ASSESSING THE CAUSE OF FAILURE OF SMALL, MEDIUM AND MICRO ENTERPRISE (SMME) CONSTRUCTION COMPANIES IN ADDIS ABABA

BY Mr.

ANIMUT AREGA

ADVISOR: ABRAHAM ASSEFA (PhD)

A thesis submitted to the School of Graduate Studies of Addis Ababa University in partial fulfillment of the requirements for the Degree of Master of Science in Construction Technology and Management.

Addis Ababa, Ethiopia

May 17, 2019

ASSESSING THE CAUSE OF FAILURE OF SMALL, MEDIUM AND MICRO ENTERPRISE (SMME) CONSTRUCTION COMPANIES IN ADDIS ABABA

BY Mr.

ANIMUT AREGA

Approved by Board of Examiners

1. Dr. Abraham Assefa Advisor	Abraham Assefa Signature	06/13/19 Date
2. Yibeltal Lemdu External Examiner	Yibeltal Signature	04/06/2019 Date
3. Prof Dr.-Ing Abebe Dinka Internal Examiner	Abebe Dinka Signature	29.03'19 Date
4. Henok Fikre (Dr.-Ing.) A/Dean, School of Civil & Environmental Engineering Chair Person	_____ Signature	_____ Date

DECLARATION

I declare that this thesis entitled "Assessing the Cause of Failure of Small, Medium and Micro Enterprise (SMME) construction companies in Addis Ababa" in partial fulfillment of the requirement for the degree of Master of Science in construction technology and management is my original work. This thesis has not been presented for any other university and has not previously been submitted for the same academic qualification except all sources of material used as a reference for this thesis.

1. Animut Arega _____ _____

Researcher Signature Date

ABSTRACT

The importance of small, medium and micro enterprise contractors in Ethiopia has been recognized by many researchers and policymakers. The contribution of small contractors to the creation of jobs and to the alleviation of poverty has also been recognized by many developing countries including Ethiopia. However, these enterprises have got many problems which are causing failure in their business, especially in the construction industry.

The main objective of this thesis is to assess the cause of failures that are facing on Small, Medium and Micro Enterprise (SMME) construction companies in Addis Ababa. The research used a questionnaire survey on 162 SMME construction companies and case studies to achieve the study objectives.

The research was focused on organizational and economic- environmental related factors which were the cause of failure of these enterprises. The managerial, financial, expansion and information technology related factors were classified as organizational challenges while marketing, payment, regulation and policy related factors were studied as economic-environmental related factors.

The research established that marketing factor is the most challenging factor which becomes the cause of failure of SMME construction companies in Addis Ababa. Next to marketing factor, another challenge which usually happens in SMME construction companies in Addis Ababa is a financial problem. This occurred due to late payment from the client and lack of working capital from an enterprise. According to research results, managerial, ethical, information- technology and government policy and regulation related factors were other challenges which has faced on SMME construction companies.

The research has also suggested some recommendations for the concerning bodies, as they need to have an appropriate understanding about these factors in order to solve marketing, financial, managerial, ethical and government policy and regulation problems. These will assist SMME's to flourish and achieve their objectives of profit, growth and employment opportunities and also reduce poverty. Therefore, it is important for the government and nongovernmental organizations together to formulate their policies and strategies which makes easy to meet the goal of these enterprises.

Key words: Factors, Failure and SMME

ACKNOWLEDGEMENTS

This research could not complete without the assistance of God, institutes, groups of people and individuals. First of all, I would like to thank God with his mother for giving everything until this time.

My special thanks go to my advisor Dr. Abraham Assefa, for his commitment to the thesis at each stage and for making invaluable comments and suggestions. I would also like to express my appreciations to all who have given me assistance in obtaining the information and data related to this work. Particular thanks also go to the experts and staff off Addis Ababa small and micro enterprise agency for their willingness to provide me with all the necessary data.

Finally, I would like to express my sincere appreciation to my brother Gedefayie Arega and friend Desalegn Simachew, for their continuous support throughout the preparation of this research.

Table of Contents

Abbreviations

SMME	Small, Medium and Micro Enterprises
CSA	Central Statistical Authority
GDP	Gross Domestic Product
GSS	Ghana Statistical Service
FRMSES	Federal and Regional Micro and Small Enterprises Strategy
GTP2	Growth and Transformation Plan II
HASIDA	Handicrafts and Small Scale Industries Development Agency
EPRDF	Ethiopian People Revolutionary Democratic Front
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
EEA	Ethiopian Economic Association
FMSEA	Ethiopian Federal Micro and Small Enterprises agency
MoUDHC	Ministry of Urban Development, Housing and Construction
MFI	Micro Finance Institutes
IT	Information technology
FEMSEDA	Federal Ethiopian Micro Small Enterprise Development Agency
NASSC	National Association of Small Scale Contractors
ASGISA	Accelerated Shared Growth Initiative for South Africa
GEM	Global Entrepreneurship Monitor
MBASC	Master Builders Association Standard Contracts
ECA	Economic Commission for Africa
MIS	Mean Item Score index
BSc	Bachelor Science
MSc	Master Science
ILO	International Labor Organization

List of Figures

List of Tables

CHAPTER ONE

Introduction

1.1 Background

The importance of small, medium and micro enterprise contractors in Ethiopia has been recognized by many researchers and policymakers. Habtamu et al. (2013) noted that SMM does serve as a means of bringing economic transition by using the skill and the talent of people without requiring high-level training, much capital, and sophisticated technology.

This makes the sector more preferable to business entry, unemployment reduction, income generation, and poverty alleviation. Recognizing the significance of this sector, the Ethiopian Government issued the Federal and Regional Micro and Small Enterprises Strategy (FRMSES) in 1997 and the Federal and Regional Micro and Small Enterprises Development Agency (FRMSEDA) was established by regulation No.33/1998. The country's industrial policy in 2003 and the poverty reduction strategy in 2006 have singled out SMME as major instruments to create a productive and vibrant private sector and reduce poverty among urban resident.

All these institutional platforms were created in order to promote the growth and development of SMME, which in turn are expected to contribute their parts to national growth and transformation. Additionally, the country's latest grand plan or Growth and Transformation PlanII (GTP2) has stressed the need for providing support to SMM.

As a result, many SMM has played their roles in employment creation, poverty alleviation, the creation of entrepreneurship and national economic development (MoFED, 2010). In spite of the fact that SMME has been playing their roles in employment creation, poverty alleviation, the creation of entrepreneurship and country economic development in the country, the sector has been confronting with many challenges whose severity varies across regions and cities.

These enterprises are categorized under different job sectors according to their interest. Out of which many joined the construction industry since the Ethiopian construction industry is highly booming. This condition has encouraged many people to see opportunities and opening up their own construction companies that usually are categorized under the small, medium, and microenterprise contractors' categories.

However, under-achievement of such SMME is causing growing dissatisfaction amongst industry clients in both the private and public sectors. The level of growing dissatisfaction in the private sector is much less than that of public sectors since most of the time the client of SMMEs

is public sectors. Projects have largely not been delivered on time, within budget and to the expected quality standards. In short, construction too often fails to meet the needs of modern businesses and impacts on their competitiveness in international markets and rarely provides the best value. Construction must improve its performance and achieve its objectives and targets in terms of predictability, cost, time, and quality (Ofori, 2009). It is therefore important for the Ethiopian construction industry to take measures to improve performance. Several developing countries at various levels of socio-economic development have also recognized this.

In some developing countries (those classified under the International Monetary Fund's World Economic Outlook Report, April 2012) Small, Medium, and Micro Enterprises (SMME) have demonstrated their powerful propellant contribution for rapid economic growth (IMF, 2012). The SMME sector has also been instrumental in bringing about the economic transition.

Hernes (1998) observed that the construction industry in developing countries typically employs (5-10 percent of) the direct workforce in addition to employment in the various industries which have linkages with construction. Moreover, it is responsible for creating at least half of most countries' fixed assets, including health centers, schools, administrative buildings, and infrastructure.

However, previous studies have shown that these companies do not have experience in the construction industry. The majority of these contractors have very little skills and inadequate resources; therefore, they take up projects, which are relatively low in magnitude. Ogunlana and Olomolaiye (1989) indicated that the major problems faced by contractors in developing countries have been classified as problems imposed by the industries infrastructure; problems of inaccurate information; frequent changes in instruction; failure to meet obligation on the part of clients and consultants; and problems imposed by their own shortcomings. Laryea (2010) also adds that contractors in developing countries have limited access to funding sources, especially contractors in small and medium-sized companies. The effect of these are leading small, medium and micro contractors not to satisfy their financial requirements.

According to Kangari (1988), failure in the construction industry is a global phenomenon. Earlier studies on the impact of financial factors on the failures of construction firms identified financial management, and lack of capital as the main determinants of failure Kangari(1988).

The same is the case in the Ethiopian construction industry. If we take Arada Sub-city of Addis Ababa town, the total number of registered small and microenterprise construction companies

from 1996 to the present is 698. However, only 490 small and micro enterprises construction companies are active now and the remaining 208 small enterprise construction companies have been suspended from the business due to various challenges. Therefore, the purpose of this thesis is to analyze the cause of failure and challenges of government initiated and sometimes private initiated SMME contractors in Addis Ababa.

1.2 Problem statement

The problem statement will focus on addressing the failure rate among small, medium, and micro enterprise construction companies in Addis Ababa. The contribution of the construction industry including SMME contractors to GDP at constant factor cost was about 6 percent for 2006/07 (Central Statistical Authority 2008).

However, Statistics in Ethiopia has shown that there are SMME that have shown deteriorating performance and have been closing to their business due to various factors. If these companies which employ the majority of the workforce of the country are going to fail in their business, the country will not get expected contribution from this sector and it will not create job opportunity.

In addition to these, quarterly and annual reports and public meetings on SMME contractors have shown that owners of the enterprises, SMME coordinators and experts in Addis Ababa raise critical problems facing in their day-to-day operations related to working premises, raw materials, management and financial adjustments. Thus, this thesis is an attempt to address the major factors that will cause the failure of Small, Medium and Micro Enterprise construction companies in Addis Ababa.

1.3 Objective

The objective of this thesis will be:

1) to identify the factors that cause the failure of small, medium and micro enterprise construction companies in Addis Ababa
2) to asses different methods which could be employed by SMME contractors to counter the challenges faced.
3) to draw some conclusions and recommendations about the study.

1.4 Significance of the study

The construction industry is a vital driver in the development of every nation through infrastructure growth, leading to capacity building of existing contractors', formation of newly emerging contractors, and the establishment of small, medium and micro contractors. This study

may serve as a starting point for further investigations which focus on small medium and micro enterprises.

In general, the significance of this study is to know the cause of failure faced by the SMME contractors in Addis Ababa and it will be expected to indicate the government and the policymakers to give attention for SMME contractors to achieve the 2nd Growth and Transformation Plan of the country.

In addition to these, this research is expected to generate recommendations for the government and the policy makers such as producing excellent designs which include and gives clear program objectives, especially coherence between short term and long term objectives within an integrated Labor Based Approaches framework; preparation of detail technical appraisals with good understanding and knowledge without financial and time constraints (which may leads to unrealistic programmed targets), solutions to potential constraints and challenges and giving attention to participation of beneficiary communities and local government institutions in programme design.

1.5 Scope of the study

There are different types of construction contractors in the construction business classified based on their size and specialization. The scope of the study will focus on small, medium and micro enterprises involved in the construction industries. It is needed to assess and evaluate the level of understanding on the cause of failure of SMME contractors in their business. The study is limited only to on-site observation with the management teams of different SMME construction companies by distributing questionnaire. The time and logistical constraints will not permit to go to each and every SMME construction companies of Ethiopia. The main reasons for selecting this SMME were: 1) mostly SMME are considered by the government as a significant source of direct employment than value creation like larger contractors, 2) SMME are large in number in all regions and works at different remote geographical locations that might be unattractive to big firms or too costly for the big firms. This category of contractors rarely referred to as the preferred vehicle of delivery of infrastructure to communities than any other form in Ethiopia. On the other hand, different articles are written like Admasu, A. (2012), who observed these small medium and micro enterprises problems. According to his study, they are not comprehensive about their employment and value creation or contribution due to the existing challenges.

CHAPTER TWO

Literature review

2.1 SMME in Global and Ethiopian Context

This chapter provides a background to the study that is being proposed by reviewing published literature of the study area. It explains the problem that is going to be investigating and how that particular problem is going to be assessed. The target is to get knowledge and ideas about the topic and it will also show the possible strengths and weaknesses from different countries. The chapter will also serve as a reference for past studies and historical background on the different causes of failure of small, medium and micro enterprise construction companies in Addis Ababa.

The definition of SMME began in the UK with the publication of the so-called Bolton Committee Report of 1971. The author wanted to categorize his definitions in terms of statistical and economic models. By way of summary, the report's statistical categorization outlined three features to suit the statistical definition. They are:

1. measuring the changing trend of a small firm's overall economic contribution;
2. how the size of the small business enterprise influences its input to overall national output measured in terms of GDP; and
3. resorting to off-road assessment to know what constitutes small firms using verifiable statistical instruments.

On the other hand, the economic categorization has the following three related features as presented by the Bolton Committee:

1. a small firm is one whose management style is not within the conventional style but runs along with the interests of the owners;
2. the firm occupies a limited share of the total market of the industry within which it operates; and
3. the operation runs independently without representing any external parent company.

Even though the definitions put forward by the UK's Bolton Committee (1971) are reasonable, other attempts have come from the European Commission. Their chief criterion for defining SMME was drawn from the employee size of the firm. The European Commission has therefore defined Micro Enterprises as those employing less than 10 employees. Those that employ between 10 and 99 are classified as small enterprises and those that employ between 100 to less than 500 are considered medium enterprises.

In Britain and USA, small and medium scale industries were classified based on yearly gross revenue and the number of workers they employ. In Britain, small-scale businesses were classified based on paid-up employees that do not exceed 200 and annual gross revenue of 2 million Euro. Japan classifies SMME as manufacturing enterprises with total capital not exceeding $910,000 with 300 employees. In the wholesale trade, the classification requires capital not exceeding $273,000 and less than 100 employees. In retail and service trade SMME classified based on total capital not exceeding $91,000 and 50 employees, respectively (Ekpenyong, 1992).

According to Osotimehin et al. (2012) in Britain have noted, small business is a business with an annual turnover of $2.26 million or less with fewer than 200 paid employees. In Japan, small enterprises are either having capital not exceeding $455000 or having not more than 300 employees in the manufacturing industry and either having capital not greater than $91,000 or having not more than 50 employees in commerce and service sectors Stanley & Morse (1965).

Like the majority of developed countries, the definitions of SMME given by the majority of African countries are used more or less the same criteria. Concerning this, Olabisi *et al.* (2013) defined Small-scale enterprises in Nigeria, as an industry whose total project cost excluding the cost of land including working capital does not exceed $14,000.

Besides these, SMME have defined in Ghana that Small-scale enterprise is a firm with not more than nine workers and has plant and machinery (excluding land, buildings, and vehicles) and with employee less than five workers. Despite it, Kayanula and Quartey (2000) considered companies with up to nine employees as small and medium enterprises. The following table summarizes Ghana's classification.

Table 2.1 Ghana's SMM classification

Enterprise	No of employees
Small enterprise	<10
Medium and large size enterprise	>10

Ghana statistical service (GSS)

Like Ghana, Act (1995) defines construction enterprises in South Africa. According to him, small enterprises have less than 50 employees and $35,0000 turn over whereas medium enterprises have less than 200 employees and $1.4m turnover. Table 2.2 shows the South Africas SMME classification.

Table 2.2 South Africa's SMME classification

Enterprise	No of employees	Turn over	Gross fixed asset
Small enterprise	<50 persons	$350000	$70000
Medium enterprise	<200 person	$1.4m	$280000

Source: Act (1995)

As it is stated in the above paragraph, the concept of Small, Medium, and Micro Enterprise (SMME) has been defying and used differently in different countries. This shows that the absence of one universally accepted definition of SMME. In most cases, SMME could define based on the number of people employed in the enterprises, investment outlay, and annual sales turnover paid-up capital or a combination of these measures (Stephen & Wasiu, 2013; GFDRE, 2011). This means that there is no universally accepted definition of SMME because in each economic system every country has its own classification according to its industrial regulation. The categorization of SMME depends on qualitative judgment such as a number of paid-up employees, the size of the enterprise, and the amount of capital employed.

The study which is done by Storey (1994) shows that there is no single definition of what constitutes a small business have. This explains that businesses vary in their level of initial capital, sales, and employment. Countries also differ in their level of economic development to justify the generalization of a single definition. This indicates that the industrial regulation of different country treats and categorizes SMME in different ways.

2.2 The Development of SMME in Ethiopia

In recent times in Ethiopia, SMME became the main focused area because their size, location, capital investment, and capacity to generate greater employment are high. In relation to this, MUDC (2013) revealed that there was a government policy to lay the foundation administrative and institutional infrastructure of the state during the 1940s and 1950s in order to consolidate the gains of reforms that were launched to accelerate the process of industrialization in Ethiopia. Therefore, several reforms to the development of SMME were proposed, an example is the Business Enterprise Registration Proclamation No. 184/1961 is established.

According to the Ministry of Commerce and Industry, the Industrial Regulation Legal Notice No.292/1971 manufacturing enterprises were required to acquire a temporary license of six month validity and a permanent license, the Investment Proclamation No. 242/1966 provided SMME tax break, access to land and buildings, public utilities and other facilitation of advisory

and administrative nature were made during this period. Although these attempts were made to support SMME development in the country, the socialist regime that followed a centrally planned economic system since 1974 came to power and introduced socialist proclamations. Its excessive government interventions, burdensome rules and regulations, bureaucratic red-tape as well as excessive and costly administrative and legal requirements to obtain trading license such as the Proclamation No.26/1975 ended up owning and controlling the means of production. In addition, the Proclamation No.76/1975 because of which acquisition of private businesses was restricted to a single license and capital ceilings were set at 300,000 birrs for wholesale trade, 200,000 for retail trade and 500,000 for industrial establishments. The regime also nationalized the private property and those actions had made the previously existing private sector became fail.

In late 1977, the Handicrafts and Small Scale Industries Development Agency (HASIDA) was established by Proclamation No. 124/1977 the objective was to give further improvement to the development of the public economy by encouraging cooperative development in the small-scale sector by issuing licenses to cooperatives, regulating their activities, and assisting in the provision of inputs and training.

After the downfall of the Dergue regime, the Ethiopian People Revolutionary Democratic Front (EPRDF) had introduced public sector reform and private and market economy development. Proclamation of the licensing and supervision of micro-financing institutions in 1996 and the Federal and Regional SMME Strategy in 1997 was adopted to enhance the operation of SMME. Besides this, Federal and Regional SMME Development Agencies were established with the main objectives of utilizing local raw material, the creation of a job, adoption of new and appropriate technologies, and enhancement of the development of SMME (MUDC, 2013).

The second Growth and Transformation Plan has also given priority to SMME development and has put SMME as one of the seven growth pillars of the country (MoFED, 2011).

