Factors Affecting the Performance of Micro and Small Enterprises in *Arada* and *Lideta* Sub-Cities, Addis Ababa

By

Admasu Abera

A Thesis submitted to the school of graduate studies of Addis Ababa University in partial fulfillment of the requirements for the Master of Business Administration (MBA) degree

Addis Ababa University

Addis Ababa, Ethiopia

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Declaration

I, the undersigned, declare that this study entitled "Factors Affecting the Performance of Micro and Small Enterprises in *Arada* and *Lideta* sub-cities, Addis Ababa" is my own work. I have undertaken the research work independently with the guidance and support of the research advisor. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis have been duly acknowledged.

Declared by

Name: Admasu Abera

Signature: _____

Date: October 2012

Place: Addis Ababa, Ethiopia

Advisor: Fesseha Afewerk (Ast. Prof.)

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This is to certify that the thesis prepared by Admasu Abera, entitled: *Factors Affecting the Performance of Micro and Small Enterprises in Arada and Lideta sub-cities, Addis Ababa* and submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration in Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Examiner _____ Signature _____ Date _____

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Chair of Department or Graduate Program coordinator

Abstract

Factors Affecting the Performance of Micro and Small Enterprises in Arada and Lideta sub-cities, Addis Ababa

Admasu Abera

Addis Ababa University, 2012

This research aims to investigate factors affecting the performance of MSEs with a special emphasizes on textile and garment, food processing and wood and metal work sectors in Arada and Lideta sub-cities, Addis Ababa. For the sake of achieving the objectives of this study, questionnaires were analyzed using statistical analysis such as descriptive and inferential analyses. The information gleaned through questionnaire from a sample of 237 operators and face-to-face interviews were conducted with 20 operators of MSEs. The respondent operators were selected using stratified sampling technique. Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy. The empirical study elicited eight major challenges which seem to affect performance of MSEs in sub-cities which include: inadequate finance, lack of working premises, marketing problems, inadequate infrastructures, poor management practices, and technological, entrepreneurial and politico-legal problems including bureaucratic bottlenecks system. The findings further indicate that, there exists linear and positive significant ranging from substantial to strong relationship was found between independent variables and dependent variable. Moreover, the selected independent variables may significantly explain the variations in the dependent variable at 1% level of significance. Based on findings, recommendations to government bodies, to operators of MSEs and suggestions for other researchers are forwarded.

Key words: MSEs, performance, factors

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List of Acronyms

AACMSEDA	Addis Ababa City Administration Micro and Small Enterprise Development Agency
Art.	Article
ETB	Ethiopian birr (Local currency)
CBE	Commercial Bank of Ethiopia
CC	Chambers of Commerce
CED	Committee for Economic Development
CSA	Ethiopian Central Statistics Authority
FeMSEDA	Federal Micro and Small Enterprises Development Agency
GEM	Global Entrepreneurship Monitor
GTP	Growth and Transformation Plan
HASIDA	Handicraft and Small Scale Industries Development Agency
HLCLEP	High Level Commission on Legal Empowerment of the Poor
LDCs	Less Developed Countries
LE	Large Enterprise
MFIs	Micro Finance Institutions
MN	Mean
MoTI	Ministry of Trade and Industry
MoWUD	Ministry of Works and Urban Development
MSDA	Micro and Small Enterprises Development Agencies
MSMEs	Micro, Small and Medium Enterprises
NMSEDPS	National Micro and Small Enterprises Development Promotion Strategy
PRSs	Poverty Reduction Strategies
ReMSEDAs	Regional Micro and Small Enterprise Development Agencies
R and D	Research and development
SD	Standard Deviation
SPSS	Statistical Package for Social Science
UNIDO	United Nations Industrial Development Organizations

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The micro and small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2007:28-39). The dynamic role of micro and small enterprises (MSEs) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. It is estimated that MSEs employ 22% of the adult population in developing countries (Fisseha, 2006:43).

In developing countries, MSEs by virtue of their size, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and are reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology (ILO, 2008:56). Similarly, Lara and Simeon (2009:1453–1464) found that the MSE sector generates substantial employment and economic output in many countries. Their share of overall employment tends to be higher in developing countries, which are typically more focused on small-scale production.

The sector has potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (MoTI, 1997:9). In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, and enhance productivity and technical change and, through the combination of all of these measures, to stimulate economic development. This is not denying the importance of large industries and other enterprises for the growth

of the Ethiopian economy, there is ample evidence to suggest that the labor absorptive capacity of the MSE sector is high, the average capital cost per job created is usually lower than in big business, and its role in technical and other innovative activities is vital for many of the challenges facing Ethiopia (MoTI, 1997:9).

In Ethiopia, MSEs sector is the second largest employment-generating sector following agriculture (CSA, 2005:34-35). A national survey conducted by Ethiopian Central Statistical Authority (CSA) in 2005 in 48 major towns indicates that nearly 585,000 and 3,000 operators engaged in micro and small scale manufacturing industries respectively, which absorb about 740,000 labour forces. Accordingly, the whole labor force engaged in the micro enterprises[1] and small scale manufacturing industries is more than eight folds (740,000 persons) to that of the medium and large scale manufacturing industries (90,000 persons). This is a contribution of 3.4% to GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001 (CSA, 2005:34-35).

According to Mulhern (1995:2-92), MSEs exert a strong influence on the economies of all countries, particularly in the developing countries. He reported that the MSEs have been a major engine in the economic growth, innovation and technological progress. In addition Carrier (2008:11-23) stated that:

> *the MSEs are more fertile than their larger [enterprises] in terms of innovation and development. The MSE sector is characterized by highly diversified activities which can create job opportunities for a substantial segment of the population. This indicates that the sector is a quick remedy for unemployment problem. To curb unemployment and facilitate the environment for new job seekers and self-employment a direct intervention and support of the government is crucial.*

[1] Due to the similarity of their characteristics, informal sector activities and micro enterprises are often lumped together.

Assistance and support to strengthen these enterprises can lead to higher profits and employment levels which in turn can contribute to a bottom-up transition out of poverty for entrepreneurs and workers (Sievers & Vandenberg, 2007:1341). It is further believed that:

> *the MSE activities can contribute to increasing tax-incomes for the government and enable the government in the long run to invest the money. In order to strengthen the position of MSEs, the access to financial and non-financial services plays a pivotal role in the performance and expansion of these enterprises. The strengthening and the expansion of existing MSEs and the support of new enterprises can contribute to fulfill social objectives, attract considerable foreign reserves into a country and have a clear importance in providing employment, meaning they are the backbone of the private sectors in developing countries (Mead & Liedholm, 1998:61).*

The aim of MSE development and the provision of MSE services are to enable the entrepreneurs to take advantage of market opportunities and improve the access to skill development opportunities that strengthen entrepreneurial capabilities (UNIDO, 2002:36).

Micro and small enterprise in Ethiopia are, however, confronted with several factors that affect the performance of MSE. The major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises, etc. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In addition there are also personal attitudes or internal factors that affect the performance of MSE, which are related to the person's individual attitude, training and technical know-how (Werotew, 2010:226-37). Generally, there are external (contextual) and internal factors which are still affecting the very performance of MSEs.

1.2 STATEMENT OF THE PROBLEM

In most developing countries, MSEs face constraints both at start up phases and after their establishment. In Africa, for example, the failure rate of MSEs is 85% out of 100 enterprises due to lack of skills and access to capital (Fedahunsi, 1997:170-186). It is typical of MSEs in Africa to be lacking in business skills and collateral to meet the existing lending criteria of financial institutions (World Bank, 2004:29). This, according to World Bank, has created finance gap in most markets. The MSEs are able to source and obtain finance mostly from informal sectors like friends and relatives while medium or large enterprises obtain funds from banks. This unequal access to finance by MSEs and medium and large enterprises has undermined the role of MSEs in the economic development in African countries (World Bank, 2004:29).

The study conducted by Ethiopian CSA discloses that, the contribution of small enterprises in creating job opportunities and in the development of our economy is vital (FMSEDA, 2006:13). However, their contribution is very low in compared with that of other countries due to financial problem, lack of qualified employees, lack of proper financial records, marketing problems, lack of working premises and raw materials. Lack of information about market opportunities and standards and regulations is one of the underlying factors that hinder their performance (Mulu Gebreeyesus, 2009:10-13).

According to Zeleke Worku (2009:1-9) lack of integration between the vocational curriculum taught at academic institutions and skills required at the workplace in small businesses and enterprises is a major obstacle to the growth and development of MSEs. The same author continued stating:

> *[t]he performance of the MSE sector in Ethiopia is poor in comparison with similar sectors in other ... African countries such as South Africa, Kenya, Uganda and Tanzania. Small businesses and enterprises in Ethiopia are generally characterized by an acute shortage of finance, lack of technical skills, lack of training opportunities and raw materials, poor infrastructure and over-tax.*

Devereux and Sharp (2006 cited in Zeleke Worku, 2009:1-9) identified that lack of access to finance is the most influential factor from among all adverse factors hindering the growth and development of the MSE sector in Ethiopia.

In Addis Ababa, MSEs have a problem of finance when establishing the business most individual sources of finance come from personal savings and loans acquired from relatives, friends and moneylenders with high amount of interests (MoTI, 2005:13-14). After the business goes operational, the probability of becoming profitable and paying back debts along with accrued interest is less. Besides, MSEs do not conduct market research and develop/design a product or service as per the need of customers (Zeleke Worku, 2009:2-9). For MSEs, lack of premises is unquestionably a serious problem in the city. Most informal operators do not get access to suitable locations where they can get easy access to markets (HLCLEP, 2006:17). Further, the problem of technical procedures and appropriate technology used by the firm are another factor associated with high technology of equipments and use of new technologies.

To address above problems, this study therefore aims to provide a holistic view of factors affecting the performance of MSEs through a comprehensive review of literature and empirical study available on the area. This resulted in the development of a theoretical framework for the initiation of policies and programmes for enterprise development. From the practical point of view, it serves not only to provide a self check to current enterprise sector, but also to increase the involvement in business activities through a better understanding of the determinants of the performance of the enterprises. Such an understanding of the pre-requisites for *Arada* and *Lideta* sub-cities' MSE to perform well in their businesses is of critical importance especially in today's competitive environment.

In view of the problems, the central question of this study is: what are the factors that mostly affect the performance of MSEs in *Arada* and *Lideta* sub-cities? Specifically, the following sub-questions are raised:

- What are the sources of finance or funds available to the MSEs?

- What are the various contextual factors that impeded the performance of the MSEs?
- What are the internal factors that affect the performance of MSEs?
- How can be the problems of MSEs in *Arada* and *Lideta* sub-cities minimized?

1.3 OBJECTIVES OF THE STUDY

1.3.1 General Objective

The main objective of the study is to assess factors that are mostly affecting the performance of MSEs in two sub-cities of Addis Ababa, namely *Arada* and *Lideta* sub-cities.

1.3.2 Specific Objectives

The specific objectives are to:

- Examine the sources of finance or funds available for the start-up and the expansion of MSEs.
- Investigate the contextual factors that affect the performance of MSEs.
- Assess the internal factors that affect the performance of MSEs.
- Recommend possible solution to alleviate the problem of MSEs.

1.4 RESEARCH HYPOTHESIS

With the help of sufficient and appropriate empirical data on the factors affecting the performance of MSEs, this study will test the following hypothesis:

Ha1: The business environments of Ethiopia aimed at MSE development do affect the performance of MSEs in the selected manufacturing sector of *Arada* and *Lideta* sub-cities.

Ho2: The business environments of Ethiopia aimed at MSE development do not affect the performance of MSEs in the selected manufacturing sector of *Arada* and *Lideta* sub-cities.

1.5 SIGNIFICANCE OF STUDY

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

i. Academics/Researchers

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

ii. Micro and Small Enterprises

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

iii. Governmental Policy Makers

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

1.6 LIMITATIONS AND DELIMITATION OF THE STUDY

1.6.1 Limitations of the Study

Like all research, this study had limitations. The sources of difficulties encountered in this study were described as follows: most of the documents that are concerned with micro enterprises are written in Amharic. To translate in to the required instruction language (English) takes longer period. Another problem encountered in the study has to do with the operator's reluctance to cooperate due to suspicion that disclosing information may lead to negative effect on their business. It is very important to note that these limitations did not have any significant interference with the outcome of the study.

1.6.2 Delimitation of the Study

The study assessed factors affecting the performance of MSEs in Addis Ababa city particularly in *Arada* and *Lideta* sub-cities. Although, there are different issues that can be researched in relation to MSEs, this study is delimited to the politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial factors. Besides, the scope of this study was spread across MSEs especially in the business sector of textile and garment, food processing and metal and wood work sectors.

1.7 RESEARCH RATIONALE

The rationale for selecting this study is based on an appreciation that the findings of a study which aims to create meaningful results on the economic development and help reduce poverty. Micro and small enterprises in Ethiopia provide goods and services in promoting innovation and enhancing the enterprise culture, which is necessary for private sector development and industrialization. This study with its stakeholders as owner managers would use the research findings to predict the success or failure of the businesses, based on the orientations prevalent, and therefore choose what would be best outfit for their practice.

1.8 ORGANIZATION OF THE THESIS

The rest of the paper is organized as follows: chapter two presents the theoretical and empirical related literature to the study, while chapter three provides research methodology. Chapter four outlines data presentation, analysis and interpretation and chapter five concludes and suggests some recommendations.

1.9 OPERATIONAL DEFINITIONS OF TERMS

Cooperatives: association of at least 10 individuals who are from the same area.

Enterprise: It refers to a unit of economic organization or activity whether public or private engaged into the manufacturing of goods.

Factors: A factor is a contributory aspect such as politico-legal, working premises, technologies, infrastructures, marketing, financial, management and entrepreneurial influences that affect performance of micro and small enterprises.

Gullit*:* A petty trading activity usually undertaken at road sides and sometimes at designated places.

Idir: A widely prevalent sort of funeral grouping in Ethiopia, where resources are mobilized and pooled to get emotional and material support up on a death of the member himself, his dependants or relatives.

Informal sector: in this paper the concept of informal sector is used alternatively with micro enterprises, because it is consistently and widely accepted, and comparative data are available for Ethiopia.

Initial paid-up capital: is that part of the issued capital of an establishment that has been paid by the owners to start the operation.

Iqub: A voluntary, informal, and indigenous form of rotating saving and credit scheme, where each member contributes a mutually agreed amount of money on weekly or monthly basis.

Manufacture of food products: includes manufacture of vegetable, preparing '*baltina'* products and manufacture of bakery products.

Manufacture of metal products: are an enterprises sector engaged in manufacture of fabricated metal products, except machinery and equipment; manufacture of parts and accessories for motor vehicles and their engines.

Manufacture of textiles and garment: is an enterprise sector engaged in preparation and spinning of textile fibers, manufacture of carpets and rugs; manufacture of wearing apparel, dressing and dyeing of fur.

Manufacture of wood and wood products includes manufacturing of furniture, joinery and modern beehives.

Micro enterprise*:* means commercial enterprise whose capital is not exceeding birr 20,000 other than high technology and consultancy services.

Performance: in this paper performance defined in terms of profitability of the MSEs.

Partnership: involves two or more individuals who have a partnership agreement to operate a business and share the earnings and liabilities of the venture.

Respondent: respondents are those individuals who are owner managers or operators of an enterprise.

Small enterprise*:* means a business engaged in commercial activities whose capital is exceeding birr 20,000 and not exceeding 50,000 birr, other than high technology and consultancy service institutions.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews works on MSEs in Ethiopia and other countries in general and Addis Ababa in particular. Works on performance and determinants of performance were also reviewed. This is of help to understand the state of MSEs and its determinants of the performance. This chapter comprises of six sections. These are definitions of MSEs, the role of MSEs in poverty reduction, the MSE sector in Ethiopia, the concept of business performance, empirical studies and the conceptual framework.

