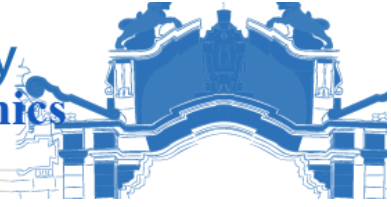




Addis Ababa University  
College of Business and Economics  
School of Commerce



**DEPARTMENT OF MARKETING MANAGEMENT**

FACTORS AFFECTING THE COMPETITIVENESS OF MICRO AND SMALL  
ENTERPRISES AS THE CASE OF, LEATHER AND LEATHER PRODUCT, IN  
ADDIS ABEBA.ETHIOPIA

BY

NURISH ENDALE

ADVISOR: Dr. TEWODROS MESFIN

May, 2019

Addis Ababa, Ethiopia

Factors Affecting the Competitiveness of Micro and Small Enterprises  
As the case of leather and leather product in Addis Ababa. Ethiopia

BY  
NURISH ENDALE

A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE  
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May, 2019  
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# APPROVAL SHEET

Factors Affecting the Competitiveness of  
Micro and Small Enterprises  
As the case of, leather and leather product,  
In Addis Ababa. Ethiopia

**By**  
**Nurish Endale**

APPROVED BY BOARD OF EXAMINERS:

_____	_____	_____
CHAIR PERSON	Signature	Date
<u>Dr. TEWODROS MESFINE</u>	_____	_____
ADVISOR	Signature	Date
_____	_____	_____
EXTERNAL EXAMINER	Signature	Date

# DECLARATION

Declaration I hereby declare that the work which is being presented in this thesis entitled Factors Affecting the Competitiveness of Micro and Small Enterprises as the case of, leather and leather product, in Addis Abeba; Ethiopia is original work of my own and has not been presented for a degree of any other university and that all sources of material used for the thesis have been duly acknowledged.

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Nurish Endale  
(Candidate)

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Date

This is to certify that the above declaration made by the candidate is correct to the best of my knowledge.

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Dr. Tewodros Mesfin

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Date

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## **ACRONYMS**

MSEs = Micro and Small Enterprises

MOTI = Ministry of Trade and Industry

CSA = Central Statistics Agency

ILO-International Labor Organization

FEMSEDA-Federal Micro and Small Enterprise Development Agency

CSA-Central Statistics Authority

GDP = Gross Domestic Product

UNIDO-United Nation Industrial Development Organization

MFI-Microfinance Institution

GEM-Global Entrepreneurship Monitor

FGD- Focus group discussion

## **ABSTRACT**

*Competitiveness is a complex concept, long debated in the worldwide specialized literature. There are noticed many ways in which there is defined competitiveness of the company, but no definition is universally accepted. Being inseparable from the notion of competition, the concept expresses at general level, the ability of individuals, companies, economies, regions etc. in this study, This indicates that MSEs owners and managers, micro and small enterprise development offices, the government and other stakeholders have little awareness on marketing challenges and their influences on growth and sustainability of the MSEs in general and marketing competitiveness in particular. Generally, 172 samples were drawn from the MSEs using proportional random sampling technique, from which the required data were generated and analyzed employing the descriptive research design. The finding reveals that the gender of the entrepreneurs is dominated by and is in favor of male entrepreneurs when compared to that of their female counterparts. The majority of respondents lacks the relevant experiences and operates as sole proprietors. Furthermore, business plan is found out to be used only to meet the requirements of the financial institutions rather than expansion of the business which is tied by appropriate policy and regulation in support of MSEs competitiveness. The result also revealed that small enterprises are operated mainly by the owners of the business themselves and hence their contributions to employment and income generation for others is very limited and partnership and cooperative form of organization is increasing so as to share limited public resources. Financial and machinery leasing constraint is found out as a general challenge to entrepreneurs of the small enterprises. In addition, different constraints such as, access to finance, market opportunities, resource measures are examined in leather manufacturing business where each factors are found to affect MSEs competitiveness in this sector.*

**Key Words:***MSEs, competitiveness of small enterprises, leather manufacturing business, prospects.*

# **CHAPTER ONE**

## **INTRODUCTION**

This chapter contains background of the study which highlights the study area, the reason why the study has done and the general focus of the study. Factors affecting competitiveness under which MSEs in Addis Ababa city operating their business are discussed and research questions to be answered and the gap that need to be solved by the study are identified under this chapter. Objectives and the significance of the study are also among major issues discussed in this section.

### **1.1 Background of the study**

Now a day micro and small enterprises has considered a base for the expansion of industrialization. Studies show that MSEs working in developing local economies counts the same challenges and contribute less to the local economic development.

