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Factors Affecting the Performance of Micro and Small Business Enterprises: Examining with the Moderating Role of Organizational Context Factors

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Contents

Abstract

Small business enterprises are important forces in generating employment and more equitable income distribution. The aim of the study is to assess the major factors that affect the performance of micro and small business enterprise with the moderating role of organizational context factors in Addis Ababa, Kirkos Sub-City. For this purpose, an explanatory type of research approach has been employed to carry out the study. The researcher uses largely quantitative approach and supplements it with descriptive and explanatory research approaches. The researcher has employed random sampling technique to draw a representative sample from the population under study. The necessary data has been collected using both primary and secondary sources. For the purpose of analysis, the collected data has been tabulated and using version 20 Software Statistical Packages for Social Science (SPSS) descriptive, explanatory and inferential statistical tools have been applied. The result of the analysis shows that the moderator variable organizational factors positively affect the relationship between the dependent and independent variables of the study, the descriptive analysis indicates that although there are positive attributes relating to MSEs there are also some short cummings as well and that government support must be ratcheted up.

Key words: Organizational context, environmental factors, organizational performance

CHAPTER ONE

1. INTRODUCTION

1.1. Background to the Study

Micro and Small Enterprises (MSEs) have grown during the last decade. Most of the firms that are in operation today are small and medium enterprises speaking to the paramount role this type of firms play in every economy of the world. These enterprises not only play an important role through generating tax revenue and employment but by providing a major source of innovation for the economy as well this is evidenced by the simple fact that most ground breaking firms start life as a small or medium enterprise (Jones ,2014). Consequently, the performance of an economy of a nation is closely associated with the performance of MSEs. In what is usually referred to as developing countries the urban population is to a large extent although varying from country to country is employed in the informal sector most which are small and micro enterprise and they provide a life line to the population (Miguel, 2017).

Hence, their efficiency matters in determining overall economic performance and poverty reduction. Despite their potential to improve economic growth, micro and small enterprises (MSEs) in developing countries lack serious attention, being utilized as a political rag doll to calm critics and satisfy Petron's (Halpern, 2009). They produce largely for the low income group and employ lower levels of techniques. Many of them are self-employed type with a low transformation rate into higher size categories and their innovative activities are limited. Micro and Small Enterprises are widely acknowledged to contribute towards promotion and development of inventions, and thereby generate employment opportunities in Ethiopia (Tariku, 2007). MSEs are particularly important in the context of the country's poverty-reduction strategy because they are seedbed for the development of medium and large enterprises, and because they absorb agriculturally under-employed labor, and

diversify the sources of income for farming families, a research conducted by soul central university in 2010 about the effect of MSEs in east and south Asia rural communities discovered that when conducted efficiently MSEs can reduce poverty rates by up to 52%.

The significance of the MSEs sector in employment creation, economic growth, and poverty alleviation has gotten the recognition it deserves, as opposed to being considered as marginal and unproductive, tax evaders, and with limited contribution to economic growth, Ageba (2014) said.

The Ethiopian government announced the National Micro and Small Enterprises Strategy in 1997 and established the Federal Micro and Small Enterprises Development Agency in 1998, recognizing the importance of this sector. MSEs were singled out as significant instruments to establish a productive and vibrant private sector and alleviate poverty among urban dwellers in the country's industrial policy in 2003 and the poverty reduction plan in 2006. These agreements emphasized the importance of MSEs, as well as their promotion through the provision of financial, training, and infrastructure services. It's normal to assume that every micro and small business begins with strong expectations for growth, but this isn't always the case.

Recognizing the critical role that the aforementioned sector plays, Municipal and federal governments in the country have been developing various MSE-related programs with the goal of reducing unemployment in the country and encouraging innovation. Micro and small businesses are widely acknowledged as an important component of economic growth and a key component in the attempt to raise countries out of poverty (Gebreeyesus, 2015). The dynamic significance of micro and small enterprises (MSEs) in developing countries as the backbone through which developing countries can attain their growth objectives has long been acknowledged. Although the role micro and small enterprises play directly in the development of a nation's economy is well-known and documented, the role they play indirectly as part of what is known

as growth-linkage by acting as an important cog in the machinery of (Hadis and Ali Jan, 2018), micro and small enterprises play a significant role in the economy through innovation and job creation is often overlooked (Sibihatu ,2018). Small businesses contribute to lowering unemployment as well as generate new sources of employment.

MSEs, in addition to their economic importance, have been shown in a number of studies to play an important role in socioeconomic development in both developing and developed countries, as they provide important employment opportunities, particularly for those who choose the city as their permanent residence. To put it another way, according to the CSA (2015) Report on Small Scale Manufacturing Industries, the sector may help convert the economy from agrarian to manufacturing-led by raising agricultural production, lowering unemployment, stimulating the market, and increasing competitiveness.

Although MSEs are growing at an exponential rate in the country their ability to transform to medium and large industries have largely been stunned due to different factors, these study aims to analyze why this is the case, what are the factors that are responsible for this limited transition. The study has been look at MSEs in Kirkos sub-city with the aim that the results that are reached up on here can be generalized with certain adjustment to the entire city better yet the country.

1.2 Statement of the Problem

The micro and small enterprises sectors contribute to the economy of nations by creating employment opportunities, production of goods and services and other value-added activities. The existence of a strong Micro and small business Enterprise is necessary for the boosting of the economy (Admasu, 2012).

Accordingly, different studies e.g., Eshetu (2008), Paul and Rahel (2010), Daniel (2007), Dereje (2008), and Mulugeta (2011) were conducted on the

factor affecting performance of Micro and Small enterprises of the business are mainly related with the personal attribute of the owners' and attributes related to the enterprises and hence usually boil down issues in the sector to personalized issues like the lack of financial knowledge, family trepidations or intended activities, but the author in these particular study has been look at what factors affect the general performance of MSEs these have been potentially lead to policies that will help the sector overcome its short comings.

According to Eshetu and Zeleke (2008), adequacy of finance, education, managerial skills, level of technical skills, and ability to convert part of their profit to investment are the factors that affect the long-term survival of MSEs in Ethiopia. This is in line with the author's statement above, where the performance of MSEs is boiled down to personalized factors.

Moreover, Paul and Mebratu (2010), and Chalewu (2007), found out that the concrete problems that affect MSEs are lack of capital, skills problem and lack of working space, again these papers fall with the crowd when it comes analyzing MSEs in the country.

Given the importance of micro and small businesses to the economy, their survival, expansion, and performance in this sector is a constant source of concern. Policy makers, owner-managers, and their advisers are all interested in research that can lead to an analysis of the elements that affect Micro and Small Business enterprise performance (Alasadi and Abdelrahim, 2007). Many of these issues have been faced by MSEs in Ethiopia in particular.

According to the CSA Report (1994/1995), the major obstacles experienced by Micro and small enterprises are lack of access to finance, working premises (at affordable rent), lack of skills and managerial expertise, infrastructure, information and technology. This problems result in failure of these businesses to expand and have the effect of preventing their expansion almost from the beginning of their operations, these factors has been analyzed through a moderator, a moderator is something that acts upon the

relationship between two variables (Bhandari, 2021) and since the independent variables don't affect the dependent one directly since no two MSEs are the same organizational factor has been act at a moderator, this is because no two MSEs have been react the same to the same policy and the reason for this has largely to do with each MSEs structure and personal ability.

Many organizational and environmental factors influence the performance of micro and small businesses enterprise in Ethiopia. Although failure is not the only cause for businesses to close, many do every year, and knowing why businesses succeed is critical to the economy's stability and health.

As per the researcher knowledge almost there is no a research endeavor on assessing the major factors affecting the performance of MSEs in the case of Kirkos sub city, nearly all the papers that have been conducted on the issues deal with exclusive issue of how the MSE its self can improve without looking how the generalized economic situation affects performance and mostly term it governmental factor and pass it on and focus on organizational factors while this paper utilizes organizational factor as a moderating variable affecting the relationship between larger factors that affect the performance of MSEs.

The reason for the selection of a single sub-city is because this important sector needs to analyzed thoroughly and with the limited time and budget allocated for the study it would be borderline impossible to conduct an efficient analysis for the sector and when it comes to generalization the fact that Kirkos sub-city is largely similar to the other sub-cities in the capital should make the endeavor quite simple.

As a result, the purpose of this research study is to examine the organizational context, such as operational tributes, managerial ability, and communication and coordination. These factors has been analyzed as moderators, while other environmental factors, such as technological, marketing, financial, working premises, network access, and government regulation, have been analyzed as

independent variables. In the following chapters of the study, the kind and type of relationship that is expected to exist between these factors has been discussed in greater depth.

1.3 Research questions

In light of this, the study has been attempted to answer the following basic questions:

- What is the relationship between technological factor and performance of micro and small business enterprises in Kirkos Sub-City?
- What is the relationship between marketing factor and performance of micro and small business enterprises in Kirkos Sub-City?
- What is the relationship between government regulation factor and performance of micro and small business enterprises in Kirkos Sub-City?
- What is the relationship between financial factor and performance of micro and small business enterprises in Kirkos Sub-City?
- What is the relationship between working premise and performance of micro and small business enterprises in Kirkos Sub-City?
- What is the relationship between access to network and performance of micro and small business enterprises in Kirkos Sub-City?
- Does organization context factor moderate the relationship between environmental factors and performance of micro and small business enterprises in Kirkos Sub-City?

1.4 Objectives of the study

1.4.1 General objective

The general objective of this study is to assess the factors that affect the performance of micro and small business enterprises by taking organizational context factors as a moderating variable in Addis Ababa, Kirkos Sub-City.

1.4.2 Specific Objectives of the study

- To determine the major factors affecting performance of micro and small enterprise in Kirkos sub- city?
- To examine the effect of technological factors on the performance of micro and small business enterprises in Kirkos Sub-City?
- To assess the influence of marketing factor on the performance of micro and small business enterprises in Kirkos Sub-City?
- To assess the influence of working premise on the performance of micro and small business enterprises in Kirkos Sub-City?
- To assess the influence of access to network on the performance of micro and small business enterprises in Kirkos Sub-City?
- To investigate the effect of government regulation factor on the performance of micro and small business enterprises in Kirkos Sub-City?
- To assess the impact of financial factor on the performance of micro and small business enterprises in Kirkos Sub-City?
- To determine whether organization context factor moderate the relationship between environmental factors and performance of micro and small business enterprises in Kirkos Sub-City.

1.5 Significance of the Study

The study have been generate important information on the most appropriate way to encourage and motivate micro and small entrepreneurs to go beyond inhibiting factors and become part of national building lots through starting business and other enterprises therefore becoming self-sufficient and also creating job opportunities in the country.