2.2 DEFINITION OF MICRO AND SMALL ENTERPRISES

The MSE sector everywhere is characterized by highly diversified activities which can create employment opportunities for a substantial segment of the population. This implies that the sector is a quick remedy for unemployment and poverty problem. The realization of a modest standard of living through curbing unemployment and facilitating the environment for new job seekers and self-employment requires a direct intervention and support of the government and other concerned stakeholders (Mulugeta, 2011:13). Hence, in order to channel all necessary support and facilities to this diversified sector, a definition is needed to categorize the sector accordingly.

However, there is no single and universally acceptable definition of a small enterprise (Kayanula and Quartey, 2000:35). This is so because the criteria and ways of categorizing enterprises as micro and small from institution to institution and from country to country depending essentially on the country's level of development. Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations (Emma I. et al., 2009:1-9). Firms differ in their levels of capitalization, sales and employment. Hence, definitions that employ measures of size (number of employees, turnover, profitability, net worth, etc.) when

applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. The absence of such uniform definition of MSEs has created a difficulty. In line with this, Tegegne and Meheret (2010:11) argued that the absence of a single or globally applicable definition has made the task of counting the number of MSEs and assessing their impact extremely difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the desired levels of development of the sector.

United Nations Industrial Development Organizations (UNIDO) gives alternative definition for developing countries. Accordingly, it defines micro enterprises as the business firms with less than 5 employees and small enterprises as the business firms with 5-19 employees (UNIDO, 2002:53).

The United States of America, the Small Business Act issued in 1953 stated that, small business is one which is independently owned and operated and not dominant in its field of operation. The act also further stated that, number of employees and sales volume as guideline in defining small business (Major L. C. & Radwan N. S., 2010:2-19). In the same country, a committee for economic development (CED) has explained that small business is characterized by at least two of the key features: management is independent (usually the managers are owners), capital is supplied and an individual or small group holds ownership and the area of operation is mainly local (workers and owners are in one home country).

According to Kayanula and Quartey (2000:16) in Malawi, the official definition of enterprise sizes is based on three criteria namely the level of capital investment, number of employees and turnover. An enterprise is defined as small scale if it satisfies any two of the three criteria, that is, it has a capital investment of USD 2,000 - USD 55,000, employing 5-20 people and with a turnover of up to USD 110,000 (using 1992 official exchange rate). The same authors narrated that:

[s]ome of the key characteristics of small enterprises are mobilizing funds

which otherwise would have been idle; being a seed-bed for indigenous entrepreneurship; their labor intensiveness; employing more labor per unit of capital than large enterprises; promoting indigenous technological know-how; using mainly local resources, thus have less foreign exchange requirements; catering for the needs of the poor and; adapting easily to customer requirements (flexible specialization).

In Kenya, by referring the 1999 MSE National Baseline Survey, MSEs defined as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting, gathering and forestry), whether in the formal or informal sector which employ 1-50 people (Ronge et al., 2002 cited in Mulugeta, 2011:15). More specifically, according to them, micro enterprises are those that employ 10 or fewer workers and small-scale enterprises are those that employ 11-50 workers. The same study argued that the above definitions are based on one of the three criteria mainly used in literature to define MSEs-number of employees. The second criterion relies solely on the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, MSEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes and labor laws. The last criterion defines MSEs by their limited amounts of capital and skills per worker. The above indicated writers emphasized highlighted that the degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of MSEs is based; and lastly they claimed that the term MSE incorporates firms in both the formal and informal sectors.

Similarly, in Ethiopia there is no uniform definition at the national level to have a common understanding of the MSE sector. Ministry of Trade and Industry (MoTI) and the Ethiopian Central Statistics Authority (CSA) have defined MSEs separately. While the definition by MoTI uses capital investment, the CSA uses employment and favors capital intensive technologies as a yardstick. The definition used by MoTI, which uses

capital investment as a yardstick, has been developed for formulating MSE development strategy in 1997 (MoTI, 1997:8-21).

According to the official definitions of MoTI, micro enterprises are businesses enterprises found in all sectors of Ethiopian economy with a paid up capital (fixed assets) of not more than Birr 20,000, but excluding high technology consultancy firms and other high technology establishments. Small enterprises are business enterprises with a paid up capital of more than Birr 20,000 but not exceeding Birr 50,000 and excluding high technology consultancy firms and other high technology establishments (MoTI, 1997:8-21).

The central statistical authority has attached various definitions to enterprises based on capital, level of technical and technological capacities. In 2003 the CSA based its definition of MSEs on the size of employment and extent of automation for small scale enterprises and used a combination of these criteria for defining such enterprises. Accordingly, it has defined small scale manufacturing enterprises as:

> *[E]stablishments engaging less than 10 persons .... Enterprises in the micro enterprise category are sub-divided into informal sector operations and cottage industries: [c]ottage and handicraft industries are those establishments performing their activities by hand and using non power driven machines. The informal sector is defined as household type establishments or activities, which are non-registered [enterprises] and cooperatives operating with less than 10 persons* (CSA, 2003:21).

According to regulation, "micro enterprise" means an enterprise having a total capital, excluding building, not exceeding Birr 50,000 in the case of service sector or not exceeding Birr 100,000 in the case of industrial sector and engages 5 workers including the owner, his family members and other employees (Art. 2(1)). The same regulation defines "small enterprise" as an enterprise having a total capital, excluding building, from Birr 50,001 to 500,000 in the case of service sector or Birr 100,001 to Birr 1,500,000 in

the case of industrial sector and engages 6 to 30 workers including the owner his family members and other employees (Art.2(2)).

As we can understand from the above definitions, there is no universally acceptable definition of MSEs. Different scholars define MSEs differently based on the level of development of the country under review. As shown above, it is usual to see that different institutes define MSEs differently using their own parameters.

2.3 THE ROLE OF MICRO AND SMALL ENTERPRISE IN POVERTY REDUCTION

Poverty in Ethiopia is widespread and remains a major challenge of sustainable development and stability (Lutheran World Federation of Ethiopia, 2006 cited in Eshetu & Mammo, 2009:2). By now, it is clear and agreeable that poverty, both in urban and/or rural areas, is all about lack of basic needs, low or inadequate level of income and consumption, poor command over resources, and high level of social exclusion, inequality and vulnerability. The role played by MSEs, through the various socio-economic benefits emanating from the sector was found to be eminent in the overall development effort and process of nations. In other words, by generating larger volumes of employment as well as higher levels of income, the MSEs will not only have contributed towards poverty reduction, but they will also have enhanced the welfare and standard of living of the many in the society (Mukras,2003:58-69).

Current international thinking is in tune with a view that acknowledges MSEs as a tool to fight poverty in the long run. The UNIDO approach to this is worth mentioning here:

> *Poverty reduction is simply not going to happen by government fiat but only through private sector dynamism. The evidence directly linking MSEs and poverty reduction is considerably less robust than that linking them to economic vitality, even in the most developed economies. There are suggestions of greater employment opportunities for poor, low*

> *skilled workers, increased skills development and broader social impacts. The movement to support MSE development internationally reflects a return to promoting poverty reduction by investing in private sector-driven strategies by all of the major multilateral agencies. Poverty Reduction Strategies (PRSs) currently being formulated in many developing countries places a more pronounced emphasis on the contribution that the private sector will have to make – compared to the over-reliance on the social agenda that characterized earlier PRSs (*Perumal K. & Prasad, n.d:2-29)).

In conformity with the above view advanced by UNIDO and as an organization concerned to the condition of labour, the ILO's approach to poverty reduction is through small enterprise development. This strategy focuses on the needs of poor people who are part of the MSE economy, as owners/operators and workers, as their dependants, as the unemployed who may benefit from job creation and as customers. While further strengthening the above shown approach, Vandenberg (2006:18) suggests that:

> *the ILO's existing strategy for poverty reduction through small enterprises must emphasize the fact that small enterprises make a positive contribution to poverty reduction when they provide employment, adequate levels of job quality, and low-cost goods and services used by the poor; entrepreneurship, combined with productivity increase, is a key ingredient for poverty reduction through small enterprise development; and vibrant enterprises, competitive markets and a fair globalization can make a significant impact on poverty reduction.*

Drawing on a study conducted in the urban centers of four Western African countries namely Benin, Burkina Faso, Niger and Togo to identify key factors shaping the micro enterprise sector, explores the needs, characteristics, motivations, and success factors for micro entrepreneurship in the region, together with some of the impediments to the growth and success of micro enterprise ventures (Roy and Wheeler, 2006:452-464). Roy and Wheeler indicated that MSE provide a substantial source of employment,

thereby contributing to get rid of poverty to the urban poor. According to them, the main reason for the urban poor to be absorbed in the MSE is due to the fact that the formal sector does not have the capacity to absorb this growing demand for jobs, and for this reason many have had to look for alternative means to generate a livelihood. Hence, participation in the informal sector is often the only option available as a source of income, and so the sector has absorbed many of the unemployed who have been neglected by the formal sector in the region. They pointed that the income generated from being engaged in MSEs primarily used to satisfy the poor's own physiological needs and those of their family, and then to provide a home and security for the household. They specifically claimed that MSEs help the urban poor by making them financially secure which in turn limits or reduces the misery, vulnerability and material and non-material hardships that come with poverty.

2.3.1 Micro and Small Enterprise for Economic Growth: 'Pro' and 'Contra' Arguments

There are two polarized thoughts, according to (Agyapong, 2010:196-205; Anderson et al., 1994:129-133 and Staley & Morse, 1965:31) the role and contribution of MSE to economic growth and poverty reduction: *'Pro' and 'Contra' Arguments*. Their works often classified as the classical and modern theories on MSEs' development. The contra argument predict that advantages of MSEs will diminish over time and large enterprises (LEs) will eventually predominate in the course of economic development marked by the increase in income. In line with these shortcomings and pessimism Admassie and Matambalya (2002:1-29), for instance, concluded that high level of technical inefficiency, which reduce their potential output levels significantly. Research carried out by Biggs (2002 cited in Tegegne and Meheret, 2010:14) strongly question the role played by MSEs to minimize the incidence of high level poverty in most developing economies through employment creation, income generation and multiplier effects on other sectors of the economy.

While, the pro argument views based on experiences from many countries showing the

'contra' arguments seem to get less supports as many international aid agencies, including the World Bank (2004:41). The World Bank gives three core arguments in supporting MSEs in LDCs, which in line with the arguments of the 'modern' (pro) paradigm on the importance of MSEs in the economy (World Bank, 2002 and 2004 cited in Tulus T., 2006:5).

> *First, MSEs enhance competition and entrepreneurship and hence have external benefits on economy wide efficiency, innovation and aggregate productivity growth. Second, MSEs are generally more productive than LEs but financial market and other institutional failures and not conducive macroeconomic environment impede MSE development. Third, MSEs expansion boosts employment more than LEs growth because MSEs are more labor intensive*.

In other words, the World Bank believes that direct government support for MSEs in LDCs help these countries exploit the social benefits from their greater competition and entrepreneurship, and their MSEs can boost economic growth and development.

The above arguments do not mean, however, that LEs are not important, or MSEs can fully substitute the role of LEs in the economy. Even, there are skeptical views from many authors about this World Bank's pro-MSE policy. Some authors stress the advantages of LEs and challenge the assumptions underlying this pro-MSE policy. Specifically, LEs may exploit economies of scale and more easily undertake the fixed costs associated with research and development (R and D) with positive productivity effects (Tulus Tabunan, 2006:5).

2.4 THE MICRO AND SMALL ENTERPRISE SECTOR IN ETHIOPIA

The five-year Growth and Transformation Plan (GTP) has given particular attention to the expansion and strengthening of micro and small-scale enterprises (MoWUD, 2007:17-28).

Table: 2.1 Numbers, Amount of Credit and Jobs Created through MSEs

	20008/09	**2009/10**	**Percentage change**
No. of MSEs	73,062	176,543	141.6
No. of total employment	530,417	666,192	25.6
Amount of credit (in millions of Birr)	662.7	814.1	22.8

Source: (MoWUD, 2007:17-28)

According to MoWUD (2007:17-28)

> *The sector is believed to be the major source of employment and income generation for a wider group of the society. The major objective of this program, which is creating and promoting MSEs in urban areas, envisages reducing urban unemployment rate. A total of 176,543 MSEs were established in 2009/10 employing 666,192 people. The number of established and total employment created went up 141.6 and 25.6 percent, respectively, compared to a year ago. The total amount of loan received from micro finance institutions was Birr 814.1 million under the review period, 22.8 % higher than last fiscal year.*

2.4.1 Micro and Small Enterprise Development Strategy

Enterprise promotion efforts in Ethiopia have traditionally focused on urban based and MSEs. In the 1960s and early 1970s, a department within the Ministry of Industry and Tourism was responsible for coordinating promotion activities which basically consisted of providing training on business management (United Nations, 2002:101-103).

As stated by United Nations report (2002:101-103):

> *In 1977, the Handicraft and Small Scale Industries Development Agency (HASIDA) was establish to provide training mainly in management and technical skills and to serve as coordinating agency for Government policy on small enterprises. Shortage of funds and unfavorable government policy toward the private sector in the 1980s made it extremely difficult for HASIDA to have an impact on the development of*

local small enterprises. Since mid-1999, the government has revisited the whole issue of small and medium enterprise promotion in Ethiopia but with more focus on micro and small enterprises. A major study was conducted with the support of a donor agency which resulted in the preparation of a National Micro and Small Enterprises Development Promotion Strategy (NMSEDPS).

The Ethiopian government released the country's first MSEs development strategy in November 1997 E.C. The primary objective of the national strategy framework is to create an enabling environment for MSEs. In addition to this basic objective of the national MSE strategy framework, the MoTI has developed a specific objective which includes, facilitating economic growth and bring about equitable development, creating long-term jobs, strengthening cooperation between MSEs, providing the basis for medium and large scale enterprises, promoting export, and balancing preferential treatment between MSEs and bigger enterprises (MoTI, 1997:8-27). The strategy outlines the policy framework and the institutional environment for promoting and fostering the development of MSEs and stimulating the entrepreneurial drive in the country.

2.4.1.1 The Implementation Structure of the Strategy

The two most important institutions that are directly involved in the promotion of MSEs are MoTI and the newly established MSEDA. The latter is envisaged to operate the federal and regional level of government (MoTI, 1997:8-27).

2.4.1.1.1 The Ministry of Trade and Industry

The ministry of trade and industry has responsibility, as the organ of the federal government for the formulation of policies and strategies to promote the expansion of enterprises and to facilitate the provision of assistance to MSEs. The other duties given to the ministry is to support and create conducive environment for the development of private promotional institutions. Regional bureaux of trade and industry were delegated to develop and promote the sector in their regions by coordinating regional activities and

creating networks with business associations to strengthen the flow of information to MSEs (MoTI, 1997:8-27).

2.4.1.1.2 The Federal Micro and Small Enterprises Development Agency

To further ensure the proper institutional coordination for MSE support functions, the government created the new Federal Micro and Small Enterprises Development Agency (FeMSEDA) in 1998. In addressing above objectives, FeMSEDA is expected to provide support to the Regional Micro and Small Enterprises Development Agencies (ReMSEDA).

The FeMSEDA (2006:39-42) provide:

> *leadership by delivering 'training the trainers' programmes to equip regional agencies, business associations, and other professionals to deliver entrepreneurship training and facilitation services and BDS to MSEs; studying the problem of identifying viable markets for MSEs and addressing product quality issues; disseminating information to MSEs; and advising government on MSE policies and strategies. FeMSEDA also operates skills and technology training facilities, much like incubators, where training is offered in woodworking, metalworking, garments making and handicrafts. It also provides a marketing outlet for MSE products in its sales and display centre and organizes MSE product exhibitions at national and local trade fairs*.

The FeMSEDA has been established as an autonomous government institution having its own legal identity and run by a board of management which includes representatives of the private sector. Private sector participation in the management of enterprise promotion agency is a new approach in Ethiopia. The FeMSEDA is directly accountable to the MoTI. In 2000, the regional governments also provided for the establishment of

ReMSEDAs to provide extension services to MSEs at the regional, zonal and wereda level. The MoTI through FeMSEDA, provides institutional support[2].