The former declaration allowed the establishment of small-scale enterprises by business organizations, cooperatives, and individual entrepreneurs and replaced the restrictive Proclamation No. 76/1975 and allowed participation by the Diaspora and raised the capital ceiling for small-scale enterprises from birr 500,000 to between two and four million birrs (MoTI, 1997). The declaration No.17/1990 had lifted the restriction of private sector participation to a single license and allowed individuals to undertake investment in an unlimited

number of enterprises through the journey into mixed economy development was short lived due to various factors.

Recently in Ethiopia interest grew in stimulating private sector involvement, on the grounds that these small private enterprises contractors would be able to overcome the inefficiency problems of the large state-owned organizations, thus improving the level of wealth distribution, job creation, cost efficiency, competitiveness and unemployment undertaken with the limited financial resources available (EEA, 2012).

2.3 Definition of SMME in Ethiopia

As stated earlier Small Medium and Micro Enterprises (SMME) have no single definition because its definition differs widely in different regions, and depend on the phase of economic development as well as their prevailing social conditions. There are several definitions of the term Small Medium and Micro Enterprises (SMME), varying from country to country. SMME is defined for this study by adopting the definition given in 2011 by the Ethiopian Federal Micro and Small Enterprises agency (FMSEA).

Small enterprise is those enterprises employ 6 up to 30 employee or total asset amount birr 100,000 up to 1.5 million birrs for the industry sector and 50,000 up to 500,000 not greater than for the services sector.

Medium Enterprise is enterprises found in manufacturing and service sectors of the Ethiopian economy with a total asset of more than 1.5 million birr according to Ethiopian Federal Micro and Small Enterprises agency (FMSEA).

Another definition of SMME is provided by the Ethiopian Ministry of Trade and Industry (MoTI). According to it, SMME can define as follows:

Small enterprises: are businesses with a total investment between 20,000 birr up to 500,000 birr and do not include these enterprises with advanced technology and high technical consultancy.

Medium enterprises are these business enterprises with a total investment between 500,000 Birr up to one million Birr and including those enterprises that have high technical consultancy and excluding another high-tech establishment.

Microenterprises are small businesses with a total capital investment not exceeding 20,000 Birr and excluding these enterprises with high technical consultancy and another high-tech establishment.

Generally, MoTI criteria to classify SMME in Ethiopia are based on capital investment and bases of the establishment. This is important because the sector accounts for large businesses throughout the country so that proper definition and classification is real meaning for policymakers in their dealings with SMME. Bases of Defining SMME in various countries are tabulated as shown in table 2.3.

Table 2.3 Different countries SMME classification

Country	**Category of Industry**	**Criterion**
Ethiopia	Micro Enterprise Small Enterprise Medium Enterprise	$700 $700- $17500 $17500- $52500
Australia	Manufacturing Service	Less than 100 employees Less than 20 employees
Germany	SME	Less than 500 employees
France	SME	10-499 employees
Japan	Manufacturing	Less than 200 employees
USA	Very Small Small Medium	Less than 20 employees 20-99 employees 100-499 employees
China	SME	Depend on product group usually 100 employees investment ceiling us $8 million
Indonesia	SME	Less than 100 employee

Source: (Hailay.G; 2003)

Although the above definitions given by different countries have used nearly similar criteria, the number of employees, assets, amount of paid-up capital and annual turnover has exhibited their differences due to the economic levels and the social conditions of each country. As stated in table 2.3, the definition of SMME varies from country to country. All over the world, a number of the employee or capital investment or both have been used as the basis for defining SMME (Hailay.G, 2003). This implies that Small, Medium, and Micro Enterprises (SMME) cover a wider spectrum of industries and play an important role in both developed and developing economies. Therefore, Ethiopia is a developing country and its SMME occupy a major position in the development of the Ethiopian economy.

2.3 The role and characteristics of SMME

Small, Medium and Micro Enterprise (SMME) construction companies play a vital role directly and indirectly as a contributor to the nation's of the world. Kesper (2000) suggested that SMME are the real potential engines of wealth creation, value reorientation, job creation, and poverty reduction in developing countries of Africa. Endalkachew (2008) in his research stated that Small Medium and Micro Enterprises (SMME) are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the nonagricultural sectors. Here, the potential contribution of SMME to value creation, contribution to investment and economic development of the nation rarely stated. In recognition of the important role SMME have to play in creating income and employment opportunities and reducing poverty, the government drafted its first Micro and Small Enterprise Development Strategy in 1997.

According to the Central Statistical Authority (CSA, 2003) survey, there are almost 570,000 SMMEs in Ethiopia. Out of it, 99.4 percent of them are micro-enterprises with fewer than ten employees and accounting for 88.2 percent of private sector employment.

On average, they employ one and a half workers (this includes the owner and perhaps one occasional helper) and earn an annual operating surplus of 1,300 birr. Sole proprietors operated 82 percent of urban enterprises. Out of the total employment in these urban micro-enterprises, family members accounted for 60 percent.

Beyond family members, apprentices constituted a large proportion of the remaining SMME workforce (CSA, 2003). The average micro-enterprise has a capital of 3,528 birr, the yearly production value of 2,300 birr and an annual surplus of 1,300 birr. Although significantly more

productive and profitable than micro-enterprises, small-scale industries are also very small, with an average of slightly more than three employees, 18,934 birrs in annual operating surplus, capital of 38,554 birrs, and production value of 68,800 birrs.

USAID (2009) stated that in many countries, microenterprises - small, informally organized commercial operations constitute the majority of businesses. They account for a substantial share of total employment and gross domestic product (GDP) and they contribute significantly to poverty reduction.

In addition to the above roles, they are also a vital tool for job creation. In addition to these, they are better placed to serve this purpose than classical large firms do, firstly because of the fact that their production activities tend to be more laborious in nature (See Schmitz 1995). By this singular fact, their role in employment is acknowledged.

Their demand for extra labor makes them more suited to serve the employment needs of rural and urban populations in ways that offer opportunities for indigenes. They are further seen as a channel through which economic activities can be distributed to reduce regional discrepancies in job opportunities. Moreover, they trigger a move towards enhancing income distribution thanks to the dispersive scope of their activities in contrast to huge enterprises. Unlike the huge corporations, SMME is able to use resources at all levels thereby leading to efficiency, an important ingredient for sustainable economic growth.

It is the fact that these enterprises are a predominant source of income and employment for hundreds of millions of people worldwide. The SMME sector's influence on individuals, households, and national economies is clear and profound. These contractors play a significant and critically important socio-economic role in developing countries.

According to Rwelamila (2003), "the dynamic roles of SMME contractors in developing countries cannot be overemphasized. Such enterprises have been identified as the means through which the rapid industrialization and other developmental goals of these countries can be realized."

However, Rodrick (2010) in his research noted that some authors have contended that the job-creating an impact of SMME contractors is a statistical fault: it does not take into account offsetting factors that make the net impact more modest. It is argued that the increase in employment within SMME is not always associated with an increase in productivity. Nevertheless, the important role performed by these enterprises cannot be overlooked. SMME

contractors have advantages over their large-scale competitors. They are able to adapt more easily to market conditions given the flexibility of their businesses.

2.3.1 Role of SMME in Ethiopia

Ethiopia is one of the least developed countries which have a population growth rate of 2.79%, the labor force (the employed and unemployed) has continued to grow faster than what the economy can gainfully and productively employ. The working age population stood at 54% of the population in 2004/05 and is growing by about 1.2 million people per year, and out of the 33,088,792 economically active populations 1,653,686 (5%) are unemployed (CLEP,2006). Therefore, one of the major reason for focusing on SMME is that:

- They are large employers of the labor force and this helps to handle unemployment and poverty.
- They help to decentralize industries, to accelerate rural development, and to restrict urban immigration and the consequent problems of overcrowding in the cities (MoFED, 2010).
- They add value to the manufacturing sector and to the Gross Domestic Product (GDP) of the economy. The study conducted by Uzor (2004) SMME could be more eagerly used to achieve industrial dispersal and regional balance in economic development, diversification of the industrial structure and the transformation of the rural economy.

Generally, in order to gain the above advantages, SMME contractors are well equipped to effectively manage their construction enterprises from the perspective of the environment, health, and safety, as well as from business sustainability, which contributes to the socio-economic development of local communities and society.

2.4 Challenges of SMME in the construction industry

Despite the fact that Small Medium and Micro Enterprise (SMME) are the real potential engines of wealth creation, value reorientation, job creation, and poverty reduction, they are faced with a number of challenges that are hindering them to operate at full capacity and bring change.

Business failures have long been recognized as indicators of economic trends and failure in the construction industry is a global phenomenon. Dimitras et al. (1996) stated that failure could be defined in many ways depending on the specific interest or condition of the firm under examination. According to a general definition, failure is the situation that the firm cannot pay

lenders, preferred stockholders, suppliers, etc., or a bill is overdrawn, or the firm is bankrupt according to the law. Joseph (1995) stated that in the United States individual construction firms enter and exit the market with a very high frequency, which is a sign of failure.

The construction industry around the world encounters various challenges and problems that hinder its performance. However, in developing countries like Ghana, these problems are further complicated by socioeconomic pressure, institutional weakness, shortage of resources, and payment delays (Barnor, 2010).

Therefore, in this topic, the different factors that cause the failure of SMME construction companies in Addis Ababa reference to review of related works of previous researchers concerning Challenges of SMME construction companies are presented and discussed under three main subtopics of organizational, personal and economic-environmental related factors.

2.4.1 Organizational related factors

2.4.1.1 Managerial factors

Longenecker et al .(2006) stated that poor management has been posted as one of the main causes of the failure of the small enterprise. Lack of experience in the constructions industry can make the manager to make bad business decisions. The level of education and business performance plays a role in the operation of a company, this might be said that the number of people who are trained and have higher qualifications might do better than those who do not have formal training and qualification. In addition to these, the ILO (2006) study highlights deficiencies in planning and management skills as the greatest obstacle among SMME contractors and advocates simple planning and record keeping tools which make a marked difference in the source of SMME contractors.

2.4.1.1.1 Lack of business management skills

Business management is an activity associated with running a company like controlling, leading, monitoring, organizing and planning. It covers all aspects of a business - customers, employees, and finance. Being good at business management can help profitable in any kind of business.

Myers (2004) mention Hillebrandt (2000) suggested that management expertise is one of the scarcest resources in the construction industry. Kayanula and Quartey (2000), and Ramokolo and Smallwood (2008) stated that a lack of managerial knowledge places significant constraints on SMME development. According to Ramokolo and Smallwood (2008), and Anonymous (1997) mention in Chilipunde (2007), one universal problem facing SMME contractors is the inability to

estimate cost, compile tenders and assess the effects of inflation. This clearly reflects the lack of training and experience in business and financial management. In the absence of this experience, SMME contractors tend to rely on intuition based on previous experience. They also overestimate labor productivity and material transport costs. These vary from one contract to another. Fraser (1989) gives an overview of the situation: "The lack of costing skills has led to the under-pricing of contracts. An African Builder also faces heavy financial losses at the end of the project by virtue of the fact that he fails to incorporate costs associated with the overheads and contingencies in compiling and quoting for tenders."

In addition to this, he also described that what most African contractors do, and are very confident of, is the use of the standard rate per m^2 as a means of estimating. This is reinforced by the popular census as to what constitutes an acceptable township rate and the willingness of the competitors to undercut any contractor who tries to increase his rate. This method of pricing leads to most contractors ending-up with under-pricing, since they tend to use the same rate in all their projects, irrespective of the finishes, structure, allocation of resources and the nature of the foundations. To mention the worst part, "township rates" in some cases have remained unchanged for the past five years, irrespective of inflation prevailing today and the real value of the Rand in the economy.

Krafchik (1991) advocated that the apparent lack of understanding of inflation and the escalation in the cost of building material clearly present an imposing barrier to developing country SMME contractors wishing to compete in the formal home-building market. Building societies in South Africa are reluctant to allow their home-buying clients from increasing original agreed costs. However, this essentially forces the contractors to estimate price increases in advance and include in an amount for this in their tender. Griffin (1990) clarifies this and suggests that it means that, the contractor would have to assess and cover the risk of price increases. Merrifield (1992) noted that these SMME contractors are generally unable to manage business risks.

El-tr and Kagari (1994) proposed a framework for monitoring the development of SMME contractors in Atlanta and deduced that many people started constructing business without a construction education background, market experience, or managerial talent needed to run a construction operation. Some of the skills needed are:

- Estimating knowledge;
- Ability to read drawings and specifications;

- Ability to schedule construction activities; and
- Proper accounting skills essential to keep track of the job and performance cost and profit.

Ramokolo and Smallwood (2008) undertook an empirical study to assess the capacity of emerging civil engineering contractors and found that SMME contractors lack the sophistication of large contractors. This is particularly evident in their inability to use the conditions of the contracts to their advantage. Clients almost invariably alter the basis of the original contract through variation orders and instructions. A thorough understanding of contracts is vital to the successful negotiation of rates for the variation where considerable financial gains stand to be made. It is, however, frequently the case that SMME contractors lose money due to poor preparation and poor negotiation of claims against contract variations. SMME contractors tend to neglect bookkeeping. Many times these contractors down-play the administrative aspects of running the business. Few of these contractors seem to recognize the positive role that accurate cash flow, for example, could play in trying to raise working capital from the institution.

Like other researchers, Edum-Fotwe (1996) suggested that construction firms must undertake regular performance evaluation to ensure the adoption of good management styles, timely and appropriate strategies to sustain the business. Kangari (1992) understanding the causes and symptoms of business failure will help in identifying the early warning of an impending financial crisis. Dun and Bradstreet (1986) identified the following specific drawbacks of entrepreneurs or poor decisions the managers make:

- Lack of experience,
- Lack of capital,
- Poor location,
- Too much inventory,
- Excessive purchasing of fixed assets,
- Poor credit granting practices,
- Unwarranted personal expenses, and
- Unplanned expansion.

Fredland and Morris (1976) note that all failure could be blamed on inadequate management when good management is defined as the ability to foresee potential threats in the market place and react accordingly.

2.4.1.1.2 Lack of financial management

Besho (2008) indicated that financial management is the lifeblood of growing a business whether in the start-up phase or in a later stage. Earlier studies by Kanagri (1988) concur with Besho that the impact of financial factors are the main determinants of failure for construction firms and caused by financial mismanagement, and lack of capital. Many small businesses fail because owners have a difficult time projecting what cash will come in every month, and thus, how much can go out (Besho,2008). Storey (1996) offers that many small firms fail to keep adequate financial records and are often unaware of current financial situations. Young and Hall (1991) also noted that financial management is the key, which determines the business growth of SMME contractors. Proper financial management in a company ensures that resources are properly controlled and planned. The literature has also revealed that smaller companies do not always have the proper financial management structure in places, which makes it difficult to manage the company finance. General economic conditions that contribute to failure include:

- Interest rates
- Resource shortage
- National demographic, etc

2.4.1.2 Financial factors

SMME in Ethiopia, like in most developing countries are faced with the same challenging of accessing finance in their bid to expand. Mainstream financial institutions are not willing to provide loans to the sector rather large amount of money is given to large-scale firms. Eshetu and Mammo (2009) stated that"commercial banks are reluctant to lend a small amount of money to small business because the cost of administering the loan exceeds the benefit accrued to them." This shows that banks are not inclined to develop an innovative and systematic approach that minimizes risk and administrative cost to serve the sector. As a result, the traditional approach used by banks and financial institution does not enable them to overcome the risk and transaction cost of lending to SMME (EC 2001). The monetary policy of the government does not compel banks to extend their loans to SMME. Mulu (2007) and Etsegenet (2000) showed that about 76% of SMME obtain their startup and expansion capital from informal financial sources such as own saving, moneylenders, relatives, and friends. This indicates that the financial sector in Ethiopia is not adequately developed, coordinated and lack competition. The lack of alternative financial source and access increase the difficulty of obtaining a credit facility for SMME. Mulu (2009)

identifies that the financial markets in Ethiopia are underdeveloped and most of the small firms rely on the informal market for external finance.

Financial constraints such as inadequate investment capital, insufficient loan, and inefficient financial market are the major obstacles in doing business, and most SMME are highly risky ventures involving excessive administrative costs and lack of experience in dealing with financial institutions (CLEP, 2006). According to Sacerdoti (2005) and Habtamu et al. (2013), financial institutions such as microfinance and the banking systems in Africa are not in a position in providing enough financial support to the expansion of micro and small businesses. MUDC (2013) also identified that financing has become a principal challenge to micro and small-scale enterprises in Ethiopia; except City administrations and regional microfinance institutions, their savings and family supports, banks in Ethiopia do not provide finance in the form of a loan to SMME due to collateral obligations and another requirement.

Carson (2006) states that SMME contractors have difficulties in attracting finance, which in turn will strongly affect the performance of their work. They lead to a variety of sub-optimal situations where construction operators delay construction, work with the wrong type of equipment, and sometimes pull out because of sudden financial problems.

Regarding access to finance, the problems are twofold. First, the supply of credit is much smaller than the demand. MFIs have only met about 50% of the demand for finance. Second, given that the prices of goods and services have been increasing, the real value of the loan is so small and does not provide SMME much leverage. The former Ministry of Urban Development, Housing and Construction (MoUDHC), which is responsible for overseeing the activities of SMME in the country, conducted a national survey of over 3000 samples SMME. In the survey, the SMME were identifying the major business constraints hampering their business. Access to finance tops the constraint list where 37.7% of the SMME reported it as a key constraint.

2.4.1.2.1 Collateral factors

Another constraint regarding the financial problem is collateral rules. A proposed directive on loan provision for SMME hinges on four main principles. The loan provided to SMME shall primarily be sourced from savings. Second, the Micro Finance Institutes (MFI) main credit targets are SMME. Third loan disbursements shall be based on the growth stages of the SMME. Accordingly, for startup enterprises working as individuals or cooperatives after securing 20% in compulsory savings, the balance is extended as loans for matured enterprises engaged in the

production of export products or in sectors deemed as a priority, the compulsory saving is reduced to 15% of the loan. Finally, all loans in principle should be paid back in full.

According to Article 626/2001 on the establishment of Micro Financial Institutes (MFI), MFI could lend to individual and cooperative borrowers. MFI could not pay loans without collateral or using properties, dominant group guarantees, or individual guarantees. Collaterals are crucial to ascertain that SMME serves their debt on time. It also ensures that MFI will remain liquid and in business for a long time. Furthermore, since MFI major source of loan funds is their deposits raised from SMME. Collateral, indirectly debt serving is entwined with the very existence of the MFI. Finally, collaterals help ensure that the society in general and SMME, in particular, develop the culture of timely settlements of debts.

In a focus group discussion with the management of Addis Credit and Saving Company, they revealed that the company uses 13 alternative items as collateral based on the size of the loan and the type of business the SMME is involved in. Even though the size of the collateral should in principle be twice the loan, MFI relaxes this stringent condition depending on client character and type of business. Some of the items used as collateral include living and business buildings, post-dated cheques, fixed business and household equipment, salary guarantees, sales outlets, etc.