The information generated has been also be used by government and other development agencies to formulate most appropriate policies that are micro and small enterprises" friendly. The study has been add an empirical knowledge on the factors affecting performance of micro and small enterprises, in Kirkos sub city, the knowledge have been used to take corrective measures on the outdated practices that may negatively influence micro and small enterprises' performance.

1.6 Scope of the study

The study covered business organizations operating in the form of micro and small enterprises in Kirkos Sub-City. Even though the issue of MSE is currently hot and interesting throughout the country and there are possibilities of using various tools, designs, wide geographical areas with many variables and large sample size, this study delimited according to the variables mentioned in research objectives and assessed accordingly throughout the study. The study have been focus on selected micro and small enterprises in Addis Ababa Kirkos Sub-City by considering the time, energy and financial resources required to accomplish the study.

1.7 Organization of the study

The study has been organized in to five chapters. The first chapter deals with the introductory part of the study which contains background of the study, statement of the problem, objectives of the study, significance of the study, scope of the study and organization of the study. The second chapter has been

devoted to the presentation of literature reviews of related researchers and conceptual framework. The third chapter deals with research methodology of the study which presents the research design, data sources, instruments and procedures of data collection, sampling strategy, data analysis and presentation, validity and reliability, ethical considerations, and limitation of the study. The fourth chapter deals with the analysis and discussion of data collected. The final chapter summarizes, concludes the results obtained from the findings and suggests the necessary recommendations; and finally attached reference/bibliography and annexes relevant for the study.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Introduction

In this part of the review of related literature, the first part begins by defining what Micro and Small business enterprises (MSEs) are in general and in Ethiopian context in particular. In addition, it discusses the criteria use to differentiate them from other business activities. Then the literature review focuses on defining what are the major factors affecting MSEs and how it is measured these growth factors which have been discussed in the sections here after are independent variables of the study which is assumed to have relation and contribution to the Performance of enterprises. Then the literature ends with on reviewing those studies that relate the independent variables and dependent variable of the study.

2.2. Micro and Small Enterprises (MSEs)

Micro and small business definitions have long been tricky, if not controversial. A small firm, according to Gebreeysus (2015), is "one that is independently owned and controlled and is not dominating in its field of operation."

Researchers and other interested parties used the following criteria to operationalize Micro and Small Enterprises as a construct: value added, value of assets, yearly sales, and number of employees. The category is usually defined by the last two criteria. Size of employment, capital investment, and turnover are used as criteria to categorize organizations along scales of operation and identify micro, small, medium, and large enterprises, according to study performed in Addis Ababa by the Commission on Legal Empowerment of the Poor (2006). This categorization is necessary for both functional and promotional aims in order to achieve the right levels of development.

2.3. Defining performance Growth

According to Beaver (2012), in the micro and small business sector, there are serious issues with the term growth and its diverse interpretations and perceptions. In recent years, business experts and entrepreneurs have been more interested in the subject of performance determinants in micro and small businesses, each striving to present a clear formula for success (Beaver, 2012). Growth is frequently measured in terms of revenue or profitability, but determining the elements that lead to it becomes increasingly difficult.

While a standard measure of corporate growth has yet to be found, certain general characteristics that determine a company's growth potential have been recognized (Beaver, 2012). Many small business owners hope to learn more about the management strategies, business objectives, and personal characteristics that are most closely linked to small business performance. Previous research into the relationships between various factors and micro and small business growth lacked a comprehensive theoretical framework, and many small business owners hope to learn more about the management strategies, business objectives, and personal characteristics that are most closely linked to small business performance.

2.4. Measures of performance Growth

A company's growth is typically measured in terms of its financial performance. According to Beaver (2012), both financial and non-financial elements can be used to evaluate micro and small business performance growth; however the former has garnered the most focus in the research. Traditional measurements of business performance growth have been employee numbers or financial performance, such as profit, turnover, or return on investment. The implicit premise of performance growth in these metrics is that all micro and small business owners want or need to grow their companies. For a business to be

considered growing, these financial metrics must show an increase in profit or turnover.

2.5 The major Factors Affecting Micro and Small Enterprises

Micro and small businesses in general and MSEs in particular, can be affected by a variety of factors such as socio-economic, political, and motivational factors. When we look at the literature on MSE performance around the world, we can see that there are a number of elements that influence their performance. Each of the independent variables (performance factors) of this study is provided and analyzed in the next section of the review of relevant works by previous researchers under two primary sub themes of personal and business-related aspects.

2.5.1. Marketing Skill of Business Owners

Lussier (1995) underlines the relevance of business owners' marketing skills as a determinant in small business growth and performance. Marketing abilities such as recognizing new prospects, demonstrating good corporate positioning, customer handling, figuring out how to efficiently market, and the capacity to come up with new ideas are all highly essential variables determining the performance of micro and small businesses. Temtime and Pansiri (2004) found that marketing activities are successful in Botswana in their study on small business Critical Growth/Failure Factors in Developing Economies.

2.5.2. Planning and Performance in Small Enterprises

Planning has been also recognized by several studies as a key factor to small business performance such as Lussier (1995), lussier and Pfeifer (2001), Alasadi and Abdelrahim(2007). A business often begins with an idea that is acted upon. However, to get from the ideas stage to the actual business start-up generally involves considerable Planning. In many cases, the amount of

actual Planning done is dependent on the willingness of the entrepreneur to do it.

Some entrepreneurs create business plans in order to obtain funding for their companies, while others use them to get all of their thoughts down on paper in order to determine whether their business concept is sound and practical. According to Ahmed, Shabazz, and Mubarak (2008), no one should start a firm without a business plan in today's environment. They said that small firms can achieve greater results with preparation, commitment, and time, as well as nurturing, financing, and positioning to take advantage of possibilities. Because the environment in which organizations operate is always changing, many of these actions must be performed on a regular basis.

Another fact rarely considered is that the majority of new businesses fail within a few years mostly due simply to poor planning or no planning at all. Most people who go into business enter a field related to their current employment or a favorite hobby. They don't do a market study first to see whether the demand for their product or service is growing, declining or stagnating.

2.5.3. Record Keeping and Financial Control

Poor record keeping can also lead to strained vendor relationships, making it harder to procure and receive items. Small business failure has been linked to poor working capital decisions and accounting information on numerous occasions. Firms that do not keep accurate records or apply proper financial controls are more likely to collapse than those that do. However, Rose, Kumar, and Yen (2006) found no significant link between small business performance and record-keeping and financial-control methods.

2.5.4. Form of Ownership

The other study report by Lafuente and Rabetino (2011) shows a link between business success and ownership structures. They found that the presence of enterprise teams, as opposed to firms with a single-tier leadership structure (enterprise-manager), increases the firm's resources and capabilities, which boosts employment growth, implying that the presence of enterprise teams improves internal decision-making processes, resulting in higher performance growth rates. These issues cause the enterprise's performance to fail to expand, effectively stopping them from expanding nearly from the start of their operations.

2.5.5. Financial Factor

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

External source of finance must also include public equity. In most of developing countries, the majority of Micro and small enterprises lack access to formal financial services. Researches in this area evidenced that (Sethuraman, 1997) the informal firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators are poor, they start their business with very little capital.

Only a handful is able to cover their capital needs through informal lending processes inside their community, rather than official sector institutions. Credit from official sources is governed not just by government laws, but also is frequently part of a public sector monopoly, and is thus administered by a bureaucracy that is generally hostile to the poor, illiterates, and semiliterate in the informal sector. Similar attitudes exist in the private sector; private banks, for example, rarely find dealing with these units profitable, though there are a few exceptions (Sethuraman, 1997).

2.5.6. Marketing Factor

Although Micro and small enterprises have close relationships with customers, finding new customers is a major challenge for Micro and small business owners. Micro and Small businesses typically find themselves strapped for time but in order to create a continual stream of new business, they must work on marketing their business every day.

The majority of Micro and small enterprises target the low-income market areas because of low entry barriers. The enterprises in this market tend to compete for the same customers. The magnitude of these hindrances is higher for those concentrated in one area as they tend to apply a copycat strategy and thus produce similar products. This limits their growth potential and stability and is one of the reasons why small enterprises experience a relatively high instance of downfall.

2.5.8. Working Premise

Most informal sector participants want to save costs, which includes saving on rent; for them, having more disposable income now is more essential than having better-quality premises. As a result, many choose to operate from their homes or other rent-free sites, even if this means breaking existing restrictions (Sethuraman, 1997). Because the operators' revenues are highly dependent on where they do business inside the city, they seek to operate closer to the city's core or other areas, despite the dangers of breaking the rules in areas where purchasing power, and thus demand for their products, is concentrated.

2.5.9. Government Regulations

The Regulations pertaining to land use, land transactions, rental, tenure, etc., affect the small enterprises in a significant way. Similarly labor related regulations are also known to affect the enterprises in a number of ways. There are also regulations which essentially define the framework within which business should be conducted for instance: those concerning establishment and operation of business such as location, registration, and licensing, bookkeeping, hours of operation, holidays, and tax obligation. In addition to these there may be regulations which intervene in the purchase of inputs, use of power, transport and marketing of outputs. The consequences of not complying with these and other regulations are many for the enterprises. It could mean paying a penalty in the form of a lump sum fee which resulted in a reduction in incomes. In extreme cases it could mean closure of business or confiscation of business property.

2.5.10. Technological Factor

For Micro and Small enterprises, the introduction and use of new technology can help streamline processes and increase worker productivity if managed properly.

The ability to keep up and use technology to the business advantage requires the ability to identify possible uses for each technological advance. Some technological advances may prove cost prohibitive for some Micro and Small business. This evaluation should shine some light on the possible benefits it will provide to both employees and the company. (Nicole Long. demand media, 2016).

2.6. Empirical Study

According to Mead &Liedholm (1998) and Swierczek and Ha (2003), the main factors that affect the performance of MSEs in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new.

This has tended to ensure that the journey of the MSEs entrepreneur in many instances is short-lived, with the statistic of MSEs failure rate in Africa being put at 99 percent(Rogerson, 2000).According to Katwalo & Madichie (2008).A study by Hall (1992) has identified two primary causes of small business failure appear to be a lack of appropriate management skills and inadequate capital (both at start-up and on continuing basis).better policy handle since if causes are endogenous, appropriate policy helps firms help themselves if exogenous, appropriate policy may seek to change the economic environment. In Ethiopia, MSE is one of the sectors given recognition in the country's industry development plan, and believed that it serves as vehicles reducing poverty and unemployment at urban center and as it reinforces the economic

development. As specified in Ethiopian government national plan, the industrial strategy has given outstanding focus to strengthen micro and small enterprise.