2.5 THE CONCEPT OF BUSINESS PERFORMANCE

According to Martin (2010:67) performance is defined simply in terms of output terms such as quantified objectives or profitability. Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (Bidzakin K.J., 2009:31). The issues that remain unresolved are the goals against which performance should be assessed and from whose perspective the goals should be established (Etzioni, n.d:128).

Rami Alasadi and Ahmed Abdelrahim (2007:6-13) on their study defined performance as follows.

> *[T]he most commonly adopted definition of success [good performance] is financial growth with adequate profits. Other definitions of success [good performance] are equally applicable. For example, some entrepreneurs regard success [good performance] as the job satisfaction they derive from achieving desired goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.*

Global Entrepreneurship Monitor (GEM) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it (GEM, 2004:10). However, performance seems to be conceptualized, operationalized and measured in different ways thus, making cross-comparison is difficult (Srinivasan et al., 1994:22). Among the most frequently used operationalisations are survival, growth in employees and profitability.

[2] ReMSEDAs are independent of FeMSEDA but work collaboratively with FeMSEDA and regional offices of MoTI.

A business enterprise could measure its performance using the financial and non-financial measures. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting time and employees' turnover. Recognizing the limitations of relying solely on either the financial or non-financial measures, owners-managers of the modern small business has adopted a hybrid approach of using both the financial and non-financial measures (H Gin Chong, 2008:13).

2.6 EMPIRICAL STUDY

According to Mead & Liedholm (1998:69) and Swierczek and Ha (2003:46-58), the main factors that affect the performance of MSEs in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new. Although this may be true, the vast majority of new enterprises tend to be one-person establishments (Mwega, 1991:33-36). This has tended to ensure that the journey of the MSE entrepreneur in many instances is short-lived, with the statistic of MSE failure rate in Africa being put at 99 per cent (Rogerson, 2000:41). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick 1998:26-27), intense competition with replication of micro-businesses (Manning & Mashego, 1993:59-61); manager characteristics including lack of skills and experience (Katwalo & Madichie, 2008:337-348 and Verhees, F. M., & Meulenberg, M. G., 2004:134-154).

A study by Hall (1992:237-250) 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 a continuing basis). The research undertaken in Tanzania by surveying 160 micro enterprises showed that high tax rates, corruption, and regulation in the form of licenses and permits, are found to be the most important constraints to

business operations of micro enterprises (Fjeldstad et al, 2006 cited in Mulugeta, 2011: 22).

A view expressed by Fredland and Morris (2009:8) argued that the causes of failure cannot be isolated and that 'any attempt to do so is, at bottom, a futile exercise'. However, they suggested that:

> *The issue of causation is clarified somewhat by classifying causes as endogenous (internal to the firm and presumably within its control) and exogenous (external to the firm and beyond its control). Such a classification has the merit of providing a somewhat 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*.

Previous evidence suggests that, although endogenous factors were the main cause of failure, exogenous factors had a significant effect in approximately one third of small business failures (Peterson et al., 1983:15-19).

Roy and Wheeler (2006:452-464) identified that the level of training of micro entrepreneurs (both formal and informal); experience and number of years in operation; knowledge of the market; level of differentiation (in terms of price, quality or other) and diversification of products; access to the necessary resources and/or technologies; level of planning; vision for the future; and the entrepreneur's level of poverty are among the factors contributing to success of MSEs while lack of market knowledge and training, limited access to capital, and lack of co-operation among possible business partners are some of the factors inhibiting the growth and development of the micro enterprise sector.

2.6.1 Previous Studies on Ethiopian Micro and Small Enterprises

Eshetu and Zeleke (2008:2-9) conducted a 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 MSMEs from 5 major cities in Ethiopia. According to this research, that lasted from 1996-2001, the factors that affect the long term survival of MSMEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment. This is so because the findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%). The study further indicated that participation in social capital and networking schemes such as *Iqub*[3] was critically helpful for long-term survival of the enterprises. Businesses that did not participate in *Iqub* schemes regularly were found to be 3.25 times more likely to fail in comparison with businesses that did, according to the study.

In their study, based on the survey covering 123 businesses 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 (2010:89-92) found out that the studied enterprises registered 25% increment in the number of total employment 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 were 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 were lack of capital (52.8%), skills problem (17.9%) and lack of working space (17.1%). Moreover, Daniel (2007:49), identified that lack of raw material, stiff competition and shortage of working capital.

Mainly relying on a sample survey of 557 operators and 200 MSEs chosen from four

[3] A voluntary, informal, and indigenous form of rotating saving and credit scheme, where each member contributes a mutually agreed amount of money on weekly or monthly basis. In such schemes, each member is entitled to receive the collected lump sum once as per his contribution.

major cities of Ethiopia namely *Adama*, *Hawassa*, *Bahirdar* and *Mekelle*, Tegegne and Meheret's research (2010:40-72) was conducted with the intention of assessing the contribution of the MSE strategy to poverty reduction, job creation and business development. The raised causes for this gloomy prospect of business were not growing (33%), lack of finance (13%), lack of market (11%), and lack of working space (4%).

The major constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. The causes of market-related problems of MSEs engaged in metal and wood work are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting (FMSEDA, 2006:34). The product line of MSE activities in Ethiopia is relatively similar (Assegedech Woldelul, 2004:1). Accordingly she states that:

> *... lack of product diversity, however, is prevalent and as a result similar products are over-crowding the market. Some micro enterprises shift from one product to another, and in doing so, capture better market opportunities. Nevertheless, as soon as the market has established itself, a multitude of further micro enterprises start off in the same business and this causes the selling price to fall immediately.*

According to Assegedech Woldelul (2004:7):

> *Shortage of funds discourages the smooth operation and development of MSEs. Even if there are credit facilities, some of the MSEs do not use the money for the intended purpose. They rather divert it for other unintended and non-productive expenditures. Consequently, the enterprises fail to return the money back to the lender on time. This can result in a loss of credibility to get repeated loans when needed.*

According to Assegedech Woldelul (2004:4), competition is also another problem that hinders the performance of MSE. She explained it:

As is mostly the case and common recognition, "Competition is Cruel", which implies that some larger companies in relation to MSEs have advantages due to: selling at reduced price without reducing product quality using economies of scale, customer targeting capacity, proper and intensified product/service advertising capacity, good personal contacts and networks, sound industry reputation and sufficient information regarding existing market and capacity to exploit more market opportunities.

In his research, Dereje (2008:47) studied the nature, characteristics, economic performance, 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 were shortage of capital, lack of raw materials, absence of government support, lack of market, lack of credit facilities and high interest rate. Studies were also conducted specifically with a purpose of identifying the problems that MSEs encounter. For instance, Workneh's (2007:51) research undertaken in *Kolfe Keraneo* sub-city of Addis Ababa indicated that lack of capital, lack of market, unfavorable policy, and inadequate infrastructure, absence of adequate and relevant training, bureaucratic structure and procedures are among constraints faced by MSEs. Similarly, Adil's (2007:63) research carried out in Addis Ababa shows that inappropriate government intervention, shortage of capital, location disadvantage, lack of market and lack of display room are the major challenges that obstruct MSEs.

According to HLCLEP (2006:17), there is lack of entrepreneurial and managerial skills, which in turn leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process and inability to troubleshoot failures on machinery and/or equipments is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control and those with technical knowledge.

Mulugeta (2011:72-77) has identified and categorized the critical problems of MSEs in to 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 shortcomings like developing a dependency tradition, extravagant and wasting 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.

In reality, literature on MSEs in Ethiopia is scanty and most of the available studies were not conducted in line with performance aspects of micro enterprises. However, this research tried to assess factors affecting the performance of MSEs in a holistic way by targeting and deeply investigating those operators engaged in textile and garment, food processing and metal and wood work activities in *Arada* and *Lideta* sub-cities.

2.7 THE CONCEPTUAL FRAMEWORK

Conceptual framework means that concepts that relate to one another were used to explain the research problem. Since business performance is influenced by both internal and contextual factors, operators need to understand what influences businesses to reach peak performance. The contextual factors include politico-legal, working premises, technological, infrastructural, marketing and financial factors. The influence of these factors to the firm performance is very important but it is noteworthy that the management has no (little) control over them (Wanjiku, 2009:81-82). Nevertheless, the factors must be closely monitored to ensure that stringent measures are taken within the best time to either take advantage of the opportunities or combat the threats found in the external environment. The internal factors that influence the firm's performance can be classified as management and entrepreneurial factors. To align the conceptual framework

with the research objectives, business performance is the dependent variable whereas politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial factors are all independent variables. The relationship can be expressed and shown in figure 2.1.

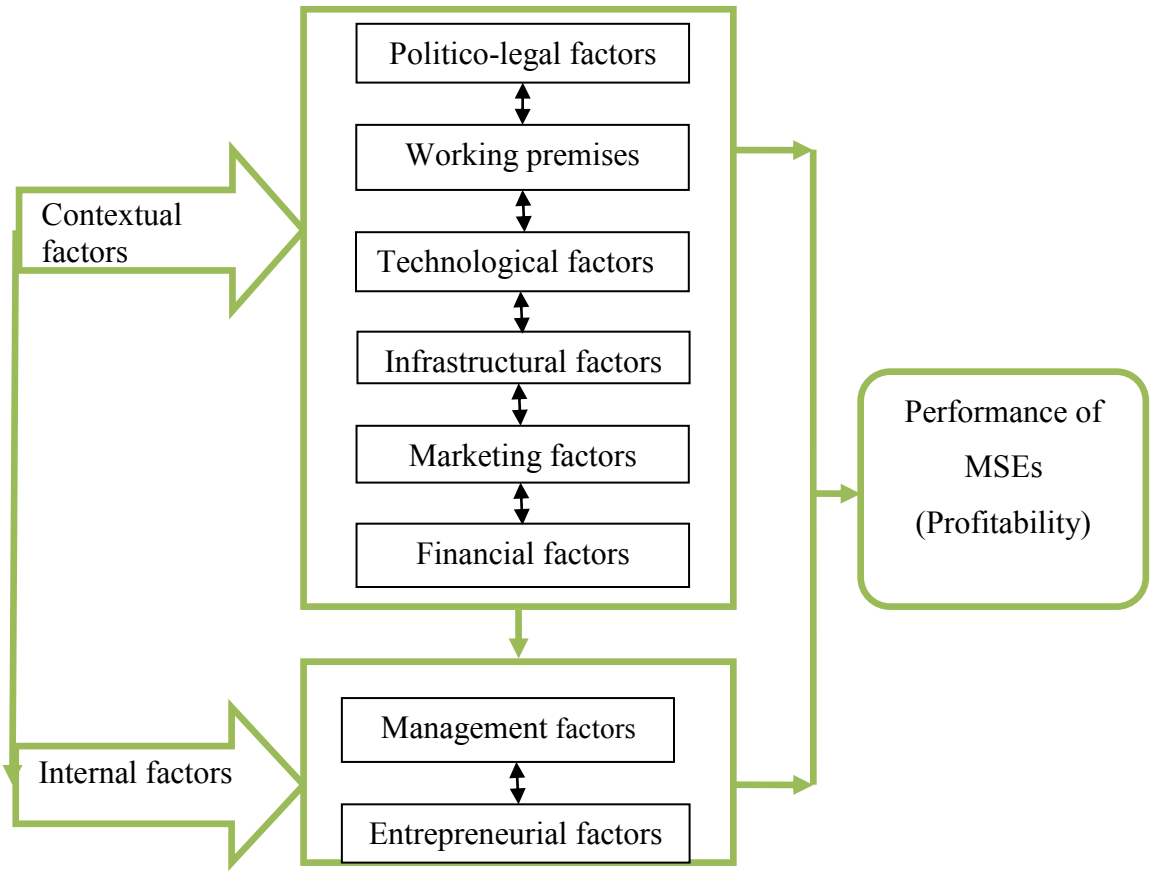


Figure 2.1 Conceptual frameworks (Own Model)

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

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

In order to analyze the potential impacts of factors on performance of MSEs, this study made use of a research methodology. This section provides an overview of the study's research approach which lays within the mixed methods strategies. The chapter discusses procedures and activities under taken, focusing on namely the study's research design, questionnaire design, data collection, sampling strategy, data processing and analysis and instrument development. Besides, the section deals with a discussion on the ethical issues and the study area profile.

3.2 PROCEDURES AND ACTIVITIES UNDERTAKEN

The assessment of the factors that affect the performance of MSEs from the two sub-cities of Addis Ababa involves several activities such as proposal development, literature review, research design, questionnaire design, data collection, sampling procedures, visiting of relevant office/enterprises, selection of participants, test of validity and reliability of instruments, data collection and data analysis.

3.2.1 Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions (John A.H. et al., 2007:20-84). In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It ensures that the study would be relevant to the problem and that it uses economical procedures. The same authors discusses three types of research design, namely exploratory (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables) and explanatory (concerned with determining the cause and effect relationships). The types of

research employed under this study were descriptive and explanatory research. The major purpose of descriptive research is description of the state of affairs as it exists at present. Then this study describes and critically assesses the factors affecting the performance of MSEs in two sub-cities of Addis Ababa. Second, the study employs explanatory in that 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 (Janet M. Ruane, 2006:94).

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

3.2.2 Questionnaire Design

The layout of the questionnaire was kept very simple to encourage meaningful participation by the respondents. The questions were kept as concise as possible with care taken to the actual wording and phrasing of the questions. The reason for 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 A. et al., 2007:128-42). The literature in the study was used as a guideline for the development of the questions in the questionnaire. Besides, some questions in the questionnaire were adopted from other sources (Habtamu, n.d.:72-75 and Mulugeta, 2010:74-79). The questions that were used in the questionnaire are multiple-choice questions and five-point likert scale type questions. The type of scales used to measure the items on the instrument is continuous scales (strongly agree to strongly disagree).

3.2.3 Data Collection

Sources of Data

The study employed both primary and secondary sources of data collection.

i. Primary Sources

In order to realize the target, the study used well-designed questionnaire as best instrument. This was completed by the owner managers/or operators of the enterprises. Besides, face-to-face interviews with the MSEs operators/and the relevant owner managers who heads the enterprises in the selected sectors. The interview method of data collection is preferred due to its high response rate. That is it gives the two people concerned an opportunity to interact and get details on the questions and answers. Through interviews, clarification of issues is easily achievable leading to accuracy of data from the respondents.

ii. Secondary Sources

Secondary data from files, pamphlets, office manuals, circulars and policy papers were used to provide additional information where appropriate. Besides, variety of books, published and/or unpublished government documents, websites, reports and newsletters were reviewed to make the study fruitful.

3.2.4 Sampling Strategy and Procedures

The *Arada* and *Lideta* sub-cities were purposely chosen among the 10 sub-cities of Addis Ababa, as a study area for this research. This is because it is claimed by the government of Ethiopia, that the MSE sector is a prime strategy to economic development in urban areas. Second, the two sub-cities were selected based on their nearness and convenience to collect data in short time.

Although there are different sectors in which the MSE operators have been engaged in *Lideta* and *Arada* sub-cities, the sectors selected for this research is textile and garment, food processing and metal and wood work sector because of the following rationales. First, the sectors are selected because of largest concentration in number

compared to other sectors in the sub-cities. This made the sector more and easily accessible for the data collection. Second, it is difficult to reach the operators/or owners managers of some sectors like municipality service, parking and others. Lastly, textile and garment and metal and wood work 'popularity' in Ethiopia by absorbing significant number of operators via cooperative form of organization is also shown empirically by Meheret and Tegegne (2010:36-37).

3.2.5 Sampling Technique

Stratified random sampling was used to get information from different sizes of the MSEs. This technique is preferred because it is used to assist in minimizing bias when dealing with the population. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. According to Janet (2006:94), this step increases the probability that the final sample will be representative in terms of the stratified groups. The strata's are sectors including: textile and garment, food processing and wood and metal work.

