.7% | 96             | 34.2% |
| Financial | 7                 | 2.5% | 8        | 2.8% | 9       | 3.2%  | 85    | 30.2% | 172            | 61.2% |

Source: - Own survey SPSSv20, 2021

#### Working Premises

37.7 % of the total respondents agree and 34.2 % strongly agree that lack of adequate working premises (space) is one of the causes for the distress of their business, which is

ranked 5<sup>th</sup> major underlying cause by respondents. Unexpectedly than the findings in the literatures, 18.1% prefer to remain neutral on the issue 9.9% deny that lack of adequate working premises (space) is not one of the causes. Even though this calls for further studies, it is possible that this was caused because of the respondent's did not reach to the stage of having a working premises or chose to run their startup business online without a stable working space. Often the startups think they are going to operate in a chaotic place that requires them to be innovative and the first to grab the market. However, operating through chaos doesn't work in the long run since for the success of the business the startups will need to have some form of structure and discipline to work under

These types of owners/managers lack having a good plan in place and often fail to define processes, which increase the chance of distress at the formation stage. Practicing project scope management and project schedule/time management comes in handy here for planning, development, and execution.

#### **Adequate Financial and marketing resources**

Of the total respondents, 61.2% strongly agreed and 30.2 % agreed that the lack of adequate Financial and marketing resources is one of the causes of their business formation distress. Additionally, the variable was ranked as the number one major cause of business formation distress according to the descriptive analysis and ranking of respondent's underlying cause.

Even though considerable efforts are being made by the government to provide various support services, very few of them are accessed widely. So, having the knowledge of project cost management and project resource management will contribute a ton for the survival of the business in the mean while. This even might buy enough time for the business to pass the challenging business formation stage without any help from external sources.

#### **4.6.2 External Causes of Business Formation Distress**

As per the literature review, the research classified the external causes of business formation distress as Micro, Meso and Macro environment causes, each containing 5, 1

and 6 variables respectively. The internal consistency of these variables was found to be good in the reliability, since their Cronbach's Alpha coefficient is greater than 0.7. The descriptive analysis done on the variables show that among these three classes are ranked as meso-environment causes, macro-environment causes and micro-environment causes respectively as causes of business formation distress by the respondents.

Even though the whole concept of external cause is that these variables are under no control of the company, considering the outside environment allows owner/managers to take suitable adjustments to their marketing plan to make it more adaptable to the external environment.

#### 4.6.2.1.1 Micro-Environment Causes of Business Formation Distress

Table 17: Micro-Environment Causes of Business Formation Distress

| Variable    | Strongly Disagree |       | Disagree |       | Neutral |       | Agree |       | Strongly Agree |       |
|-------------|-------------------|-------|----------|-------|---------|-------|-------|-------|----------------|-------|
| Customers   | 5                 | 1.8%  | 4        | 1.4%  | 49      | 17.4% | 138   | 49.1% | 85             | 30.2% |
| Input       | 9                 | 3.2%  | 38       | 13.5% | 24      | 8.5%  | 77    | 27.4% | 133            | 47.3% |
| Intermediar | 13                | 4.6%  | 62       | 22.1% | 75      | 26.7% | 82    | 29.2% | 49             | 17.4% |
| Competitors | 43                | 15.3% | 59       | 21.0% | 53      | 18.9% | 42    | 14.9% | 84             | 29.9% |
| Public      | 37                | 13.2% | 83       | 29.5% | 39      | 13.9% | 112   | 39.9% | 10             | 3.6%  |

Source: - Own survey SPSSv20, 2021

#### Customers

Out of all the respondents, 30.2 % strongly agree and 49.1% agree that instability of their customer's demand and lack of adequate marketing channels and skills is one of the causes for the delay/failure of their business.

There's no doubt that investors put a lot of pressure on startup entrepreneurs to get their product to market as soon as possible before they burn through their funds, which can lead to cutting corners. It may be tempting to release half-baked products to be first to the market, but they must remember that this is exceedingly risky. For start-ups, their reputation is everything, and if you mess up with the first launch, your firm is unlikely to

survive. In a competitive market, things aren't going to be as forgiving for entrepreneurs. Customers expect a startup to have the same level of quality control as a larger corporation. Remember that a larger company typically has a larger product selection and more consumers to fall back on. A startup, on the other hand, usually only has one chance to build a name for itself, and it cannot afford to take chances.

In this context, the kind of customer base that the startup attracts, as well as the reasoning behind customers purchasing its product can be an opportunity to control the situation. As such, mastering project quality management, project procurement management and project stakeholder management will be a great help in decreasing distress caused by instability of customers demand.

### **Input or Suppliers**

47.3% of the total respondents strongly agree and 27.4% agreed that erratic (inconsistent) supply of inputs, raw materials and equipment to their business is one of the causes for the distress of their business. This cause is also ranked as the second most responsible cause for the distress of businesses at the formation stage.

If a supplier of a specific product is the largest, or even the only one, they will undoubtedly have a significant impact on the business's performance. Suppliers are critical as a vital link in the value delivery chain, ensuring that the business has the necessary resources and determining price increases and decreases. Applying the knowledge area of project procurement management, project stakeholder management, project resource management and project communications management will help a mitigating mechanism to tackle the distress of business at the formation stage by strategizing a wise use of supplies.

### **Intermediaries**

The respondents of this research showed different opinion on this variable despite the fact that related literatures showed that most startups use third party resellers. 17.4 % strongly agree and 29.2% agreed while 22.1% disagree and 4.6% strongly disagreed that selling

their product/service via intermediaries or third party resellers is one of the causes for the distress of their business. The rest 26.7% chose to give neutral opinion.