The financial constraints facing SMME is one of the critical bottlenecks for the growth of SMME. Even though there is progress made in the provision and service of loans, the sector is exposed to a number of problems. Some of the common problems facing SMME include failing to get the loan they applied for and when they do, it is after a very long loan procedure. Repeated delays in loan delivery affect their business. The SMME feel that the interest rate and service charges are very high given the business environment it faces. However, in a focus group discussion held with the management of Addis Saving and Credit Share Company, they stated that interest rates are set in such a way that business and social roles of the company are met and feel the interest charged is below the rate charged by other financial institutions. This idea is supported by Bawuah et al. (2014).

This implies that due to weak competition and undeveloped financial market SMME facing serious problem lacking source and access of capital for startup and expansion. Therefore, Policymakers need to facilitate alternative channel of access to finance for small firms.

2.4.1.3 Expansion factors

According to Schaefer (2006), one of the leading causes of construction business failure is over expansion, and it often happens when the contractor or business owner confuse success with how fast they can expand their business. A focus on slow and steady growth is optimum. In many cases, insolvency or bankruptcy has been caused by rapidly expanding companies, although growth would not be repressed. If the expansion is warranted there has to be a careful review, research, and analysis identified what and who the company needs to add in order for the business to grow. The contractor has to focus on the growth of the business, not on doing everything in it (Schaefer, 2006).

2.4.1.4 Ethical factors

In today's construction industry, people working in the industry are affected by its moral climate but, at the same time, they mirror current common morality in their behavior. For those working in the construction industry, much attention is concentrated on competitive tendering, a process whereby a sequence of promotion, pricing, product, and distribution decisions take place; these are the contractor's core marketing function. The contractors need to market themselves and the pressures involved in winning the tender lead to unethical practices. In this topic the value of studying the moral aspects of business behavior is important. Ray *et al*. (2000) further said that an understanding of the ethics of tendering could help codify, and finally simplify, one aspect of the very complex support system of contract bidding in construction.

2.4.1.4.1 Corruption in the construction industry

Chiocha (2006) and Matechak (2008) noted that corruption, bribery, fraud, and extortion are not new phenomena, as these practices have existed for centuries. There are several factors that cause corruption. Certain practices are generated within time-based or location political environments, others are caused by economic forces. Some are temporary and others are permanent. Economic growth is usually accompanied by a construction boom and vice versa. Particularly, it is during periods of recession in the construction industry that corruption flourishes, possibly due to there being less work for contractors and intensified competition. As a result, contractors may do everything possible to obtain work in order to survive. Chiocha (2006) reported that the construction industry has its own characteristic methods of project procurement which are different from other industries. Contractors obtain their work through open or selected tendering or by negotiation. These processes may also prove to be competitive

insofar as contractors fear that their chances of being awarded a particular contract are almost zero. It is at this point that ideas of corrupting the tender-award/decision-making parties arise. Corruption certainly results when individuals try to circumvent controls and regulations in order to take advantage of any loopholes inherent in their operating environments. Corruption flourishes in virtually all phases of the construction process and it is possible that participants at every level may engage in the corrupt practice.

Chiocha (2009) cited in Shakantu (2003) reported that it is difficult to quantify the impact of corruption on the cost of housing construction. Although certain corrupt practices such as bid-rigging clearly increase the cost, other corrupt practices may actually lower the quality of building projects. possibly, certain corrupt practices exist precisely because they increase the cost of navigating a bureaucracy, complying with regulations.

Fellows et al. (2002) stated that the construction industry is characterized by a large number of varied and uneven firms engaged in intense competition. The industry is project-based, with the majority of projects being designed and built for a price established through competitive bidding or tendering systems. Chiocha (2006:21) declares that it is possible at one point or another, within the confines of a construction project, some form of corruption such as extortion, bribery, theft, fraud, collusive bidding or rigging may occur. Professional advisors and consultants are normally the first port of call for clients of the construction industry. Shakantu (2003), however, contends that they should also be the first line of defense against the corruption web. Because of construction's central role in development, corruption in the sector can be especially harmful. In particular, the corruption that leads to poor quality construction or this supports an environment of poor project selection and insufficient maintenance can significantly reduce the economic return to investments, and carry high human costs in terms of injury and death. And while there is an undoubted role for the government in the sector both as customer and regulator, there is also a serious concern with the capacity of many governments to adequately fulfill these roles. Wraith and Simpkins (1997) espouse the view that corruption is essentially destructive of public interest.

A consequence of corruption is that it dramatically increases the cost of construction by undermining competition. Goldstock (1990) points out that corruption in residential projects means less middle- and low-income housing. Corruption on industrial and commercial projects means higher commercial rents and therefore higher costs of goods and services. Ultimately the

high cost of construction makes an investment in building unattractive. Corruption affects health and welfare of people when it touches the quality of construction i.e. when buildings fail to meet safety requirements and specifications due to corruption and bribery in building materials and workmanship or to bribery of public inspectors (Shakantu, 2003)

2.4.1.4.2 Secret cooperation

This secret cooperation refers to collusion according to Oxford dictionary meanings. Myers (2004) defined collusion as when firms agree to co-operate to raise profit. According to some informal evidence from several groups of sectors working in the industry, collusion is common practice in contractual agreements across the whole breadth of construction. Ray *et al*. (2000) stated that collusion tendering is done when a number of firms that have been invited to tender to agree between themselves either not to tender, or to tender in such a manner so that they are not competitive with the other tenders.

The problem with collusion is that it is contrary to the principles of free competition. It benefits only the parties involved in the agreement but at the expense of those outside the agreement.

Goldstock (1990) and Shakantu (2003) identified four types of collusive bidding practices prevailing in the construction industry, especially for those amongst contractors who want to protect their existence:

1) There is predatory bidding in which firms collusively agree to bid below prevailing market rates in order to drive out the competition. Once this is accomplished, the firms typically inflate the prices;
2) There is what is known as "identical bidding", in which firms agree not to bid competitively. This normally happens when there are very few contractors tendering or in selective procurement;
3) Territorial bidding means that firms agree not to submit competitive bids in each other's territories this being established by the geographical position of contractors or customer area; and
4) Rotational bidding exists when firms agree to take turns in obtaining contracts through low bidding. This practice is usually concealed through the use of complementary inflated bids submitted by other members involved in the contract agreement.

2.4.1.5 Information and Technology factors

Adejimi (2009) declare that information technology (IT) has enabled the globalization of the economy and facilitated competition. It has subsequently brought about large-scale change in the industrial nations. We have witnessed the rapid growth of some industries such as a computer, communications, software, and financial services by creating new services and enhancing efficiencies, while other more traditional industries have stalled or even contracted in comparison. As it is transforming the landscape, IT is enabling a major shift in the job market.

Many analysts have noted that for the modern workforce, IT literacy is becoming an essential requirement. Capron (2000) mentioned in Sun and Howard (2004) stated that IT application in the construction industry and communication technology has radically transformed the way we live, learn, work and play.

2.4.2 Economic environmental factors

2.4.2.1 Marketing factors

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

In this regard, during the construction of condominium houses, SMME are entitled to 30-50% of the total construction work. The Addis Ababa micro and small enterprises development agency and the city administration housing development agency have created significant market linkages

with SMME. Accordingly, 100% of the manufacturing of construction blocks. and pre-cast beam and over 90% of the sanitary works are contracted out to SMME. The housing project is the largest employer in the city. SMME subcontract in the different mega government projects like construction of feeder roads from the Ethiopian Roads Authority, power generating schemes undertaken by the Ethiopian Power Corporation, and the construction of new universities. The agency encourages the use of abundant local inputs to produce local brands well known by consumers. In this endeavor, the agency studies the value chain of the input, identify the role of SMME in the value chain, increase the value addition through industrial extension program and finally ascertain that quality and standards criteria are fulfilled. The agency and its regional bureaus shall prepare sales outlets for SMME Products. Towards this end, the bureaus identify products based on the value chain studies, construct market centers and display areas and popularize, promote and advertise through available media outlets. Moreover, the agency supports import substituting SMME. It studies products that are imported but could be produced locally by SMME and classifies these products based on sector and prepares support packages in meeting the financial, skill and machinery gaps of SMME. These are accomplished through the industrial extension support packages and campaigns to popularize and encourage the use of local products.

The agency has prepared a strategy to implement the marketing linkage program. Firstly, database and data repository updated timely will be established at its different bureaus. Secondly, the technology support centers shall distribute new designs, patterns, and standards to SMME. Third, permanent display and sales centers dedicated to SMME products will be established. Finally, government procurement takes SMME into account. The federal agency for the administration of government procurements has incorporated the percentage of government procurements which must be sourced from SMME within the procurement contract. To further encourage the participation of SMME in governmental procurement, SMME does not pay for bid documents and are not obliged to bring bid guarantees. They are exempted from advance and performance bond guarantees instead a letter by the regional bureau serves as a guarantee.

Even though the efforts exerted to create market linkages are good, there are a number of shortcomings. Firstly, many of the SMME are not benefiting from the support schemes. And those who are beneficiaries expect governmental support all the time and lack personal initiatives to search for market by them. Due to failures to properly use the market linkage opportunities,

SMME has failed to serve their debts timely; their products could not be sold or are sold at loss. Rent seeking behaviors observed on both the SMME and the bureau officials have exacerbated the market linkage problems. Furthermore, the lack of detailed support packages and their poor implementation coupled with poor access to market information are hampering the development of SMME.

It was identified by Materu (2002) in Tanzania that work is not "packaged" to promote SMME contractors. Furthermore, in many cases, open invitations are issued to all registered contractors, even in the case of minor works that could be executed by SMME contractors. This does not allow for fair participation, as a big, medium, small and emerging contractors are uneven together. There are not enough projects on an ongoing basis to ensure the commercial viability of contractors. This causes problems such as the underutilization of equipment and difficulty in retaining good staff members. Direct contracts with government and donors are not forthcoming on a continuous basis and there is a perceived lack of policy aimed at promoting the engagement of SMME contractors as sub-contractors on larger projects.

Shakantu and Kajimo-Shakantu (2007a:4) in South Africa citing CIDB (2006), Rebelo (2005), and Cheetam and Mabuntana (2006) noted that there are large numbers of SMME contractors (survivalist and micro enterprises) entering at the lower end. This sector has become extremely competitive, thereby making it difficult for new entrants to keep a sustainable workflow. This inability to sustain workflow affects their ability to achieve sustainable employment or job creation and economic empowerment if this state of affairs persists. This could hamper the objective of the Accelerated Shared Growth Initiative for South Africa (ASGISA) to reduce unemployment by 50 percent by 2014. This currently remains the chief concern for South Africa and its economic planners. As it is, job creation currently eludes economic planners despite good economic growth. This is because the Global Entrepreneurship Monitor (GEM), micro and survivalist enterprises are unlikely to create significant numbers of jobs.

Rebelo (2005) observed that the industry has over the years seen a critical shortage of work for long spells at a time, with the result that employers were not in a position to retain excess labor, train or offer opportunities to young trainees.

Generally, sufficient knowledge about marketing is important for the promotion, growth, and development of Small, Medium, andMicro Enterprises. That is why the Ethiopian government has formulated SMME strategies to simplify marketing challenges by creating inter-linkage

mechanisms with other institutions, providing training on marketing, developing export support programs and marketing information center (MoTI, 1997).

2.4.2.2 Payment factors

Kapulula (2008), Uriyo et al. (2004) and Buys (2006) found that SMME contractors suffer from irregular cash-flow problems and are often forced to delay or suspend works due to a delay in payment or non-payment. The government becomes the main defaulter in this respect. Contractors fail to meet their various obligations and works end up costing much more than the budget due to claims and interests. In the case of the labor-based contractor, delayed payment inevitably leads to strikes, unrest, and serious disruptions. The issue of delay in payments by the government was identified as a major obstacle that has impeded the growth of the contractor.

The Bolton Committee (2001:5) adds to the debate by reporting that a small business is at risk during a period of "credit squeeze," when larger enterprises or government bodies could use their greater power to delay payment to small enterprises. According to the Bolton Committee (2001:5), the late payment problem is not confined to one country. "….we are told that it is often serious in Japan, for example, and that there the Ministry of International Trade has powers to intervene on behalf of the small firms with legitimate complaints of the delayed payment by large customers, and to enforce payment."CIDB (2007) reported that the CIDB Construction Industry Indicators Summary Results Report confirmed that the profitability of contractors and payment procedures by clients has improved quite significantly. However, there is still a disturbing trend that around 5 percent of payments were delayed by more than 90 days which is in conflict with the CIDB Code of Conduct for all parties engaged in construction procurement.

Anderson (1987) and Kapulula (2008) examined the problem of late payment and suggested that the relationship between the main contractor and consultants is determined by the Master Builders Association Standard Contracts. The practical implementation of the relationship shows that payment is the primary stumbling block to peaceful co-existence within the industry. Quantity Surveyors do not perform evaluations on time. This may mean that the contractor receives payment for completed later than the expected date.

Motlanthe (1990) stated that in addition to the complaint that the initial "tender price" is often fixed by the client or Principal Agent, it is common that fairly long delays occur between the time that work is certified as completed and the time that cash is received, particularly in the case of public sector clients. Motlanthe further argues that many contractors complained of the

problems in their subsequent financial relationship between the contractor and the sub-contractor.

2.4.2.3 Regulation and policy factors

Policy and regulatory problems constitute the primary obstacles for the growth and expansion of SMME. An ECA (2001) report attributes the challenges faced by SMME to the legacy of past structural economic and industrial strategies used by a good number of African countries but most crucially the inertia of transition is by far the most obvious factor. Indeed, the ECA finding is more of a buildup of Spath (1992), as they both points to a number of hurdles for SMME development in Africa. First, discriminative policies set against SMME. This is mainly informed by a lopsided favorable view of large industrial corporations at the expense of smaller ones. Second, a high degree of centralized administration and decision-making practice which implies policies are formulated and controlled by central authorities. Third, the misguided notion of industrialization has resulted in the spread of fiscal policies that ultimately offers attractive tax breaks for large corporations without due consideration for related factors of growth promotion for indigenous industries. Regarding this, Kayanula and Quarter (2000) conducted research on the policy environment for promoting SMME in Ghana and Malawi, finding that SMME faces a variety of barriers and constraints. They argued that factor availability and cost are the most common constraints faced on SMME.

A World Bank (2005) report discussing SMME in Africa mention red tape and injurious regulatory business climate as yet another source of an impediment for operating SMME.

Consequently, under such a milieu SMME have to consider one of the following options to struggle with compliance or be relegated to the informal sector. Suffice to acknowledge that regulations by themselves are an integral part of governance, they only become a problem if they act to militate against growth and expansion and undermining overall profitability.

Working in the informal sector prevents SMME from obtaining available limited services like borrowing from the formal sector, getting work permits, training, and other related services (Eshetu and Mammo, 2009). By this, governments dent their credibility as facilitators for the creation of a functional and attractive business environment for business to increase and grow the economy with it.

In Ethiopia, policy formulation and strategic development of SMME is literally controlled by central authorities and do not allow the participation of owners who run their business in this

sector. As a result, policies, strategies, and support services are not alleviating the problems of the sector. ECA (2001,39), asserted that "policymakers intending to foster the development of a particular industry sector should be aware of the great benefits of the sector-oriented institution and the importance of SMME involvement and participation in policy design and intervention." The involvement of SMME and support institution in the formulation of policy and development program will allow policymakers to understand the problem of the sector and help them to develop appropriate policy, strategy, and various incentive schemes.

The registration and licensing, and the extent of government official involvement and accessibility of rules and regulations have impacts on SMME. According to Dlitso, K., and Peter Q. (2000), high start-up costs for licensing and registration requirements, cost of settling legal claims and excessive delays in court proceedings can impose excessive and unnecessary burdens on SMME operations.

Even though registration and licensing help SMME to have legality rights, and to reduce the prevalence of informality, more than 12% of SMME in Addis Ababa didn't have registration license (MUDC, 2013).

The Ethiopian Economic Association (EEA) aims to prevent unfair discrimination by employers but enterprises have got problems on equitable representation in all occupational assignments. Moreover, it is difficult and expensive to source highly skilled candidates from some designated groups.

Kayanula and Quartey (2000) reported that ".....high start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMME. The high cost of settling legal claims and excessive delays in court proceedings adversely affect SMME operations." Makoza and Makoko (1998) are of the opinion that in Malawi, "prohibitive laws like The Business Licensing Act No 15 of 1979, The Electricity Act No. 6 of 1996, The Control of Goods Act No. 14 of 1979, and The Export Incentives Act No. 5 of 1978 have severely constrained SMME development."

2.4.3 Personal related factors

2.4.3.1 Education factors

Some business owners are highly educated and extremely successful whereas others have yet to complete their high school but are equally successful. In many instances, it may depend on the

individual himself/herself. However, education level can have an effect on the performance of a business as noted in many studies.

The reason for this is that education improves literacy, quantitative training, and social and communication skills. And of course, specialized education is necessary for many occupations. The study of Lussier (1995) suggested that 'people without any college education who start a business have a greater chance of failing than people with one or more years of a college education. Education can provide the skills set and knowledge, which can help owner/managers with tools, like technology literacy, which helps to increase productivity and success. If education cultivates comprehensive literacy, this would help owner/managers to integrate relevant information to do effective planning and to make well-informed decisions, which would ultimately enhance the organization's success (Mohan -Niell, 2009).

Thapa et al. (2008) in their study they found that the education of owners has a positive effect on entrepreneurial and small business success. Similarly, Rose et al.(2006) in their study of the 'Dynamics of Entrepreneurs Success Factors', reported that higher education level helps the business owners to have better knowledge and skills which contribute to the success of their venture. Working experience also assists the entrepreneurs with information and understanding about the industry and thus, assisted them in venturing into the current business they are in.

Another research by Charney and Libecap (2000), found that entrepreneurship education produces self-sufficient enterprising individuals. Furthermore, they found that entrepreneurship education increases the formation of new ventures, the likelihood of self-employment, the likelihood of developing new products, and the likelihood of self-employed graduates owning a high-technology business.

2.4.3.2 Maturity factors

Entrepreneurs vary in age from young to old in many instances. An individual may begin a business as a hobby or secondary source of income and have it grow into a profit-driven enterprise. A number of studies have focused on the entrepreneurial characteristics of the owners/managers of small businesses as key factors to small business success. Age of the owners/managers was one of the most important characteristics that were repeatedly used to predict small business performance and success (Lussier and Pfeifer, 2001).

Lussier (1995) also argued the relationship of the business owner's age and its effect on the performance of the enterprises. He reported in his study that, 'younger people who start a business have a greater chance to fail than older people starting a business.'

Similarly, Praag (2003), in his study of business survival and success of young small business owners, younger small business starters have a lower success and survival probabilities than older starters. The chance of both voluntarily and forced exit from the business is higher to young starters.

From this, we can understand that the age of small business owners has its own contribution to the success and failure because individuals learn not only from formal education but also from their life experience.

Alasadi and Abdelrahim (2007), in their study of Small Business Performance in Syria also reported that as the age of the business owner increase it contributes to the success of the enterprise's performance. From the study result of Alasadi and Abdelrahim, it may be argued that increased age brings with it a sufficient level of accumulated knowledge or experience of a certain trade to try going into self-employment alone.

2.4.3.3 Business Experience factors

Before SMME starting businesses, they are involved in a number of different fields of work and for a variety of reasons such as desire, flexibility, independence, and family commitments decide to open their own businesses. In most instances, they start a business in an area in which they feel comfortable. However, a number of small enterprises have no experience in a given field but they start businesses.