According to Catherine Dawson (2009:54), the correct sample size in a study is dependent on the nature of the population and the purpose of the study. Although there are no general rules, the sample size usually depends on the population to be sampled. In this study to select sample size, a list of the population formally registered MSEs until May 2011 by the Addis Ababa City Administration Trade and Industry Development Bureau were obtained. The total population of the study is 719 enterprises which includes food processing (345), textile and garment (190) and wood and metal work (184). The sample size selected here is considered as representative of textile and garment, food processing and wood and metal work and also large enough to allow for precision, confidence and generalibility of the research findings. The following formula was used for the calculation of the sample size since it was relevant to studies where a probability sampling method was used (Watson, 2001:5).

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

Where, n = sample size required = 261

N = number of population = 719

P = estimated variance in the population = 50%[4]

A = margin of error = 5%

Z = confidence level = 1.96 for 95% confidence[5]

R = estimated response rate = 96%[6]

Accordingly, 261 respondents were selected from the total of 719 MSEs. These 261 respondents were selected from food processing, textile and garment and wood and metal work on proportional basis. Therefore, [(345/719) x 261] = 125 food processing out of 345, [(190/719) x 261] =69 textile and garment out of 190 and [(184/719) x 261] =67 wood and metal work out of 184 were selected. The interviews were administered on the sample of 20 operators out of 719. This small number of interviewee was selected because of related responses from majority of respondents.

3.3 VARIABLES AND MEASUREMENTS

The selection of performance measures that reflect the true situation of small businesses with some degree of certainty and reliability is indeed a crucial process (Rami and Ahmed, 2007:6). The lack of universally accepted standard performance measures left the door open to business organizations to decide and choose its own performance measures that might not truly reflect their performance.

[4] Here, variability is too difficult to estimate, it is best to use the conservative figure of 50%.

[5] This level is standard for most social-science applications, though higher levels can be used.

[6] Response rate is not known before the collection of data. This figure is selected by assuming that direct contact increase response rate. Additionally, as the pilot study clearly indicates that a population is interested about the issues involved, so that the response rate will be increased.

Such performance measures include but not limited to: market share, sales volume, company reputation, return-on-investment (ROI), profitability, and established corporate identity. While some might argue that most of these performance measures are appropriate for large corporations, they are not always perfectly applicable to small businesses.

In this study, change in profit is used as a dependent variable to measure the performance of MSEs. Here the change in profit ratio data is used as the measure of the dependent variable performance of the enterprises involved in the survey. This is mainly because of the following three reasons. First, as the pilot study clearly indicates, MSEs are more focuses on profitability than other modes of performance measures. Second, as recommended by Rami and Ahmed (2007:6) change in profit has been widely adopted by most researchers and practitioners in business performance models. Also growth in employment level of the enterprises would not be another appropriate alternative measure of performance because this MSEs are primarily established as a source of self employment. The independent variables are politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial variables.

3.4 DATA PROCESSING AND ANALYSIS

3.4.1 Data Processing

The method of data processing in this study was manual and computerized system. In the data processing procedure editing, coding, classification and tabulation of the collected data were used. Data processing has two phases namely: data clean-up and data reduction. During data clean-up the collected raw data was edited to detect anomalies, errors and omissions in responses and checking that the questions are answered accurately and uniformly. The process of assigning numerical or other symbols came next which was used to reduce responses into a limited number of categories or classes. After this, the processes of classification or arranging large volume of raw data into classes or groups on the basis of common characteristics were applied. Data having the

common characteristics was placed together and in this way the entered data were divided into a number of groups. Finally, tabulation and pie charts were used to summarize the raw data and displayed in the form of tabulation for further analysis.

3.4.2 Data Analysis

This is the further transformation of the processed data to look for patterns and relationship between and/or among data groups by using descriptive and inferential (statistical) analysis. The Statistical Package for Social Science (SPSS) version 20 was used to analyze the data obtained from primary sources. Specifically, descriptive statistics (mean, standard deviation and charts) and inferential statistics (correlation and regression) were taken from this tool.

3.4.2.1 Descriptive Analysis

Descriptive analysis was used to reduce 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). Moreover, pie charts were used to describe the general characteristics of enterprises. The reason for using descriptive statistics was to compare the different factors. Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy[7].

3.4.2.2 Inferential Analysis

According to Sekaran (2000:401), inferential statistics allows to infer from the data through analysis the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable. The following inferential statistical methods were used in this study.

[7] Both quantitative and qualitative data were collected concurrently and then compares the results of two methods to determine if there is convergence, differences, or some combinations. This is used to offset the weaknesses inherent within one method with the strength of the other.

3.4.2.2.1 The Pearson Product Moment Correlation Coefficient

According to Phyllis and his associates (2007:18-55), inferences have a very important in management research. This is so because conclusions are normally established on the bases of results. Such generalizations were therefore, be made for the population from the samples. They speculate that the Pearson Product Moment Correlation Coefficient is a widely used statistical method for obtaining an index of the relationships between two variables when the relationships between the variables is linear and when the two variables correlation are continuous. To ascertain whether a statistically significant relationship exists between politico-legal, working premises, technology, infrastructure, marketing, finance, management and entrepreneurial factors with firm's performance, the Product Moment Correlation Coefficient was used.

According to Duncan C. and Dennis H. (2004:38-41), correlation coefficient can range from -1 to +1. The value of -1 represents a perfect negative correlation while a value of +1 represents a perfect positive correlation. A value of 0 correlations represents no relationship. The results of correlation coefficient may be interpreted as follows.

Correlation coefficient	**Interpretation**	
(-1.00 to -0.8]	Strong	
(-0.8 to -0.6]	Substantial	Negative
(-0.6 to -0.4]	Medium	
(-0.4 to -0.2]	Low	
(-0.2 to 0.2)	Very Low	
[0.2 to 0.4)	Low	
[0.4 to 0.6)	Medium	Positive
[0.6 to 0.8)	Substantial	
[0.8 to 1.00)	Strong	

In this study Pearson's Product Moment Correlation Coefficient was used to determine the following relationships.

- The relationship between politico-legal factors and performance of MSEs;
- The relationship between working premises factors and performance of MSEs;
- The relationship between technology factors and performance of MSEs;
- The relationship between infrastructural factors and performance of MSEs;
- The relationship between marketing factors and performance of MSEs;
- The relationship between financial factors and performance of MSEs;
- The relationship between management factors and performance of MSEs;
- The relationship between entrepreneurial factors and performance of MSEs;

3.4.2.2.2 Linear Regression Analysis

Linear regression is a method of estimating or predicting a value on some dependent variable given the values of one or more independent variables. Like correlations, statistical regression examines the association or relationship between variables. Unlike correlations, however, the primary purpose of regression is prediction (Geoffrey M. et al., 2005:224-225). In this study multiple regressions was employed. Multiple regression analysis takes into account the inter-correlations among all variables involved. This method also takes into account the correlations among the predictor scores (John Adams, et al., 2007:198). They added multiple regression analysis, which means more than one predictor is jointly regressed against the criterion variable. This method is used to determine if the independent variables will explain the variance in dependent variable.

Regression Functions

The equation of regressions on this study is generally built around two sets of variables, namely dependent variable (performance) and independent variables (politico-legal, working premises, technology, infrastructure, marketing, finance, management and entrepreneurial). The basic objective of using regression equation on this study is to make the study more effective at describing, understanding and predicting the stated variables.

Regress Performance on Selected Variables

$Yi = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8$

Where:

Y is the response or dependent variable- performance

X_1= politico-legal, X_2= working premises, X_3= technology, X_4= infrastructure, X_5= marketing, X_6= finance, X_7= management and X_8= entrepreneurial skills are the explanatory variables.

β_0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0.

β_1, β_2, β_3, β_4, β_5, β_6, β_7, and β_8 are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables.

Accordingly, this statistical technique was used to explain the following relationships.

Regress performance (as dependent variable) on the selected linear combination of the independent variables using multiple regressions.

3.5 INSTRUMENT DEVELOPMENT

Basically, the instruments were developed based on the objectives of the study and research questions. The principles of questionnaires such as, use simple and clear languages, statements should not be too long and use of appropriate punctuations is also considered when developing the instrument. In addition, interviews can be taken as an instrument to strength the investigation.

3.5.1 Design of the Instruments

The instruments were designed in such ways that can strength the viability of the study. The questionnaires were designed both in English and Amharic languages. The purpose of translating from English to Amharic language is to utilize those who cannot clearly understand English language so that respond easily. The interview questions were designed in English language only, because the discussion was in Amharic while making interviews with operators.

3.5.2 Instrument Validity

Validity is the degree to which a test measures what it purports to measure (Creswell, 2009:190-92). Validity defined as the accuracy and meaningfulness of the inferences which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represents the phenomena under study. He contends that the validity of the questionnaire data depends on a crucial way the ability and willingness of the respondents to provide the information requested.

A pilot study was conducted to refine the methodology and test instrument such as a questionnaire before administering the final phase. Questionnaires was tested on potential respondents to make the data collecting instruments objective, relevant, suitable to the problem and reliable as recommended by John Adams et al. (2007:136). Issues raised by respondents were corrected and questionnaires were refined. Besides, proper detection by an advisor was also taken to ensure validity of the instruments. Finally, the improved version of the questionnaires were printed, duplicated and dispatched.

The instruments selected can help to show factors that affect performance of MSEs. It can clearly address how these factors affect the performance of MSEs in two sub-cities. The relevant data was collected on the factors of the MSEs that can better indicate the relationship between factors and the performance of MSEs. The structured and unstructured interviews can also validate the measurement. Moreover, to have valid conclusion, inferential statistical model was used to test the relationship between the variables.

3.5.3 Instrument Reliability

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

showing that there is a perfect negative reliability and the latter shows that there is perfect positive reliability.

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

3.6 ETHICAL CONSIDERATIONS

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and consent was secured before the commencement of distributing questionnaire and asking interview questions. Although all interview sessions has tried to tape-record, it was impossible as the respondents were not voluntary. Regarding the right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential thus collective names like ‘respondents’ were used.

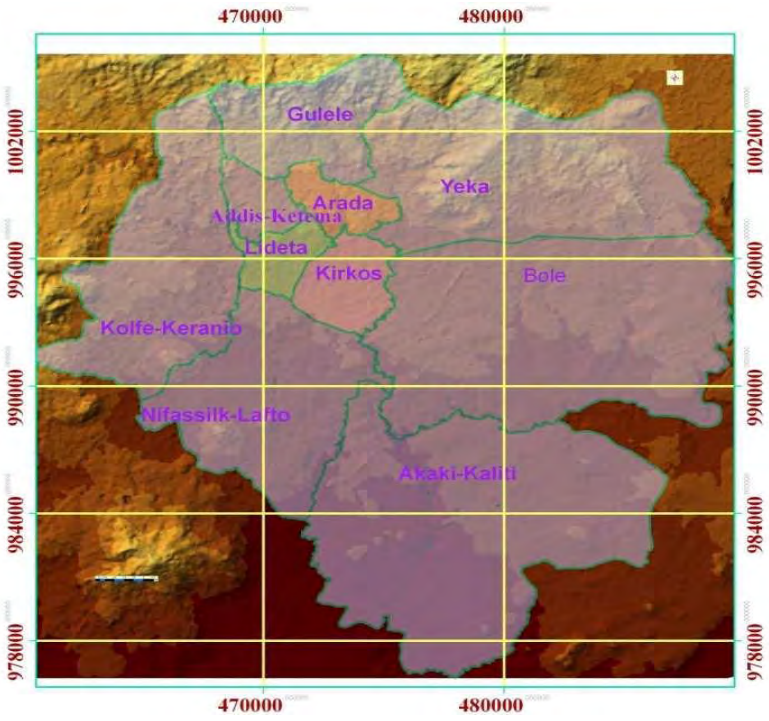
3.7 THE STUDY AREA PROFILE

Historically, Addis Ababa was founded in 1887 by emperor Menilik II and Empress Taitu. Addis Ababa was chosen as the residence of the emperor because of its thermal spring at a spot known as *Filweha.* In terms of climate, its average elevation is 2,500 meters above sea level, and has a fairly favorable climate and moderate weather conditions. Geographically, the city is located between 8^{0} 55' and 9^{0} 05' north latitude and between 38^{0} 40' and 38^{0} 50' east longitude, while its total area is 54,000 hectares

with a total population of more than 3 million. Besides, for political and administrative reasons, the city is made to be structured at three layers of government: city government at the top, 10 sub-cities administrations in the middle and 116 *woreda* level administrations at the bottom (AACMSEDA, 2011:42).

Specifically, the study area covers *Arada* and *Lideta* sub-cities. The *Lideta* sub-city occupies a total area of 11 square kilometers with a total population of 296,073. Currently, the sub-city has a total of 11 *woredas*. The *Arada* sub-city occupies a total area of 9.54 square kilo meters with a total population of 297,942. Currently, the sub-city has a total of 10 *woredas*. As usual in all cities, central areas have higher densities and are sometimes very densely occupied districts. On average and by sub-city level, *Lideta* has the highest value of density with 391 persons per hectare, followed by *Addis Ketema* and *Arada* with 312 and 237 persons per hectare respectively (FEDBPACSP; 2010:9).

Figure 3.1: Map of the Study Area



Source: Yirgalem Mahitame (2011)

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

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

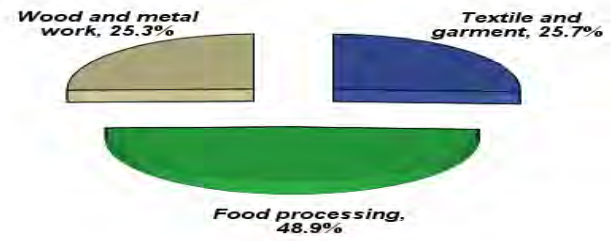
Two hundred sixty one questionnaires were distributed across the three sectors in two sub-cities, out of which 237 were completed and retrieved successfully, representing 91% response rate. Out of the 261 questionnaires administered 69, 125 and 67 were distributed to textile and garment, food processing and wood and metal work respectively. The numbers of questionnaires retrieved from textile and garment, food processing and wood and metal work are 61, 116 and 60 respectively. This represents a response rate of 88.4%, 92.8% and 89.6% for textile and garment, food processing and wood and metal work respectively.

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

4.2 GENERAL CHARACTERISTICS OF THE ENTERPRISES

4.2.1 Category of Business Venture

Figure 4.1 Sectors respondents engaged in



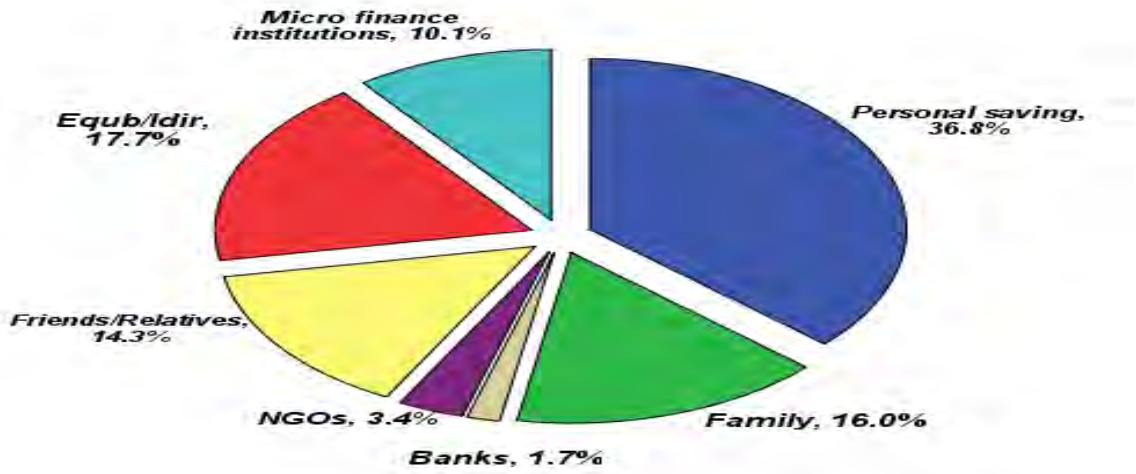
Source: Field survey, 2012

As shown in figure above, the sample firms were operating in three sectors of the economy. Most of them are engaged in food processing (48.9%) followed by textile and garment (25.7%) and wood and metal work (25.3%). This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the performance of MSEs. This is because firms in different sectors of the economy face different types of problems. That means the degree of those critical factors in food processing sector may differ from the factors that are critical to textile and garment and wood and metal work sectors.