If a business decides to sell its product via intermediaries, the success of the marketing is going to be highly dependent on them. Unfortunately, it is impossible to control the reputation of the intermediaries since it is external to the company. However, mastering the practice of project communication management, project procurement management and project stakeholder management will help the business in choosing the right middlemen and managing a smooth relationship with them.

### **Competitors**

When it comes to competition, entrepreneurs may thrive in order to be successful, or they may suffer as a result of losing their market position.

15.3% of the total respondents strongly disagreed and 21.0% disagreed that strong competition in the market is one of the causes for the delay/failure of their business. This respondents seems to be one of the owner/manager who used competition's positive side. Competition fosters innovation, improved customer service, a better awareness of the core market, and a better grasp of one's own businesses' strengths and weaknesses.

On the other hand, if businesses are not prepared to evolve in a competitive market, they may be severely impacted by investors, rising market expectations, competitive pricing, and customer disloyalty. 29.9% of this research's respondents strongly agreed and 14.9% agreed that strong competition in the market is one of the causes for the delay/failure of their business. The idea behind this is that most startups will operate in highly competitive niches.

One of the risks that a startup faces is the release of a similar product by a competitor, which might have a significant negative impact on the business's long-term growth. Application of project risk management and project stakeholder management ease the severity of this cause of distress. Following the identification of risks, the business must devise a strategy to address this specific risk in the event that it occurs. If a new competitor enters the market, the startup must identify a market niche whose demands it

can service profitably. Understanding consumer segments in depth and focusing on a certain group of clients can help a business stand out from the competition.

### **The General Public**

The majority of the respondents strongly disagree (13.2 %) and disagree (29.5%) that the general public opinion is one of the causes for the delay/failure of their business. The cause is ranked low (17<sup>th</sup>) by the respondents. Nevertheless practicing project stakeholder management will be an advantage in tackling this cause for managers/owners whose business distress is caused by the general public opinion just like the 39.9% and 3.6% of respondents of this research who agreed and strongly agreed that that the general public opinion is one of the causes for the delay/failure of their business. respectively.

#### **4.6.2.1.2 Meso-environment Causes of Business Formation Distress**

Table 18: Meso-environment Causes of Business Formation Distress

| <b>Variable</b> | <b>Strongly Disagree</b> |      | <b>Disagree</b> |      | <b>Neutral</b> |      | <b>Agree</b> |       | <b>Strongly Agree</b> |       |
|-----------------|--------------------------|------|-----------------|------|----------------|------|--------------|-------|-----------------------|-------|
| Infrastructure  | 13                       | 4.6% | 12              | 4.3% | 21             | 7.5% | 107          | 38.1% | 128                   | 45.6% |

Source: - Own survey SPSSv20, 2021

### **Infrastructure**

The majority of the respondents i.e. 45.6% and 38.1%, strongly agree and agree that inadequate supply of infrastructures such as lack of transport, poor status of roads, electric power interruption, shortage of water, inaccessible telecommunications, erratic internet and Wi-Fi services is one of the causes for the delay/failure of your business. A startup which already have well-trained and motivated workers, an effective operational and organizational system should make sure that the infrastructure of the business are good enough for all its functions. With the modern and high quality facilities, stable power, internet and WiFi connection, and so on the firm is likely to perform better. In other words, the better the infrastructure, the more opportunities for the startup to perform successfully. Even though this is an external cause and can't be controlled by the

owner/manager, its effect on the business can be controlled by the right application of project risk management and project resource management.

#### 4.6.2.1.3 Macro-Environment Causes of Business Formation Distress

Table 19: Macro-Environment Causes of Business Formation Distress

| Variable                    | Strongly Disagree |       | Disagree |       | Neutral |       | Agree |       | Strongly Agree |       |
|-----------------------------|-------------------|-------|----------|-------|---------|-------|-------|-------|----------------|-------|
| Economic causes             | 8                 | 2.8%  | 14       | 5.0%  | 19      | 6.8%  | 81    | 28.8% | 159            | 56.6% |
| Demographic Causes          | 12                | 4.3%  | 49       | 17.4% | 63      | 22.4% | 65    | 23.1% | 92             | 32.7% |
| Technological Causes        | 18                | 6.4%  | 24       | 8.5%  | 27      | 9.6%  | 114   | 40.6% | 98             | 34.9% |
| Natural and Physical causes | 64                | 22.8% | 92       | 32.7% | 59      | 21.0% | 59    | 21.0% | 7              | 2.5%  |
| Political and legal causes  | 4                 | 1.4%  | 13       | 4.6%  | 24      | 8.5%  | 73    | 26.0% | 167            | 59.4% |
| Social and Cultural Causes  | 4                 | 1.4%  | 29       | 10.3% | 64      | 22.8% | 82    | 29.2% | 102            | 36.3% |

Source: - Own survey SPSSv20, 2021

#### Economic causes

The majority of respondents agreed (28.8 %) and strongly agreed (56.5 %) that external economic determinant such as high interest, inflation and unemployment rates, globalization of the economy, outsourcing, economic crisis and high taxes is one of the causes for the delay/failure of your business. Basically, the very environment of the economy can have an effect on two essential aspects – the startup's levels of production and the decision-making process of its customers. Having a knowledge of project procurement management, project risk management and project cost management helps to address these causes and save the business from distress at its formation stage.

## **Demographic Causes**

23.1% of the respondents agreed and 32.7% strongly agreed that demographic determinants such as income, education, age, family composition and education level of your customer that determine their buying habits is one of the causes for the distress of their business.