Because prior business experience is useful training to both a prospective entrepreneur and to that person's prospective employers, the empirical effect of such experience on business success is not entirely unambiguous. Praag (2003) reported that experience as in the same industry as a business venture gives better chances and so does experience within the same occupation. Relevant experience helps to become a successful business owner and to survive.

Shonesy and Gulbro (2004) mentioned from the study of Beckman and Marks (1996) reported that business experience is a factor in the success of small firms. Dyke et al. (1992) also found that management experience might be a significant factor in achieving success or successful performance in the small business environment. In their study, they stated that 'would be

business owners should be concerned to gain related industry, management, and start-up experience regardless of the type of industry in which they plan to operate *'*.

Lafuente and Rabetino (2011) in their study of the importance of human capital in small business growth in Romania using employment level as a measure of small enterprises success, reported that previous work experience of small business owners is an important factor for the success of the enterprises.

This finding reinforces the argument about the importance of clearly identifying the enterprise owner's capacity to put into practice his or her specific knowledge in day-to-day and sound decisions, in order to evaluate effectively the relationship between the benefits derived from previous work experience and successfully manage the enterprise's operations.

In addition to the above studies Politis and Gabrielson (2002), in their study supports the argument that prior experience from starting up new ventures showed a significant and positive association with increased opportunity recognition. Consequently, previous start-up experience seems to influence the mindset and knowledge base of the entrepreneurs, which in turn enable them to identify and act on further business opportunities.

Previous start-up experience and cross-functional experience seem to provide individuals with knowledge that improve their ability to recognize new venture opportunities. Previous small business management experience and varied management experience seem on the other hand to provide individuals with knowledge that increase their ability to handle liabilities of freshness in the new venture creation process (Politis and Gabrielson,2002).

2.5 Comparison of challenges in developing and developed countries

The construction industry in developing countries has the same institutional requirements to those of developed countries (Larcher, 1998). The primary stakeholders are also the same, however; the 'balance of power' is significantly different from that in developed countries. The points to note are that firstly in developing countries the client is predominately the government while in developed countries the client can often be from the private sector. The lack of resources and experience of contractors in developing countries places them in a much weaker position than the government and client. Under the traditional contracting system, they are, therefore, forced to accept a proportionally greater contractual risk than they are able to bear when compared with their counterparts in developed countries (Young, 1993). Finally, in developed countries, the majority of contract administration work is undertaken by consulting

engineering firms. In developing countries, the number of consulting profession is less than that of contractors.

Larcher (1998) also stated that the support framework in developing countries is also very weak. While organizations may exist in the majority of the categories discussed above there is often only one or two in each category, which have limited resources to provide a high level of support. In developed countries, the three stakeholders which are client, consultant and contractor finance many of the organization in the support framework. Within developing countries, this financial resource shall not expect from the engineering profession and most contractors have very limited financial resources. Due to this problem, government budgets are unable to meet the requirements of the construction industry.

Training of construction personnel at all levels from engineers and construction managers to artisans and labor is one of the primary functions of the support framework. Studies were undertaken by the World Bank (Auerhan, 1985) highlighted that while a lack of funding was a major problem with the poor education system in Sub-Saharan countries. In addition, the reputation of management topics within the education system is low, which results in a lack of qualified staff and specialists in these areas. This situation has a number of knock-on effects to those receiving training on construction related activities. While they are able to receive education on the 'hard engineering' skills there is poor education provided for the 'soft engineering' skills of construction and business management. It also stated the lack of physical infrastructure and centralization of education facilities, usually in the capital city results in poor training in the provinces. Finally, the lack of information resources within the education sector contributes to the general lack of information resources within the construction sector.

2.6 Summary of the chapter

It is clear from the literature review that there are many constraints and challenges facing SMME contractors. Many researchers have attempted to highlight them. The literature review also shows that much research has been conducted on challenges and constraints faced by SMME in other countries, but no comprehensive study has been carried out in Addis Ababa.

From the literature, the construction represents high levels of insolvency and failure. For this sector, this is a serious problem as the literature has revealed. Most of the failure, however, can be reduced because the major ones are already known.

As it has also mentioned in the literature most researchers found that the main factors that contribute enormously in the construction company failure are lack of work opportunities, managerial, financial, and economic environmental factors.

The construction industry growth of a country is linked to an increase in productivity of SMME contractors in the construction market. Specific areas where SMME contractors could improve their efficiency and profitability, for example, site organization, where identified.

From the literature review, there are a lot of factors which affect the growth of SMM construction companies in different countries. These factors are summarized in the table as shown below.

Table 2.4 Different factors faced on SMME construction companies

Name of factors	**Reference**	**Cited**	**Country**
Lack of job opportunity	Admasu, A (2012)	Materu (2002) and Rebelo (2005)	Ethiopia
Lack of management, skills, and training	Kayanula and Quarter (2000)	Myers (2004)	London
Lack of access to appropriate technology	Kayanula and Quarter (2000)	Adejimi (2009)	Ghana & Malawi
The existence of entreprene urial oppressive laws	Kayanula and Quarter (2000)	World Bank (2005)	Ghana & Malawi
Regulations and rules that impede the development of the sector	Kayanula and Quarter (2000)	World Bank (2005)	Ghana & Malawi
Weak institutional capacity	Kayanula and Quarter (2000)	Larcher (1998) and Young (1993)	Developing countries
Environment regulations	Shakantu et al. (2007)	Uriyo et al. (2004) and Kapulula (2008)	South Africa
Business regulations	Shakantu et al. (2007)	Uriyo et al. (2004) and Kapulula (2008)	South Africa
Tax and labor regulations	Shakantu et al. (2007)	Uriyo et al. (2004) and Kapulula (2008)	South Africa

Name of factors	Reference	Cited	Country
Corruption	Shakantu et al. (2007) and Goldstock (1990)	Uriyo et al. (2004) and Kapulula (2008)	South Africa
Political interference;	Shakantu et al. (2007)	Uriyo et al. (2004) and Kapulula (2008)	South Africa
Choice of technology	Shakantu et al. (2007)	Uriyo et al. (2004) and Kapulula (2008)	South Africa
Lack of collateral	Shakantu et al. (2007)	Uriyo et al. (2004) and Kapulula (2008)	South Africa
Inadequate finance and inability to get credit from suppliers	ILO (1987)	Khoza (2008)	Global
Poor pricing	ILO (1987)	Khoza (2008)	Global
Inability to employ competent workers	ILO (1987)	Khoza (2008)	Global
Tendering and contract documentation skills	ILO (1987)	Khoza (2008)	Global
Poor mentoring; and fronting for established contractors	ILO (1987)	Khoza (2008)	Global
Lack of interpreouner skills	ILO (1987)	Khoza (2008)	Global
Planning and management	ILO (2006)	Longenecker et al. (2006)	Global
Cash-flow problems	Kapulula (2008) and Uriyo et al. (2004)	Buys (2006)	London

Source: Compiled by author

Finally, the challenge of SMME contractors' literature review was discussed and many writers have shown that the construction industry, in general, plays a very important role in the socio-economic development of the country. And it is mentioned from the above literature review that the cause of failure of SMME construction companies, in general, are managerial, financial,

expansion, and environmental factors which have taken a high degree to company failure in the construction industry.

CHAPTER THREE

Research methodology

3.1 Introduction

The literature review provides a highlight to the thesis by explaining what had been established by many researchers about the cause of failure of small, medium and micro enterprise construction companies. Therefore, this chapter is tried to show the research process of the study.

The aim of this chapter is to describe the way how to conduct the thesis which will be used in undertaking the study. Fellows and Liu (1997) explained that a research methodology is a principal and procedures of logical thought process which are applied to a scientific investigation. It also clarifies the steps to be taken in this study to ensure the research data is accurate.

In addition to these, this chapter explains that the methods used to collect data; how respondents are selected, how findings arrived, how the data is processed and how this data is analyzed.

Finally, this chapter enabled the researcher to provide new findings and to drow some conclusion and recommendation about the cause of failure of SMME construction companies in Addis Ababa.

3.2 Research design

The research design of the thesis was begun by identifying the problems through:

- literature review,
- record study and
- informal discussion about SMME.

By using the above data, appropriate source or information was determined and this source also used to know the method of data collection. The researcher made review available documentary sources to make data collection relevant to the research. The review includes books, internet sources, journal and articles, and archival document. The archival document implies that progress and completion reports within small, medium and micro enterprise construction companies in Addis Ababa.

Due to the nature of the research question, the qualitative research method is selected for this theis because most research questions are relating to personal attitude, opinion, and view. Before a questionnaire was designed, literature and desk study was reviewed deeply. Here, the case

study helps to collect the cause of failure of SMME construction companies in Addis Ababa from some projects which was completed in the previous time. Then, the questionnaire is designed and checked by academic supervisor Dr. Abraham Assefa. After that, this questionnaire is going to be distributed to SMME construction companies in order to get their opinion about the cause of failure of SMME construction companies in Addis Ababa. Finally, data analysis was done by using some statistics techniques. The main statistics techniques used in the data analysis are the mean, variance and frequency scores. In addition to these, the Mean Item Score index (MIS) method is used in order to know the rate of the responses.

3.3 Sampling techniques

To select a sample for the research, first of all, it is necessary to have enough knowledge about different kind of sampling techniques.

According to Fellows and Liu (1997) and Naoum (2007), sampling is necessary to represent the entire population of the study. In order to get a good representation of the population, it is possible to use a sample of the population, which is much smaller than the total population, but sized and structured to be statistically representative. Clearly, the results from such sampling will not be exactly the same as if the whole population had been consulted, but the result is adequate for the purpose for which the information is required. Fellows and Liu (1997) assert that population parameters and sampling procedures are vital to the success of a study. According to Naoum et.al.(2007), the following are sampling techniques:

Random sampling – is a sampling procedure where the sample is derived by the randomization process from a homogenous population.

Systematic sampling – is a sampling procedure, as the name implies, it is a systematic selection of certain items according to a predetermined criterion.

Stratified sampling – this sampling procedure essentially uses a stratified population instead of a homogenous population.

Cluster or area sampling – this sampling procedure entails sampling into groups of a large population which is spread over a large area.

Fellows and Liu (1997) argue that if there is no evidence of variation in the population structure, or if there is no reason to ignore the structure then random sampling procedure is appropriate. Therefore, based on Fellows and Liu (1997) statement, random sampling is selected for this

research because there is no evidence of variation in the constraints and challenges facing SMME construction companies.

3.4 Sample size of the population

As stated earlier the research population is composed of SMME enterprises working in the construction industry. During the selection of sample size, special attention made to become the sample is as much as possible representative of a population. The SMME contractors were registered in Addis Ababa city administration micro and small enterprise office. As stated in the office, data was collected from micro and small enterprise office of sub-cities of Addis Ababa. According to their data, the total number of small, medium and micro enterprise construction companies which stopped their business from 2004 to 2018 is 1203. Therefore, this number is a population of the thesis. After knowing the number of the population, a random sampling method is applied for the selection of sample size. This helps together data through a questionnaire.

Therefore, the total number of the sample population is taken by applying the state of Gay and Airasan, 2005 guidelines. Their guidelines were saying that:

1) The small population – less than 100 people – there is no need for sampling;
2) It the population size is around 500, 50 percent of the population should be sampled;
3) If the population is around 1500, 20 percent of the population should be sampled; and
4) Beyond a certain point – at about 5000 units or more, a sample of 400 people is adequate.

The following table 3.1 shows how to determine both population size and sample size of the study. According to this table, the total number of construction enterprises in each sub-cities of Addis Ababa which are stopping their work due to various reasons are 1203. Therefore, 1203 is the population size of the research.

Table 3.1 Population size

No	Sub city	Total population
1	Akaki	78
2	Arada	57
3	Bole	28
4	Gullele	136
5	Kirkos	53

No	Sub city	Total population
6	Kolfie	172
7	Lideta	98
8	Nifas silk	131
9	Yeka	364
10	Addis	86
Total		1203
Calculated Sample		1203*20%=240

Source: Addis Ababa micro and small enterprise office

Based on the above guidelines, the number of sample population for this study becomes 240 since the total number of population is around 1500 and above researchers recommend that 20% of the population can be a sample.

3.5 Data collection

The researcher used two kinds of data collection method to know the cause of failure of SMME construction companies in Addis Ababa. These are:

- Questionnaire survey and
- Desk study

3.5.1 Questionnaire survey

This questionnaire survey is the main instrument of the research. The questionnaire should be appropriate in order to approve the validity of the problem statement and in order to get relevant data. The questionnaire was designed by the researcher under the supervision of my advisor who is called Dr. Abraham Assefa. Then, the questionnaire were distributed to the SMME contractors and concerned construction parties.

The researcher expects that the sample of the population answer most of the questionnaires by themselves. If they may get some confusion about the question, the researcher will give assistance by elaborating and explaining the idea of the questions.

The questionnaire has three parts: the first part of the questionnaire is describing the background information of the respondents. The second part of the questionnaire is describing organizational related factors. Within this part challenge of SMME related to managerial, financial, ethics,

expansion and information factor is going to be assessed. And the third part of the questioner is describing economic environmental factors. In this part, the challenge of marketing, regulation and policy and payment factors will be assessed. For each part, both open-ended and cloth ended questions are going to be used to extract the required data from respondents.

In order to get an approprate and exact answer, the researcher is tried to use simple, clear and unambiguous language.

3.4.2 Case study

In order to have information on the stated problem, data will be found from SMME performance report. This helps to know progress and completion reports of a project within small, medium and micro enterprise construction companies in Addis Ababa. The data collected through the desk study is showing that the sensitivity of the topic of the research.

3.6 Data analysis

The data will be analyzed using quantitative techniques. The main statistics calculated in the data analysis are going to be the mean, variance and frequency scores. Chilipunde (2007) citing Siegel and Castellan (1988) stated that the variance test is appropriate for detecting variation within a sample. The five-point scale is going to transform to a Mean Item Score (MIS) for each of the factors which challenges and problems will face by the respondents. The indices then used to determine the rank of each factor. This ranking helps to compare the relative importance of the items as perceived by the respondents.

Aibinu and Jagboro (2002), Ayodele and Alabi (2011) and Kometa et al. (1995) used the Mean Item Score index method in rating their study criterions. The MIS index shall calculate for each item as follows, after Lim and Alum (1995):

$$MIS = \frac{1n1+2n2+3n3+4n4+5n5}{\sum N} \quad \text{.....equation one}$$

Where,

n1 = number of respondents to no extent

n2 = number of respondents to a small extent

n3 = number of respondents to moderate

n4 = number of respondents large extent

n5= number of respondents to a very large extent

N= total number of respondents.

In the open-ended questions, there will be common responses within a majority of the respondents. These responses are going to be categorized according to their similarity and the number of times they mentioned. Then, the percentage can easily calculate using the standard statistical formula for a percentage as follows:

$$\% = \frac{\alpha \times 100}{\sum \mu} \ldots\ldots\ldots\ldots\ldots\ldots \text{equation two}$$

Where.

α = numbers of times mentioned

$\sum \mu$ = total respondents

CHAPTER FOUR

Research Discussions and Findings

4.1 Introduction

The previous successive chapters were helping to reach research discussion and findings of the study. Hence, this chapter is fundamentally focused on the analysis of data discussion and presentation of the research findings. The presentation is done with the aid of graphs, pie charts, and tables.

In the beginning, the background information of Small, Medium and Micro Enterprise (SMME) construction companies in Addis Ababa is presented. The second discussion is focused on organizational related factors of SMME and following this economic environmental related factors of SMME will be discussed.

The total number of questionnaires which is distributed to randomly selected respondents were 240. Out of this questionnaire, 180 questionnaires were returned and the remaining 60 questionnaires were not returned due to respondents were not complete on time and the negative attitude of respondents towards the research. From 180 questionnaires returned, 18 questionnaires were rejected due to the fact that respondents answer is incomplete and not relevant for the analysis purpose. The rest of the questionnaires were used in the study. The return rate which is 67.5% implies that a very good workable questionnaire is found. The questionnaire sample is attached at appendix part.

Table 4.1 Questionnaire distribution table

No	Respondents	Distributed questionnaire	Returned questionnaire	Percentage returned (%)
1	Construction companies	240	162	67.5%
2	Total	240	162	67.5%

Source: Author

4.2 Demographic background

This section describes that the characteristics of Small, Medium and Micro Enterprise who found in Addis Ababa and worked in construction industry in terms of gender, age, education, position

of the respondents in their company, specialized work of the company, number of members, experience in the construction industry and taking training about construction courses.

4.2.1 Gender

This is the characteristic of respondents and helps to know the proportion of respondents in terms of sex in the enterprise's construction industry. Therefore, their gender characteristics according to the questionnaire survey are illustrated by the following figure as follows.

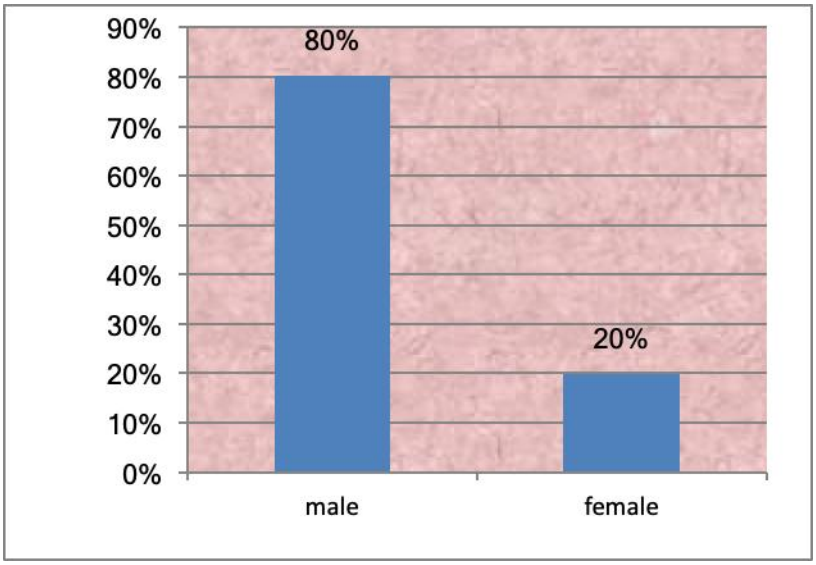

Figure 4.1 Gender of respondents

As shown in the figure 80 % of the respondents were males and around 20% of respondents were females in the sample population. This shows that the construction industry is dominated by males.

4.2.2 Age of respondents

This is also one characteristic of respondents in order to now the maturity of them in the construction industry. This idea is supported by Hughes (2003) who said that the age of the respondents is showing the experience of the respondents.