4.2.2 The Main Source of Start-up and Expansion Finance

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

Figure 4.2 Sources of finance



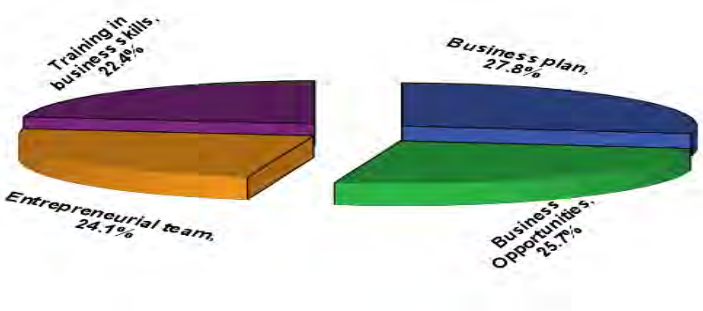
Source: Field survey, 2012

As can be seen from the figure personal saving (36.8%) are the most frequently used sources, followed by *iqub/idir* (17.7%), family (16.0%), friends/relatives (14.3%) and micro finance institutions (10.1%) in that order. And the remaining sources of finance come from NGOs (3.4%) and banks (1.7%). This shows that the main source of finance for MSEs in *Arada* and *Lideta* sub-cities is personal saving. But also other traditional source like i*qub/idir,* family and friends/relatives plays the greatest role. In the sub-cities, informal sources play the greatest role in establishment of MSEs than the formal sources like microfinance and banks.

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

4.2.3 The Important Aspects for Business Venture Success

Figure. 4.3 Important aspects for business venture



Source: Field survey, 2012

As it can be seen from the figure above, 27.8% of the respondents indicated that a business plan is important for the success of their business ventures, 25.7% of the respondents felt that the availability of business opportunities is important for the success of their business ventures, 24.1% of respondents alluded to the fact that an entrepreneurial team is essential for the success of their business ventures and 22.4% of the respondents concluded that training in business skills is important for the success of their business ventures. The closer analysis of the result leads to the conclusion that a business plan is the most important aspects for the success of any business venture.

According to Renee (2007:1):

> *[A] sound business plan may make a difference between a business that succeeds and a business that fails. Approximately 90% of small businesses fail before two years, according to the Small Business Association. And even after that two year mark has been passed, there are no guarantees. This is mainly due to lack of business plan knowledge and the absence of a business plan.*

Moreover, the availability of business opportunities and an entrepreneurial team are also important aspects for the success of business venture. Because an entrepreneurial team is necessary to implement the businesses' objectives as outlined in the business plan. The business plan is a framework which a business must operate within. It will ultimately determine whether the business performance is good or bad. For management or entrepreneurs seeking external support, the plan is the most important sales document that they are ever likely to produce.

According to the interview result, majority of the interviewee pointed that they have no business plan to run their business activities. A lack of business plan is one of the most often cited reasons by author, such as Renee (2007:1), for problems in developing and growing a venture and one of the main causes of business failure. A good business plan is not only important in developing the opportunity but also essential in determining the resources required, obtaining those resources, and successfully managing the resulting venture. Taking this into consideration, MSEs sector should therefore ensure that they equip their employees with the necessary business plan skills.

4.3 FACTORS AFFECTING THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES

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

4.3.1 Results of Measures of Central Tendency and Dispersion

There are a number of challenges that affect performance of MSEs associated with different factors. This part explains the descriptive statistics calculated on the basis of the factors that affect the performance of MSEs. The results for measures of central tendency and dispersion were obtained from the sample of respondents of textile and garment, food processing and metal and wood works are shown in the following tables.

Table 4.1. Politico-legal factors that affect the performance of MSEs

Item	*Textile & garment*		*Food processing*		*Wood and metal work*		*Grand*	
Politico-legal factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
The tax levied on my business is not reasonable	3.97	.93	3.73	.99	3.98	.95	3.86	.97
Bureaucracy in company registration and licensing	4.23	.76	4.36	.70	4.02	.70	4.24	.73
Lack of government support	2 .50	1.22	3.94	.80	3.77	.87	3.52	1.1
Political intervention	3.13	.99	2.96	1.1	3.82	.93	3.22	1.1
Lack of accessible information on government regulations that are relevant to my business	3.28	.89	3.32	.91	3.18	.95	3.27	.91
Grand mean/standard deviation							***3.62***	***1.05***

Source: Field survey, 2012

MN=Mean, SD=Standard deviation

As it is indicated in table above, the mean and standard deviation for the politico-legal factors were calculated. The table shows the bureaucracy in company registration and licensing has a mean score of 4.23 with a standard deviation of 0.76 for textile and garment, mean score of 4.36 with standard deviation of .70 for food processing and mean score of 4.02 with standard deviation of .70 for wood and metal work. Therefore, it may be concluded that bureaucracy in company registration is the main factor that affects the performance of all sectors. This is followed by average score of the respondent's response with regard to unreasonable tax and related issues.

According to the table 4.1 above, enterprises engaged in wood and metal work, textile and garment and food processing sector, the tax levied on their business is not reasonable. The agreement on the non reasonability of the tax amount is justified by the calculated means of 3.98, 3.97 and 3.73 with standard deviation of .95, .93 and .99 respectively. The mean score (3.82) and standard deviation (.93) shows that, the operators of wood and

metal work in MSEs agree with the problem related to political intervention around their working areas. But, the business owner manager engaged in food processing, textile and garment were neither 'agreed' nor 'disagreed' with this problem.

Furthermore, the table indicates that lack of government support is another problem that affects the performance of enterprises engaged in food processing and wood and metal work with a mean of 3.94 and 3.77 and standard deviation of .80 and .87 respectively. But, respondents of textile and garment were disagreed with the factors related to lack of government support. The mean score and standard deviation clearly shows their disagreement. That is mean of 2.49 and standard deviation of 1.22 for owner manager engaged in textile and garment sector. Lastly, the table indicates that the owner managers engaged in all sectors are neither 'agreed' nor 'disagreed' with related to lack of necessary information on government regulations. That is a mean score of 3.32, 3.28, and 3.18 with standard deviation of .91, .89 and .95 for an operator engaged in food processing, textile and garment, and wood and metal work respectively.

When the above responses compared with the interview conducted with operators of MSEs, it was confirmed that there are problems related to government bodies at the *woreda* levels. The interviewees are pointed out the implementation problems widely observed in the side of the heads and lower level experts and employees of government sector offices such as lack of responsiveness to the demands of the operators. This arises either from the deliberate tendency of the executives to be bureaucratic or their lack of awareness about the peculiar procedures, policies and proclamations that favor MSEs. The other possible explaining factor for this non-responsiveness to the operators can be the fact that the concerned government offices are overburdened with other routine activities of their respective offices, which resulted in abandoning or being irresponsive to the issues of the MSE operators.

Furthermore, the politico-legal environments were mentioned among the key constraints to enterprises in the field survey, it is recognized that some respondents are classified as the major constraints to enterprises (especially in *Arada* sub-city). Even when

opportunities have been created, MSEs have not been able to draw the full advantage due to absence of appropriate policy support. According to interviewees, there still exists an overly bureaucratic government system that often results in unnecessary delays in compliance and is excessively costly. This includes a complex system, lengthy procedures and rules. For example, registration of a business, getting working places, payment of stamp duty among others. For enterprises found in *Arada* sub-city, this poses a major challenge and cost as the owners of the business would need to close for days in order to travel to concerned governmental offices to access these services sometimes without success. Operators believe that these requirements force enterprises to operate informally, which greatly limits their opportunities for growth, or to go out of business.

Table 4.2.Working place factors that affect the performance of MSEs

Item	***Textile and garment***		***Food processing***		***Wood and metal work***		***Grand***	
Working place factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Absence of own premises	4.00	.98	4.28	.96	4.52	.65	4.27	.917
Current working place is not convenient	3.02	1.15	3.64	1.18	3.98	1.07	3.57	1.19
The rent of house is too high	4.07	.85	4.17	.92	4.28	.83	4.17	.88
Grand mean/standard deviation							***4.00***	***1.05***

Source: Field survey, 2012

The mean scores and standard deviations in table above shows, the premises factors that hinders their performance are absence of their own premises, the rent of house is too high and the current working place is not convenient for their business. As the mean score of absence of own premises indicate 4.52, 4.28 and 4.00 with standard of .65, .96 and .98 for respondents engaged in wood and metal work, food processing and textile and garment respectively.

With regard to high rent of house, the mean scores are 4.28, 4.17 and 4.07 and standard deviations are .83, .92 and .85 for owner managers engaged in wood and metal work,

food processing and textile and garment respectively. The respondents of wood and metal work and food processing agree with their current working place is not convenient to run business. Their mean scores are 3.98 and 3.64 and standard deviations are 1.07 and 1.18 respectively. But, the mean scores and standard deviations for enterprises engaged in textile and garment are 3.02 and 1.15 respectively.

In an interview conducted with an operator of food processing it was confirmed that, they operated in rented house and high rental charges have impeded the performance of their businesses as some charges are higher than the capacity to pay. Similarly, in an interview conducted with owner managers of textile and garment was confirmed this idea. According to them, this high rent of house is resulted from absence of own premises to run business.

Table 4.3. Technological factors that affect the performance of MSEs

Items	***Textile and garment***		***Food processing***		***Wood and metal work***		***Grand***	
Technological factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Lack of appropriate machinery and equipment	3.20	1.18	4.37	.63	3.02	.95	3.72	1.08
Lack of skills to handle new technology	3.46	.89	3.37	.99	3.08	.91	3.32	.95
Lack of money to acquire new technology	3.87	.87	4.30	.70	4.08	.83	4.14	.79
Unable to select proper technology	3.08	.86	3.16	.95	3.23	.93	3.16	.92
Grand mean/standard deviation							***3.58***	***1.02***

Source: Field survey, 2012

As it can be seen in table above, lack of appropriate machinery and equipment is the main problem of MSEs engaged in food processing. The mean scores and standard deviations are 4.37 and .63 respectively. This is followed by lack of money to acquire

new technology. The mean score and standard deviation are 4.30 and .70 respectively. According to table 4.3, for operators engaged in textile and garment and wood and metal work, lack of appropriate machinery and equipment is moderately affects their performance. That is a means and standard deviations of 3.20 and 3.02 with 1.18 and .95 respectively. With regard to lack of money to acquire new technology, the mean scores and standard deviations are 4.08 and 3.87 with .83 and .87 for operators of wood and metal work and textile and garment respectively.

On the other hand, the mean and standard deviation for lack of skills to handle new and proper technology, the table above depicts that the respondents' agreement scale is more than undecided, indeed less than agreed. That is the mean ranged between 3.08 and 3.46 for lack of skills to handle new technology and 3.08 and 3.23 for unable to select proper technology.

The studied MSEs own a variety of working machines, equipments and tools, most of which were purchased. According to the interview with the operators, the loan to purchase equipments and materials were obtained from both formal and informal sources. Welding machine, singer, grinder, stove, drill machine, screw driver, hammer, chisel and clamps are some of the work related machines and equipments owned by the studied MSEs. The operators indicated that the presence of these machines, tools and equipments has allowed the operators to produce products. In contrast to this, according to some interviewees of food processing sector, they lack money to acquire new technology (equipment, machinery, tools, etc). Moreover, respondents replied that, if new and appropriate technologies obtained, the presence of them will result in performance improvement.

Table 4.4. Infrastructural factors that affect the performance of MSEs

Item	*Textile and garment*		*Food processing*		*Wood and Metal work*		*Grand*	
Infrastructural factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Power interruptions	4.43	.59	4.63	.58	4.68	.47	4.59	.57
Insufficient and interrupted water supply	2.02	1.01	4.16	.85	1.97	.76	3.05	1.39
Lack of business development services	2.95	.81	3.22	.93	3.38	.80	3.19	.88
Lack of sufficient and quick transportation service	3.97	.80	4.03	.83	4.17	.67	4.05	.71
Lack of appropriate dry waste and sewerage system	2.92	.90	3.89	.93	3.08	.96	3.43	1.03
Grand mean/standard deviation							***3.73***	***1.08***

Source: Field survey, 2012

The result presented in table 4.4 shows that power interruption is the main problem followed by lack of sufficient and quick transportation service that hinders the business performance of all sectors. The mean scores of power interruption are 4.68, 4.63 and 4.43 with standard deviations of .47, .58 and .59 for wood and metal work, food processing and textile and garment respectively. The mean scores of lack of sufficient and quick transportation service are 4.17, 4.03 and 3.97 with the standard deviations of .67, .83 and .80 for metal and wood work, and food processing and textile and garment respectively.

On the other hand, insufficient and interrupted water supply, and lack of appropriate dry waste and sewerage system are the main challenges that hinder the performance of business operators engaged in food processing. The table above shows that, according to respondents of food processing sector, the mean scores of 4.16 and 3.89 with standard deviations of .85 and .93 for insufficient and interrupted water supply, and lack of appropriate dry waste and sewerage system respectively.

As opposed to this, the table shows that insufficient and interrupted water supply does not affect the performance of MSEs engaged in textile and garment and wood and metal work sectors in the selected area. The disagreement on the variables is justified by the calculated means and standard deviations. That is a mean score of 2.02 and 1.97 with standard deviation of 1.01 and .76 for MSEs engaged in textile and garment and wood and metal work respectively. With regard to lack of appropriate dry waste and sewerage system, respondents of textile and garment, and wood and metal work sectors are almost undecided. The mean score of 3.08 and 2.92 with standard deviation of .96 and .90 for operators engaged in wood and metal work and textile and garment respectively. It seems that these operators neither agree nor disagree on the issue related to lack of appropriate dry and waste and sewerage system.

Accessibility of a location is the ease with which it can be accessed by different modes of transport (Brown and Lloyd, 2002:188-204). Divergent from these aspects, however, most of the studied area is situated far from the main asphalt road and the condition of the road leading to the cluster from the main road is extremely poor. This poor state of the road condition of locality has culminated in high transportation service costs to the MSEs, in addition to making the sector difficult for accessibility by the existing and potential customers.

Concerning transport facilities, access to affordable and appropriate public transport is of paramount vitality in expanding the employment opportunities of the urban poor who need inexpensive access to areas of economic and commercial activity. Equally, the importance of physical capital especially infrastructure in enabling people to access, and directly support, income-generating activities is well recognized by writers on urban livelihoods such as Rakodi (2002:22). Housing which is close to employment opportunities or markets will improve residents' access to income-generating work and will reduce transport costs, which can be a significant expenditure and time-drain for the urban poor (Farrington et al., 2002:57).

In the view of majority operators interviewed, this poor state of the local road has hampered the accessibility of their working site by existing and potential customers. In addition, it has forced the operators to incur high transportation service cost, damaging their already meager and continuously declining income. The 'seriousness' of the problem was stressed by respondents who said that:

> *We usually rent private cars to transport (deliver) the raw materials here purchased from Merkato, which is located fairly near to working site. But the owners of the cars usually request us to pay them 250 Birr. We supposed to pay such amount of money mainly because of the unsuitability of the road around our working area.*

The other impediment, according to interviewees of the sector, is the increasing cost or price of transportation service especially the hardly affordable price of those private cars on which the operators load raw materials from places of supply. The operators associate this expensive transportation service price with the unsuitability of the road facility. The operators agree that, if the road infrastructure around their working area is maintained or improved, there would be possibility of a remarkable reduction on their expenses related to running their businesses.