This is because it's believed that they are the foundation for the establishment and expansion of medium and large scale industries; and open up opportunity for urban employment generation, expansion of urban development, and provide close support for further agricultural development, (GTP I,2010).During the past five GTP implementation years (2010-2015), the expansion of investments by micro and mall enterprise as well as medium and large-scale industries has resulted in the creation of significant number of job opportunities. In 2012/13 alone, micro and small-scale enterprises created employment opportunities to over 1.2 million individuals, MOFED, GTP report 2013.

But with all this the 2004/05 Ethiopian Household income and consumption survey (HICES) indicated that urban poverty incidence has increasing from about 33% in 1995/96 to about 35.1% in 2004/05 and at present time the urban unemployment rate reached about 25% of the employable population (Tegegne & Meheret, 2010). The same research by Tegegne and Meheret indicated that MSEs in Ethiopia despite its potential contribution to poverty reduction and employment creation, the government until very recently, had not extended adequate support to the development of the sector.

This can also easily see on the limited jobs available in the market compared to the population of unemployed number of youths that join the working age and the substantial controversy existing over the underlying growth assumptions, the job creation potential, and the net contribution of MSEs to national employment and urban poverty reduction (FeMSEDA, 2015). This is due to different institutional, policy, operational and financial constraint factors existing from both sides, from government and MSE's owners.

2.7. Empirical Studies on Ethiopia Micro and Small Enterprises

Eshetu and Zeleke (2008) conducted longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises by using a random sample of 500 MSEs from 5 major cities in Ethiopia.

According to this research, that lasted from 1996-2001, the factors that affect the long-term survival of MSEs in Ethiopia are found to be adequacy of finance, level of education level, poor managerial skills, level of technical skills, and ability y to convert part of their profit to investment.

This is because the study found that businesses that failed during the study period had insufficient finance (61 percent), a low level of education (55 percent), poor managerial skills (54 percent), a lack of technical skills (49 percent), and an inability to convert a portion of their profit to investment (46 percent). The study also found that participation in social CapitaLand networking schemes such as equb has been critical for the enterprises' long-term survival. Despite the fact that the paper covers a wide range of topics and presents concrete results that are difficult to argue with, it falls into the same trap as many others who have conducted studies.

In their study, based on the survey covering 123 business units in four Kebeles of Nifas Silk- Lafto and Kirkos sub-cities of Addis Ababa, and aimed to investigate the constraints and key determinants of growth, particularly in employment expansion, Paul and Rahel (2010) found out that the studied enterprises registered 25%increment in the number of total employments they created since their establishment with an average annual employment rate of 11.72%.

With regard to the sources of initial capital of the studied enterprises, the study indicated that, the main ones are loan from MFI (66.7%), personal savings/Iqub (17.5%), and loan from family/ friends (17.1%). Moreover, the

concrete problems that the targeted MSEs faced at their startup are lack of capital (52.8%), skills problem (17.9%) and lack of working space (17.1%). Although this paper improves on the short coming of the previous one by including issues like capital in to the mix again it highly focuses on individualized issues and fails to observe the entire sector which this paper will do.

The research of Tegegne and Meheret (2010) has been carried out with the goal of evaluating the MSE strategy's impact to poverty reduction, job creation, and company development. As a result, she claims: "...a lack of product diversity is common, and as a result, comparable products are over-crowding the market." Some micro businesses switch from one product to another in order to take advantage of improved market chances. However, as soon as the market has established itself, a slew of additional microenterprises seek out the same opportunity, causing the selling price to plummet. The aforementioned study delves into a single topic in considerable depth.

In this research Dereje (2008) have been studied the nature, characteristics, opportunities and challenges of MSEs in the construction sector based on 125 sample enterprises. The results of the study revealed that the main constraints of the MSEs are shortage of capital, lack of raw materials, absence of government support, lack of market, lack of credit facilities and high interest rate. Studies are also conducted specifically with a purpose of identifying the problems that MSEs Encounter. Although this paper is done quite well the small sample size and the time passed since its publishing incited the author to prepare the study at hand.

Mulugeta (2011) has also identified and categorized the critical problems of MSEs into market- related problems, which are caused by poor market linkage and poor promotional efforts institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training

to executives, and poor monitoring and follow-up; operator-related short coming slick developing dependency tradition, extravagant and has been bet behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally, society-related problems such as its distorted attitude about the operators themselves and their products.

2.8. Conceptual frame work of this study

Wanjiku (2009) defines conceptual framework as "the use of concepts that are related to one another to explain the study subject." Because both internal and external factors influence business performance, operators must understand what influences businesses in order to achieve peak performance. Politico-legal, working environment, technological, infrastructural, marketing, and financial elements are all examples of environmental influences. These factors have a significant impact on firm performance, but it's worth noting that management has no (or limited) control over them. However, organizational context factors like management must be continuously controlled to ensure that stridency does not occur.

As indicted below there are many factors that affect the performance of Micro and small enterprises and try to describe briefly in the literature review part. Based on the literature the independent variables used for this study has been access to finance factor, government regulation, technological factors, marketing factors, working premises, and network access while the dependent variable are the performance of Micro and Small enterprises.

The moderator (i.e., organizational factors) have been a positive impact on the profitability of MSEs, if they themselves are positive of course let's say there is a stagnation even a recession in the market if the additional services like customer services are positive clients has been likely still choose that

particular MSE even if others are offering lower prices the reverse also holds true.

The conceptual framework of this study is shown in the following figure

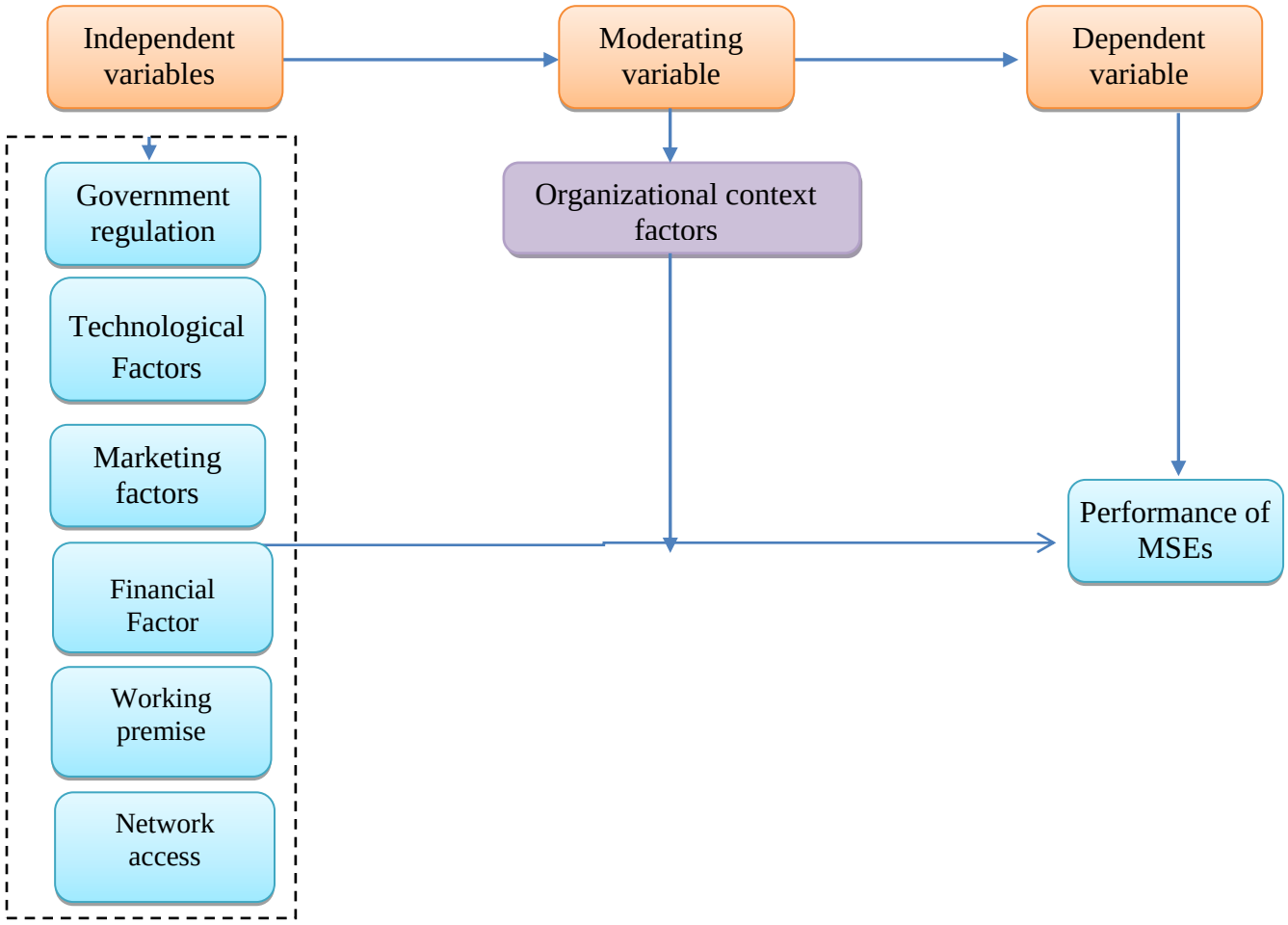


Figure 1: Conceptual Framework

2.9 Research Hypothesis

Based on theories and previous studies discussed in the previous section, the following hypotheses are established.

The proposed hypotheses for the study are:

H1: Technology has a significant positive impact on performance of MSEs.

H2: Government regulation has a significant positive impact on performance of MSEs.

H3: Marketing factor has a significant positive impact on performance of MSEs.

H4: Financial factor has a significant positive impact on performance of MSEs.

H5: working premise has a significant positive impact on performance of MSEs.

H6: Network access has a significant positive impact on performance of MSEs.

H7: organizational factors (i.e., moderator) will have an impact on the performance of MSEs.

CHAPTER THREE

3. RESEARCH METHODOOGY

3.1. Introduction

This chapter presents the overall research methodology that has been used in this study. The chapter further describes the research design, study population, sampling design, sample size, data collection methods, instrument design and the data analysis procedures that have been applied.

3.2 Research Design

A research design, according to Zikmund (2012), is a framework that researchers utilize to do research. In general, research design refers to a framework for planning and carrying out specific research. The strategy of the study, the conceptual framework of the study, the identification of whom and what to study, and the tools and methods to be utilized for collecting and interpreting data are all part of the research design (Holmes R, 2005).