Having the knowledge of project stakeholder management will lend a hand for the owner/manager of the business in knowing how to handle this demographic determinants on his/her business. Furthermore, practicing project quality management helps satisfying customers, conforming to requirements, achieving fitness for purpose, and ensuring products or services are fit for use. All these activities or tasks are required to make sure an organization's products or services satisfy all needs for which they are intended from the perspectives of the customers.

## **Technological Causes**

Of all the respondents 40.6% agreed and 34.9 strongly agree that lack of the availability and use of technology such as automation, 3D technology, speed/power of computer calculation, engine performance and efficiency, security in terms of cryptography. Wireless charging, artificial intelligence, smart internet searches, and other high tech functions is one of the causes for the distress of their business at its formation stage. These causes include the talents and abilities used in production, as well as all of the resources and technology needed to create a certain product. They are necessary and can have a significant impact on the success of the business. It all comes down to the simplest details, such as the type of maintenance trolleys it employs to keep its tools and equipment in good working order for as long as possible. The application of project resource management will help make use of even the small amount of available and reachable technology in the process of tackling distress caused by this determinant.

Another issue is that most startups avoid using project management software because it is considered too sophisticated, despite the fact that there is a large number of online project management software for startups accessible today. The most important thing is to figure

out how to clearly define different roles and duties, as well as a project strategy. Even a spreadsheet in Excel is a superior option than manual ways.

### **Natural and Physical causes**

Natural and physical causes are ranked 19<sup>th</sup> out of the 21 variables. The respondents of these research has showed a mix of opinion on this cause. 22.8% strongly disagree, 32.7% disagree while 21.0 agree and 2.5% strongly agree that natural and physical environmental determinants such as climate change, pollution, weather, availability of both non-renewable and renewable resources, loss of habitat and biodiversity, environmental legislation and survival of particular biological species is one of the causes for the delay/failure of their business. While the rest 21% remain neutral from giving their response about the matter.

Mastering project risk management is undoubtedly a mitigating mechanism to tackle the pressure from these causes. However, there may be very exceptional and rare cases like the COVID-19 pandemic, which require a whole lot of another research and approach to tackle. This research did not include the issue of the COVID-19 in consideration as that would have turned the direction of the research. However, it is undeniable determinant and a practically seen cause of distress for businesses at every stage.

### **Political and legal causes**

The market develops according to the political and legal environment in various areas. This means that every business needs to be up to date with such determinants worldwide in order to be able to make the right decisions. The rules and regulations from local government play an integral role in the development of the startup. There are some countries which their laws prevents the development of some certain industries. That can be a threat to the company. 26.6% of the respondents agree and 59.4% strongly disagree that Ethiopia is one of those counties. These respondents claimed that the political and legal policies of the country such as pricing policies, registration and licensing process, copyright law, employment law, fraud law, import/export law, fair-trade decisions, minimum wage legislation, and accessibility of rules and regulations is one of the causes for the distress of their business at its formation stage. Even though this is a macro

external determinant and can't be controlled by the business, its effect can be tackled by taking advantage of the application of project risk management.

### **Social and Cultural Causes**

The social and cultural condition of the society such as different lifestyles, beliefs & values, attitudes, cultural conditioning, religion and ethnic conditioning, purchasing habits and social class is one of the causes for the delay/failure of business at its formation stage as claimed by the 36.3% of the respondents who strongly agreed and the 29.2% who agreed to the issue. Application of project stakeholder management and project quality management (to make society friendly products/serves) will help address the issue from the business side, even if the cause is external and inevitable.

#### **4.6.3 Inter-firm Causes of Business Formation Distress**

Table 20: Inter-firm Causes of Business Formation Distress

| <b>Variable</b>       | <b>Strongly Disagree</b> |      | <b>Disagree</b> |       | <b>Neutral</b> |       | <b>Agree</b> |       | <b>Strongly Agree</b> |       |
|-----------------------|--------------------------|------|-----------------|-------|----------------|-------|--------------|-------|-----------------------|-------|
| Knowledge sharing     | 14                       | 5.0% | 12              | 4.3%  | 37             | 13.2% | 90           | 32.0% | 128                   | 45.6% |
| Linkage Relationships | 16                       | 5.7% | 33              | 11.7% | 34             | 12.1% | 94           | 33.5% | 104                   | 37.0% |
| Associations          | 9                        | 3.2% | 37              | 13.2% | 29             | 10.3% | 118          | 42.0% | 88                    | 31.3% |
| Incubation            | 12                       | 4.3% | 30              | 10.7% | 15             | 5.3%  | 101          | 35.9% | 123                   | 43.8% |

Source: Own Survey, SPSS v20, 2021

### **Knowledge sharing**

It has been established in the literature review that as we live in a hyper-connected world via all globalization tools, it is important to keep communicated with other business and share knowledge for the success of the startup transformation to a company. However, this research has found that the majority of respondents do not share knowledge with other startups because 32% of the respondents of the research agree and 45.6% strongly agree that lack of knowledge and information sharing with other new businesses is one of the causes for the delay/failure of their business. Even though the availability of

platforms which initiate knowledge sharing plays a vital role, have a good practice of project communication management has also an advantage to make the first move or fit in the available once.

### **Linkage Relationships**

The reviewed related empirical literatures in chapter two showed that imbalanced commercial linkage with other new and established businesses is one of the causes for the delay/failure of many businesses to which 33.5% of respondents agreed and 37.7% strongly agreed. Proper application of project procurement management will help the business to know with which business it has to be commercially linked with. Project stakeholder management will also prevent the business from selecting a wrong supplier which is not fit to it.