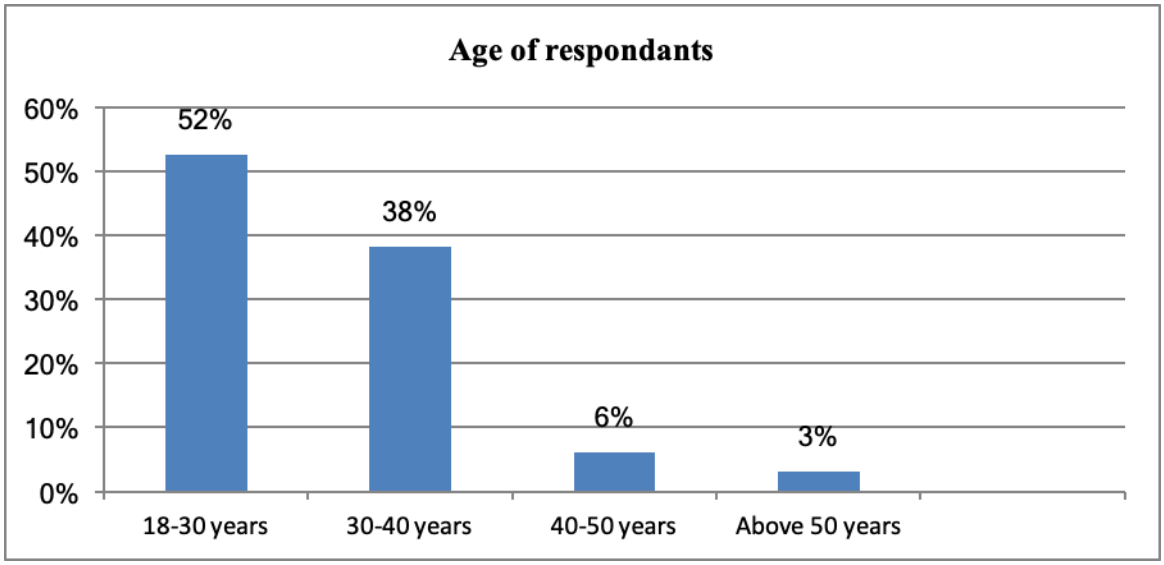

Figure 4.2 Age of respondents

From the above figure 4.2, one can understand that the majority of respondents' ages were between 18-30 years and this implies that most small, medium and micro enterprise construction companies are involved by youth persons.

4.2.3 Educational background

This part of the background information helps to know the educational level of respondents in order to answer the provided questionnaire without any problem.

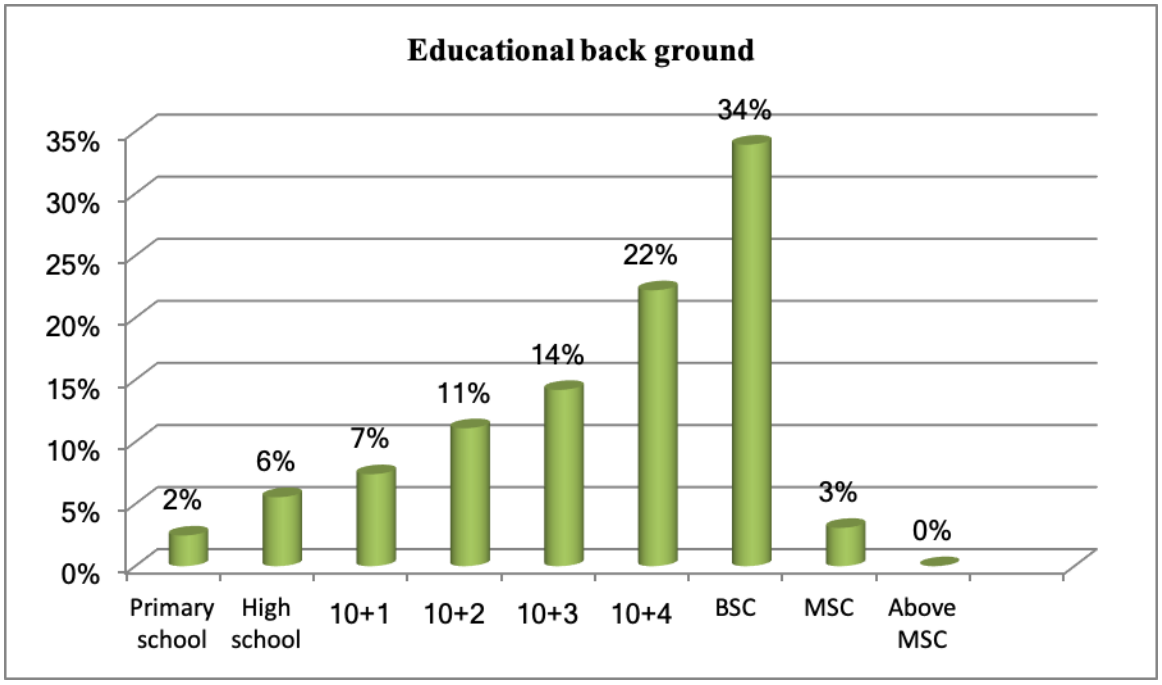

Figure 4.3 Educational background of respondents

From the above graph, one can understand that the majority of respondents have completed BSc educational qualifications which are 34% of the sample population. This shows the owner or responsible bodies of SMME construction companies have no problem to answer the given questionnaire. Another respondents are 22%, 14%,11%, 7%, 6%, 3% and 2% who had completed 10+4,10+3,10+2, 10+1, high school, MSC, and primary school respectively.

4.2.4 Position of respondents

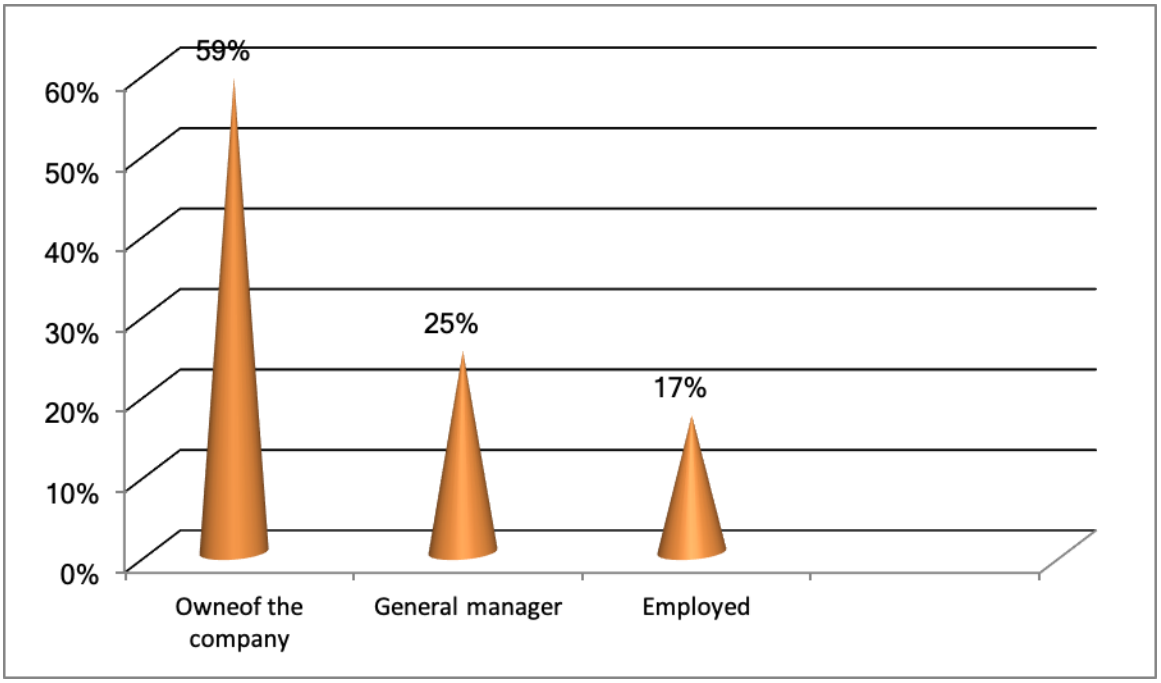

Figure 4.4 Position of respondents

Figure 4.4 showed that most respondents were the owner of the company and general manager that were 59% and 25% of the total respondents. This helps the study more accurate because the owner of the company and general manager are well known about the business. The rest of the respondents who are employed respondents were covering 17% of the sample.

4.2.5 Enterprises specialized work

Most Addis Ababa's small, medium, and microenterprise construction companies are specialized in Building contractor, General contractor, Road contractor and Water contractor. Therefore, knowing the specialization of SMME by using questionnaire survey become necessary in order to know in which specialization a problem occurs.

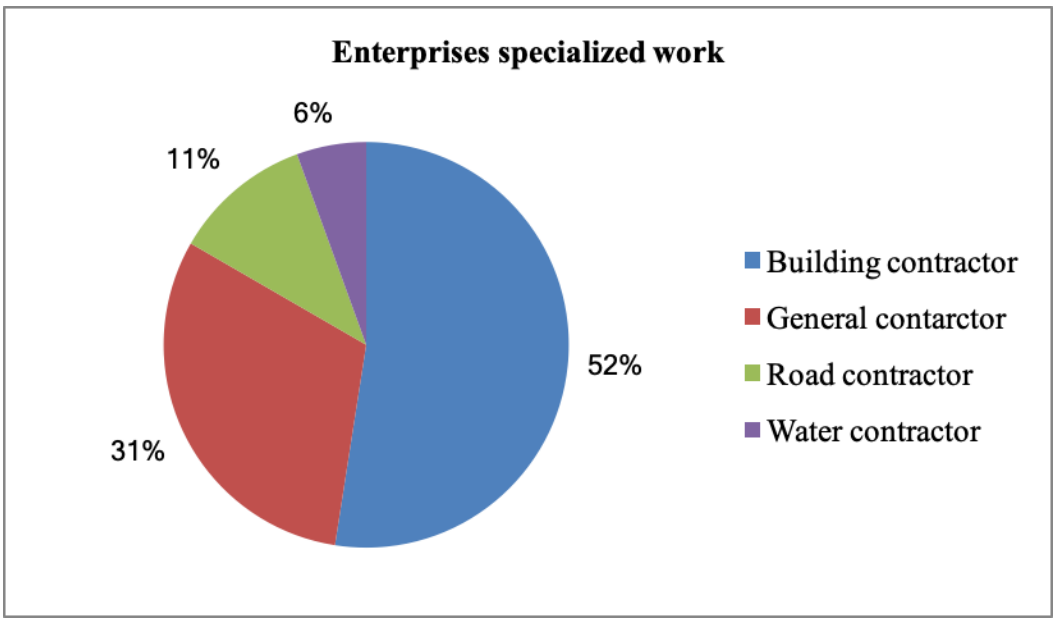

Figure 4.5 enterprises specialized work

Most enterprises specialization work according to the questionnaire survey was building contractor and it took 52% of the total respondents. This was happened due to most job opportunities of SMMEs are found from Addis Ababa city housing development agency. An agreement had made between this institution and Addis Ababa city small and micro enterprise office in order to give block works and finishing works for SMME construction companies. Addis Ababa city housing development agency is standing for minimizing the shortage of house by constructing a lot of condominium houses in the town. The remaining specialized work which is the general contractor, road contractor and water contractor of respondents have 31%, 11%, and 6% of the total sample population respectively.

4.2.6 Enterprises member

A number of enterprises member is different from one another. Therefore, the respondents were answering these questions in the following way.

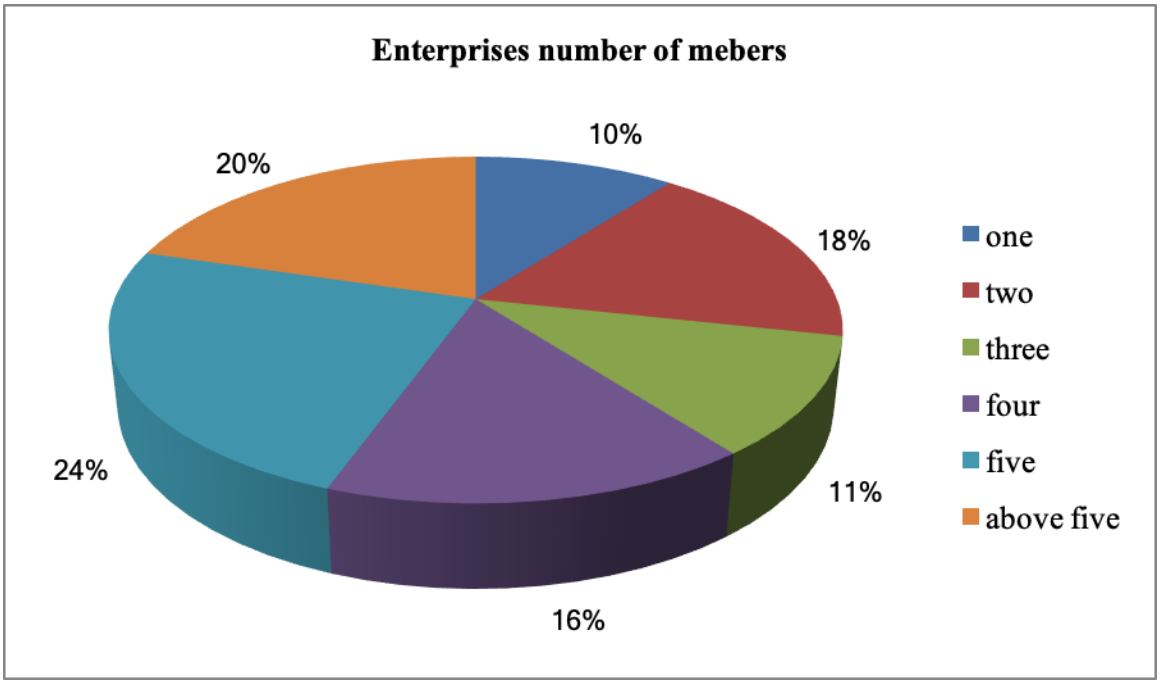

Figure 4.6 Enterprises number of members

As it can observe from the pie chart, 24 %, 20%, 18%, 16%, 11%, and 10% of construction enterprises have five, more than five, two, three and one members respectively. This shows that enterprises which have more members are a high chance of failure than a low member of enterprises. This is because enterprises which have more members are not tolerating odd idea one another and this becomes the source of negative impact on the business.

4.2.7 Enterprises experience

Experience is vital for any kind of business to become successes in it. Hence, knowing the experience of the respondents helps the researcher to understand the questionnaire is appropriately answered or not. The researcher tried to show the result of the questionnaire survey about enterprises experiences in a pie chart as shown below.

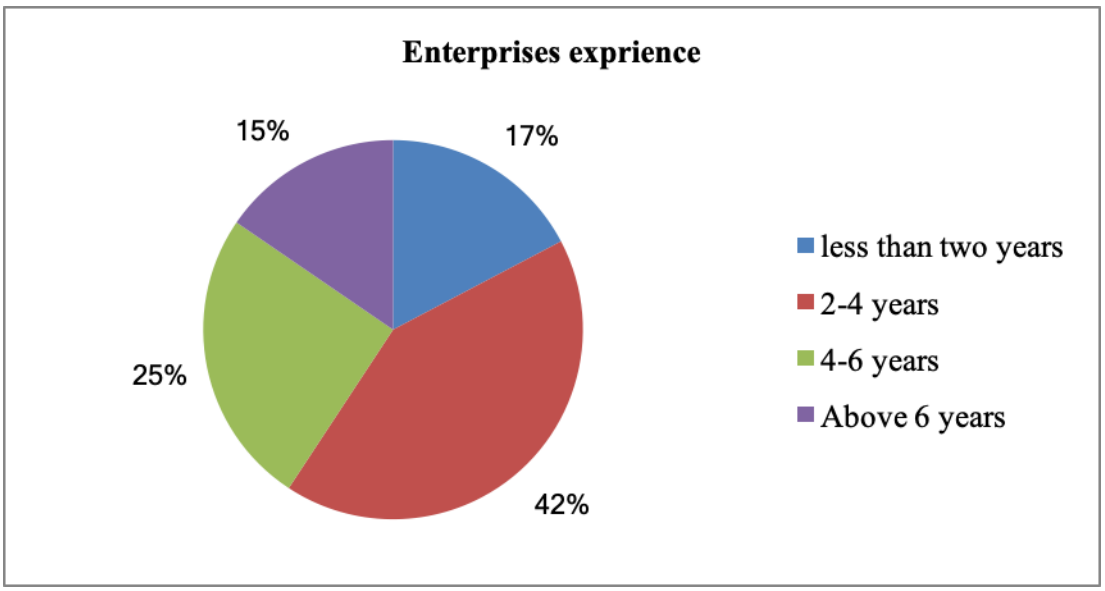

Figure 4.7 Enterprise experience

The majority of experience of the respondents was classified under 2-4 years' experience which contains 42% of the total respondents. This implies that most respondents have relatively sufficient experience about the construction industry and this helps the result of the research more accurate. The rest respondents who had 4-6 years, less than two years and above 6 years were containing 25 %, 17% and 15% of the total sample population.

4.2.8 Course taking enterprises

Taking construction course for SMME construction companies is vital to becoming successes in business. Therefore, the questionnaire survey result was showing that the number of enterprises who had taken and not taken construction courses.

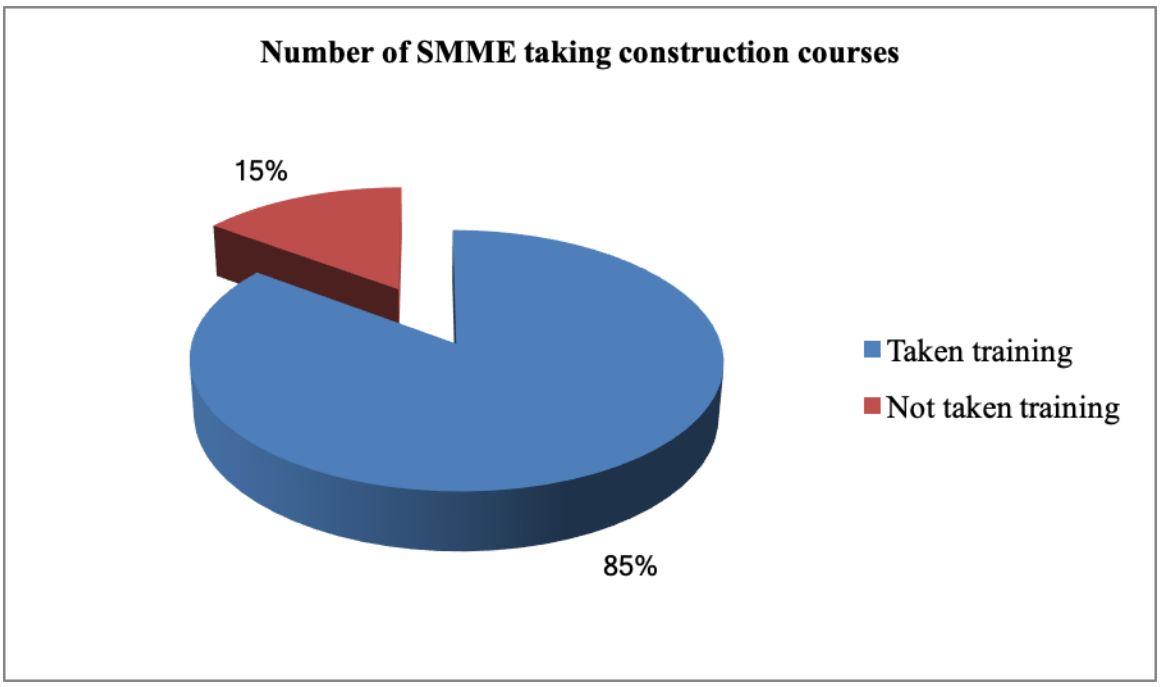

Figure 4.8 SMME taking training about construction courses

The questionnaire survey result showed that 85% of SMME were taking construction courses like project management, construction material and other courses which is a good thing for the research since they can know about the meaning of the question and they can understand the purpose of the research.