As indicated in the outset of the paper, the aim of this study is to assess the major factors that affect the performance of micro and small business enterprise MSE in Addis Ababa, Kirkos Sub-City. Therefore, a descriptive and an explanatory type of research approach have been employed to carry out the study. Then this study describes and critically assesses the factors affecting the performance of MSEs in the sub city. Descriptive analysis have been used to present the data in to a summary format by tabulation (the data arranged in a table format) and measure of central tendency (mean and standard deviation) and measure of central tendency (mean and standard deviation).

Second, the study has been employ an explanatory study to investigate the relationship between variables is correlated with an aim of estimating the integrated influence of the factors on performance. Moreover, the study utilized cross-sectional in the sense that all relevant data was 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. And obtaining information from a cross-section of a population at a single point in time is a reasonable strategy for pursuing many descriptive researches (Ruane, 2006). This approach has been help the study to analyze the different factors that affect MSEs thoroughly without needing or being forced to overlook certain important factors because they can't be captured in the study.

3.3 Questionnaire design

The questionnaire is designed in a format that has been allow the participants to fully understand and comprehend the questions being poised to them, this is due to the fact that some of the participants may not have gone far in formal education and hence especially the English aspect of the questionary purposefully uses simple English and also an Amharic alternative will also be provided to the participants in case they didn't have a good hold on the English language. The appearance and layout of the questionnaire are of great importance in any survey where the questionnaire is to be completed by the respondent (John et al., 2007), in addition to the literature presented in the study questions were adopted from (Habtamu and Mulugeta, 2010) and (Gemechu Abdissa and Teklemariam Fitwi, 2016). The questions that were used in the questionnaire are multiple-choice questions and five-point Likert scale type questions.

3.4 Research approach

In this study, the researcher has been primarily use a quantitative approach to elaborate the various elements of MSEs, using econometric models and other statistical techniques. This has been supported by descriptive analysis to investigate factors that may be difficult or impossible to represent quantitatively. The underlying idea of this methodology is that integrating quantitative and qualitative data gathering and analysis allows for a more full and synergistic use of data than separate quantitative and qualitative data collection and analysis (Creswell, 2009).

Mixing qualitative and descriptive methodologies, according to Mark et al. (2009), has the ability to cover one method's deficiencies with benefits from the other. This study used a combination of qualitative and quantitative research methods, which has been done previously**.**

3.5 Target Population

A population, according to Mugenda and Mugenda (2003), is the total set of relevant units or elements that a researcher is interested in studying. This study's population includes all entrepreneurs in Addis Ababa's Kirkos Sub-City who are involved in Micro and Small Business Enterprise. As a result, 2897 people were included in this study's population.

3.6 Sample Design

To obtain relevant and accurate data for the study, the researcher collected data from selected sample respondents since it was difficult to consider the whole population for this study due to manageability and accessibility problems, the sampling technique that has been deployed for this particular study is probability sampling, this is done so to avoid bias and because of the lack of data related to the MSEs since most are unwilling to disclose their income the author wasn't able to stratify the samples making it extremely difficult to use a stratified format of sampling making simple random sampling the only viable option for the conducting of the study.

Because most MSEs are homogeneous in general form, the researcher used a random sampling technique to obtain a representative sample from the population under study. This was done to avoid bias (Allen, 2014) and because most MSEs are homogeneous in general form. If the author chose MSEs on the spur of the moment, the sample can over or under represents the population.

3.7 Sample size

According to Malhortra and Peterson (2012) and Zikmund (2010), the higher a study's sampling size, the more accurate the data generated. It was unable to obtain data from all members of the population in this study due to time and cost constraints. As a result, the researcher gathered information from a representative sample of respondents.

To determine the sample size, the researcher have been used a simplified formula provided by (Yamane, 1967) at 95% confidence level and level of precision (e) = 10%.

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

Where n is sample size, N is the total number of study population

Where e is the level of precision

Accordingly, the sample size calculated as follows:

$$n = \frac{2897}{1+2897(0.05)^2}$$

$$n = \frac{2897}{8.24}$$

n=342

Therefore, the researcher has been adopt the above suggestion 342 respondents have been taken from population as sample including either business owners or managers of MSEs in Addis Ababa, Kirkos Sub-City.

Table 3.1: Summary of the sample distribution across sectors

No.	Sector	Population	Proportion of population in stratum (Pi)	Sample size from each stratum (n)
1	Manufacturing	342	12%	42
2	Construction	509	18%	63
3	Trade	1034	35%	123
4	Service	932	32%	113
5	Urban agriculture	80	3%	11
	Total	**2897**	**100%**	**352**

3.8. Source of data

Data collection, according to Cooper and Schindler (2008), is the methodical and deliberate gathering of data based on research variables. Primary and

secondary data are the two categories of data that are commonly used in studies.

The researcher employed both primary and secondary data sources. Representatives of chosen small and micro businesses have been provided the primary data. Furthermore, as secondary sources of data, other sources such as books, journals, papers, and other material were explored to strengthen the study.

3.9. Data Gathering Instrument

In this study, the measurement scale with high validity and reliability value related with factors affecting the performance of MSEs, organization performance and organizational context factors have been adopted from Nabintu Ntakobajira (2013) in addition further inspiration was taken from Habtamu, and Mulugeta, (2010) and Gemechu Abdissa and Teklemariam Fitwi (2016). The measurement scales have been altered so that they can fit the more macro outlook of this study making it somewhat different from the original source material.

According to Sansoni (2014), a questionnaire is a data collection tool that is designed to collect structured and unique data from respondents. Questionnaire is a powerful instrument that assists the researcher to collect data from non-public and non-personal way. Accordingly, to collect relevant and accurate data, the researcher has been use close and open-ended questionnaires as best data collection instrument. A questionnaire has been adopted (1) to improve or increase response rate, (2) to make the data analysis simple and quantifiable, (3) to directly compare and easily aggregate data and (4) to obtain relevant information, opinion and attitude from large population within a short period.

In this study each statement rated on a 5-point Likert response scale which includes strongly agree, agree, undecided, disagree and strongly disagree.

Based on this an internal consistency reliability test was conducted in the selected sub-cities with a sample of 21 respondents and the Cronbach's alpha coefficient for the instrument was found as 0.802 which is highly reliable. Typically, an alpha value of 0.80 or higher is taken as a good indication of reliability, although others suggest that it is acceptable if it is 0.67 or above (Cohen et al., 2007:506). Since, instruments were developed based on research questions and objectives; it is possible to collect necessary data from respondents. Then, instruments are consistent with the objectives of the study. The questionnaire was largely inspired by the one that was developed by Nabintu Ntakobajira (2013), this study was published in journals and other researchers have also used it as a jumping point for their own studies and additional tests have also been presented in charter four of this study to make sure that the study in valid.

3.10. Data Analysis Methods

According to Cooper and Schindler (2008:93), data analysis is the process where collected data is reduced to a more controllable and convenient size, and a researcher can start to identify trends or patterns, apply statistical techniques and give a summary of the data. For the purpose of analysis, the collected data was tabulated and using version 25 Software Statistical Packages for Social Science (SPSS) descriptive statistical tools such as percentages, mean, standard deviation were applied. In addition, inferential statistical tools like linear regression analysis have been executed to assess the relationship between dependent and independent variables.

CHAPTER FOUR

4. Data Presentation, Analysis and Interpretation

This chapter deals with the analysis and interpretation of the collected data. Based on the methodology stated, data were collected from selected representatives of micro and small enterprises. As indicated in the method part, the data were collected using a structured, close ended questionnaires distributed to sample respondents. The analysis is done as per the appearance of the questions in the questionnaires.

A total of 342 questionnaires were distributed to randomly selected representatives of micro and small enterprise in kirkos sub-city. Out of the distributed questionnaire, 324 were correctly filled and returned yielding a response rate of 95 %. Hence, the analysis is done based on 324 completely collected questionnaires.

Table 4.1: Rate of Responses by Respondents

Questionnaires	**Customers**	
	Respondents	**Valid Percentage**
Returned	324	95%
Not Returned	18	5%
Total	**342**	**100%**

Source: own survey, 2021

4.1. Demographic Characteristics of respondents

The study participants on survey questionnaire have different personal information. Hence, the following discussion shows the demographic profile of respondents participated in this study.

Table 4.2: Respondents' demographic information

S. No.	Variables	Classification of Variables	Frequency	Percentage
1	Gender	Male	221	68.2%
		Female	103	31.79%
2	Educational Background	Primary education	174	53.7 %
		Secondary education	101	31.2%
		Diploma	20	6.2 %
		First degree	29	9%
		Others	-	-

Source: Own Survey result, 2021

As shown in the above table, 221 of the respondents were male which represents 68.2% of the total respondents, while 103 were females which are 31.79 % of the total respondents.

The table also showed that out of the total participants 174 and 101 of the respondents have primary and secondary education respectively, while the rest have first degrees.

Finally, the last item of the table indicates is age and is indicated in the subsequent table.

4.3. tabular representation of age of participants

	N	Minimum	Maximum	Mean	Std. Deviation
Age in year	324	32.00	40.00	35.6358	3.23057
Valid N (listwise)	324				

The table indicates that the youngest participant of the questionnaire is 32 years old while the oldest is 40 years old, making the mean 36 years old give or take; this indicates that nearly all of the respondents were adults.

4.2 Factors affecting the performance of micro and small enterprises

Under this section the data collected through questionnaire from selected sample size of organization under the study are presented.

Respondents were asked different questions regarding the factors affecting the performance of MSEs in kirkos sub-cities. Their responses are organized in the following manner.

Table 4.4 Descriptive statistics on government regulation

s. no.	Government regulation	Mean	Std
1	The tax levied on my business is reasonable	4.3179	0.46638
2	No bureaucracy in company registration and licensing.	4.3642	0.48195
3	Have government Support.	4.0000	0.00000
4	No political intervention.	4.0463	0.82587
5	Have access to information on government regulations that is relevant to my business.	4.3179	0.46638

Source own survey, 2021

As seen in table 4.2 the perception of MSEs owners or managers on “The tax levied on my business is reasonable”, the result indicates a mean score of 4.3179. The result implies that tax policy towards micro and small enterprise entities is well off.

Concerning the second item “No bureaucracy in company registration and licensing”, the perception of respondents shows a mean score of 4.3642

implying that registration procedures are conducive for micro and small enterprises.

The third item which refers; “Have government Support”, the result in the table shows a mean score of 4.0000 which indicates the presence of government support to MSE.

The fourth item “No political intervention” the result revealed 4.0463 indicating MSE owners and managers perceive the absence of political pressure in their running of their firms.