### **Associations**

42% of the respondents agree and 31.3 % strongly agree that lack of strong associations and unions that represent new businesses is one of the causes for the delay/failure of your business. Similar with the external causes discussed above, these cause is not under the control of the business. Nevertheless, the knowledge of project communications management will have an advantage in finding and participating any available association and union or even create a new one by communicating with businesses of same stage and same issue.

### **Incubation**

Majority of the respondents agree (35.9) and strongly agree (43.8%) that lack of availability of and engagement with the existing business incubators that support the establishment and growth of new businesses and help create network with investors is one of the causes for the delay/failure of their business. Even though it is not enough, the literature review in chapter two has showed that there are a growing number of business incubators in the city. Hence, by mastering the knowledge of project communication management and project stakeholder management, new businesses should try their best to hop in the available incubators and get their business nurtured.

#### **4.6.4 Underlying Causes of Business Formation Distress**

Most of the results of studies reviewed in the literature study showed differences. This difference indicates that the underlying causes of business formation distress vary from country to country, place to place. The effect of the business environment depends upon the time period, geographic area, and market sector in which the firm operates. However, this study has an objective of identifying the underlying causes of business formation distress in startups in Addis Ababa.

It is obvious that in most cases, a complex mixture of causes contribute to business failure; it is very rare for one single determinant to be involved. The 5-point Likert scale part of the questionnaire of this research helped to know if the 21 complex mixture of causes identified in the literature review are also a cause for the distress of business formation in Addis Ababa.

However looking into such a large number of causes may be highly cumbersome model for problem solution so it is appropriate to tell, of all the causes which one is the most important, the second most important... in order to know this, the last part of the questionnaire of this research requested the respondents to rank which 5 of the 21 causes was the top major causes for the distress of their business formation. The following table shows these rank given by the respondents which help the research to narrow down the number of reasons in such a way that some action could be taken from a project management point of view.

As it can be seen in the table below, all the 21 causes identified in the literature are included in the top 5 major causes of the respondents. i.e. not any causes is left out from being included in the top 5 major list of causes. Lack of Financial and marketing resources holds the first rank of being an underlying cause of business formation distress while Inadequate Supply and Input, Lack of Managerial Skill, Political and legal determinants and lack of working space are ranked from 2 to 5.

Table 21: Rank of underlying causes

| Rank  | Causes                          | Category                  | Number of respondents and the given rank |     |     |     |     | Total |
|-------|---------------------------------|---------------------------|------------------------------------------|-----|-----|-----|-----|-------|
|       |                                 |                           | 1st                                      | 2nd | 3rd | 4th | 5th |       |
| 1     | Lack of Financial and marketing | Internal FirmBased        | 74                                       | 56  | 36  | 8   | 11  | 185   |
| 2     | Inadequate Supply/ Input        | External Micro            | 15                                       | 31  | 25  | 38  | 20  | 129   |
| 3     | Lack of Managerial Skill        | Internal Managerial/owner | 33                                       | 43  | 39  | 6   | 2   | 123   |
| 4     | Political and legal             | External Macro            | 27                                       | 18  | 20  | 34  | 15  | 114   |
| 5     | Lack of Working Space           | Internal FirmBased        | 36                                       | 17  | 10  | 19  | 14  | 96    |
| 6     | Lack of Infrastructure          | External Meso             | 16                                       | 8   | 42  | 24  | 5   | 95    |
| 7     | Economic                        | External Macro            | 4                                        | 16  | 16  | 23  | 25  | 84    |
| 8     | Competition                     | external Micro            | 21                                       | 19  | 19  | 4   | 16  | 79    |
| 9     | Instability of Customer demand  | External Micro            | 8                                        | 15  | 6   | 16  | 27  | 72    |
| 10    | Incubators                      | Inter-firm                | 6                                        |     | 7   | 18  | 39  | 70    |
| 11    | Intermediaries                  | External Micro            | 6                                        | 17  | 2   | 9   | 28  | 62    |
| 12    | Lack of Knowledge Sharing       | Inter-firm                |                                          | 6   | 19  | 20  | 13  | 58    |
| 13    | Social and cultural             | External Macro            | 11                                       |     | 12  | 15  | 8   | 46    |
| 14    | Technology                      | External Macro            | 2                                        | 14  | 8   | 7   | 10  | 41    |
| 15    | Lack of Associations            | Inter-firm                | 10                                       | 8   |     | 16  | 4   | 38    |
| 16    | Unbalanced Commercial Linkage   | Inter-firm                | 4                                        | 5   | 6   | 4   | 15  | 34    |
| 17    | The General Public              | External Micro            |                                          | 8   | 10  | 10  | 4   | 32    |
| 18    | Demographic                     | External Macro            | 2                                        |     | 2   | 8   | 4   | 16    |
| 19    | Natural and physical            | External Macro            |                                          |     |     |     | 11  | 11    |
| 20    | Age                             | Internal Managerial/owner | 2                                        |     | 2   |     | 6   | 10    |
| 21    | Gender                          | Internal Managerial/owner | 4                                        |     |     | 2   | 4   | 10    |
| Total |                                 |                           | 281                                      | 281 | 281 | 281 | 281 |       |

Source: Own Survey, MS Excel, 2021

Table 22: Underlying causes Vs PM knowledge area

| Rank            | Causes                                                               | Category                          | Project management knowledge areas that can tackle the cause                                                                         |
|-----------------|----------------------------------------------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| 1 <sup>st</sup> | Lack of adequate Financial and marketing resources                   | Internal Firm Based Causes        | Project Cost Management<br>Project Resource Management                                                                               |
| 2 <sup>nd</sup> | Erratic (inconsistent) supply of inputs, raw materials and equipment | External Micro-Environment Causes | Project Procurement Management<br>Project Stakeholder Management<br>Project Resource Management<br>Project Communications Management |
| 3 <sup>rd</sup> | Lack of managerial or technical skill and experience                 | Internal Managerial/owner causes  | Project Integration Management                                                                                                       |
| 4 <sup>th</sup> | Political and legal policies of the country                          | External Macro-Environment Causes | Project Risk Management                                                                                                              |
| 5 <sup>th</sup> | Lack of adequate working premises (space)                            | Internal Firm Based Causes        | Project Scope Management                                                                                                             |