4.3 Analysis of factors which cause the failure of SMME

The questionnaires which describe factors that cause to the failure of SMME were provided for the respondents in the level of agreement by using the five-point scale method which includes:

- Strongly disagree
- Disagree
- Neutral/Not sure
- Agree
- Strongly agree

This could be converted to a Mean Item Score (MIS) for each of the factors which happened on the respondents. The indices then used to determine the rank of each factor. This ranking helps to compare the relative importance of the factors as perceived by the respondents. The formula and procedure of this calculation were presented in the methodology part of this thesis.

4.3.1 Organizational related factors

4.3.1.1 Managerial related factors

The questionnaire survey result which described managerial related factors were presented in tabular form in the following way.

Table 4.2 Managerial related factors

List of factors	Frequencies of respondents					MIS	Rank
	1	2	3	4	5		
Lack of financial management ability	2	6	3	94	57	4.22	1
Lack of human management ability	22	39	46	29	26	2.99	7
Lack of credit management ability	8	30	26	57	41	3.57	4
Lack of contract document interpretation ability	14	29	21	56	42	3.51	5
Lack of cash flow management ability	3	5	17	74	63	4.17	2
Lack of inventory management ability	23	46	62	17	14	2.71	8
Lack of project management ability	9	28	33	40	52	3.6	3
The problem on time management	25	34	31	35	37	3.15	6

The result of respondents about managerial related factors showed that financial management is the most dominated factor for the cause of failure of SMME construction companies in Addis Ababa. This was happening due to most construction enterprises have spent projects fund on their personal interest instead to use this funds properly on the given projects and this could be the cause of failure of the business. This result is supported by Besho (2008) and Storey (1996) who said that many small firms have fallen to keep adequate financial records and are often unaware of current financial situations.

The second and third rank of a managerial factor is lack of cash-flow management ability whose mean value is 4.17 and lack of project management ability whose mean value is 3.6 respectively. The other factors which include fourth to ninth rank of managerial factors are lack of credit management ability whose mean value is 3.57, lack of contract document interpretation ability whose mean value is 3.51, lack of time management ability whose mean value is 3.15 , lack of

human management ability whose mean value is 2.99 and lack of inventory management ability whose mean value is 2.71 respectively.

4.3.1.2 Financial related factors

Table 4.3 Financial related factors

List of factors	Frequency of respondents					MIS	Rank
	1	2	3	4	5		
Problem in obtaining collateral or guarantee	7	17	16	81	41	3.81	3
Problemof access to finance	9	14	17	73	49	3.86	2
High tendering costs	35	51	44	24	8	2.5	6
Problems in obtaining loans	13	31	28	54	36	3.43	4
Problems in obtaining advance payment or payment from the client	4	8	13	76	61	4.12	1
Problemwith procurement process	12	36	36	45	33	3.31	5

As it can be observed from the above table, problems in obtaining advance payment or payment from the client with a mean value of 4.12 were the most serious factor for the cause of failure of SMME construction companies in Addis Ababa. Other major challenges for construction enterprises next to problems in obtaining advance payment or payment from the client are a problem of access to finance with a mean value of 3.86 and problem in obtaining collateral or guarantee with a mean value of 3.81 respectively. This result is also mentioned by Mulu (2007) and Etsegenet (2000). In addition to these, the following financial related factors are also the cause of failure of SMME construction companies in Addis Ababa.

- Problems in obtaining loans whose mean value is 3.43,
- The problem with procurement or purchasing system whose mean value is 3.31.
- High tendering cost whose mean value is 2.50

4.3.1.3 Expansion related factors

Table 4.4 Expansion related factors

List of factors or problems	Frequency of respondents					MIS	Rank
	1	2	3	4	5		

Lack of understanding of how to change the type of work	12	20	14	65	51	3.76	1
Lack of plan when does the type of work change	24	31	34	44	29	3.14	4
Lack of experience to run more than two projects at the same time	11	29	32	57	33	3.44	3
Lack of understandings about knowing a tangible increase in the company's capital	10	15	28	66	43	3.72	2

The respondents of this thesis said that lack of understanding about how to change the type of work which has the highest mean value of 3.76 is the major problem of expansion related factors for SMME construction companies in Addis Ababa. The other expansion related factors which cause to fail SMME construction companies in their highest mean value order are lack of understandings about knowing a tangible increase in the company's capital with mean value of 23.72, lack of experience to run more than two projects at the same time with mean value of 3.44 and lack of plan when does the type of work change with mean value of 3.14 respectively.

4.3.1.4 Ethics related factors

Table 4.5 Ethical related factors

List of factors	**Frequency of respondents**					**MIS**	**Rank**
	1	**2**	**3**	**4**	**5**		
Problem on secret cooperation	3	9	15	74	61	4.12	2
Problem on seeking bribe (corrupt) from contractors	2	5	3	67	85	4.41	1
The problem on awarding contracts or self-fixing of rates by the client	20	31	29	48	34	3.28	3
Problem on stealing of material and equipment	42	40	23	39	18	2.7	4

As described from the above table, most respondents believed that problem on seeking bribe (corrupt) from contractors was the most serious ethical related factors for the cause of failure of SMME construction companies in Addis Ababa. The other ethical related factors which could be

the cause of failure of SMME construction companies according to their highest mean value order are problem on secret cooperation which has the mean value of 4.12, problem on awarding contracts or self-fixing of rates by the client which has the mean value of 3.28 and problem on stealing of material and equipment which has the mean value of 2.7 respectively. This finding of the research is confirmed by Chiocha (2006) and Matechak (2008) who noted that corruption, bribery, and fraud are not new phenomena in the construction industry.

4.3.1.5 Information and technologies related factors

Table 4.6 Information Technology related factors

List of factors	Frequency of respondents					MIS	Rank
	1	2	3	4	5		
Lack of communication	6	15	22	66	53	3.9	1
Lack of using soft wares	34	43	24	37	24	2.84	5
Problems on exchanging experiences	8	31	49	41	33	3.37	3
Lack of taking training which improves your company	12	14	36	58	42	3.64	2
Lack of using technologies	20	36	22	44	40	3.3	4

The result of respondents regarding information and technological related factors showed that lack of communication was the most severe challenges for the cause of failure of SMME construction companies in Addis Ababa. The remaining information and technologies related factors which could be the cause of failure of SMME construction companies according to their descending mean value are lack of taking training which improves your company with mean value of 3.64, problems on exchanging experiences with mean value of 3.37, lack of using technologies with mean value of 3.30, and lack of using soft ware's with mean value of 2.84 respectively.

4.3.2 Economic-environmental factors

This part of the questionnaire result showed that the basic factors which will cause the failure of SMME construction companies related to economic environmental factors. Therefore, analysis of marketing factors, late payment factors, regulation and policy factors was done as shown in the table below.

4.3.2.1 Marketing factors

Table 4.7 Marketing related factors

List of factors	Frequency of respondents					MIS	Rank
	1	2	3	4	5		
Lack of job opportunity	2	7	8	53	92	4.40	1
Problems on market computation	9	32	38	49	34	3.41	3
Problems on creating inter-linkage with other institution	17	39	33	39	34	3.21	4
Problems with creating new jobs	33	42	23	44	20	2.85	5
Problems on the distribution of jobs	3	7	13	84	55	4.12	2

The respondents of the questionnaires agreed that lack of job opportunity which has a mean value of 4.40 is the most critical factor out of marketing related factors for the cause of failure of SMME construction companies. It does not mean that other marketing related factors like problems on the distribution of jobs with a mean value of 4.12, problems on market computation with a mean value of 3.41, problems on creating inter-linkage with other institution with a mean value of 3.21 and problems on creating new jobs with a mean value of 2.85 are not the challenge of SMME construction companies. Rebelo (2005), Cheetam and Mabuntana (2006) and Materu (2002) had approved what this research found about marketing problems.

4.3.2.2 Payment related factors

Table 4.8 Payment related factors

List of factors	Frequency of respondents					MIS	Rank
	1	2	3	4	5		
Late payments by clients	9	11	3	53	86	4.21	1
Usually, happen late payments	5	27	29	45	56	3.74	3
Problems on obtaining advance payment	5	10	6	77	64	4.14	2
Liquidated damage cost	41	38	36	33	14	2.64	4

The response of respondents for payment related questionnaires showed that late payment by clients has occupied the first rank with a mean value of 4.21. This result showed that the client

could not give payment on proper time and this makes the enterprise not to finish the given project on time and this also cause not to stay a long time on business. The second and third rank of payment related factors for the respondents were problems on obtaining advance payment with a mean value of 4.14 and Usually, happen late payments with a mean value of 3.74 respectively. The last or the fourth rank of respondents about payment related factors was liquidated damage cost with a mean value of 2.64.

4.3.2.3 Regulation and policy factors

Table 4.9 Regulation and policy-related factors

List of factors	Frequency of respondents					MIS	Rank
	1	2	3	4	5		
Problems on government policy and regulation	10	17	21	68	46	3.76	1
Problems of political instability	39	45	30	32	16	2.64	4
The negative attitude on SMME	26	43	37	36	20	2.9	3
Problems on influencing the system of your company	12	18	22	71	39	3.66	2

An analysis of the above table shows the degree of agreement between respondents to regulation and policy related factors questions. According to the analysis result, a problem on government policy and regulation which has a mean value of 3.76 is ranked first which affects SMME construction companies. The remaining regulation and policy related factors which have second to fourth rank according to their highest mean value order are problems on influencing the system of your company with a mean value of 3.66, The negative attitude on SMME with a mean value of 2.90 and Problems of political instability with a mean value of 2.64 respectively. Dlitso, K., and Peter Q. (2000) and Shakantu and Kajimo-Shakantu (2007) mention Bhorat *et al*. (2002), were supported these findings on their research papers.

4.4 Open-ended questions

Finally, the researcher prepared three main open-ended questions for the respondents. These open-ended questions were:

1. What are the main challenges or problems which usually happen in your company?

2. What are the possible recommendations to solve the challenge of small, medium and micro enterprise construction companies in Addis Ababa?
3. Who will be the most responsible body for improving the above challenges? And why?

The responses were analyzed according to their similarity and the number of mentioned by respondents. Thus, the analysis is done by using the standard statistical formula as follows:

$$\% = \frac{\alpha \times 100}{\sum \mu} \ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{equation three}$$

Where,

α = numbers of times mentioned

$\sum \mu$ = total respondents

For question number one the response of respondents was presented with the help of charts as shown below.

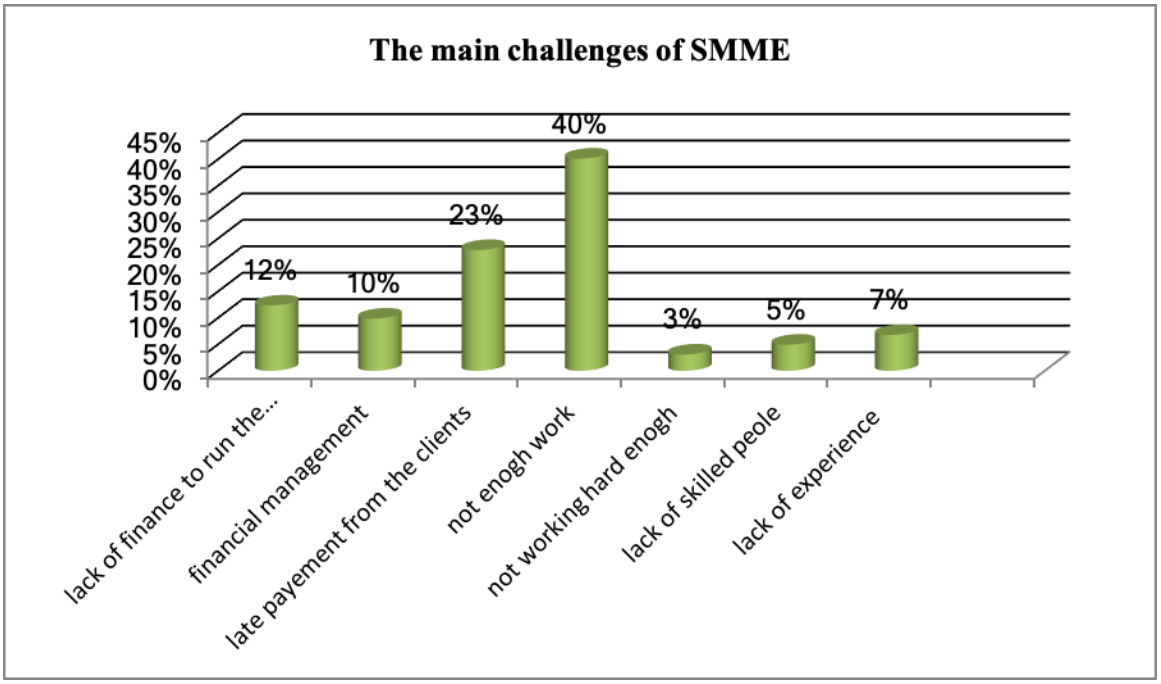

Figure 4.9 challenges and problems of SMME

The response of respondents for the main challenges and problems of SMME construction companies were described as the above figure. According to the above figure, 40% of respondents were said that not enough work is the main challenge of the enterprise while 23% and 12% of respondents said that late payment from the client and lack of finance to run the business are the main challenges of SMME construction companies respectively. The remaining respondents who cover 10 %, 7%, 5% and 3% of the sample population were said that lack of

financial management, lack of construction experience, lack of using skilled people and not work hard enough are the main challenges of the company respectively.

Like question number one, the response of respondents for question number two was presented with the help of charts as shown below.

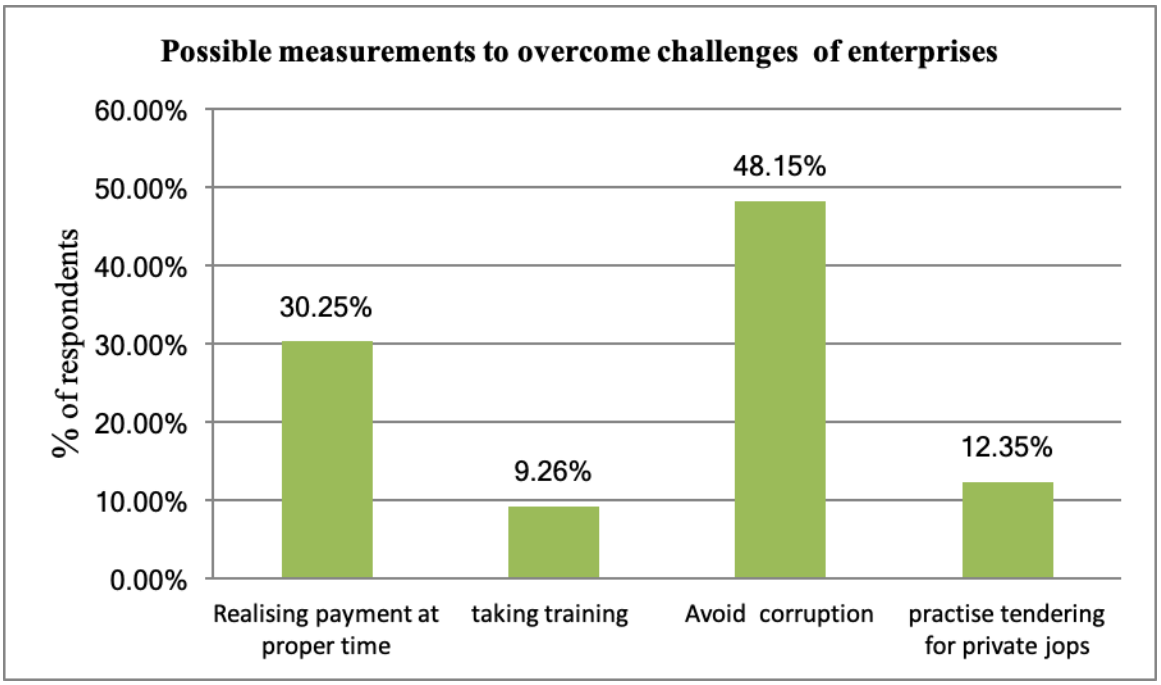

Figure 4.10 Possible measurements for the challenge of SMME

As the above figure indicates, 48.15% of respondents believed that minimizing or avoiding corruption is the possible measurements for the cause of failure of SMME construction companies in Addis Ababa. The other respondents who cover 30.25% of the total sample believed that offering payment at the proper time can avoid the cause of failure of SMME construction companies. The other respondents who cover 12.35% and 9.26% of the total population said that besides government bid it is better to practice bid for private jobs and taking training about the business respectively is the possible solution to avoid challenges and problems of SMME construction companies.

The third and last open-ended question for the respondents was who will be the most responsible body for reducing the above challenges? And why? According to their response, the following analysis was made with the help of a pie chart.

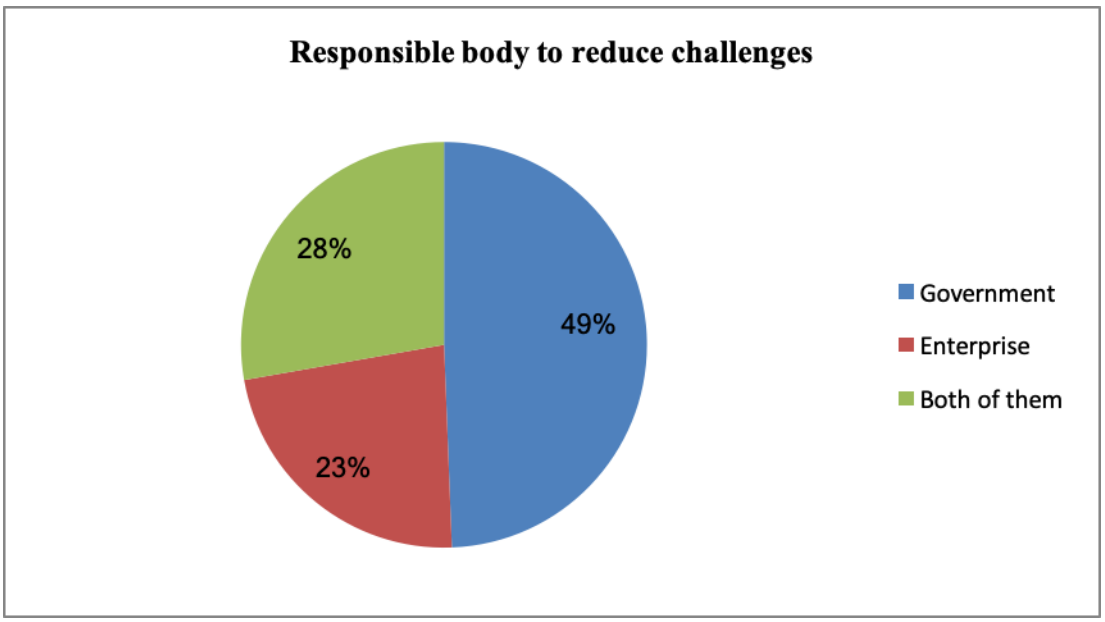

Figure 4.11 showing a responsible body to reduce challenges

The majority of respondents who cover 49% of the sample population confirmed that the responsible body to reduce the challenge of enterprises is the government because the challenges and problems are usually created forms the government itself. For example, late payment and policy regulation related challenges are always happening in the government side. The rest 28% and 23% of respondents said that both government and enterprise and enterprise themselves are responsible for reducing the challenge of enterprises.