Table 4.5. Marketing factors that affect the performance of MSEs

Item	*Textile and garment*		*Food processing*		*Wood and metal work*		*Grand*	
Marketing factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Inadequate market for my product	4.28	.66	4.29	.69	4.36	.52	4.31	.64
Searching new market is so difficult	4.15	.68	4.18	.72	4.38	.52	4.22	.67
Lack of demand forecasting	4.02	.67	4.21	.85	4.34	.66	4.19	.78
Lack of market information	4.03	.89	4.15	.79	4.28	.59	4.15	.78
Absence of relationship with an organization that conduct marketing research	4.20	.75	3.86	.87	4.18	.68	4.03	.81
Lack of promotion to attract potential users	3.00	1.22	4.05	.66	3.20	1.10	3.57	1.06
Poor customer relationship and handling	3.07	1.03	2.96	1.18	3.10	1.23	3.02	1.15
Grand mean/standard deviation							***3.93***	***.96***

Source: Field survey, 2012

As shown in the table above, marketing factor is consisted of seven items. From these factors inadequacy of market, difficulty of searching new market, lack of demand forecasting, lack of market information and absence of relationship with an organization/association that conduct marketing research are critical factors that affect the performance of MSEs engaged in all sectors. The mean scores and standard deviations clearly show respondents agreement on the variables. That is mean scores of market inadequacy are 4.36, 4.29 and 4.28 with standard deviations of .52, .69 and .66 for MSEs engaged in wood and metal work, food processing and textile and garment respectively. The respondents of wood and metal work, food processing and textile and garment agree with a mean of 4.38, 4.18 and 4.15 with standard deviation of .52, .72 and

.68 that there is difficulty of searching new market respectively.

In table 4.5 it can be seen that, lack of demand forecasting is another marketing factor that affect the performance of MSEs. The arithmetic mean of 4.34, 4.21 and 4.02 with standard deviation of .66, .85 and .67 for MSEs engaged in wood and metal work, food processing and textile and garment respectively. Moreover, the table shows that lack of market information hinders businesses performance. The mean scores are 4.28, 4.15 and 4.03 and standard deviations are .59, 79 and .89 for business enterprises engaged in wood and metal work, food processing and textile and garment respectively. Similarly, majority of respondents agreed with they have no relationship with an organization and/association that conduct marketing research. This agreement is justified by the mean scores of 4.20, 4.18 and 3.86 with standard deviation of .75, .68 and .87 for an operators engaged in textile and garment, wood and metal work and food processing respectively.

On the other hand, the table above shows that respondents of all sectors are neither 'agreed' nor 'disagreed' with poor customer relationship and handling that affect their performance with mean of 3.10, 3.07 and 2.96 and standard deviation of 1.23, 1.03 and 1.18 for respondents engaged in wood and metal work, textile and garment and food processing respectively. Likewise, in relation to lack of promotion to attract potential users, the respondents of wood and metal work and textile and garment are do not like to decide on it. This is justified by the mean score of 3.20 and 3.00 with standard deviation of 1.10 and 1.22 respectively. But, as the table above shows, lack of promotion to attract potential users is the main factor that affects the performance of MSEs engaged food processing sector. As the mean score (4.05) and standard (.66) clearly depicts, the respondent operators agree on their inability to promote potential users.

In an interview conducted with an operator of the sectors, it was confirmed that absence of selling place has aggravated the already existing 'inadequacy and crowdedness' of the internal working space of the shades. The operators intelligently argued that lack of selling place is a direct contributor for their inadequate market hence low income of the studied MSEs. Absence of selling place obviously narrows the chance to access new

customers. The recently price ceiling on commodities by the government of Ethiopia is warmly welcomed by the respondents. The operators indicated that the continuously increasing price of inputs has been checked by the government action. They also indicated that the materialization of this ceiling has also saved them from being 'exploited' by illegal merchants, who always increase prices of basic commodities unreasonably.

On the other hand, however, currently the owner managers attributed the sky rocketing price of commodities to the shortage or inadequacy of supply of commodities. Brilliantly enough, one respondent linked the issue with population increase. This is true since when there is an ample demand for a given goods or services, in this case higher population; it is likely that the price of that goods or services becomes high.

Table 4.6. Financial factors that affect the performance of MSEs

Item	*Textile & garment*		*Food processing*		*Wood and metal work*		*Grand*	
Financial factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Inadequacy of credit institutions	2.97	1.14	3.01	1.09	2.92	1.25	2.97	1.14
Lack of cash management skills	3.82	.81	3.83	.85	4.20	.82	3.92	.84
Shortage of working capital	4.34	.70	4.42	.66	4.43	.65	4.41	.67
High collateral requirement from banks and other lending institutions	4.36	.86	4.46	.70	4.45	.75	4.43	.75
High interest rate charged by banks and other lending institutions	4.26	.99	4.33	.82	4.42	.77	4.33	.86
Loan application procedures of banks and other lending institutions are too complicated	4.07	.87	3.91	.97	4.17	.92	4.02	.93
Grand mean/standard deviation							***4.01***	***1.01***

Source: Field survey, 2012

The mean scores of 4.46, 4.45 and 4.36 with standard deviation of .70, .75, and .86 of the respondents in table 4.7 shows that those operators engaged in food processing, wood and metal work and textile and garment have faced the problem related to high collateral requirement from banks and other lending institutions respectively. Regarding inadequacy of credit institutions, the mean scores depicts that the respondents' of the three sectors agreement scale is more of undecided. The results show that the means ranged between 2.92 and 3.01. This shows that the respondents of the three sectors are in dilemma to say that the credit institutions are adequately available or not.

With regard to shortage of working capital the mean score of 4.43, 4.42 and 4.34 with standard deviation of .65, .66 and .70 for entrepreneurs engaged in wood and metal work, food processing and textile and garment respectively. Similarly, interest rate charged by banks and other lending institutions is high with a mean score of 4.42, 4.33 and 4.26 with standard deviation of .77, .82 and .99 for operators of wood and metal work, food processing and textile and garment respectively.

By the same token, respondents of the three sectors agreed with the complexity of loan application procedures of banks and other lending institutions. This is justified by the mean scores 4.17, 4.07 and 3.91 with a deviation of .92, .87 and .97 for operators engaged in metal and wood work, textile and garment and food processing respectively. Moreover, lack of cash management skills are a serious problem of MSEs as the table above shows very well. The respondents agree with a mean of 4.20, 3.83 and 3.82 with standard deviation of .82, .85 and .81 for MSEs engaged in wood and metal work, food processing and textile and garment respectively.

According to Rakodi (2002:2-22) financial issues are more salient in urban areas due to the highly monetized nature of urban economies. Operators were interviewed to give their opinion on the nature of problem related to financial factors. It was found that, mainly ensuing from low market, the operators usually suffer of shortage of cash leading to their inability to cover their daily needs adequately. The other cause of this low cash presence at the disposal of the operators could be the increasing expense

incurred by their respective MSEs in relation to purchase of raw materials and services such as transportation, in addition to cost of utilities consumed both at home and work place. The operators frequently mitigate this problem of cash shortage through borrowing and lending each other. The other mechanism of easing such cash shortage is through diversification of income generating activities.

The presence of affordable credit is essential for enterprise growth. With regard to credit access and availability, there are both formal and informal sources serving the operators in the studied area. The informal sources are consisted of loan from other fellow operators, family, relatives and friends. According to responses from the operators, the credit generated from such sources, along with a loan secured from micro finance institution (MFI) and own savings constitutes a portion of the start-up capital of the MSEs. *Addis* MFI is the formal source of credit used by operators, though there are other financial service providers like state-owned and private commercial banks.

Even if many writers including Vandenberg support the already established opinion on micro-finance that holds a view that micro-finance is a useful way of channeling finance to the poor and overcoming the difficulties they face in securing credit from formal financial institutions such as banks (Vandenberg, 2006:33). It was reported that the terms of credit of *Addis* MFI are not suitable to the operators as the MFI fixes short repayment period with higher interest rate that is 9% in comparison with the interest rate of 6% charged by the banks. Majority of respondents indicated that, MFI charges them totally 12% of the extended credit, of which 9% is paid as interest on the loan, 3% as service charge. This high loan cost puts the affordability of the loan of the MFI demanding by the users. Obviously, such high loan cost further damages the already low meager revenue of the enterprises. On the other hand, the interviewees' pointed that the short repayment period scheduled by the MFI put them in worrisome state as they face shortage of market resulting in their inability to repay the loan with in the period stipulated by the MFI. Given the market problem of the MSEs, it is fair to suggest the MFI to effectuate a 'grace period policy'.

Majority of interviewees widely outlined that, they are frequently uses informal sources as a main sources. According to them, this is because of the view that the requirement of collateral and loan application procedures are relatively rare (completely none) in case of informal sources. Since such sources usually take place among parties with intimate knowledge and trust of each other, making the need for security (in the form of asset collateral/guarantee) low.

In conformity with this finding, Currie (2009:87-122) stated that:

> --- *majority of MSEs in countries such as Ethiopia operate at under capacity due to lack of credit or over-regulation. This problem has been exacerbated by the demand for collateral by commercial banks as a prerequisite for the approval of loan applications.*

This is also consistent with previous findings. For instance, according to Woldehanna et al., (2008:177-201) stated that formal money lending institutions have so far failed to produce innovative, affordable and user friendly financial services with a particular view to assist the struggling MSE sector in Ethiopia.

Respondents were also interviewed to give their opinion regarding saving, majority of them had a prior saving, though incomparable with their current level. The operators indicated that they have saving account opened at *Addis* MFI and Commercial Bank of Ethiopia (CBE) in their own name. In addition to this form of saving, there is also a scheme called *Iqub*, where each member of it puts equal monthly contribution and the pooled amount is given to each contributor on rotational basis. The money accessed from *Iqub* sources is usually spent for undertaking other income generating activities by other family members such as *gullit*[8]. Such informal indigenous rotating saving and credit schemes have a remarkable role in consolidating the enriched social life among the operators.

To wind up, the operators had better level of cash possession in comparison with the past but it is declining as time passes because of the inflation, increasing price of inputs, basic commodities and services such as transportation.

[8] A petty trading activity usually undertaken at road sides and sometimes at designated places

Table 4.7. Management factors that affect the performance of MSEs

Item	*Textile & garment*		*Food processing*		*Wood and metal work*		*Grand*	
Managerial factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Lack of clear division of duties and responsibility among employees	3.16	.89	3.21	.92	3.13	.85	3.18	.97
Poor organization and ineffective communication	3.26	.99	2.85	1.09	2.97	.94	2.99	1.04
Poor selection of associates in business	4.18	.81	4.28	.79	4.33	.75	4.27	.78
Lack of well trained and experienced employees	3.85	.75	3.28	1.11	4.08	.87	3.63	1.03
Lack of low cost and accessible training facilities	4.08	.86	3.97	.81	3.93	.78	3.99	.81
Lack of strategic business planning	3.98	.81	4.07	.78	4.02	.68	4.03	.76
Grand mean/standard deviation							***3.68***	***1.02***

Source: Field survey, 2012

As shown in table 4.7 above, poor selection of associates in business is the main problems that hinder the performance of MSEs. It shows a mean score of 4.33, 4.28 and 4.18 with a standard deviation of .75, .79 and .81 for MSEs engaged in wood and metal work, food processing and textile and garment respectively. Therefore, the average score of the respondents with regard to poor selection of associates indicates their agreement with little deviations among them.

With regard to strategic business planning the mean scores are 4.07, 4.02 and 3.98 with standard deviation of .78, .68 and .81 for operators engaged in food processing, wood and metal work and textile and garment respectively. This shows that MSEs have a problem with developing and implementing the strategic planning activities successfully. Likewise, in relation to costly and inaccessible training facilities, the table above shows that, the mean score of 4.08, 3.97 and 3.93 with standard deviation of .86, .81 and .78 for

MSEs engaged in textile and garment, food processing and wood and metal work respectively. The table also shows lack of well trained and experienced employees is the problem of operators engaged in wood and metal work and textile and garment with mean score of 4.08 and 4.02 with standard deviations of .87 and .83 respectively. But as the table above shows, the problem of well trained and experienced employees for operators engaged in food processing is moderate with a mean of 3.28 and standard deviation of 1.11.

To the contrary, the respondent of all sectors are neither 'agree' nor 'disagree' with the issue of poor organization and ineffective communication. The mean scores and standard deviations clearly show that they are almost undecided. That is means of 3.26, 2.97 and 2.85 with standard deviations of .99, .94 and 1.09 for MSEs engaged in textile and garment, wood and metal work and food processing respectively. Similarly, the mean scores and standard deviations of lack of clear division of duties among employees are 3.21, 3.16 and 3.13 and .92, .89 and .85 for MSEs employed in food processing, textile and garment and wood and metal work respectively.

It is argued from a theoretical perspective that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship (Enock N., 2010:43). With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and forecasting under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals.

In this regard in an interview conducted with operators of MSEs, it was confirmed that they had many management problems which stem from factors such as poor record keeping, insufficient training and lack of relevant qualifications. Furthermore, most of these enterprises operate without systems in line with good management practice in which the owner manager is the sole decision maker and his/her absence leads to a halt (temporarily stop) in decision making. Similarly, interviewees unanimously indicated

that, inability (low technical skills) to troubleshoot failures on machinery and/or equipments is a critical problem. Since the operators of MSEs cannot afford to employ specialists in the fields of maintenance with technical knowledge.

Coming down to the matter of lack of a proper business plan for the business, in an interview conducted with operators, it was confirmed that operators of MSEs have no proper business plans at start faces the most challenges during the course of their lives. According to operators, lack of trust in doing business on the other hand seems to have prevailed in most of the cooperative and partnership business (mistrust between business associates). As evident in the study eleven have had a case of distrust among members of cooperatives and partners in their particular business.

To conclude, all these managerial constraints were confirmed by the respondents in this survey who indicated that their businesses were constrained by poor management practice, mistrust among business associates, insufficient training, lack of proper business plan and lack of relevant qualifications among employees.

Table 4.8. Entrepreneurial factors that affect the performance of MSEs

Item	*Textile and garment*		*Food processing*		*Wood and metal work*		*Grand*	
Entrepreneurial factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Lack of motivation and drive	2.46	.89	2.49	.85	2.38	.96	2.46	.89
Lack of tolerance to work hard	2.92	.97	2.82	.86	3.28	.74	2.96	.88
Lack of persistence and courage to take responsibility for ones failure	4.16	.86	4.21	.70	4.30	.74	4.22	.76
Absence of initiative to assess ones strengths and weakness	4.02	.922	3.99	.97	3.95	.91	3.99	.94
Lack of entrepreneurship training	3.90	.87	3.96	.75	3.97	.92	3.95	.82
Lack of information to exploit business opportunities	3.84	.99	3.89	.90	3.88	.89	3.87	.916
Grand mean/standard deviation							***3.57***	***1.08***

Source: Field survey, 2012

Among the entrepreneurial factors, lack of persistence and courage to take responsibility for ones failure scores the highest mean as 4.30, 4.21 and 4.16 with standard deviation of .74, .70 and .86 for operators engaged in metal and wood work, food processing and textile and garment respectively. The second most important factor that affects the performance of MSEs is absence of initiative to assess ones strengths and weakness. Their mean score of 4.02, 3.99 and 3.95 with standard deviation of .92, .97 and .91 for owners engaged in textile and garment, food processing and wood and metal work respectively. This shows that the operators of all sectors agreed with that they have faced the problem of assessing their weaknesses and strengths.

Furthermore, the arithmetic mean and standard deviation indicates that lack of entrepreneurship training is the third entrepreneurial factors that hinder the success of entrepreneurs employed in all sectors. Given that a mean score of 3.97, 3.96 and 3.90

with standard deviation of .92, .75 and .87 for MSEs engaged in wood and metal work, food processing and textile and garment respectively. Regarding lack of information to exploit business opportunities, the mean of 3.89, 3.88 and 3.84 with standard deviation of .90, .88 and .99 for an operator engaged in food processing, wood and metal work and textile and garment respectively. Thus, it may be concluded that lack of information to exploit business opportunities is the fourth factor that hinder the performance of MSEs engaged in three sectors.

As opposed to this, the table shows that lack of motivation is not a serious problem of operators engaged in three sectors. The disagreement on this factor is justified by the calculated means of 2.38, 2.46 and 2.49 with standard deviations of .96, .89 and .85 for operators engaged in metal and wood work, textile and garment and food processing respectively. However, the table indicates that lack of tolerance to work hard moderately hinders the performance of MSEs operated in food processing, textile and garment and wood and metal work with means of 2.82, 2.92 and 3.28 and a standard deviations of .86,.97 and .74 respectively.