Source: Own Survey, MS Excel, 2021

#### 4.6.5 Project Management as Mitigating Mechanism in Tackling Distress

It has been established in previous chapters that a start-up differs from SMEs and even more from large and mature companies. Even though many of the previously known concepts do apply to start-ups since some features of Project Management are shared by large, small and young companies (planning, resource allocation ...), start-ups seem to require a more “on the go” approach that enables flexibility and iterations, as opposed to the commonly accepted approach. As a result, it is not surprising to see the need of applying project management knowledge into startups, because such vision seems to better meet the start-up’s needs in its development project. To enrich this theory, more research such as this paper’s should therefore be carried out. There is a consequently a need to study start-ups more closely, especially from a Project Management perspective. This will not only enrich this research’s results, but will also eventually lead to the creation of tools that could better suit a start-up’s needs at every stage.

Startups take a bottom-up approach when it comes to managing projects. They strive to find people who have the necessary skill set for the job but often overlook the importance of project management to make it a success. A project manager is not there just to coordinate the project plan, but it's imperative that he/she is assigned accountability and responsibility to complete the project. Nevertheless, as discussed in different parts of this research, many business owners/managers do not practice project management in their businesses formation stage. This claim can be assured by the fact that 75.1% of the respondents do not have educational background, training or experience on project management field. Fortunately to the study objective, 50.2% of the total respondents strongly agree and 32.7% agree that managers/owners that have a project management education, training or experience have a better chance of preventing business formation delay/failure.

In most cases, startups consist of a small team with flat structure. Often, the managers are colleagues, and formal hierarchy almost does not exist which makes it difficult to say no. This becomes more difficult in cases where companies encourage open dialogue as it is considered necessary for innovation. In such a consensus-based culture, requests made by team member is often difficult to turn down for the manager unless he/she has a business or project management experience. However, in a business led by an owner/manager with a project management know-how, the whole team understands priorities and decision making structures. When employees understand the priorities and have a clear vision of the plans of the company, they are likely to be more flexible. In the case of startups, a command and control structure is less likely to be successful.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS**

#### **5.1 Summary**

This section presents the summary of the most significant findings from the results and discussion section of the previous chapter.

Data was collected from primary sources (281 owner/manager of distressed business) through a structured questionnaire. Majority of these owners/managers, referred as respondents in study, are between the ages of 20-30 and males. From this, it can be drawn that there is a dominance of male and younger people in owning/managing businesses that are distressed at the formation stage. The majority of respondents have attained a higher level of education of degree and masters while half have a previous business management experience. Nevertheless, the majority of the respondents do not have an educational background, training or experience on project management field. This indicates that having a project management expertise is not considered a necessity to run a business in the city. Fortunately to the study objective, the majority of respondents admitted that managers/owners that have a project management education, training or experience have a better chance of preventing business formation delay/failure. By checking the reliability of the data collection instrument, each variable was found valid and reliable to proceed with the research. Then descriptive statistics was used to compare the independent determinants (different causes which led to business formation distress (dependent variable)). Subsequently, internal firm-based causes were found to be the major causes of business distress. External meso-environment causes, inter-firm causes, external macro-environment causes, external microenvironment causes are ranked respectively as causes of business formation distress. Internal managerial/owner causes are ranked as the least cause by the respondents.

In the research the dependent variable business formation distress correlated with all the independent variables: internal managerial/owner causes, internal firm based causes, external micro-environment causes, external meso-environment causes, external macro-environment causes and inter-firm causes positively. Similarly, the regression analysis

indicated that all the variables had significantly positive effect on business formation distress with value of  $p < 0.05$ . That means all the causes identified in the research are also causes of business formation distress in startup projects in Addis Ababa. Moreover, the majority of the respondents have coincided that the internal, external and inter-firm determinants discussed in the literature and presented on the questionnaire are causes of business formation delay/failure in Addis Ababa and that these causes are similar among startups (new business) in same sector in Addis Ababa.

Based on the reviewed literature, 21 variables were presented for the respondents to judge. It is obvious that in most cases, a complex mixture of causes contribute to business distress; it is very rare for one single determinant to be involved. The 5-point Likert scale part of the questionnaire of this research helped to know if the 21 complex mixtures of causes identified in the literature review are also a cause for the distress of business formation in Addis Ababa. However looking into such a large number of causes may be highly cumbersome model for problem solution so it is appropriate to tell, of all the causes which one is the most important, the second most important... in order to know this, the last part of the questionnaire of this research requested the respondents to rank which 5 of the 21 causes was the top major causes for the distress of their business formation. Accordingly, Lack of adequate Financial and marketing resources, Erratic (inconsistent) supply of inputs, raw materials and equipment, Lack of managerial or technical skill and experience, Political and legal policies of the country, and Lack of adequate working premises (space) are ranked top 5 underlying causes of business formation distress in startup projects in Addis Ababa.

The application of project management as a mitigating mechanism in tackling business formation distress is discussed alongside each cause of distress. Even though the whole concept of external causes is that these variables are under no control of the startup, considering the outside environment allows owner/managers to take suitable adjustments to their marketing plan to make it more adaptable to the external environment. The discussion regarding which project management knowledge to use to which cause of distress is summarized in the table below.