According to the ILO report (2005) some of the constraints are: unfavorable legal and regulatory environments and, in some cases, discriminatory regulatory practices; lack of access to markets, finance, business information; lack of business premises (at affordable rent); low ability to acquire skills and managerial expertise; Low access to appropriate technology; and Poor access to quality business infrastructure are some of it (ILO, 2005).

As stated by ILO, (2005) in Ethiopia until 1997, there were no organized policy and support Systems catering to the development of the MSEs sector. Challenges, Opportunities and Prospects Premises, markets, finance, supply arrangements, regulatory barriers and legitimization of entrepreneurial activity are among the most urgent.

Policy makers and donors have increasingly recognized the roles of small enterprises in creating employment and income generation with the dual objective of enhancing economic growth and sustainable development (Beck and Levine 2003:

Empirical studies in Ethiopia indicate also that economic roles of the Micro and small enterprises in the country show significant changes in this decade.

Mulate, Fantu and Tadele (2006) stated that Micro and small enterprises are playing vital role as a major source of entrepreneurial skills, innovation, employment opportunity, and generations of

income for many people. Hence, support service programs are developed to alleviate the financial problems of MSEs through credit availability and improve market access to large business purchases which include skill upgrading programs for MSE operators, strengthening the use of appropriate modern technologies that boost their capacity to create long-term jobs, and export markets.

In spite of the ongoing support service programs to promote MSEs, it was observed from data Obtained from micro and small enterprise development bureau (2009 E.C), that out of 25 625 enterprises licensed and entered in to the business from 2002-2008 E.C., only 909(18%) were found to be active until the end of year 2008 E.C.

Many scholars forward their suggestions about such failures in their studies on other micro and small enterprises. For example, Nogare, (2006) presented a notion that growth is more than array of factors and a need for broader perspective covering founders' characteristics, innovation, and Complexity of business environment in which the MSEs operate.

According to the CSA Report (1994-1995), the major obstacles experienced by small-scale manufacturing industries were the irregular and inconsistent supply of raw materials and a shortage of suitable working premises.

Millhold (2002) stated that Market linkage is market facilitation by each sector, including type of facilitation. Hence, Marketing Linkage among Micro and Small Enterprises is related to issues of creating Networking Structure for domestic Marketing.

The study of Millhold (2002) also suggested that those MSEs that sell to traders and manufacturing firms are more likely to growth another MSEs Sells to final consumers. The linkage can takes place in the form of direct market linkage with government organization, organizing trade fair & exhibition, Local market assessment, Market linkage between & among MSEs, medium & large scale industries.

Poor Market Linkage; Another problem, micro enterprises encounter is the access to markets. Very often MSEs face serious difficulties when it comes to finding suppliers for the needed inputs and buyers for their products. The lack of information about market opportunities and standards and regulations is one of the underlying factors.

Bouazza (2015) explained that among the major challenges facing the development of MSEs is the huge lack of technological capabilities, which is the key to developing the competency of SME owners and managers.

Romijn (2001) underlined that technological capacities are considered as tools for strengthening the competitiveness of MSEs. By improving their technological capabilities, MSEs can largely improve their production abilities and profitability.

Funding gaps for smaller firms are a major impediment to growth and wide variance in the Profitability, survival and growth of MSEs compared to larger firms brings special financing Problems. In addition, owners and managers of smaller firms often lack commercial experience And or a track record as entrepreneurs. Early stages of growth are marked by uncertainty both in production and marketing. Smaller, innovative firms operate in environments of high complexity and rapid change and rely heavily on intangible assets (OECD, 2006).

According to Lumpkin and Dess, (1996) the growth of MSEs are affected by its business climate. Clement (2004) noted that an unfavorable business climate has negative effect on small firm growth.

Brown (2007) identified competition as one of the major hindrances to the growth of small firm. Davidsson (1989) noted that an unfavorable tax system and complicated rules and regulations can heavily hamper small firms 'growth.

Krasniqi (2007) showed that corruption is a major source of the rise in unfair competition. He further emphasized that the cost of complying with regulations and increased tax rates increases small firms 'expenses while limiting their growth. Likewise, St-Jean (2008) noted that unfair competition from the informal sector, cumbersome regulations, and tax rates are the main obstacles on small business growth.

If a business wants to be successful in the market place, it is necessary for them to fully understand what factors exert impact on the development of their firm. Once they know about both positive and negative effects within and outside the company, they can produce suitable strategies to handle any predicted situation. Therefore, examining internal and external factors is considered the most important task for an enterprise before launch any strategic marketing plan. External elements are affecting factors outside and under no control of the company.

Considering the outside environment allows businessmen to take suitable adjustments to their marketing plan to make it more adaptable to the external environment. There are numerous

criteria considered as external elements. Among them some most outstanding and important factors need to be listed are current economic situation, laws, surrounding infrastructure, and customer demands.