Starting with lack of motivation and drive, this has to do with the main reason(s) for the entrepreneur(s) establishing the business and the relationship of this with the performance of the firm (Enock N., 2010:39). In an interview conducted with an operator of MSEs, few (two) interviewees replied that lack of motivation and drive affect the performance of MSEs. Even though the results in this study show only two operators whose business is constrained by lack of motivation and drive, it has been proven that this is a major constraint to many small business owners. A study by Bark Ham shows a positive relation between motivation of the entrepreneur(s) and the performance of the firm; in other words the more positive motivation of the entrepreneur(s) the more likely the business will grow (Bark H. R., 1992:53).

According to interview conducted with operator it was confirmed that, lack of tolerance to work hard and absence of initiative to assess ones strengths and weaknesses are another factor affecting the performance of MSEs. According to them this is due to negligence on

the part of employees and/or owner managers to develop and implement such a culture of tolerance and assessment of strengths and weaknesses. Amazingly, all of the interviewees confirmed that, lack of persistence and courage to take responsibility for ones failure (low level risk taking) is the main entrepreneurial factor that affects the performance of MSEs.

Lack of entrepreneurial training was mentioned by operators in the entire study area. According to interviewees, it featured as a key problem in all sectors. A number of interviewee respondent felt that enough training in entrepreneurship would better prepare to perform in their business endeavours. Furthermore, with regard to lack of information to exploit business opportunities interview was conducted with operators of MSEs. It was confirmed that, the operators do not heightened the ability and awareness for recognizing and audaciously exploiting business opportunities. According to them, this is due to lack of persistently and continually seeking of information opportunities. Consequently, it hampers the performance of MSEs and the fulfillment of competitive urges in general.

4.3.1.1 Comparison of Factors

Even though, all the politico-legal, infrastructure, working premises, technology, marketing, financial, management and entrepreneurial factors affect the performance of MSEs, this does not necessarily mean that all factors have equal impact. The following table clearly compares the overall impact of all key factors discussed in detail above.

Table 4.9. Comparison of the major factors

No.	*Factors*	*Grand Mean*	*Grand Standard deviation*	*Rank of Severity*
1	Politico-legal factors	3.62	1.05	6th
2	Working premises factors	4.00	1.04	2nd
3	Technological factors	3.58	1.02	7th
4	Infrastructural factors	3.73	1.07	4th
5	Marketing factors	3.93	.96	3rd
6	Financial factors	4.01	1.01	1st
7	Management factors	3.68	1.02	5th
8	Entrepreneurial factors	3.57	1.08	8th

Source: Field survey, 2012

It can now be seen that financial and working premises factors has the biggest potential to contribute to the performance, followed by marketing, infrastructural, management, politico-legal, technological and entrepreneurial factors. In another words, the result shows that financial and working premises factors are the two topmost factors that affect the performance of MSE in the selected area. This result is supported by Haftu Berihun et al. (2009:84-86) who found that lack of finance and working space rank on top being reported as the major constraints by a large proportion of the enterprises. It can, therefore, be concluded that finance and working premises factors do largely affect the performance of MSEs.

4.3.2 Results of Inferential Statistics

In this section, the results of inferential statistics are presented. For the purpose of assessing the objectives of the study, Pearson's Product Moment Correlation Coefficient and regression analyses were performed. With the aid of these statistical techniques, conclusions are drawn with regard to the sample and decisions are made with respect to the research hypothesis.

4.3.2.1 Pearson's Product Moment Correlation Coefficient

In this study Pearson's Product Moment Correlation Coefficient was used to determine whether there is significant relationship between politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial variable with performance. The following section presents the results of Pearson's Product Moment Correlation on the relationship between independent variables and dependent variable. The table below indicates that the correlation coefficients for the relationships between performance and its independent variables are linear and positive ranging from substantial to strong correlation coefficients[9].

[9] Correlation matrix of all the variables are presented in appendix C

Table 4.10. The relationship between independent variables and performance

		Performance
Politico- legal factors	Pearson correlation	.736**
	p-value	.000
	N	237
Working premises	Pearson correlation	.815**
	p-value	.000
	N	237
Technological factors	Pearson correlation	.637**
	p-value	.000
	N	237
Infrastructural factors	Pearson correlation	.791**
	p-value	.000
	N	237
Marketing factors	Pearson correlation	.809**
	p-value	.000
	N	237
Financial factors	Pearson correlation	.802**
	p-value	.000
	N	237
Management factors	Pearson correlation	.692**
	p-value	.000
	N	237
Entrepreneurial factors	Pearson correlation	.719**
	p-value	.000
	N	237

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

Source: Field survey, 2012

As it is clearly indicated in the above table 4.10, a strong positive relationship was found between working premises and performance ($r = .815$, $p < .01$), marketing and performance ($r = .809$, $p < .01$), and finance and performance ($r = .802$, $p < 0.01$), which are statistically significant at 99% confidence level. This implies that at a 1% level of significance it was discovered that the working premises, marketing and finance plays a significant role in determining the performance of MSEs in the selected sub-cities.

Moreover, the table presents the association between the selected variables and performance of MSEs for a sample of 237 operators in *Arada* and *Lideta* sub-cities, Addis Ababa. There is substantial, however statistically significant relationship between infrastructures and performance ($r = .791$, $p < .01$). This would imply that, the more infrastructures the better performance of MSEs would be. The result on table above further indicates that, there is a substantial positive correlation between entrepreneurial factors and business performance ($r = .719$), which is statistically significant at 99% confidence level. This implies that MSEs with entrepreneurial skills performed considerably better. There exists a positive relationship between politico - legal factors and performance ($r = .736$, $p < 0.01$), and management and performance ($r = 0.692$, $p < 0.01$), and technological factor and performance of MSEs ($r = 0.637$, $p < 0.01$), which are statistically significant at 99% confidence level.

4.3.2.2 Regressions Analysis

For the purposes of determining the extent to which the explanatory variables explain the variance in the explained variable, regression analysis was employed. The results of such analysis are narrated under.

Table 4.11. Regress performance (as dependent variable) on the selected variables (as independent variables) using multiple regressions.

Model summary	R	R square	Adjusted R square	Std. Error of the Estimate[10]		Sig.
	.941[a]	.885	.881	.255		.000
Coefficients	**Model**	***Unstandardized Coefficients***		***Standardized Coefficients***	**t**	
	Variables	B	Std. Error	Beta		Sig.
	Constant	-.351	.116		-3.033	.003**
	Politico-legal (X1)	.090	.031	.101	2.966	.003**
	Working premises (X2)	.234	.036	.238	6.519	.000**
	Technological (X3)	.078	.026	.086	2.981	.003**
	Infrastructures (X4)	.150	.034	.159	4.422	.000**
	Marketing (X5	.157	.038	.163	4.098	.000**
	Finance (X6)	.200	.036	.200	5.513	.000**
	Management (X7)	.102	.029	.110	3.543	.000**
	Entrepreneurial (X8)	.086	.030	.094	2.879	.004**

** P < .01 Source: Field survey, 2012

a. Predictors: (Constant), entrepreneurial factors, technological factors, management factors, politico - legal factors, financial factors, Infrastructural factors, working premises, marketing factors

Table 4.11 above displays the estimates of the multiple regression of performance against its variables for the sample of 237 operators. The hypothesis which states that the business environments of Ethiopia aimed at MSE development do not affect the performance of MSEs in the selected manufacturing sector of *Arada* and *Lideta* sub-cities is tested at a 1% level of significance, it was discovered that the business environments of Ethiopia aimed at MSE development do play a significant role in determining the performance of MSEs. Thus, the null hypothesis may therefore be rejected and it is

[10] The *Std. Error of the Estimate* is a measure of the variability of the multiple correlations.

accepted that, the business environments of Ethiopia aimed at MSE development do affect the performance of MSEs in the selected manufacturing sector of *Arada* and *Lideta* sub-cities.

The table 4.11 revealed that, the correlation between the observed value of performance and the optimal linear combination of the independent variables (politico-legal, working premises, technological, infrastructures, marketing, finance, management and entrepreneurial factors) is 0.941, as indicated by multiple R. Besides, given the R Square value of 0.885 and adjusted R square[11] value of 0.881, it may be realized that 88.5% of the variation in performance can be explained by the independent variables. The remaining 11.5 % of the variance is explained by other variables not included in this study. The unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below.

Predicted performance score = -.351 + .090 (politico-legal) + .234 (working premises) + .078 (technological) + .150 (infrastructures) + .157 (marketing) + .200 (finance) + .102 (management) + .086 (entrepreneurial)[12]

Table 4.11 further shows that, all the explanatory variables included in this study can significantly explain at 99% confidence level to the variation on the dependent variable. The standardized beta coefficient column shows the contribution that an individual variable makes to the model. The beta weight is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant). As these are standardized we can compare them. Thus, the largest influence on the performance of MSEs is from the working premises factor (.238) and the next is financial factor (0.200). On the other hand technology with the beta value of .086 and entrepreneurial with the beta value of .094 are the poorest predictor of performance when it is compared with the other explanatory variables under study.

[11] The *Adjusted R Square* adjusts for a bias in R^2 as the number of variables increases.

[12] The multicollinearity test for this regression equation is given in Appendix C

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In this chapter the conclusions and recommendations are discussed. For clarity purpose, the conclusions are based on the research objectives of the study. Based on the findings of the study recommendations are made to government bodies, to operators of MSEs and suggestion for other researchers.

5.2 CONCLUSIONS

This research was conducted in *Arada* and *Lideta* sub-cities of Addis Ababa with the prime intent of critically assessing the factors affecting the performance of MSE operators engaged in textile and garment, food processing and metal and wood work activities. Specifically, the study attempted to examine the sources of finance or funds available for MSEs, to investigate contextual factors, to assess the internal factors and to recommend possible solution to alleviate the problem of MSEs. Based on the objectives and findings of the study, the following conclusions are worth drawn.

The main sources of startup and expansion finance or funds for most MSEs are personal savings followed by *iqub*/*idir*, family and friends/relatives. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases this problems may be the inability of many operators to meet formal financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from informal sources.

The most important contextual factors identified are financial factors which include high collateral requirement from banks and other lending institutions, shortage of working capital, high interest rate charged by banks and other lending institutions, and too complicated loan application procedures of banks and other lending institutions. The workings premises factors include absence of own premises and the rent of house is too high. Marketing factors include inadequacy of market, difficulty of searching new market, lack of demand forecasting, lack of market information and absence of relationship with an organization/association that conduct marketing research. Infrastructural factors incorporate power interruptions, and lack of sufficient and quick transportation service that hinder the business performance of all sectors.

Though, various governmental bodies designed various programs aimed at developing MSEs sector. Most of the programs were not given the appropriate backing and as such the impact of the programs could not be felt in the performance and competitiveness of MSEs. This is mainly because of the fact that these programmes or policies are not effectively implemented in line with their intended objectives owing to various reasons. According to the findings, the reason ranges from lack of visible commitment of some governmental bodies to lack of regular integration between the MSEs operators and the concerned bodies of the government.

The main internal factors identified were management factors which include poor selection of associates in business, lack of strategic business planning, and costly and inaccessible training facilities. Lastly, the major entrepreneurial factors include lack of persistence and courage to take responsibility for ones failure and absence of initiative to assess ones strengths and weakness. In terms of the stated research hypothesis the specific empirical findings emerged from the investigation that there exists significant positive relationship between independent variables and dependent variable. Moreover, the selected independent variables may significantly explain the variations in the dependent variable in study area.

Finally, the study has further identified that the different influences in which each of the factors under study have in different categories of the business. The research clearly illustrates that, even if the degree of those critical factors in food processing sector slightly differ from the factors that are critical to textile and garment, and wood and metal work sectors, most of the factors are considerably common for three sectors. It has been noted that the contextual factors are prevalent to the businesses such as financial, workings premises, marketing and infrastructure had very high effects on the performance of MSEs compared to other factors in the research area.

5.3 RECOMMENDATIONS

Suggestions for corrective and complementary measures to enhance the potential performance of MSEs are essential. Such recommendations demand an in-depth analysis of the influence of different factors regarding the sector. Based on the findings and conclusions of the study, the following recommendations are forwarded.

The Addis Ababa city government bodies should provide affordable alternative sources of finance for MSEs. This can be done by communicating with the banks and other credit institutions to lessen their requirements. This should be done so that MSEs can get enough access to finance for their business activities.

The strengthening of government institutions at different levels would play a major role in positively influencing the development of MSEs, thus to reduce delays in processing legal requirements. The government through various relevant departments should specialize more in taking up a facilitative role, especially by reviewing all the blockings by laws, to address issues of getting a license or getting a premises on which to operate. A number of factors should be considered in designing all-encompassing policy for the promotion of the sectors.

Marketing factors are frequently indicated as the explanatory factor for most problems faced by the studied MSEs. Therefore, it is necessary to solve this deep-rooted problem. Some of the ways of doing so can be:

- Providing selling and display places in areas close to working area.
- Linking the MSEs with other private contractors working within or around Addis Ababa so that the operators are able to secure market opportunity.
- Changing the perception of the general public through extensive awareness creation mechanisms, since private individuals are envisaged to be the main buyers of the products manufactured by MSEs in the long run.
- Allowing those MSEs located and operating at *Arada* and *Lideta* sub-cities to participate in biddings opened in other sub-cities of Addis Ababa and around Addis Ababa.

The operators of MSEs should form groups and make use of pooled negotiating power for borrowing purposes. They can use such negotiating power to purchase raw materials and receive discounts which might lead to a reduction in the cost of production. Through networking, MSEs of *Arada* and *Lideta* sub-cities can be able to exchange services such as advertising amongst themselves for free. This will enhance their competitiveness through a reduction in the cost of production. The benefit of sharing such service for the operators of MSEs is that it will strengthen the future survival, profitability and eventual growth of MSEs.

To make MSEs competitive and profitable, increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial. Moreover, improved provision of necessary infrastructure and enabling the environment for business operations is generally an imperative. Uninterrupted power supply and quick transportations are basic to effective performance of these enterprises.

Finally, investigating different factors based on the right information are vital for the good performance of any business venture. This can be achieved by conducting more researches in related areas. The focus for this study was on the manufacturing sectors particularly in textile and garment, food processing and wood and metal work. It is the researcher's view that future research could therefore investigate the other sectors like construction, urban agriculture, and retail and come up with specific findings which will potentially contribute a lot in the development of the country in general. This study dealt with more of contextual and internal factors that affect the performance of MSEs. Further research could target the medium and larger firms that have dominated the markets having graduated from the MSEs. The field of MSEs is large and very diverse. It is an interesting area with many unresolved issues. It would be encouraging to get more solutions to many issues arising.