Table 23 Causes of Distress vs. PM knowledge area

| <b>Causes Of Business Formation Distress</b>            | <b>Project Management Knowledge Area<br/>which can tackle the cause</b>                                                                                         |
|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Internal Causes Of Business Formation Distress</b>   |                                                                                                                                                                 |
| Managerial/Owner Causes                                 | Project Resource Management<br>Project Integration Management                                                                                                   |
| Firm Based Causes                                       | Practicing Project Scope Management<br>Project Schedule/Time Management<br>Project Cost Management<br>Project Resource Management                               |
| <b>External Causes Of Business Formation Distress</b>   |                                                                                                                                                                 |
| Micro-Environment Causes                                | Project Procurement Management<br>Project Stakeholder Management<br>Project Resource Management<br>Project Communications Management<br>Project Risk Management |
| Meso-Environment Causes                                 | Project Risk Management<br>Project Resource Management                                                                                                          |
| Macro-Environment Causes                                | Project Resource Management<br>Project Risk Management<br>Project Stakeholder Management<br>Project Quality Management                                          |
| <b>Inter-Firm Causes Of Business Formation Distress</b> |                                                                                                                                                                 |
| Inter-Firm Causes                                       | Project Communication Management<br>Project Procurement Management<br>Project Stakeholder Management                                                            |

Source: Own Survey

## 5.2 Conclusions

This section presents conclusions which provide answers to the research questions forwarded in chapter one.

The internal business environment refers to anything within the company and under the control of the company no matter whether they are tangible or intangible. Internal environment provides strength or cause weakness of a strategic nature of a business. This research reviewed a number of researches done by different scholars and picked a most suitable classification for the internal causes of business formation distress i.e

Managerial/Owner Causes and Firm Based Causes. Among a vast list of such characteristics Age of owner/Manager, Gender of the owner/manager and lack of managerial or technical skill and experience were selected since the issues were found to be related to the researches context. The respondents of the research agreed that all the variables are causes for the distress of startup projects in Addis Ababa, however compared to other variables in the study, Age of owner/Manager and Gender of the owner/manager were given lower rank. On the other hand the firm based internal causes were given higher rank in the list of underlying causes responsible for business failure at the formation stage. The variables included in this classification were Lack of adequate working premises (space) and Lack of adequate financial and marketing resources.

External Causes of Business Formation Distress refers to the myriad of determinants, which comprises the outside environment of the business, which it has no control over. Following the way of considerable amount of researches, this study classified these environmental causes into micro, meso and macro environmental causes. As the research implied, micro environmental causes have found to affect the daily proceedings and general performance of the startups in Addis Ababa. The respondents verify that the causes identified in the research yet with a difference in ranking. These causes are the instability of customer's demand and lack of adequate marketing channels and skills, erratic (inconsistent) supply of inputs, raw materials and equipment to the business, selling products via intermediaries or third party resellers, strong competition in the market, and the general public opinion, which was ranked least from its kind. The causes reviewed in the meso-level are settled between the macro- and the micro- level of the external causes. Among these causes only the inadequate supply of infrastructures such as lack of transport, poor status of roads, electric power interruption, shortage of water, inaccessible telecommunications, erratic internet and Wi-Fi services was found to setting of the research. As expected, the respondents has given the cause a high rank of being responsible for the distress of business at its formation stage in Addis Ababa. The macro-environment Causes of Business formation distress consists of external determinants that the business itself does not control but is certainly affected by. The causes that make up the macro-environment are external economic determinant such as high interest, inflation and unemployment rates, globalization of the economy and outsourcing, economic crisis

and high taxes; demographic determinants such as income, education, age, family composition and education level of your customer that determine their buying habits; lack of the availability and use of technology such as automation, 3-D technology, speed/power of computer calculation, engine performance and efficiency, security in terms of cryptography. Wireless charging, artificial intelligence, smart internet searches, and other high tech functions; natural and physical environmental determinants such as climate change, pollution, weather, availability of both non-renewable and renewable resources, loss of habitat and biodiversity, environmental legislation and survival of particular biological species; political and legal policies of the country such as pricing policies, registration and licensing process, copyright law, employment law, fraud law, import/export law, fair-trade decisions, minimum wage legislation, and accessibility of rules and regulations, the social and cultural condition of the society such as different lifestyles, beliefs & values, attitudes, cultural conditioning, religion and ethnic conditioning, purchasing habits and social class. The respondents of the research have identified these variables as causes of business distress in Addis Ababa at its formation stage. The findings of the external environmental cause are correspondent to the researches reviewed.

Despite being identified as one of the major causes of business formation distress in startups in Addis Ababa, the inter-firm causes is not well covered by literatures as much as the internal and external Causes of Business Formation Distress. Lack of knowledge and information sharing with other new businesses, Imbalanced commercial linkage with other new and established businesses, Lack of strong associations and unions that represent new businesses and Lack of availability of and engagement with the existing business incubators that support the establishment and growth of new businesses and help create network with investors are the variables identified and verified by the respondents as one of the major causes of business formation distress in startup projects in Addis Ababa.

This research stresses that the vulnerable and isolated situation of the startups can only be treated by attacking the underlying causes. Thus, different empirical reviews were assessed to learn what different literatures ranked on top of causes Of Business

Formation Distress. However, the results were different from country to country. Thus the respondents of the research were requested to identify the top 5 underlying (root/fundamental) causes responsible for the delay or failure of their business, based on their personal experience as a business owner/manager in Addis Ababa. Accordingly, Lack of adequate Financial and marketing resources, Erratic (inconsistent) supply of inputs, raw materials and equipment, Lack of managerial or technical skill and experience, Political and legal policies of the country, and Lack of adequate working premises (space) are ranked as the top 5 underlying causes of business formation distress in startup projects in Addis Ababa.