The last item “has access to information on government regulations that is relevant to my business” the result indicates 4.3179 showing that MSE owners are well informed with regard to government regulation.

Table 4.5 Descriptive statistics on financial factor

s.no	Financial factor	Mean	Std
1	Inadequacy of credit institutions.	4.3179	0.46638
2	No shortage working capital	4.6821	0.46638
3	Low collateral requirement from banks and other lending institutions	3.9537	0.82587
4	Low interest rate charged by banks and other lending institutions	3.9537	0.82587
5	You have cash management skills.	3.9537	0.82587
6	Loan application procedures of banks and other lending institutions is not complicated	4.6358	0.48195
7	Your business is profitable	4.3179	0.46638

Source own survey, 2021

As it is observed from the above table; “Inadequacy of credit institutions”, there is a positive perception with a mean score of 4.3179 for the raised issue which

implies that MSE owners are not happy with the performance of financial institutions.

In the second item of financial factors, “No shortage working capital”, a mean score of 4.6821 has been observed. The result clearly indicates that capital is readily available for MSE.

The responses of respondents on “Low collateral requirement from banks and other lending institutions.” the result revealed 3.9537. It implies that micro and small enterprises are getting financial access from external finance venders as the result of demanding low collateral requirement to access loan.

As it can be also seen from the table, regarding “Low interest rate charged by banks and other lending institutions”, the result revealed a mean score of 3.9537 which implies there is a low interest requirement in the sector.

With regard to cash management skills, the result of the study revealed a mean score of 3.9537. The result implies that cash management skills are prevalent in the sector.

When it comes to Loan application procedures of banks and other lending institutions is not complicated, the mean to the answer of the respondents is 4.6358 indicating that for the respondents the procedure of loan application is fairly simple.

Lastly when it comes to profitability the mean was 4.3179 showing that most business in the sector is profitable.

Table 4.6 Descriptive statistics on marketing factor

S .no	Marketing factor	Mean	Std
1	Inadequate market for my product	4.4136	0.49324
2	Searching new market is not difficult	4.2562	0.58288
3	Doing demand forecasting.	4.0154	0.12345
4	I have market information	4.4414	0.49732
5	I have no relationship with an organization that conduct marketing research	4.3642	0.48195
6	Promotion to attract potential users	4.0463	0.82587

Source own survey, 2021

On the first item, "Inadequate market for my product", the perception of managers or owners indicate a mean score 4.4136. The result implies that MSEs are not getting substantial market to sustain their business.

The second item referring "Searching new market is not difficult" clearly showed a mean score of 4.2562. The result indicates there is a negative felling towards the issue that searching for a new market is challenging for MSEs.

As the result shows on the third item; "Doing demand forecasting", mean score of 4.0154 have been observed. Relative to other items of market dimension, this item seems somewhat low level of agreement which may indicate MSEs Owners and managers don't conduct demand forecasting.

The fourth element market information, a mean score of 4.4414 have been obtained. The result clearly implies that the MSEs are in a position to build a strong and win-win market network with potential market.

When it comes to relationship with an organization that conduct marketing research the mean is indicates a result of 4.3642 showing that most MSEs have some kind of relationship with a marketing analyst.

The last item of market factors assesses Lack of promotion to attract potential users. As it can be seen from the table 4.0463, indicating that most MSEs are engaged in such a practice.

Table 4.7 Descriptive statistics on technological factors

S. no.	**Technological factors**	Mean	Std
1	My enterprise applies always modern technology	3.9537	0.82587
2	My technology for my business is better than competitors	4.3179	0.46638
3	You dont think that modern techniques improve performance differently	4.0000	0.0000
4	I have enough money to acquire new technology	4.6358	0.48195
5	Unable to select proper technology	4.6821	0.4638
6	You have the skills to handle new technology	4.3179	0.46638
7	You have the appropriate machinery and equipment	4.3379	0.46638

Source own survey, 2021

On the first item, "Lack of appropriate machinery and equipment", the mean score of 3.329 is found. The result implies that the perception of owners or managers towards utilizing appropriate machinery and equipment in the case of MSEs is poor.

The second item, regarding "Unable to select proper technology," the result clearly indicates a mean score of 3.923. The result indicates that MSEs are not in a position to select latest and appropriate technologies to run the business as expected.

As it can be seen in the third item; “Lack of money to acquire new technology”, mean score of 3.930 have been observed which implies that MSEs are not utilizing latest technologies due to financial constraints to acquire the needed technology.

The last element of technological factors shows Lack of skills to handle new technology, a mean score of 2.615 have been obtained. The result implies that the skills to operate latest technologies are available through the technology is not widely accessible by MSEs.

The grand mean score of technology indicates a mean score of 3.449 which clearly presents that the latest technology use of MSEs is found to be weak.

Table 4.8 Descriptive statistics on access to network access

S. no.	**network access**	Mean	Std
1	There are accessible trade organizations	4.6358	0.48195
2	Being a member of organizations like chamber of commerce is not useful for my enterprise	4.6358	0.48195
3	Access to an organization that conduct marketing research is not useful	4.3179	0.46638
4	Being a member of trade organizations provides marketing advantage isnt good for my business	4.3179	0.46638
5	Being a member of trade organization is not useful	4.3179	0.46638

Source own survey, 2021

On the first item, “There are accessible trade organizations”, the mean score of 4.6358 is found. The result implies that trade organizations are readily available.

The second item, regarding “Being a member of organizations like chamber of commerce is not useful for my enterprise,” the result clearly indicates a mean

score of 4.6358. The result indicates that chamber commerce and other like it isn't as important in the MSE industry.

As it can be seen in the third item; "Access to an organization that conduct marketing research is not useful", mean score of 4.3179 have been observed which implies that MSEs are not utilizing marketing research.

The last element of being a member of trade organization is not useful, a mean score of 4.3179 have been obtained. The result implies that being a member of a trade organization isnt that useful in the eyes of the participants.

Table 4.9 Descriptive statistics on access to work premise factors

S. no.	**work premise factors**	Mean	Std
1	You have your own Premises	4.6821	0.46638
2	Current working place is convenient	4.0463	0.82587
3	The rent of house is reasonable	4.0494	0.21700
4	There is sufficient and quick transportation service	4.0000	0.00000
5	There are no power interruptions	4.0463	0.82587
6	There is insufficient and interrupted water supply	4.0000	0.0000

Source own survey, 2021

On the first item, "You have your own Premises", the mean score of 4.6821 is found. The result implies that most MSE operators that participated in the study have their own premises of work.

The second item, regarding "Current working place is convenient," the result clearly indicates a mean score of 4.0463. The result indicates that most MSEs have a convenient place of work.

As it can be seen in the third item; “The rent of house is reasonable”, mean score of 4.0494 have been observed which implies that MSEs that don’t have their own premise usually have the ability to obtain a premise with a reasonable rent.

For the question there is sufficient and quick transportation service a mean of 4.000 was observed showing that most MSEs have reasonably good access to transportation.
Form the fifth item it can be observed that most MSEs are habitually satisfied with the electricity service that is being provided to them.

The last element of There is insufficient and interrupted water supply, a mean score of 4.000 have been obtained. The result implies that water supplies are below par.

Table 4.10 Descriptive statistics on performance

S. no.	**performance**	Mean	Std
1	The business is profitable	4.7346	0.44225
2	My MSEs business is going as well as I thought	4.1944	0.81918
3	I am planning/hopping to expand my MSEs	4.1944	0.39638
4	I believe I have contributed to the economy of my area	4.7068	0.45594

Source own survey, 2021

On the first item, “The business is profitable”, the mean score of 4.7346 is found. The result implies that nearly all MSEs are profitable.
The second item, regarding “My MSEs business is going as well as I thought,” the result clearly indicates a mean score of 4.1944. The result indicates that MSEs are in of strength.

As it can be seen in the third item; "I am planning/hopping to expand my MSEs", mean score of 4.1944 have been observed which implies that MSEs will expand soon.

The last element of I believe I have contributed to the economy of my area, a mean score of 4.7068 have been obtained. The result implies that MSEs are convinced that they are a positive factor in the field.

4.4. The overall performance of MSEs

Ruswanti (2012) in her research concluded that among other indicators profitability can be taken as one of the major indicators of organizational performance.

Table 4.8: overall profitability of MSEs

4.11. Over All Descriptive Statistics

	Mean	Std. Deviation	N
Performance	4.4576	.37934	324
Technology	4.3179	.24763	324
Finance	4.2593	.47193	324
regulation	4.2093	.16517	324
Access to Networks	4.4451	.41378	324
Working Premises	4.1373	.29457	324
Marketing	4.2562	.27456	324

As it can be seen from the above table regarding the overall standing of the MSE sector is quiet well which indicated by its high mean results and mostly shows encouraging signs for the future. This statement can be boldly proclaimed because the as it can be seen from the mean with the exception of working premise most of the independent variables have high means indicating that most responses were positive and as it can be seen in the annex most of

the questions were worded positively and hence on most occasions the participants although facing short coming felt happy with the status quo.

And a look at the standard deviation eludes that most of the responses were closely clustered in the same area showing that there is a form of consensus on most of the issues. A further look in to the figures shows us that the participants were the happiest when it came to performance with a mean of 4.45 although the others closely follow the variable with the lowest mean was working premise with a mean of 4.13 indicating most were contempt if not unhappy with their working premise and when one takes a look at the standard deviation it can be observed that ease of regulation has the most consensus around it with a standard deviation of 0.165 or 16.5% meaning most participants agreed with most of the questions on the other side of the spectrum access to finance had the lest consensus with a standard deviation of 0.471 or 47.1% meaning a large minority of the participants responded with another valuation.

4.5 Correlation and Regression analysis

In this part of the study the author have been presented the quantitative aspects of the paper and the tests that were conducted in order to make sure that the data collected and the output presented are correlated meaning to make sure that they have a certain level of association.