3.5 Case studies

In these cases studies, some projects in Addis Ababa which have been recently completed by small, medium and micro enterprise construction companies are presented in order to have real information on the stated challenges. All the relevant data like contract documents, progress report, payment certificates, and final completion report were found from SMME performance report. Used as a source of data This helps to know the factors which will be the cause of failure of small, medium and micro enterprise construction companies in Addis Ababa. The data collected by reviewing the payment certificates, progress reports and completion reports are showing that the practical challenges of them and this describes that this research is the current issue of the town.

The desk studies were analyzed from four projects which had executed and completed recently by SMME construction companies in Addis Ababa. Therefore, every four projects were analyzed as follows.

3.5.1 Case study one

This case study is presenting about the cause of failure of SMME construction companies in Addis Ababa by taking one project which was executed by one enterprise.

The basic information about this project is:

Project name:	Gullele sub-city wereda 08 and 10 beautification interchange toilet and septic tank work
Contract amount:	518,018.52 Eth Birr
Commenced time:	May 22, 2017
Contract time:	90 Calendar days
Actual amount:	454,652 Eth Birr
Actual Completion Date:	December 25, 2017
Delay time:	123 Calendar days

As described from above project information, the given project had delayed by 123 calendar days but the actual amount of the project had decreased from the contract amount instead it increased due to varies reasons as the performance report indicates. The first reason to happen this situation was not paying payments at the right time. The contract agreement about the advance payment and payment says that within 15 days after the date of contract signature, the employer shall pay to the contractor advance payment and payments to the contractor shall be made within ten to fifteen days following receipt of the statement of work respectively. As the file of this project indicates advance payment of the project was offered after 45 calendar days of the advance payment had asked. Not only advance payment but also 1st and 2nd payment of the project was delayed by 41 and 47 calendar days when the contractor had asked 1st and 2nd payment of the project respectively This payment delay causes the contractor or enterprises not to stay on the business because SMME construction companies have no financial capacity to construct the project by their money until the payment is offered.

Another point from the above project information is the actual amount of the project was less than the contract amount even though the project was delayed by 123 calendar days. The reason is that the contract quantity was greater than the actually executed work quantity that is why

contact amount exceeds the actual amount. Due to this reason, the construction enterprise had not got additional money for the delay even though he/she asked compensation for the delay. Therefore, payment delay from the client is the major causes to fail SMME construction companies in Addis Ababa.

3.5.2 Case study two

This case study is presenting about the effect of time management problem and financial management problem on an enterprise construction industry by taking one project which was executed by an enterprise.

The basic information about this project is:

Project name:	Arada sub-city housing and construction project office
Project location:	Bole bull bulla
Contract amount:	79,000 Eth Birr
Commenced time:	November 10, 2015
Contract time:	30 Calendar days
Actual amount:	79,000 Eth Birr
Actual Completion Date:	February 15, 2016
Delay time	45 Calendar days
Remark:	Terminated

Even though the aim of this project was to construct pavement work around the building, the project was terminated as it can observe from the above information. The record of this project file tells that the first construction enterprises company had done some activities of the project and accepted advance payment of the project. However, an enterprise could not continue to work the rest activities of the project. Therefore, the project was terminated and transferred to another construction enterprise after oral and written warnings had given to an enterprise. Due to this reason, the contractor's name is registered in a blacklist and order was sent to concerning bodies not to participate in any kind of governmental construction works.

The reason to terminate the project was the enterprise's problem. Some of the problems which happened in an enterprise were a time management problem. This leads to an enterprise not work the project according to the schedule. Another challenge which happened in an enterprise was a financial management problem. As soon as an enterprise took advance payment, he/ she had used

this payment for their personal interests instead to use on the project. This makes an enterprise to stop work and not to come to the site without any announcement for the concerning bodies.

3.5.3. Case study three

This case study is presenting about the effect of payment delay from the client, change of regulation and policy from the government and poor management system and lack of experience from an enterprise by taking one project which was executed by an enterprise.

The basic information about this project is:

Project name :	Lideta sub-city wereda 07 office expansion work
Project location:	Lideta sub-city wereda 07
Contract amount:	3,472,000 Eth Birr
Commenced time:	May 20, 2018
Contract time:	90 Calendar days
Actual amount:	3,564,000 Eth Birr
Actual Completion Date:	February 2, 2019
Delay time:	129 Calendar days

As stated above, the purpose of this project was to construct office expansion work for Lideta sub-city wereda 07 in Addis Ababa. An agreement was made between Lideta sub-city executive office which is called as a client and one construction enterprise companies which is called as a contractor. As the project file indicates, the project was started on June 28, 2018 because the contractor had got right way problem like an electric pole, more than five trees and unwanted old house on the site timely.

Even though an enterprise was working the project by accepting an advance and first payment, the project had been stopped for two month and 25 calendar days due to the second payment problem. This problem brings some challenges for the contractor like the inflation of construction materials after the government policy regarding foreign currency has changed. The client did not correct the price of materials based on the inflation rate even if the construction material price is increased throughout the country.

Another challenge was enterprise's poor management system and lack of experienced personnel on the project. These lead to an enterprise not to become profitable and not to stay on the business. Therefore, this case study concludes that delay payment, government policy and

regulation, enterprise's poor management system and lack of experienced personnel on the project are the major cause to fail SMME construction companies. repeatedly

3.5.4. Case study four

This case study is helping to know the lack of jobs in the construction industry. The researcher got a record file about the deficiency of jobs for an enterprise from Yeka sub-city construction office. According to this information, the government has a responsibility to make a market link with Addis Ababa house project office a minimum of one market link for enterprises because there are a lot of new entrant enterprises who seek the job. The following information shows that one's enterprise who had made market link with Addis Ababa house project office and what happened after the enterprise has finished the project.

The basic information about this project is:

Project name:	Yeka Badu condominium finishing work
Project location:	Yeka sub-city wereda 12 and 13
Contract amount:	37,000 Eth Birr
Commenced time:	December 20, 2017
Contract time:	20, Calendar days
Actual amount:	20,000 Eth Birr
Actual Completion Date**:**	March 15, 2018
Delay time:	65 Calendar days

The purpose of this project was to construct finishing work like gypsum, painting, and fixing of electrical materials for teacher's house. Here, an enterprise responsibility was only giving service which means that construction materials are supplied by the client. In this project, around fifty (50) construction enterprises were participating and they did not finish the work on the contract times. As the record file of this project indicates, enterprises had asked the client frequently to get finishing materials according to an agreement but the client did not give a response immediately. Another challenge for an enterprise was payment delay. The client had offered a payment after one month of the enterprise had asked. Due to this reason, the project delays by 65 Calendar days and enterprises could not get expected profit from this project. Therefore, no response at the right time and payment delay were the major cause not to get a profit for enterprise construction companies.

After an enterprise had finished above project with a challenge, he/she could not get another job because Addis Ababa house project Yeka Badu branch did not have works for them. Even though this office has a responsibility to reach his allocated enterprises up to medium construction companies, the office cannot implement this duty due to lack of jobs in its branch. Due to this reason, enterprises can find a job themselves outside government's link. But they could not get a job due to lack of experience and they had no required license what outside market needs. This challenge makes enterprises not to get a job whether at government link or outside the government. Therefore, most construction enterprises have got difficult to stay in the business.

3.5.5. Case study five

This case study is helping to know the lack of access to finance in order to start the construction. This case study is discussed by taking one project which was not executed by an enterprise because an enterprise was only won the bid and not start the work.

The basic information about this project is:

Project name:	Kirkos sub-city wereda 02 toilet work
Project location:	Kirkos sub-city wereda 02
Contract amount:	180,200 Eth Birr
Commenced time:	November 10, 2006
Contract time:	45 Calendar days
Remark:	not executed by this enterprise

Even though an enterprise could win the bid, he/ she would not start the job. As an enterprises performance report indicates, this enterprise has no money to start the project and to accept advance payment. Due to the lack of collateral, this enterprise lacks ready finance and access to an affordable loan. Due to this reason, this enterprise cannot participate in other governmental projects. Therefore, the lack of access to finance is the major cause for the cause of failure of SMM construction companies.

3.5.6. Case study six

This case study is helping to know the ethical problem of an enterprise. This is discussed by taking one project which was executed by this enterprise.

The basic information about this project are:

Project name:	Yeka sub-city wereda 07 maintenance work

Project location:	Yeka sub-city wereda 07
Contract amount:	560,020 Eth Birr
Commenced time:	November 10, 2006
Contract time:	60 Calendar days
Remark:	not finished by this enterprise

As it described above information, the winner enterprise could not finish the project. According to Yeka sub-city enterprises performance report indicates, this enterprise was disappearing after he/ she took advance payment. Due to this reason, this enterprise is blocked not to participate in any other governmental projects.

3.5.7. Case study seven

This case study is presenting about the cause of failure of SMME construction companies in Addis Ababa by taking one project which was executed by one enterprise.

The basic information about this project is:

Project name:	Construction of two septic tank
Project location:	Bole sub-city wereda 02
Contract amount:	70,400 Eth Birr
Contract time:	30 Calendar days
Commenced time:	March 20, 2017
Remark:	not complete

An enterprise who won this project could not complete the project and terminated because this enterprise was won the bid at low price and could not execute the project in this price. Thus, the client terminates the project and gave to another enterprise. This implies that an enterprise has a lack of understanding of cost estimation and contracting.

3.5.8. Case study eight

This case study is presenting about the effect of safety issues on an enterprise construction industry by taking one project which was executed by an enterprise.

The basic information about this project are:

Project name:	Construction of site work
Project location:	Bole bull bulla
Contract amount:	897,421.47 Eth Birr
Commenced time:	December 23, 2015

Contract time: 90 Calendar days

Remark: terminated

An enterprise made an agreement with Arada sub-city housing and construction office to construct site works. During the construction period, an enterprise broken manholes cuts sewerage line and electric cables. The owner of this property asks an enterprise to pay 65,000 Ethiopian Birr as compensation. An enterprise could not precede the work after the property owner asked compensation. This implies that an enterprise has a lack of understanding about safety issues.

3.5.9. Case study nine

This case study is presenting about the cause of failure of SMME construction companies in Addis Ababa by taking one project which was executed by one enterprise.

The basic information about this project is:

Project name: Construction of ART & APTS renovation work

Project location: Lideta sub-city wereda 04

Contract amount: 872,245 Eth Birr

Contract time: 90 Calendar days

Commenced time: March 20, 2017

Remark: Not complete

An enterprise who won this project could not complete the project and terminated because this enterprise was trying to make a huge profit by decreasing the specified quality and doing bad work which is not match with the design standards or specification. In addition to these, the enterprise could not employ the qualified worker. He/she consider them expensive instead of doing things all by themselves or with cheap, incompetent workers. Due to this reason the consultant had always reject such works and not pay payments. This lead to conflict and failure of an enterprise.

Table 4.10 Summary of case studies

Project name	**Project location**	**Contract Amount**	**Commencement**	**Con. Time**	**Act. AmT**	**Act.co date**	**Delay Time**	**Challenges happen**
Gullele sub city wereda 08 & 10 toilet & septic tank work	Gullele sub city	518,018.52 ETB	May, 2017	90 Cal	454,652 ETB	Dec 25, 2017	123 Cal days	-Delay payment

Lideta sub city wereda 07 off-ice expansion work	Lideta sub city Were da 07	3,472,000.0 0 ETB	May 20, 2018	90 cal days	3,564,000	Feb 2, 2019	129 Cal Days	-Delay of sec ond Payment -Regulation and Policy change -Poor mana gement -Lack of skill ed personnel
Yeka Badu condominium finishing work	Yeka sub-city wereda 12&13	37,000.00 ETB	Dec 20, 2017	20 Cal days	20,000.00	Mar 15, 2018	65 Cal Days	-Slow respon sese from the client -Delaypayment -Lack of job
Kirkos sub-city wereda 02 toilet work	Kirkos sub-city wereda 02	180,200 ETB	Nov 10, 2006	45 Cal days	-	-	-	-Problem on access to finance
Yeka sub-city wereda 07 maintenance work	Yeka sub-city wereda 07	560,020 ETB	Nov 10, 2006	60 Cal days	-	-	-	-Ethical problem -lack of under stand about rule of const ruction
Construction of two septic tank	bole sub-city wereda 02	70,400 ETB	March 20, 2017	30 cal days	-	-	-	-Problem on cost estimation -problem on contracting
Construction of site work	Bole bull bulla	897,421.47 ETB	December 23, 2015	90 Cal days	-	-	-	-Lack of understanding about safety issues
Construction of ART & APTS renovation work	Lideta sub-city wereda 04	872,245 Eth Birr	Mar 20, 2017	90 Cal days	-	-	-	-Wishing a lot Profit by decre asing quality of material

3.6 Summary of research discussion and findings

As the research title says, assessing the cause of failure of Small, Medium and Micro Enterprise (SMME) construction companies in Addis Ababa, the major objective of the research finding is to assess the cause of failure of SMME construction companies. Therefore, the research finding of this thesis is going to approve a problem statement and objective of the research as follows. From the research findings and discussion, most construction enterprises are dominated by males and the majority of respondent's age was between 18-30 years which implies that smallest, medium and micro enterprise construction companies are involved by youth persons. In addition

to these, the research finding shows that smallest, medium and micro enterprise construction companies in Addis Ababa are characterized as specialized in building works, holder of BSc degree in their educational qualification, have significant experience in the construction industry and have taken training about construction courses.

The research finding is shown that lack of effective financial management is the most dominated factor for the cause of failure of SMME construction companies in Addis Ababa. It is also shown that lack of ability of time management, lack of ability of inventory management, lack of ability of contract document interpretation, lack of ability of using skilled people, lack of ability of project management and lack of ability of human management according to their descending order are another cause for SMME construction companies' business failure. Therefore, this lack of management experience led to the collapse of many SMME construction companies.

In the study area of financial related factors, the finding of the study revealed that problem on obtaining collateral or guarantee is the most serious factor for the cause of failure of SMME construction companies in Addis Ababa. Other major challenges for construction enterprises next to this are a problem on access to finance, the problem in obtaining loans, Problem in obtaining advance payment, high tendering cost and problem on purchasing system.

According to the finding of this study, most SMME construction companies in Addis Ababa have lack of understanding about how to change the type of work, lack of understandings about knowing a tangible increase in the company's capital, lack of experience to run more than two projects at the same time and lack of plan or schedule when does the type of work change. This finding indicates that expanding the business without having enough understanding the above factors lead to business failure.

The research also found that secret cooperation, seeking bribe (corrupt) on awarding contracts or self-fixing of rates by the client and problem on stealing of material and equipment are the most serious ethical related factors for the cause of failure of SMME construction companies in Addis Ababa.

The finding of the study regarding information and technological related factors describes that lack of communication is the most severe challenges for the cause of failure of SMME construction companies in Addis Ababa. The other factors which are the cause of failure of SMME construction companies according to their descending impact order are lack of taking

training which improves their company, lack of using technologies, Problems on exchanging experiences and lack of using soft wares respectively.

The finding of research regarding marketing related factors is shown that lack of job opportunity is the most critical factor for the cause of failure of SMME construction companies.

According to the research finding problems with creating new jobs, problems on the distribution of jobs with, problems on creating inter-linkage with other institution and problems on marketing is also the challenge of SMME construction companies in Addis Ababa.

The finding of the research shows that late payment and liquidated damage cost by clients are the major cause of the failure of SMME construction companies in Addis Ababa. This result showed that the client could not give payment on proper time and this makes the enterprise not to finish the given project on time and this also cause not to stay a long time on business.

In addition to the above findings, the research has also found the impact of government policy and regulation on SMME construction companies. This Regulation and policy are influencing the system of their company and create a negative attitude on SMME construction companies as well as political instability affects the growth of SMME business

CHAPTER FIVE

Conclusions and recommendations

Based on the research result and review of relevant literature, this chapter describes the conclusion and recommendation part of the study.

5.1 Conclusions

The research describes that small, medium and micro enterprise construction companies have faced different challenges which are the cause of failure of their business. These challenges can be grouped under organizational and economic- environmental related factors.

Based on challenges of classification, managerial, financial, expansion and information technology related factors are organizational challenges while marketing, payment, regulation, and policy related factors are the challenge of economic- environmental related factors.

1) The research established that marketing factor is the most challenging factor which becomes the cause of failure of SMME construction companies in Addis Ababa. This shows that scarcity of job in the town and jobs are not easily found in SMME construction companies due to the computation of an enterprise one another.
2) Next to marketing factor, another challenge which usually happens in SMME construction companies in Addis Ababa is a financial problem. This occurred due to late payment from the client and lack of working capital from the enterprise. Previous researches in the country support this conclusion which describes finance is one of the main factors that affect the performance and growth of SMMEs (Admasu, 2012 and Mulugeta, 2011). As a result, the financial problem is one of the causes of failure of SMME construction companies.
3) Based on the research result, the research declares that managerial factor is another challenging factor for the cause of failure of SMME construction companies in Addis Ababa. Lack of business management which includes financial, time, project and human resource management affects the growth of the company and leads to business failure. This implies that SMME construction companies have managerial problems.
4) The research has also proved that there is bad ethical practice in Addis Ababa construction sector. This practice is done through secret cooperation, seeking corrupt on awarding contracts by self-fixing of rates by the client and stealing of material and

equipment. As a result of this, bad ethical practice becomes the cause of failure of SMME construction companies in Addis Ababa.

5) Another challenge for SMME construction companies according to research finding is information and technological related factors. These factors are described as lack of communication, lack of taking training which improves their company, lack of using technologies, lack of exchanging experiences and lack of using soft ware's.
6) The study has also described that SMME which have more members are not showing better growth as SMME which have few members in their business. This happened because Ethiopian government regarding SMME policy says, Small, Medium and Micro Enterprise (SMME) with a large number of members are encouraged than with that of few member enterprises.
7) In addition to the above challenges, the research has also established that government policy and regulation is the cause of failure of SMME construction companies. The government's regulation and policy are influencing the growth of SMME construction companies by establishing new proclamations which oppose an enterprise and creating a negative attitude on SMME construction companies. In addition to this, Political instability is also affecting the growth of these companies.
8) Unlike above challenges, the study has shown that expansion related factor is not the most challenging factor for the cause of failure of SMME construction companies because most respondents were not changed their business from time to time.

Generally, lack of job opportunity, financial problem, management problem, government policy and regulation problem and bad ethical practice are the most critical factors for the cause of failure of SMME construction companies in Addis Ababa.