Tackling the identified internal causes is easier than the other causes, since the business owner/manager have a fair control over the internal environment of his/her business. On the contrary, external causes of business environment are inevitable and harder to tackle. Hence, it is a must for every business to face this determinants. However, as broadly discussed in the research the application of the right project management knowledge will help change the posed threats into opportunities by adjusting the business and make it adaptable to the external environment. This claim is verified by the majority of the respondents of the research even though most respondents didn't have a project management education, training or experience have a better chance of preventing business formation delay/failure. This study has reviewed the ten knowledge areas based on PMI (2017) integrated them with identified causes of distress.

### **5.3 Recommendations**

This section contains recommendations for potential stakeholders of the topic in discussion.

- Based on the research findings and reviewed literatures, the researcher suggests that owner/manager of businesses who are at the formation stage should identify any internal determinants, which can cause distress and apply the right project management knowledge area to safeguard their own business from delay/failure. Yes identifying a problem is getting half way through the solution; however, for the completion it needs a serious consideration of making project management

competence a necessary requirement to own/manage a business. It is possible for a business to be unable to find anyone with formal training, and also have only a few resources available for a formal project management methodology. Thus, responsible stakeholders should facilitate and support any available platforms as equally as they support the startups themselves.

- It has been established in the research that startups are very important for the economy of the country: which means every external stakeholder, from a single citizen to the government should play its best role to create a favorable external environment, which would not cause any distress in their business formation stage.
- As other researchers expressed in the reviewed literatures, this study also encountered a difficulty in studying failed businesses. In addition to the difficulty to locate non-registered business that failed, owners/managers are reticent about failure and they more attribute failure to external causes than to internal ones. The researcher recommends business owners/managers to admit to the true causes of failure when approached by such researches, which could be a guide for upcoming startup. Even more, owners/managers should normalize documenting their progress since day 1 and pass it over to another startup, as that could be a major stepping-stone for the new once.
- This study stresses that the vulnerable and isolated situation of the startups can only be treated by attacking the underlying causes and attempted to find the underlying causes behind the distress of startups in Addis Ababa. However, these underlying causes happen to be very vast and different from firm to firm. This calls for responsible stakeholders to invest on such researches which could study the topic in different sectors in detail be a guideline for upcoming startups.
- This study analyzed the application of project management in the business formation stage by integrating the project management knowledge areas with the identified causes. However, the researcher suggests that there should be a special project management knowledge area, which deals with the topic. Educational institutions and project management scholars should consider revising the knowledge areas into including such new coming topics.

#### **5.4 Limitation and suggestion for further study**

- Of the limitations the researcher experienced, the major one is the inadequacy of existing local and up to date literature regarding startups and project management in startups. Hence, it examined various international researches on the topic and local researches on related project distress issues on SMEs while acknowledging the difference. Therefore, it recommends other researchers are to do further researches on the vast and dynamic topic.
- Due to the broadness of the topic, the research have not dealt in detail on each variable. Nevertheless, each of the 21 variables constructed in the research have a potential to be one research topic individually. The combination of two, three, four... of the variables, while keeping the rest as a controlled variable will also result in another perspective to tackle the distress of business formation at any stage.
- Last but not least, the limitation of this study is the fact that it ignored the obvious major cause of business distress i.e. the global COVID-19 pandemic. However, the researcher believed this issue is beyond the capacity of this research as it already has a lot of constraints. Additionally, since the environment created by the pandemic is dynamic every time, it should not be included in a cross-sectional study whose data is collected at a single point in time. However, the researcher recommends other researchers, who have less constraint of time and budget, to research on the topic and its integration with project management.

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## Annex I: Questionnaire

Dear Respondents,

First, I would like to express my earnest appreciation for your generous time, honesty, prompt responses and for assisting me in my project work.

My name is **Azeb Gizachew Wubishet**, I am a Master of Arts (MA) student in Project Management at Addis Ababa University School of Commerce. As part of my MA project work, I am studying the **Determinants and Project Management Mitigating Mechanisms of Business Formation Distress: The Case of Startups in Addis Ababa**. And this questionnaire here is designed for the partial fulfillment of the requirements for the MA Degree.

The purpose of the questionnaire is to identify the internal, external, inter-firm and underlying causes of business formation distress in startup projects (new businesses) in Addis Ababa and analyze the application of project management as a mitigating mechanism in tackling the causes. Business formation distress can be defined in simple terms as “the delay or failure of a business at its beginning stages”. Hence, if you have ever started a business in Addis Ababa and it failed or it has delayed from where you planned it to be right now; I cordially request you to give the required information about the causes of its delay or failure to this questionnaire since your genuine contribution is very important for the success of my research and further studies which could bring a solution to the issue.

Your responses will be used only for this research purpose and be kept confidential. To be more assured, you will not be writing your name.

For further information or if you would like to get the copy of the final research paper, do not hesitate to contact me at Cell phone: 0920614252 or E-mail: [azebella16@gmail.com](mailto:azebella16@gmail.com).

Thank you in advance for your willingness!

Azeb Gizachew

## Section I. DEMOGRAPHIC DATA

**Instructions:** Please tick [✓] in the provided space which is the most suitable answer

1. Gender: ☐ Female ☐ Male
2. Age: ☐ <20 ☐ 20 – 30 ☐ 31 – 40 ☐ 41 – 50 ☐ 51 - 60
3. Highest level of education: ☐ Highschool ☐ Diploma ☐ Degree ☐ Masters
4. Do you have of previous experience in managing a business? ☐ Yes ☐ No
5. Do you have educational background, training or experience on project management field? ☐ Yes ☐ No

## Section II. Causes of business formation distress (delay or failure)

**Instructions:** Based on your experience as a business owner/manager in Addis Ababa, identify if the listed variable could be a cause for business formation distress (delay or failure). Please tick [✓] in the provided space which is the most suitable answer.