Correlations

		Technology	Finance	Regulation	Networks	Marketing	Working Premises	Performance
Technology	Pearson Correlation	1	.528**	.184**	.084	.198**	.265**	.505**
	Sig. (1-tailed)		.000	.001	.132	.000	.000	.000
	N	324	324	324	324	324	324	324
Finance	Pearson Correlation	.528**	1	.178**	.121*	.363**	.246**	.329**
	Sig. (1-tailed)	.000		.001	.029	.000	.000	.000
	N	324	324	324	324	324	324	324
Regulation	Pearson Correlation	.184**	.178**	1	.749**	.106	.823**	.629**
	Sig. (1-tailed)	.001	.001		.000	.056	.000	.000
	N	324	324	324	324	324	324	324
Networks	Pearson Correlation	.084	.121*	.749**	1	.100	.647**	.485**
	Sig. (1-tailed)	.132	.029	.000		.071	.000	.000
	N	324	324	324	324	324	324	324
Marketing	Pearson Correlation	.198**	.363**	.106	.100	1	.075	.131*
	Sig. (1-tailed)	.000	.000	.056	.071		.177	.018
	N	324	324	324	324	324	324	324
Working Premises	Pearson Correlation	.265**	.246**	.823**	.647**	.075	1	.791**
	Sig. (1-tailed)	.000	.000	.000	.000	.177		.000
	N	324	324	324	324	324	324	324
Performance	Pearson Correlation	.505**	.329**	.629**	.485**	.131*	.791**	1
	Sig. (1-tailed)	.000	.000	.000	.000	.018	.000	
	N	324	324	324	324	324	324	324

**. Correlation is significant at the 0.01 level (1-tailed).

*. Correlation is significant at the 0.05 level (1-tailed).

Technology: as it can be noticed from the above table technology with the exception of networks is correlated to every variable in the study including with the dependant variable performance. The correlation with regulation, network and working premise is low but this doesn't mean that there is no correlation

as it can be observed. There is no particularly strong correlation with any of the variables but the correlation with finance is the strongest all of the correlations have a positive sign indicating that they increase together but this doesn't necessarily mean that one causes another.

Finance: it can be observed from the same table that finance is correlated with every variable at 5%, as stated before its correlation with technology is the strongest. Once more there are no negative coefficients meaning that the variable increase or decrease along with its counterparts in the model.

Regulation: once more from the table it can be seen that regulation with the exception of marketing is correlated with the other variables in question and once more a look at the coefficients indicates that all the correlations are positive. There is a particularly strong correlation with working premise and networks these can be observed with the fact that the coefficients of the variables are near 1.

Networks: elaborated above networks (i.e., access to network) have a strong correlation with regulation and working premise with this being particularized in the regulation aspect. Following the trend of not being correlated with one variable network isn't correlated with marketing and once more all the coefficients are positive indicating that the variables raise or fall together.

Marketing: once more it can be observed that all the coefficients are positive supporting the above statements that has been made to this manner and this are basically the reversed version of the above analysis's marketing isn't correlated with access to network and working premise.

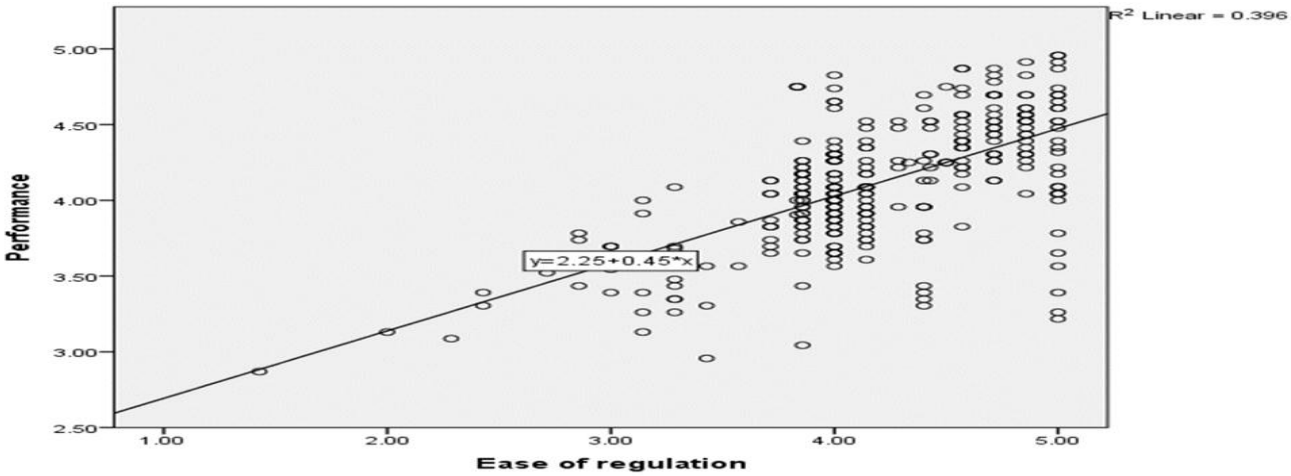
Working premise: uncorrelated with access to networks and marketing and supporting once more a positive sign, working premise follows the general trend that has been set till now increasing and decreasing with the other variables.

Performance: the dependant variable is correlated with all the independent variables and especially shows a high correlation with regulation and working premise and once more all the variables show a positive sign indicating that the dependant variable also rises and falls along all the independent variables.

4.5.1. Test of Regression Assumptions

In this study, all assumptions are tested and passed:

1. Linearity: There needs to be a linear relationship between the two variables. The relationship between the IVs and the DV is linear. The first assumption is that the relationship between the IVs and the DV can be characterized by a straight line. A simple way to check this is by producing scatterplots of the relationship between each of our IVs and our DV.



2. **Multicollinearity:** This is essentially the assumption that the predictors are not too highly correlated with one another. In this study, there is no multicollinearity in the data as revealed on the following table. Correlations of more than 0.8 may be problematic (Frost, 2018). For the assumption to be met we want VIF scores to be well below 10, and tolerance scores to be above 0.2; which is valid in this case.

	Collinearity Statistics	
	Tolerance	VIF
Technology	.707	1.415
Finance	.645	1.550
Regulation	.422	2.367
Marketing	.431	2.320
Network	.861	1.161
Work premise	.983	1.017

a. Dependent Variable: Performance

3. No Significant Outliers: there should be any **significant outliers.** An outlier is an observed data point that has a dependent variable value that is very different to the value predicted by the regression equation.
4. Autocorrelation: The values of the residuals are independent. This is basically the same as saying that we need our observations (or individual data points) to be independent from one another (or uncorrelated). In a more technical term, it could be explained as for checking to the degree of correlation of the same variables between two successive time intervals (Harding, 2016). Simply put the value of a variable at a point in time is related to the value of it at a previous point in time. Autocorrelation analysis measures the relationship of the observations between the different points in time, and thus seeks for a pattern or trend over the time series (Lawrence, 2014).

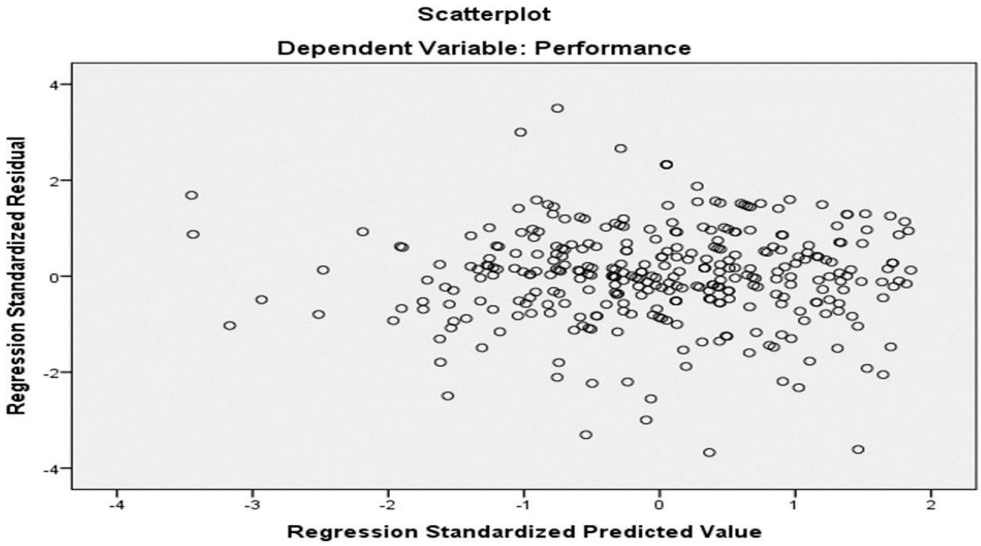
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.666[a]	.443	.436	.27125	2.137

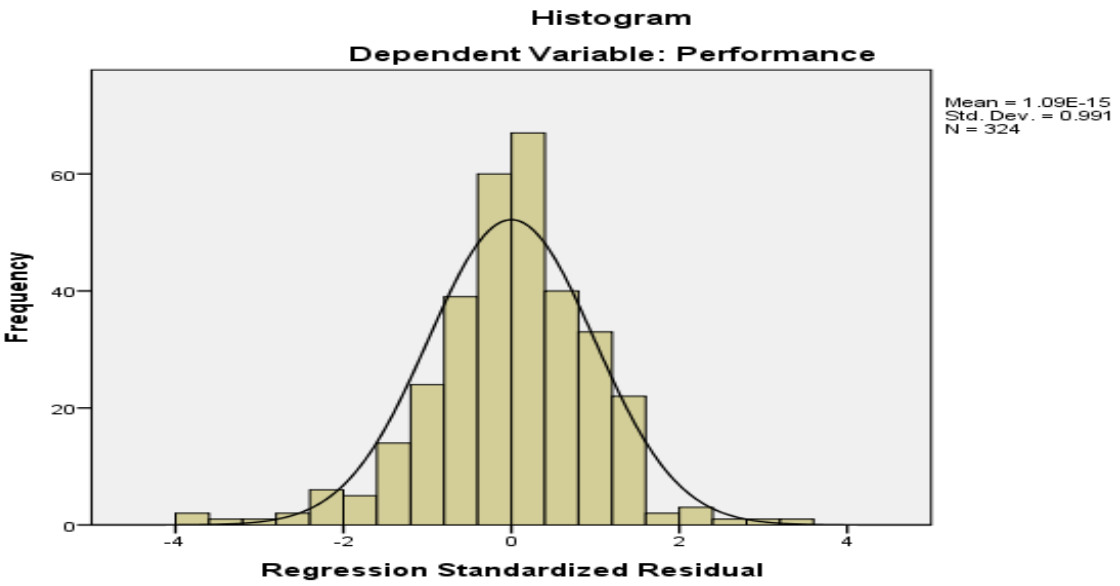
a. Predictors: (Constant), Working P, Technology, Networks, Marketing, Finance, Regulation, network access

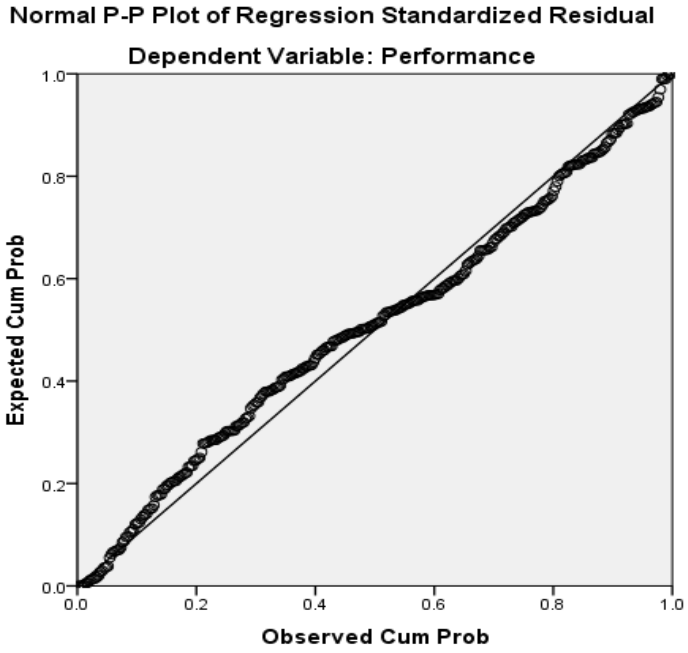
b. Dependent Variable: Performance

5. Homoscedasticity: Homoscedasticity describes a situation in which the error term (that is, the "noise" or random disturbance in the relationship between the independent variables and the dependent variable) is the same across all values of the independent variables (Stephanie, 2020). This is where the variances along the line of best fit remain similar as you move along the line implying that that the error term, (the "noise" or random disturbance in the relationship between the independent variables and the dependent variable) is the same across all values of the independent variables (Meloun,2011).