5.2 Recommendations

As stated earlier, the main objective of this research is to assess the cause of failure of Small, Medium and Micro Enterprise (SMME) construction companies in Addis Ababa and to suggest some recommendations about how to minimize or avoid the cause of failure of SMME construction companies. Therefore, the study gave some recommendations for the concerning bodies based on the research result as follows.

1) The government shall introduce some affirmative action's for SMME construction companies regarding to tax regulation issues until they become large firms.

2) The government has to be providing training on quality improvement, training on skill development like management, technical, estimating and tendering skills and training on cost reduction methods. Hence, government officials need to exert much effort towards providing training and coordinating the resources from different stakeholders to work on providing technical and management trainings for these enterprises. This reduces the business failure of enterprises and helps to stay on the market.
3) The government should focus on how to maximize SMMEs benefit by establishing encouraged policies instead to work for cheap political interest. This is because SMMEs are an instrument for reducing poverty and un employment in the country.
4) As the finding of this research indicates, some of the cause of failure of an enterprise is payment problem from the client, problem on access to finance due to collateral issue and lack of job opportunity. To avoid this challenge, the concerning bodies should solve this problem as much as possible at the right time.
5) Most enterprise have understood that job opportunity is found from the government only. This is a miss-understood concept and they should not always expect a job from the government instead they have to search a job themselves. If enterprises become dependent on the government only, they will be jobless when the government gets some problem. In addition to these, their business will not be growing according to what they want.
6) Even though the government has made a link between SMME construction companies and Addis Ababa housing construction office, the number of an enterprise and job available from this office are not equal. Therefore, the government has to establish a rule which facilitates a link between SMME construction companies and large construction companies in any kind of projects.
7) Finally, the concerning body should have appropriate understanding about these factors in order to solve marketing, financial, managerial, ethical and government policy and regulation problems. These help them to flourish and achieve their objectives of profit, growth and employment opportunities and also reduce poverty. Therefore, it is important for the government and nongovernmental organizations together to formulate their policies and strategies which makes easy to meet the goal of these enterprises.

REFERENCE

1. Admasu, A. (2012). Factors Affecting the Performance of Micro and Small Enterprises in Arada and Lideta Sub- Cities, Addis Ababa. A Master's thesis. Addis Ababa University, Ethiopia.
2. Adejimi, A. (2009). Impact of ICT on the integration of construction procurement chaininNigeria.Availablefrom:http://www.rics.org/site/download_feed.aspx?fileID=4979&fileExtension=PDF (Accessed 15 February 2010).
3. Anderson, R. (1987). The thorny issues of payment to subbies. South African Builder, Vol. 8 No 1: pp.12-13.
4. Bawuah, B., Yakubu A. S., and Salakpi A. (2014).Assessing the existing of financial opportunities and its influence on capital structure of SMEs. A case study in the central region of Ghana, International Journal of Development Research, Vol. 4, issue 5, pp. 1162-1173.
5. Bolton Committee (2001). Report of the committee of inquiry on small firms. Her Majesty's Stationery Office. England: London.
6. Bolton Committee Report of 1971. Report of the Committee of Inquiry on Small Firms. London: Her Majesty's Stationery Office.
7. Buys, F. (2006). Payment certification problems: who is to blame? ACTA Structilia, 15(2): pp. 3.
8. Carson, B. (2006). Effective skills transfer for organization, managers and engineers in the transport. Proceedings of the 2000 Third Africa Technology Transfer Conference. Conducted Technology Transfer Centre of Malawi. Mangochi: Technology Transfer Centre.
9. Central Statistical Authority (CSA). 1970-2010. Annual Report, Statistical Abstract. Addis Ababa.
10. Charney, A., & Libecap, G. D. (2000). Impact of Entrepreneurship Education: Kauffman Center for Entrepreneurial Leadership.
11. Chilipunde, R.L. (2007). Assessment of emerging contractors in Malawi. Unpublished BSc honours treatise. Port Elizabeth: Nelson Mandela Metropolitan University.

12. Chiocha, C.I.M. (2006). Corruption and its effects on the development of construction industry in Nelson Mandela Metropolitan Municipality in South Africa. Unpublished BSc honours treatise. Port Elizabeth: Nelson Mandela Metropolitan University.
13. CIDB (2007). Synthesis review on the South African construction industry and its development. Available from http://www.cidb.org.za/Documents/contractor.pdf. {Accessed on 22 March 2009}
14. CIDB, 2006, In Focus; Newsletter of the Construction Industry Development Board, March.
15. CSA 2003. Report on small scale manufacturing industries survey. Addis Ababa.
16. Dalitso, K. and Peter, Q., (2000). The Policy Environment for Promoting Small and Medium-Sized Enterprises in Ghana and Malawi, University of Manchester.
17. Dimitras, A I, Zanakis, S H and Zopoundis, C (1996). A survey of business failures with an Emphasis on Prediction Methods And Industrial Applications, European Journal of Operational Research, 90, 487-513.
18. Dun and Bradstreet Corporation. (1986). Dun's Census of American business. New York: Dun & Bradstreet Corporation.
19. Dyke, L., Fischer, E. and Reuben, A.(1992). "An inter-industry examination of the impact of owner experience on firm performance", Journal of Small Business Management,Vol.30No.4, Available at, https://www.questia.com/library/journal/1G1-13795473/an-inter-industry-examination-of-the-impact-of-owner
20. El-tr, F. & Kagari, R. (1994). Review management perceptions and trends of United States of America construction. *Journal Engineering and Management ASCE*, 121(4):pp. 422-429.
21. Endalkachew Mulugeta, (2008) Underlying Causes of Micro and Small Business Failures in Addis Ketema Sub City:A Case Study. A Project Paper Submitted to Addis Ababa University school of Graduate Studies for the Partial Fulfillment of Masters Degree in Accounting and Finance.
22. FDRE Ministry of Trade and Industry, (1997), Micro and Small Enterprises Development Strategy Addis Ababa: Ministry of Trade and Industry.
23. Fellows, R. & Liu, A. (1997). Research methods for construction. Edinburgh: Blackwell Science.

24. Fellows, R., Langford, D., Newcombe, R. & Urry, S. (2002). Construction Management in Practice. London: Oxford Blackwell Science.
25. Fraser, H. (1989). Under-quoting is the formula to disaster. African building contractor, 10(1):pp. 12-16.
26. GFDRE, (2011), Micro and Small Enterprise Development Strategy: provision framework and Methods of Implementation. Addis Ababa, Ethiopia.
27. Goldstock, R. (1990). Corruption and Racketeering in the New York City Construction Industry**.** New York: New York University Press.
28. Griffin, C. (1990). Don't get caught-out by price increases. African Builder Contractor, 1(1):pp. 12-16.
29. Habtamu, T., Aregawi, G. and Nigus, A. (2013). Growth Determinants of micro and Small Enterprises: Evidence from Northern Ethiopia. Journal of Economics and Sustainable Development, 4(9), 128-135.
30. Hailey, G. (2003). Entrepreneur Ship and Small Business Management, 1st edition Mekele University Ethiopia.
31. Hernes, T. (1998). Training contractors for results: A guide for trainers and training managers. Geneva: International Labour Office Geneva.
32. ILO (1987). Guidelines for development of small-medium construction enterprise. Geneva: International Labor Office.
33. ILO (2006). Training contractors for results: A guide for trainers and training managers. Geneva: International Labor Office.
34. InternationalMonetaryFund,(2012).Availableat:https://www.imf.org/en/Publications/AREB/Issues/2016/12/31/International-Monetary-Fund-Annual-Report-2012-Working-To-Support-Global-Recovery-26104
35. Kangari, R. (1988). Business failure in construction industry. Journal of Construction Engineering and Management, 114(2), 172-190.
36. Kapulula, A. (2008). Problems, solutions in construction industry. The Public Procurer, 2(1): pp. 26-27.
37. Kayanula, D. & Quartey, P. (2000). The policy environment for promoting small and medium-sized enterprises in Ghana and Malawi. Available at: http://www.man.ac.uk/idpm/

38. Kesper, A. (2000). Failing or not aiming to grow? Manufacturing SMMEs and their contribution to employment growth in South Africa. TIPS Working Paper: Cape Town.
39. Khoza, R. (2008). The construction industry is a tough environment. Available from: http://www.cidb.co.za {Accessed 20 March 2009}.
40. Krafchik, W.A. (1991). Small-scale enterprises, inward industrialisation and housing. Case study of sub-contractors in Cape Peninsula low cost housing industry paper no.82: South African Labour Development Unit. Unpublished case study.
41. Lafuente,E. and Rabetino,R. (2011), "Human capital and growth in Romanian small firms" ,Journal of Small Business and Enterprise Development Vol.18 No.1.
42. Lim, E. C. and J. Alum (1995), Construction productivity: issues encountered by contractors in Singapore. International journal of project management 13(1): 51-8
43. Longenecker, J. G., Petty, C. W., Moore, J. W. and Palich, L .E (2006). Small Business Management, An entrepreneurial emphasis. London: Thomson South Western.
44. Lussier, R.N. (1995), "A nonfinancial business success versus failure prediction model for young firms", Journal of Small Business Management, Vol. 33 No. 1.
45. Matechak, J.P. (2008). Fighting corruption in public procurement. The Public Procurer, 2(1):pp. 32-33.
46. Materu, S. (2002). Overview of contractor‟s performance. Unpublished paper presented to CRD, Dar es salaam
47. Merrifield, A. (1992). Private sector involvement in South Africa‟s low income housing market since late 1980‟s. Unpublished report, Department of Property Development and Construction Economics. Durban: University of Natal.
48. Ministry of Finance and Economic Development (MoFED), 2006, Ethiopia: Building on Progress, A Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/06-2009/10). Volume I. Addis Ababa.
49. Ministry of Trade and Industry. (1997). Micro and small enterprises development strategy of Ethiopia. Addis Ababa.
50. MoFED, (2010). Growth and Transformation Plan 2010/11—2014/2015, Addis Ababa, Ethiopia.

51. Mohan-Neill, S. (2009), "The influence of education and technology use in the success of US Small Businesses, Journal of Management Systems, Vol. 21 No. 1.
52. Motlanthe, P. (1990). Critical needs of emerging contractors. *African builder contractor,* 2(1):pp. 15-16.
53. MUDC, (2013). Survey on Micro and Small Scale Enterprises in Selected Major cities of Ethiopia. Addis Ababa, Ethiopia.
54. Myers, D. (2004). *Construction* economics: A new approach. London: Spon Press.
55. Naoum, S.G. (2007). Dissertation research and writing for construction students. 2nd edition. San Diego: United States of America.
56. Ofori, G. (2009). Challenges of Construction Industries in Developing countries: Lessons from various countries.
57. Ogunlana,S.O. and Olomolaiye, P.O. (1989). A survey of site management practice on some selected sites in Nigeria. Building and environment, 24 (2),191-196
58. Olabisi, S., Y., Olagbemi, A., A., and Atere, A., A. (2013). Factors Affecting Small-Scale Business Performance in Informal Economy: A Gendered Based Analysis, 1-13, Lagos Nigeria.
59. Osotimehin, K.O., Jegede, C. A., Akinlabi, B., H., and Olajide, O.T. (2012). Evaluation of the Challenges and Prospects of Micro and Small Scale Enterprises Development, *American International Journal of Contemporary Research*. 2(4), 174-185.
60. Polits,D.andGabrilesson,J.(2002)"Prior Career Experience and he Development of EntrepreneurialKnowledge".Availableat:https://www.researchgate.net/publication/267942832_priorcarer_experience_and_the_developmen_of entrepreneurial_knowledge
61. Praag, M. (2003), "Business survival and success of young small business owners", Tinbergen Institute Discussion Paper. Available at http.www.tinbergen.in.
62. Ramokolo, B. and Smallowood, J.J. (2008). The capacity of emerging civil engineering contractors. ACTA, Structilia, 15(2): PP.5-28
63. Ray, G., Hornibrook, F. & Skitmore, S. (2000). Ethics in tendering: a survey of Australian opinion and practice, Construction Management and Economics, 17:pp. 139-153.

64. Rebelo, E. (2005). Small business, SA's biggest test. Creamer Media"s Engineering News, 25 (1):pp. 16-17.
65. Rose R.C., Kumar, N. and Yen, L.L. (2006), "The dynamics of entrepreneurs' success factors in influencing venture growth", Journal of Asia Entrepreneurship and Sustainability, Vol 2 No. 2.
66. Shakantu, (2007) Harnessing the informal and formal SMME construction sectors resolve the South African construction skills shortage, Proceedings of the CIB 2007 World Building Congress, Construction for Development, Cape Town International Convention Centre, Cape Town South Africa, 14-17 May 2007, pp. 2132-2139.
67. Shakantu, W.M.W. (2003). Corruption in the construction industry: Forms, Susceptibility and Possible Solutions**,** 1st Postgraduate conference 2003 of the CIDB ON Construction industry development, Port Elizabeth, Construction South Africa 12 – 14 October 2003, pp. 274-283. ISBN No. 0-620-31251-3.
68. Shonesy,L. and Gulbro, R.D.(2004) , "Small business success: a review of the literature".Availableat,https://www.researchgate.net/publication/267256859_small_business_success_a_review_of_the_literature
69. Stanley, E. and Morse, R. (1965). Modern Small-Scale Industry for Developing Countries: McGraw-Hill.
70. Sun, M. & Howard, R. (2004). Understanding IT in construction. London: Spon Press.
71. Thapa, A., Goswami,T. A, and Joshi, P. (2008), "Determinants of street entrepreneurial success", The Journal of Nepalese Business Studies, Vol 5. No 1.
72. Uriyo, A. G., Mwila, J. & Jensen, L. (2004). Development of contractor registration scheme with a focus on small scale civil works contractors final report.
73. USAID (2009). Generating economic growth while reducing poverty. Available at: http//:www.microlinks.org./ev_en.php?=1194_201&1D2=DO_TOPIC.
74. Uzor, O.O. (2004). Small and Medium Scale Enterprises Cluster Development in South- Eastern Region of Nigeria, Institute for World Economics and International Management, pp.5-15.
75. Young R, (1993), Policy biases, small enterprises and development, Small Enterprise Development. Vol. 4 No. 1, IT publications, London

APPENDIX

Questionnaire

Introduction

Questionnaire survey on assessing the cause of failure of small, medium and micro enterprise (SMME) construction companies in Addis Ababa**.**

Dear Respondents,

This questionnaire is designed to gather response from SMME construction companies which are found in Addis Ababa in order to fulfill academic requirement for Master of Science degree program in Construction Technology and Management at Addis Ababa University titled "Assessing the Cause of Failure of SMME Construction Companies in Addis Ababa."The major objective of the study is to identify the critical cause of failure of SMME construction companies in Addis Ababa and to suggest possible solutions.

To carry out this research, your cooperation is too much vital for me. The information you provide is totally required for academic purposes and shall be kept strictly confidential. Please feel free to share your comments and experiences regarding the problems of SMME construction companies.

If you need any kind of clarification about the question and if you completed the attached questionnaire, you can contact the researcher by +251911120312/913754439 or email address: animut.arega@gmail.com

Thank you a lot for your advance.

Yours faithfully,

AnimutArega

Researcher

Part I: Background Information

Please give your answer by ticking on the provided box.

1. Gender :

   Male ☐ Female ☐

2. Age of you:

   18-30 years ☐ 40-50 years ☐

   30-40 years ☐ Over 50 years ☐

3. Education:

   Primary school ☐ 10+4 ☐

   High school ☐ Degree ☐

   10+1 ☐ Masters ☐

   10+2 ☐ above masters ☐

   10+3 ☐

4. What was your position in your company:

   Owner of the company ☐

   General Manager ☐

   Employee ☐

5. Company's specialized work:

   Building contractor ☐

   General contractor ☐

   Road contractor ☐

   Water contractor ☐

6. A number of members in your company including you:

   One (1) ☐

   Two (2) ☐

   Three (3) ☐

   Four (4) ☐

   Five (5) ☐

More than five (5) ☐

7. How many years of experience do you have in the construction industry?

   Less than two years ☐

2-4 years ☐

4-6 years ☐

Above 6 years ☐

8. Have you ever taken construction management or engineering courses?

Yes ☐ No ☐

If your answer is yes, please mention the titles or contents of the courses

1. ----------
2. ----------
3. ----------
4. ----------

Part II: Organizational related factors

This part of the questionnaire is vital to know the basic factors which will cause the failure of SMME construction companies related to organizational related factors. Please indicate your agreement for the following question by using the following scale:

1) Strongly disagree
2) Disagree
3) Neutral/Not sure
4) Agree
5) Strongly agree

2.1 Managerial related factors

List of factors	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
Lack of project management ability					
Lack of financial management ability					
Lack of human management ability					
Lack of contract document interpretation ability					

List of factors	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Lack of cash-flow management ability					
Lack of inventory management ability					
Lack of credit management ability					
Lack of time management ability					

From the above factors which one is the most critical factor to your company?

2.2 Financial factors

List of factors	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Problem in obtaining collateral or guarantee					
Problemof access to finance					
High tendering costs					
Problemwith procurement process					
Problems in obtaining advance payment					
Problems in obtaining loans					

List the main financial factor which affects your company

2.3 Expansion related factors

List of factors or problems	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Lack of understanding how to change the type of work					

List of factors or problems	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Lack of plan when does the type of work change					
Lack of experience to run more than two projects at the same time					
Lack of understandings about knowing a tangible increase in the company's capital					

List the main expansion factor which affects your company

2.4 Ethics related factors

List of factors or problems	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Problem on secret cooperation					
Problem on seeking bribe (corrupt) from contractors					
Problem on awarding contracts or self-fixing of rates by the client					
Problem on stealing of material and equipment					

If there is another ethical factor which affects your company, please mention i

---

2.5 Information technologies related factors

List of factors or problems	Strongly disagree	Disagree	Neutral	Agree	Strongly agree

List of factors or problems	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Lack of communication					
Lack of using soft wares					
Problems on exchanging experiences					
Lack of taking training which improves your company					
Lack of using technologies					

List the main information factor which affects your company

Part III: Economic and environmental factors

This part of the questionnaire is vital to know the basic factors which will cause the failure of SMME construction companies related to economic environmental factors.

Please indicate your agreement for the following question by using the following scale criteria's.

1) Strongly disagree
2) Disagree
3) Neutral/Not sure
4) Agree
5) Strongly agree

3.1 Marketing factors

List of factors or problems	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Lack of job opportunity					
Problems on marketing					
Problems on creating inter-linkage with other institution					
Problems with creating new jobs					
Problems on the distribution of jobs					

If there is another marketing factor or challenge which affect your company, please mention it

---

3.2 Payment factors

Name of factors or problems	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Late payments by clients					
Usually, happen late payments					
Problems on obtaining advance payment					
Liquidated damage cost					

List the main payment related factor which affects your company

---

3.3 Regulation and policy factors

List of factors or problems	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Problems on government policy and regulation					
Problems of political instability					
The negative attitude on SMME					
Problems on influencing the system of your company					

Which one is the most critical regulation and policy factor which affect your company

---

Part IV: General Questions

1) What are the main challenges or problems which usually happen in your company?

---

2) What are the possible recommendations to solve the challenge of small, medium and micro enterprise construction companies?

---

3) Who will be the most responsible bodyfor improving the above challenges? And why?

Thank you too much for your cooperation!