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APPENDIX A

QUESTIONNAIRE

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND PUBLIC ADMINISTRATION

DEPARTMENT OF MANAGEMENT

MBA PROGRAM

SECTION 1: INTRODUCTION

Dear respondent,

I am a graduate student in the department of management, Addis Ababa University. Currently, I am undertaking a research entitled ***'Factors Affecting the Performance of Micro and Small Enterprises in Arada and Lideta Sub-Cities of Addis Ababa'***. You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of the factors affecting the performance of Micro and Small enterprises in two sub cities of Addis Ababa. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Sincerely,
Admasu Abera

Instructions

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

SECTION 2: GENERAL INFORMATION ON BUSINESS ENTERPRISES

1. What is the main activity of the enterprise?

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

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

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

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

   C. Banks ☐ F. Iqub/Idir ☐

3. Which one of the following aspect is the most important for the success of your business venture?

   A. A business plan ☐ C. An entrepreneurial team ☐

   B. Business opportunities ☐ D. Training in business skills ☐

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

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

4. Please indicate the degree to which you agree with the following statements concerning politico-legal factors.

S. No.	**Politico-Legal Factors**	5	4	3	2	1
4.1	The tax levied on my business is not reasonable					
4.2	Bureaucracy in company registration and licensing					
4.3	Lack of government support					
4.4	Political intervention					
4.5	Lack of accessible information on government regulations that are relevant to my business					

5. Please indicate the degree to which you agree with the following statements concerning working place factors.

S. No.	**Working Place Factors**	5	4	3	2	1
5.1	Absence of own premises					
5.2	Current working place is not convenient					
5.3	The rent of house is too high					

6. Please indicate the degree to which you agree with the following statements concerning technology factors.

S. No.	**Technological Factors**	5	4	3	2	1
6.1	Lack of appropriate machinery and equipment					
6.2	Lack of skills to handle new technology					
6.3	Lack of money to acquire new technology					
6.4	Unable to select proper technology					

7. Please indicate the degree to which you agree with the following statements concerning infrastructural factors.

S. No.	**Infrastructural factors**	5	4	3	2	1
7.1	Power interruptions					
7.2	Insufficient and interrupted water supply					
7.3	Lack of business development services					
7.4	Lack of sufficient and quick transportation service					
7.5	Lack of appropriate dry waste and sewerage system					

8. Please indicate the degree to which you agree with the following statements concerning marketing factors.

S. No.	**Marketing Factors**	5	4	3	2	1
8.1	Inadequate market for my product					
8.2	Searching new market is so difficult					
8.3	Lack of demand forecasting					
8.4	Lack of market information					
8.5	Absence of relationship with an organization that conduct marketing research					
8.6	Lack of promotion to attract potential users					
8.7	Poor customer relationship and handling					

9. Please indicate the degree to which you agree with the following statements concerning financial factors.

S. No.	**Financial Factors**	5	4	3	2	1
9.1	Inadequacy of credit institutions					
9.2	Lack of cash management skills					
9.3	Shortage of working capital					
9.4	High collateral requirement from banks and other lending institutions					
9.5	High interest rate charged by banks and other lending institutions					
9.6	Loan application procedures of banks and other lending institutions are too complicated					

10. Please indicate the degree to which you agree with the following statements concerning management factors.

S. No.	**Management Factors**	5	4	3	2	1
10.1	Lack of clear division of duties and responsibility among employees					
10.2	Poor organization and ineffective communication					
10.3	Poor selection of associates in business					
10.4	Lack of well trained and experienced employees					
10.5	Lack of low cost and accessible training facilities					
10.6	Lack of strategic business planning					

11. Please indicate the degree to which you agree with the following statements concerning entrepreneurship factors

S. No.	**Entrepreneurial Factors**	5	4	3	2	1
11.1	Lack of motivation and drive					
11.2	Lack of tolerance to work hard					
11.3	Lack of persistence and courage to take responsibility for ones failure					
11.4	Absence of initiative to assess ones strengths and weakness					
11.5	Lack of entrepreneurship training					
11.6	Lack of information to exploit business opportunities					

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

S. No.	**General Factors**	5	4	3	2	1
12.1	Politico-legal factors					
12.2	Working space factors					
12.3	Technological factors					
12.4	Infrastructural factors					
12.5	Marketing factors					
12.6	Financial factors					
12.7	Managerial factors					
12.8	Entrepreneurial factors					

አዲስ አበባ ዩኒቨርሲቲ
የቢዝነስና ህዝብ አስተዳደር ት/ቤት
የማኔጅመንት ት/ክፍል
የቢዝነስ አስተዳደር ድህረ ምረቃ ት/ቤት

ክፍል አንድ፡ <u>መግቢያ</u>

ውድ የጥናቱ ተሳታፊዎች፡-

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

አድማሱ አበራ

ማሳሰቢያ - በመጠይቁ ላይ ስም መፃፍ አያስፈልግም፡፡
- መልስዎትን በሳጥኑ ውስጥ የእርማት ምልክት (✓) ያስቀምጡ፡፡

ክፍል ሁለት፡ <u>ስለቢዝነስ ተቋማት አጠቃላይ መረጃ</u>

1. የተሰማሩበት የስራ መስክ ምንድነው?
   ሀ. ጨርቃ ጨርቅና አልባሳት☐ ለ. የምግብ አዘገጃጀት☐ ሐ. እንጨትና ብረታ ብረት ☐
2. በዘርፉ ለመንቀሳቀስ መነሻ ብር ከየት አገኙ?
   ሀ.ከግል ቁጠባ☐ መ. መንግስታዊ ካልሆኑ ድርጅቶች☐ ሰ.ከማይክሮ ፋይናንስ ☐
   ለ. ከቤተሰብ☐ ሠ. ከጓደኛ ☐ ሸ. ሌላ ካለ ይግለፁ ------
   ሐ. ከባንክ ☐ ረ. ከዕቁብ/እድር☐
3. ከሚከተሉት ነገሮች ውስጥ ለስራዎ ስኬት በጣም ወሳኝ የሆነው የቱ ነው?
   ሀ. የቢዝነስ እቅድ ☐ ሐ. የስራ ፈጠራ ቡድን ☐
   ለ. የቢዝነስ አጋጣሚዎች ☐ መ. የቢዝነስ ክህሎት ስልጠናዎች ☐

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

ከዚህ በታች ለጥቃቅንና አነስተኛ ተቋማት የአፈፃፀም ችግር ሊሆኑ የሚችሉ ነገሮች ተዘርዝረዋል፡፡ ከተዘረዘሩት ችግሮች የእርስዎን የስራ ዘርፍ ይበልጥ ተፅእኖ የሚያሳድሩትን በደረጃ ያመላክቱ፡፡ ለእያንዳንዱ ጥያቄ ከአማራጮቹ አንድ ጊዜ ብቻ የ(✓) ምልክት በማድረግ ምላሽ ይስጡ፡፡

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

4 = እስማማለሁ 2 = አልስማማም

ተ.ቁ	4. . ህጋዊና ፖለቲካዊ ጉዳዮች	5	4	3	2	1
4.1.	ተመጣጣኝና ምክንያታዊ ያልሆነ የስራ ግብር፡፡					
4.2.	በቢሮክራሲያዊ ማነቆ የተተበተበ የምዝገባና የንግድ ፈቃድ አሰጣጥ ሂደት፡፡					
4.3.	በቂ ያልሆነ የመንግስት ማበረታቻ፡፡					
4.4.	ተገቢ ያልሆነ የፖለቲካ ጣልቃ ገብነት፡፡					
4.5.	ከስራዬ ጋር ተዛማጅ የሆኑ ህጎች፣ ደንቦችና አዋጆች ተደራሽ አለመሆን፡፡					

ተ.ቁ	5. የስራ ቦታና ተዛማጅ ችግሮች	5	4	3	2	1
5.1	ስራዬን የሚያካሄድበት የግል ቦታ አለመኖር፡፡					
5.2.	አሁን ያለሁበት ቦታ ለስራ አመቺ አለመሆን፡፡					
5.3.	ከፍተኛ የሆነ የቤት ኪራይ መጠን፡፡					

ተ.ቁ	6. ቴክኖሎጂና ተዛማጅ ችግሮች	5	4	3	2	1
6.1	ለስራዬ ተገቢ የሆነ ቴክኖሎጂ ግብዓት አለመኖር፡፡					
6.2.	በቂ የሆነ የቴክኒክ ክህሎት አለመኖር፡፡					
6.3.	በገንዘብ እጥረት ምክንያት አዳዲስ የቴክኖሎጂ ውጤቶችን አለማግኘት፡፡					
6.4.	ለስራዬ ተገቢ የሆነ የቴክኖሎጂ ውጤት መምረጥ አለመቻል፡፡					

ተ.ቁ	7. ከመሰረተ ልማት ጋር የተያያዙ ችግሮች	5	4	3	2	1
7.1.	የኤሌክትሪክ ሀይል መቆራረጥ፡፡					
7.2.	የተቆራረጠና በቂ ያልሆነ የውሃ አቅርቦት፡፡					
7.3.	የቢዝነስ ልማት አገልግሎት እጥረት፡፡					
7.4.	በቂ እና ፈጣን የሆነ የትራንስፖርት አገልግሎት አለመኖር፡፡					
7.5.	በቂ የደረቅና ፈሳሽ ቆሻሻ ማስወገጃ ስርዓት አለመኖር፡፡					
ተ.ቁ	8. ግብይትና ተዛማጅ ችግሮች	5	4	3	2	1
8.1	በቂ የሆነ የገበያ እድል አለመኖር፡፡					
8.2.	አዲስ የገበያ አማራጭን የመፈለግ አዳጋችነት፡፡					
8.3.	የወደፊት የገበያ ፍላጎትን መተንበይ አለመቻል፡፡					
8.4.	በቂ የሆነ የግብይት መረጃ አለመኖር፡፡					
8.5.	ግብይትን በተመለከተ ጥናትና ምርምር ከሚያካሂዱ ተቋማት ጋር ግንኙነት አለመፍጠር፡፡					
8.6.	ምርቶችን በአግባቡ አለማስተዋወቅ፡፡					
8.7.	ደካማ የሆነ የደንበኛ አያያዝ፡፡					

ተ.ቁ	9. ከገንዘብ ጋር የተያያዙ ችግሮች	5	4	3	2	1
9.1	በቂ የሆኑ የብድር ተቋማት አለመኖር፡፡					
9.2.	የብር አያያዝ ክህሎት ችግር፡፡					
9.3.	የስራ ማንቀሳቀሻ ብር እጥረት፡፡					
9.4.	ባንኮችና ሌሎች አበዳሪ ተቋማት ለማበደር የሚጠይቁት ከፍተኛ የማስያዣ መጠን፡፡					
9.5.	ባንኮችና ሌሎች አበዳሪ ተቋማት የሚጥሉት ከፍተኛ የብድር ወለድ መጠን፡፡					
9.6.	ባንኮችና ሌሎች አበዳሪ ተቋማት ለማበደር					

	የሚከተሉት ውስብስብና አሰልቺ ሂደት፡፡					

ተ.ቁ	10. የስራ አመራር ክህሎት ጋር የተያያዙ ችግሮች	5	4	3	2	1
10.1.	በሰራተኞች መካከል ግልፅ የሆነ የስራና ሀላፊነት ክፍፍል አለመኖር፡፡					
10.2.	ደካማ አደረጃጀትና ውጤታማ ያልሆነ የግንኙነት አሰራር፡፡					
10.3.	ደካማ የሆነ የስራ ባልደረቦችን መምረጥ፡፡					
10.4.	የሰለጠኑ እና ልምድ ያላቸው ሰራተኞች አለመኖር፡፡					
10.5.	በዋጋቸው ተመጣጣኝና ተደራሽ የሆኑ የስልጠና እጥረት፡፡					
10.6.	የረዥም ጊዜ የቢዝነስ እቅድ አለመኖር፡፡					

ተ.ቁ	11. የስራ ፈጠራ ክህሎትና ተዛማጅ ችግሮች	5	4	3	2	1
11.1.	ለስራ ፈጣሪነት አለመነሳሳት፡፡					
11.2.	ጠንክሮ አለመስራት፡፡					
11.3.	ለሚፈጠሩ ጊዜያዊ ውድቀቶች ፀንቶ ሀላፊነትን አለመውሰድ፡፡					
11.4.	የራስን ጠንካራና ደካማ ጎን አለመፈተሽ፡፡					
11.5.	በቂ የሆነ የስራ ፈጠራ ስልጠና አለማግኘት፡፡					
11.6.	በተመሳሳይ ዘርፍ በስራ ፈጣሪነታቸው ውጤታማ ከሆኑ ተቋማት ልምድ አለመቅሰም፡፡					

ተ.ቁ	12. እባክዎትን ከዚህ በታች ከተዘረዘሩት አጠቃላይ ጉዳዮች በቀጥታ የእርስዎን የስራ ዘርፍ አፈፃፀም ላይ ይበልጥ ጠቃሚ የሆኑትን በመጠን ያመላክቱ።	5	4	3	2	1
12.1	ከመንግስት ህጎች፣ ፖሊሲዎችና ደንቦች ጋር የተያያዙ ጉዳዮች።					
12.2.	የስራ ቦታ እና መሰል ጉዳዮች።					
12.3.	ቴክኖሎጂ እና መሰል ጉዳዮች።					
12.4.	የመሰረተ ልማት አቅርቦት።					
12.5.	ገበያ እና መሰል ጉዳዮች።					
12.6.	ፋይናንስና ብድር ጉዳዮች።					
12.7.	የአመራር ክህሎት እና መሰል ጉዳዮች።።					
12.8.	የስራ ፈጠራ ክህሎት እና መሰል ጉዳዮች። ።					

APPENDIX B

Interview Questions

Interview questions with MSE operators

1. What problems did you face while running MSEs in relation to:

A. Contextual factors

- Politico-legal factors [government policy, bureaucracies (in relation to company registration and licensing), taxation and like]
- Premises factors
- Technology factors
- Infrastructure (power, transportation, water supply and like)
- Marketing factors (relationship with suppliers, customers and others)
- Financial factors (interest rates, collateral requirements, etc)

B. Internal factors

- Management and related factors
- Entrepreneurial factors

2. What are other problem(s) did you faced regarding the overall functioning of your activity?

Appendix C

Correlations Matrix										
		Performance	Politico – legal factors	Working factors	Technological factors	Infrastructural factors	Marketing factors	Financial factors	Management factors	Entrepreneurial factors
Performance	Pearson Correlation	1								
	Sig. (2-tailed)									
	N	237								
Politico-legal factors	Pearson Correlation	.736**	1							
	Sig. (2-tailed)	.000								
	N	237	237							
Working factors	Pearson Correlation	.815**	.645**	1						
	Sig. (2-tailed)	.000	.000							
	N	237	237	237						
Technological factors	Pearson Correlation	.637**	.490**	.575**	1					
	Sig. (2-tailed)	.000	.000	.000						
	N	237	237	237	237					
Infrastructural factors	Pearson Correlation	.791**	.607**	.664**	.533**	1				
	Sig. (2-tailed)	.000	.000	.000	.000					
	N	237	237	237	237	237				
Marketing factors	Pearson Correlation	.809**	.691**	.647**	.499**	.673**	1			
	Sig. (2-tailed)	.000	.000	.000	.000	.000				
	N	237	237	237	237	237	237			
Financial factors	Pearson Correlation	.802**	.611**	.641**	.515**	.676**	.716**	1		
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000			
	N	237	237	237	237	237	237	237		
Management factors	Pearson Correlation	.692**	.498**	.596**	.453**	.579**	.627**	.554**	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000		
	N	237	237	237	237	237	237	237	237	
Entrepreneurial factors	Pearson Correlation	.719**	.566**	.611**	.486**	.621**	.639**	.619**	.488**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	
	N	237	237	237	237	237	237	237	237	237
**. Correlation is significant at the 0.01 level (2-tailed).										

Note that: As we are producing multiple correlations and regression model we need to be aware of certain features of the *multicollinearity*. That means, when two or more independent predictors are highly correlated with each other this is known as multicollinearity. As a general rule of thumb, predictor variables can be correlated with each other as much as 0.8 before there is cause for concern about multicollinearity (Perry R. et al., 2004: 323). But, here a pair wise correlation is below 80%, which indicates the absence of series problem of multicollinearity in the regression equation as indicated in the above correlation matrix.

APPENDIX D

Regressions Tables

Multiple Regressions

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.941[a]	.885	.881	.255

a. Predictors: (Constant), Entrepreneurial factors, Technological factors, Management factors, polit
legal factors, Financial factors, Infrastructural factors, Working premises factors, marketing factc

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.351	.116		-3.033	.003
politico - legal factors	.090	.031	.101	2.966	.003
Working premises factors	.234	.036	.238	6.519	.000
Technological factors	.078	.026	.086	2.981	.003
Infrastructural factors	.150	.034	.159	4.422	.000
Marketing factors	.157	.038	.163	4.098	.000
Financial factors	.200	.036	.200	5.513	.000
Management factors	.102	.029	.110	3.543	.000
Entrepreneurial factors	.086	.030	.094	2.879	.004

a. Dependent Variable: performance