6. Normally: In this study the residuals (errors) of the regression line are approximately normally distributed. This assumption is tested by looking at the P-P plot for the model.





This assumption can be tested by looking at the P-P plot for the model. The closer the dots lie to the diagonal line, the closer to normal the residuals are distributed. In this case, the data points closely touch the line, indicating that assumption is met.

4.5.2. Regression Analysis:

The Effect of IVs (Technology, Access to Finance, Access to Market, Ease of regulation, Access to Networks, Working Premises) on the Performance of Micro and Small Business Enterprises have been analysed as follows. All the necessary tests were conducted and have shown positive results.

Multiple Regression Analysis:

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.379	.325		4.237	.000
	Technology	.281	.032	.394	8.862	.000
	Finance	.031	.044	.033	.699	.485
	Regulation	.349	.041	.494	8.585	.000
	Networks	.061	.044	.078	1.378	.169
	Marketing	.025	.050	.020	.503	.616
	Working	.037	.052	-027	.717	.474

R-square 0.443 Adjusted R-square 0.436

As depicted in following Tables, the regression results revealed the R square value of 0.443. This indicates that the dimensions of all Factors (Technology, Finance, Marketing, regulation, Networks, Working Premises) collectively explained 44.3% percent of the variance in the Performance of Micro and Small Business Enterprises. It can be observed as well that from the independent the constant, technology and regulation are significant at 1% while networks are significant at 10%.While the rest of the variables are insignificant in the case of this study.

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.666[a]	.443	.436	.28484

a. Predictors: (Constant), Market Access, Ease of regulation, Access to Networks, Working Premises

b. Dependent Variable: Performance

ANOVA [a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	20.596	4	5.149	63.463	.000[b]
	Residual	25.882	319	.081		
	Total	46.479	323			

a. Dependent Variable: Performance

b. Predictors: (Constant), Market Access, Ease of regulation, Access to Networks, Working Premises

The ANOVA table indicated that the combination of these variables significantly predicts the dependent variable (p=000).

Moderated Multiple Regression using Hayes' Process Macro v3.3 with SPSS:

4.5.3. After adding Moderating Variable

Moderating variable (Organizational context factors) has statistically significant effect to moderate the overall effect of independent variables, to analyze the statement the author utilized a process usually referred to as macro by Hayes which allowed the author to not only observe the coefficient values of the independent variables and the moderator it also allowed the author to observe the significance of the moderator.

Which it showed to be significant, in addition to the stated results the test also showed the author the R-square change which allowed the author to observe the additional impact of the moderator. The aforementioned process indicates

that organizational factors have a significant impact on MSEs in Kirkos sub-city; this entails the fact that the policies might not have the same impact on different MSEs in Kirkos as the moderator has been cause differing results across the board.

Model	**coefficient**	**Se**	**T**	**P**	**LLCI**	**ULCI**
Constant	-3.8619	0.7928	-4.8712	.0000	-5.4217	-2.3021
IV	1.8654	0.1767	10.5544	.0000	1.5177	2.2131
Mod	45.1834	5.1539	8.7669	.0000	35.0437	55.3232
Inter_1	-11.1835	1.2893	-8.6745	.0000	-13.72	-8.6471

R-square change 0.1442

Organizational factors have significant moderation role in for the Effect of IVs (Technology, Access to Finance, Access to Market, Ease of regulation, Access to Networks, Working Premises) the Performance of Micro and Small Business Enterprises, it can be seen that the R- square change is 0.1442 or 14.42% this indicates that there is 14.42% worth of additional explained variance.

As it can be seen from the table that has been presented above all the variables are statistically significant, indicating that they in fact can explain additional variations in the dependent variable. This can be observed by their p-value which is extremely low (i.e., 0.0000). While this is for the moderator the ramifications of the independent variables being significant and how they affect the dependent variable is further elaborated up on further subsequently:

4.6. Technology

The positive coefficient that can be observed from the independent variable shows that there is a positive relationship between technology and performance of MSEs; this supports the hypothesis that was put forward by the author of this study in the first part of this paper. In his 2013 Stanley Hess states that

access to technology is the most important resource a business entity can have and points out how even large companies who failed to follow the technological trend failed and further emphasizes that the impact of technology is even magnified when it comes smaller operation.

The results of the aforementioned author are once again supported here with the positive correlation between performance and access to technology, and if MSEs are to make the leap from small subsistence operations to medium or large producing entities they need access to the most recent technology. Although there is nothing to drop one's jaw about most MSEs that where part of this study seems to have at least function able technology and hence the positive relationship.

Additionally looking at the coefficient it shows at that a 1% increase in the usage of technology will increase the performance of MSEs by 28.1%.

4.6.1 Government regulation

The issue of regulation has been written about talked about and has even spawned multiple economic theories around it, although necessary government regulation can be taxing on small business like MSEs even though larger companies have the luxury of hiring employees for this particular purpose the above mentioned MSEs have to convert valuable time and resource to deal with the red tape having a negative impact on their operation.

So the author was fairly surprised when most of the participants responded positively to the questions relating to government regulation leading to the positive relation that can be observed in the regression but this isn't a general trend a 2009 paper undertaken in the neighboring nation of Kenya showed definitively that there is a negative relationship between small business profits and government regulation, but the positive relationship between performance of MSEs and government regulation in this particular case might be as a result of the nature of the business themselves since most are started by the government there tends to be a latching on to the government for different issues leading to a positive view of government regulation.

Once more a glance at the coefficient of ease of regulation indicates that a 1% increase in the mentioned variable will lead to 34.9% increase in the performance of the MSE.

4.6.2 Marketing

Marketing is as important as production and distribution (Soul, 2015). The above statement clearly articulates what many attempt to explain through large books and the point that is being articulated is that marketing should not be a back water project that is done when time is available and should be taken seriously, although the above statement reigns true till this day the regression indicates that this variable is insignificant for Kirkos sub-city.

In her 2011 book Maya Meyers explains that since most business especially small ones see marketing as a luxury activity, they are hard pressed to pursue to them even against overwhelming evidence that marketing has a major impact on performance and profit, hence most still won't peruse in fear of wastage of resources, this theory also holds true in this case with most of the MSEs not participating in marketing practices, this could be understood as to why marketing isnt significant in this study because with the exception of plucks and posters most haven't applied the marketing tools that would have caused a major shift in profits.

4.6.3 Financial

With the nature of MSEs Access to finance is the most difficult obstacle most face (w/amanuel, 2016), although most banks and micro finance institutions claim that they make loans readily available most actually don't with collateral requirements on one side and a complicated borrowing processes on the other this makes the ability to expand quite difficult for MSEs. Most of the participants elaborated that they would like to expand or at least attempt to do so but the debt obligations or lack of access prevents them from doing so.

The MSEs that have had access to finance mostly sing its praise especially those that borrowed from micro finance institutions but they are far and wide and thus the variable is insignificant.

4.6.4 Working premise

Quiet an uncomplicated issue most of the participants either worked on rented property or had their own. There are procedures to give premise MSEs with some type of accommodation and it seems to work with nearly all of the MSEs that were part of the study having some type of permanent premise be it rental or their own property, and this might be the reason why the variable is insignificant since working premise is a requirement to start an MSE and most of the time the government handles that aspect of the operation and a working premise doesn't usually become an issue unless the MSE wants a radical increase in operation which rarely happens.

4.6.5 Network access

Closely related to marketing network access takes formal and informal means, formal networking methods being trade organizations and what not while informal networking might take the form of personal relationships and friendships with different people.

This is prevalent is MSEs that operate in the country (Sibathu, 2018) most preferring to utilize it instead of formal marketing and to the dement of its detractors this approach of doing business seem to be going quiet well for a lot of MSEs that part of the study but the method would have been much more efficient if it was to be bundled up with marketing but currently with the MSEs that took part in the study it wasn't and the above factors have led to positive relation with the dependent variable.

The coefficient eludes that a 1% increase in access to network will lead to 6.1% increase in the performance of MSE.

Hypothesis testing summary

Hypo-thesis	Tested Relationship	Pearson correlation	Standardized Weights	P-Value	Hypothesis Supported?
H1	Technology has significant positive effect on the Performance of Micro and Small Business Enterprises	.505**	0.268	0.000**	Yes
H2	Government regulation has a significant positive impact on performance	.329**	0.419	0.000**	Yes
H3	Marketing factor has a significant positive impact on performance	.629	0.176	0.616	No
H4	financial factor has a significant positive impact on performance	.485	0.204	0.485	No
H5	Working Premises has significant positive impact on the Performance of Micro and Small Business Enterprises	.131	0.473	0.474	No
H6	Network access has significant positive effect on the Performance of Micro and Small Business Enterprises	.791**	0.271	0.16**	Yes
H7	Organizational factor (moderator) has significant effect on the Performance of Micro and Small Business Enterprises	45.18**	0.144	0.000**	Yes

Hence, from the above table of hypothesis test result, the researcher felt to accept the entire reject hypothesis and accept the alternative hypotheses as follows;

- H1 is accepted and concluded that “Technology has positive impact on profitability of MSEs”
- H2 is accepted and concluded that “government regulation has positive impact on profitability of MSEs”.
- H3 is rejected and concluded that “marketing factors have positive impact on profitability of MSEs”

- H4 is rejected and concluded that “financial factors have positive impact on profitability of MSEs”
- H5 is rejected and concluded that “working premise have positive impact on profitability of MSEs”
- H6 is accepted and concluded that “network access has positive impact on profitability of MSEs”
- H7 is accepted and concluded that “organizational factors have positive impact on profitability of MSEs”

4.7. Discussion

With the regression results indicated above it’s important to understand what these results actually mean for the MSE sector especially those located in Kirkos sub-city. If one is to look at the results it could be noticed all the independent variables are significant eluding that these factors are indeed the ones that affect the performance of MSEs in Kirkos sub-city, since the variables were found to be significant it’s important to focus on the set variables to deal with the issues that the sector currently faces.