**1= Strongly Disagree 2= Disagree 3= Neutral 4= Agree 5= Strongly Agree**

| No. | Internal Causes of Business Formation Distress                                                                                                        | 1        | 2        | 3        | 4        | 5        |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|
| 1   | Your age is one of the causes for the delay/failure of your business.                                                                                 |          |          |          |          |          |
| 2   | Your gender is one of the causes for the delay/failure of your business.                                                                              |          |          |          |          |          |
| 3   | Your lack of managerial or technical skill and experience is one of the causes for the delay/failure of your business.                                |          |          |          |          |          |
| 4   | Lack of adequate working premises (space) is one of the causes for the delay/failure of your business.                                                |          |          |          |          |          |
| 5   | Lack of adequate financial and marketing resources is one of the causes for the delay/failure of your business.                                       |          |          |          |          |          |
|     | <b>External Causes of Business Formation Distress</b>                                                                                                 | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 6   | Instability of your customer's demand and lack of adequate marketing channels and skills is one of the causes for the delay/failure of your business. |          |          |          |          |          |
| 7   | Erratic (inconsistent) supply of inputs, raw materials and equipment to your business is one of the causes for the delay/failure of your business.    |          |          |          |          |          |
| 8   | Selling your product via intermediaries or third party resellers is one of the causes for the delay/failure of your business.                         |          |          |          |          |          |
| 9   | Strong competition in the market is one of the causes for the delay/failure of your business.                                                         |          |          |          |          |          |

|    |                                                                                                                                                                                                                                                                                                                                                              |          |          |          |          |          |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|
| 10 | The general public opinion is one of the causes for the delay/failure of your business.                                                                                                                                                                                                                                                                      |          |          |          |          |          |
| 11 | Inadequate supply of infrastructures such as lack of transport, poor status of roads, electric power interruption, shortage of water, inaccessible telecommunications, erratic internet and Wi-Fi services is one of the causes for the delay/failure of your business.                                                                                      |          |          |          |          |          |
| 12 | External economic determinant such as high interest, inflation and unemployment rates, globalization of the economy and outsourcing, economic crisis and high taxes is one of the causes for the delay/failure of your business.                                                                                                                             |          |          |          |          |          |
| 13 | Demographic determinants such as income, education, age, family composition and education level of your customer that determine their buying habits is one of the causes for the delay/failure of your business.                                                                                                                                             |          |          |          |          |          |
| 14 | Lack of the availability and use of technology such as automation, 3D technology, speed/power of computer calculation, engine performance and efficiency, security in terms of cryptography. Wireless charging, artificial intelligence, smart internet searches, and other high tech functions is one of the causes for the delay/failure of your business. |          |          |          |          |          |
| 15 | Natural and physical environmental determinants such as climate change, pollution, weather, availability of both non-renewable and renewable resources, loss of habitat and biodiversity, environmental legislation and survival of particular biological species is one of the causes for the delay/failure of your business.                               |          |          |          |          |          |
| 16 | Political and legal policies of the country such as pricing policies, registration and licensing process, copyright law, employment law, fraud law, import/export law, fair-trade decisions, minimum wage legislation, and accessibility of rules and regulations is one of the causes for the delay/failure of your business.                               |          |          |          |          |          |
| 17 | The social and cultural condition of the society such as different lifestyles, beliefs & values, attitudes, cultural conditioning, religion and ethnic conditioning, purchasing habits and social class is one of the causes for the delay/failure of your business.                                                                                         |          |          |          |          |          |
|    | <b>Inter-firm Causes of Business Formation Distress</b>                                                                                                                                                                                                                                                                                                      | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 18 | Lack of knowledge and information sharing with other new businesses is one of the causes for the delay/failure of your business.                                                                                                                                                                                                                             |          |          |          |          |          |
| 19 | Imbalanced commercial linkage with other new and established businesses is one of the causes for the delay/failure of your business.                                                                                                                                                                                                                         |          |          |          |          |          |
| 20 | Lack of strong associations and unions that represent new businesses is one of the causes for the delay/failure of your business.                                                                                                                                                                                                                            |          |          |          |          |          |
| 21 | Lack of availability of and engagement with the existing business incubators that support the establishment and growth of new                                                                                                                                                                                                                                |          |          |          |          |          |

|    |                                                                                                                                                      |          |          |          |          |          |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|
|    | businesses and help create network with investors is one of the causes for the delay/failure of your business.                                       |          |          |          |          |          |
|    | <b>Dependent variable: Business Formation Distress</b>                                                                                               | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 22 | The above internal, external and inter-firm determinants are causes of business formation delay/failure in Addis Ababa.                              |          |          |          |          |          |
| 23 | The causes of business formation delay/failure are similar among startups (new business) in same sector in Addis Ababa.                              |          |          |          |          |          |
| 24 | Mangers/owners that have a project management education, training or experience have a better chance of preventing business formation delay/failure. |          |          |          |          |          |

### Section III. Underlying Causes of Business Formation Distress

**Instructions:** Out of the 21 causes listed above compare and rank the top 5 underlying (root/fundamental) causes responsible for the delay or failure of your business, based on your personal experience as a business owner/manager in Addis Ababa.

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

You have completed the questionnaire! Thank you again for your cooperation!

Azeb Gizachew