When looking at the coefficients we can observe that access to network has a coefficient 10.389% this the largest of the independent variables indicating that most of the work that is done by MSEs is done through connections and ties this a short coming since this type of activities are exposed to corruption (ayalew, 2015) and through informal talks with some of the MSE owners they mostly admitted that most work either arrives through word of mouth or through friends and they also inferred that they had to participate in some informal means to obtain work.

On the other side of the isle marketing has a significantly small effect on the performance of MSEs on the sub-city at hand with a mediocre value of 1.438% this of course can be observed by the lack of advertising for MSEs most of the participants stated that they consider marketing, advertising as most refereed to it as an extra burden not required to conduct business and believed that billboards are enough marketing for a business of their size but a paper done

by soul national university on this issue in 2013 indicates that marketing is one of five important factors that affect the growth of a business in its early days. The other variables indicate a pattern that can be expected form a study of this type with all of them having positive coefficients.

Although all the coefficients have positive indicators it doesn't mean that all is dandy in the land of MSEs, most of the MSEs have failed or are struggling to grow in too small or middle-sized industries most simply providing the necessities of their owners and workers although this is not something to cough at most of the MSEs have failed to achieve their intended goals and still require the support of the government.

The limbo that this firms find themselves in can be noticed by the result of the regression, the small impact of the independent variables some as important as government regulation and working premise indicate that there is a staleness to the sector not failing completely and not moving to the intended place as well and hence the sector needs a boost from the government, the positive coefficient of the moderator also affirms an important notion that ultimately its up on the MSE its self to either use the available outlets or mitigate the short cummings of the sector this has been proven multiple times with different papers and authors.

Since Kirkos sub-city is typical sub-city in the capital the results found here can be easily applied to the entire city with ease with small adjustment here and there but applying the results found here to the entire country might need rework in several manners as different states have different MSEs; policies with success and failures of their own.

Chapter 5

Conclusion and recommendation

5.1. Conclusion

The importance of the MSE sector can never be undermined, although through time the excitement that surrounded the sector has dissipated somewhat the sector still employs thousands of people and is the source of the lively hood for some of the impoverished communities of the country. The aforementioned fact makes of paramount importance that the sector be understood on a deeper level and its problems addressed and with this aim this paper has been prepared by taking Kirkos sub-city one of the liveliest sub-cities as a sample ground, the author spoke to 342 MSEs to understand what affects these enterprises.

The factors that have been identified as having an impact on the sector were respectively: technology, government regulation, managerial, financial and market factors. In addition to the above-mentioned factors a moderator factor of organizational context factors was studied to have an understanding of the impact of individual performance.

The result indicate that all the aforementioned factors have significant impact on the performance of MSEs; this could be observed by the low p-value on the regression this further confirmation that factors that are macro-economic in nature have a large impact on the performance of MSEs and thus the performance of the general economy and the city and sub-city's economy in particular is important and when confronting issues that are currently being faced by the sector a two pronged approach must be kept in mind, one dealing with the issues that are micro economic in nature like technology and managerial factors and macro-economic like regulation and market factors. This indicates that the maintaining low regulation, high access to technology, access to finance, training managers so that they would be more proficient and making sure that the MSEs have an easy market access is of paramount

importance without these being addressed most of which lie in the court of the government the goal of transforming these entities to large and medium size industries will never be achieved.

The fact that the moderator variable is also significant and has a largely positive impact shows that organizational factors with their largely micro economic context are highly important with regard to performance of MSEs; this has already been proven by previous different researches as well, this leads to the necessary conclusion that individualized factors are as important as generalized ones, if there were amicable working conditions with in the sector with little regulation, credit being readily available and other amenities the performance of the MSE will ultimately depend on that particular MSE itself this is why it can be observed that the moderator has a largely positive impact on the relationship between the independent and dependent variables, as it acts as a magnifier when there are positive factors and acts as mitigating factor making it highly important and the focal point of past papers that have been mentioned in the literature review aspect of the paper.

After going through the results, it could be said with a large level of certainty that factors that were put out as probable factors that affect the performance of MSEs do defiantly affect the performance of MSEs; some are micro economic in nature while the rest are macro-economic. In addition, it could be observed that organizational factors have a mediator impact on the relationship between performance and the factors that have an impact on it and in this particular case have a positive impact on the relationship.

5.2. Recommendations

As pointed out multiple times in previous pages the factors that affect the performance of MSEs in Kirkos sub-city are micro and macro-economic in nature and hence the recommendations that are to follow will also tog along this line. Starting with the macro-economic factors' regulation comes first the nightmare of any business regulation is a necessary evil to makes sure that

participants in the economy don't abuse it, although large companies have entire division to deal with such obstacles business entities like MSEs are tremble under its yoke. Although it must be clear that the author isn't advocating for the banishment of regulation that would cause just as much harm as red tape but the author thinks current regulations and the tenuous bureaucracy that follows it is taking away the limited resource MSEs are working with in the first place and so their easing is a must.

The above statement is supported by the coefficient of the variable at hand with a value 34.9% indicting that as government regulation eases performance of MSEs increases ever more slightly, and hence the easing and smoothing out of government regulation especially on the lower levels of government is necessary.

Another macro factor that is important is marketing although this can be argued to be the responsibility of the MSE its self when looking at the current standing of the sector its clear the burden of responsibility must lay with the government because of a lack of knowledge and resource most MSEs tend to only put forward their products to their general vicinity, but this could be augmented with the help of the government if it could provide distribution and advertising means. Once again, the importance of this variable can be observed with a coefficient of 0.025, once again indicating that this variable is important but as stated above most MSEs don't have the knowledge and the willingness to invest time and money to increase their penetration of the market once again needing the government to intervene on their behalf.

Another important factor is access to finance, if finance was readily available for the expansion of operations many of the burdens of the sector may be lifted of the government but that is not the case although there are a large number of banks and micro finance operations in the country most of the firms the author talked to feel unhappy with ease of access to this crucial resource and usually prefer Iqub.

This indicates that either there is a lack of information when it comes to borrowing or the entire ordeal is too tedious for people with limited time and

resource to endeavour, so there must of either a relaxing of lending terms or awareness of available borrowing options must elaborated to the MSEs otherwise they will likely linger in mediocrity.

The issues that lay with management and technology are clear access to technology is especially difficult most MSEs haven't upgraded their operational machinery since they started operation usually the reason forwarded to the author usually deals with unwariness or access to finance which both could be improved through relaxing existing rules, but without the ability to acquire technology upward mobility is nearly impossible a paper issued on this specific topic by Johnson for the university of Minnesota in 2014 recommends that a fund where small business can borrow money for the sole purpose of acquiring new technology be established and the same prince might be effective in this particular case.

In general, most of the recommendations deal with support from the government although this might appear as scapegoating the current form of the MSEs necessitates government support.

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Annex

Correlation		Performance
Technology	Pearson Correlation	.505**
	R-square	.072
	Sig. (1-tailed)	.000
	N	324
Finance	Pearson Correlation	.329**
	R-square	.175
	Sig. (1-tailed)	.000
	N	324
Regulation	Pearson Correlation	.629**
	R-square	.042
	Sig. (1-tailed)	.000
	N	324
Networks	Pearson Correlation	.485**
	R-square	.224
	Sig. (1-tailed)	.000
	N	324
Marketing	Pearson Correlation	.131*
	R-square	.031
	Sig. (1-tailed)	.018
	N	324
Working Premises	Pearson Correlation	.791**
	R-square	.073
	Sig. (1-tailed)	.000
	N	324

Run MATRIX procedure:

**** PROCESS Procedure for SPSS Version 3.5.3 ****

Written by Andrew F. Hayes, Ph.D. www.afhayes.com

Documentation available in Hayes (2018). www.guilford.com/p/hayes3

****

Model : 1

Y : Perf

X : IVT

W : Mod

Sample

Size: 324

****

OUTCOME VARIABLE:

Perf

Model Summary

R	R-sq	MSE	F	df1	df2	p
.6218	.3866	.0891	67.2352	3.0000	320.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	-3.8619	.7928	-4.8712	.0000	-5.4217	-2.3021
IVT	1.8654	.1767	10.5544	.0000	1.5177	2.2131
Mod	45.1834	5.1539	8.7669	.0000	35.0437	55.3232
Int_1	-11.1835	1.2893	-8.6745	.0000	-13.7200	-8.6471

Product terms key:

Int_1 : IVT x Mod

Test(s) of highest order unconditional interaction(s):

	R2-chng	F	df1	df2	p
X*W	.1442	75.2462	1.0000	320.0000	.0000

Focal predict: IVT (X)

Mod var: Mod (W)

Conditional effects of the focal predictor at values of the moderator(s):

Mod	Effect	se	t	p	LLCI	ULCI
-.0205	2.0946	.1772	11.8174	.0000	1.7459	2.4433
.0011	1.8527	.1768	10.4776	.0000	1.5048	2.2006
1.6425	-16.5031	2.1347	-7.7310	.0000	-20.7028	-12.3033

Data for visualizing the conditional effect of the focal predictor:

Paste text below into a SPSS syntax window and execute to produce plot.

```
DATA LIST FREE/
  Independent Moderator Performance .
BEGIN DATA.
    4.0000 -.0205 3.5904
    4.4286 -.0205 4.4881
    4.5714 -.0205 4.7873
    4.0000 .0011 3.6001
    4.4286 .0011 4.3941
    4.5714 .0011 4.6588
    4.0000 1.6425 4.3375
```

4.4286 1.6425 -2.7353

4.5714 1.6425 -5.0929

END DATA.

GRAPH/SCATTERPLOT=

IVT WITH Perf BY Mod .

********** ANALYSIS NOTES AND ERRORS **********

Level of confidence for all confidence intervals in output:

95.0000

W values in conditional tables are the 16th, 50th, and 84th percentiles.

------ END MATRIX -----