Taking these thoughts into consideration, the most important question addressed in this study is Factors affecting the competitiveness of MSEs in leather sector. And the study intends to contribute or serve as an additional source of reference added to some existing literature and instrument for policy makers. According to the 2009 survey of CSU, there are 26595 MSEs in Addis Abeba out of these 257 MSEs are operating in leather sector. This number reveals that Micro and Small Enterprises have a great potential in sharing the big leather market and satisfy the needs of a large segment of the population with their products. Despite, the country has immense potential in processing leather product, the estimated cost of 1sqft leather cost 3dollar. This is expensive for MSEs to buy and add value for market price. And there is also shortage of supply of leather and input for processing. most companies are working with 60% cost of operation and process under their capacity, and sell their product with less competitive price in related to the world market.(2010.LDI report).MSEs in this sector their contribution to the overall economic development of the country is high, but they are facing a number of problems. Hence, keeping the upper mentioned understanding in mind, this study has been carried out on the factors affecting micro and small enterprise competitiveness taking a case on operators of MSEs in the leather sector in Addis Ababa city (LDI).

## **1.2 Statement of the problem**

Different empirical literature's show that small enterprise usually regarding market constraints and the inability to sell their products as one of the most serious obstacles during the start up businesses and growth beyond mere subsistence level. Access to markets and lack of market information is one of the most critical constraints to the growth of emerging MSEs in Kenya.

The policies for addressing this problem do not seem to have achieved much success because access to market and information on competitors continues to be a severe problem for MSEs (Ronge E., Ndirangu L. and Nyangito H., 2002).

With increased urban population dynamics in Sub-Saharan Africa, the importance of small enterprises is also growing (Birley and Westhead 1990; Goedhuys 2002).

The fact that there are rapid rural-urban migrations and that urban centers are proving inadequate in absorbing these migrants, makes the sector important in providing employment opportunities (Gebrehiwot and Welday 2004; Audretsch 2005; Zewde 2002). Clough, (2011) stated that micro and small enterprise (MSEs) can further be regarded as the seedbed for development of the entrepreneurial talent and assists in the distribution of national income and decentralization of industry. However, according to Hall (1987) they face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development.

According to Coad (2007), the growth of small firms is a particularly erratic phenomenon. Entry rates of new firms are high; however, a large number of these entrants can be expected to go bankrupt within a few years.

Bertelsmann (2005) analyze the post-entry performance of new firms in seven Organizations for Economic Cooperation and Development (OECD) countries, the results revealed that about 20-40 percent of entering firms fail within the first two years, while only about 40-50 percent survives beyond the seventh year. One of the reasons they do not survive, as stated by Bertelsmann, is that they face several obstacles (Challenges) over time. Challenging factors of Marketing can roughly be divided into two groups: internal factors of the firm and external factors that are beyond the control of the MSEs.

(MoFED, 2012) Even though particular emphasis was given the problem of raw material shortages, lack of working capital and effective marketing practices faced by micro and small manufacturing industries result in the failure of these businesses to expand. The same problems, when experienced by informal sector operators, have the effect of preventing their expansion almost from the beginning of their operations. It was also observed that for about 50 percent of informal sector operators, the first major difficulty when starting their operation was the lack of sufficient initial capital and this problem becomes more critical when the informal sectors operators intended to expand their businesses. (CSA, 2003)

Clough (2011) stated that without market, no business would exist. This confirms marketing as a core element of business which determines growth and sustainability of enterprises and hence, failure in marketing is clearly a major cause to failure in businesses.

MSEs to realize the desired mission, is conditional on fulfillment of different factors; of which the availability of favorable market condition is the major one. Theoretically, it is expected that the progress of MSEs relies on their profitability and their ability of capital accumulation. This is, in turn, highly correlated with the availability of sufficient market for their products. The lower the demand for their products, the lower will be the sales and revenue generated by the enterprises. The opposite is likely to hold if the demand for the products is higher with greater access to the market.

Different empirical literature's show that small enterprise usually regarding market constraints and the inability to sell their products as one of the most serious obstacles during the start up businesses and growth beyond mere subsistence level. Access to markets and lack of market information is one of the most critical constraints to the growth of emerging MSEs in Kenya. The policies for addressing this problem do not seem to have achieved much success because access to market and information on competitors continues to be a severe problem for MSEs (Ronge E., Ndirangu L. and Nyangito H., 2002).

According to the study of Kayanula D. and Quartey P. (2000), in Malawi, there was a general lack of marketing skills and information by MSEs. Their study shows that processors had little knowledge of their customer preferences regarding product range, taste and packaging. Besides their growth contribution, there are so many problems that affect their growth and expansion which include, lack of initial capital, lack of business development services, lack of access to market, lack of raw material, delay of credits and etc are some of them. So with the presence of the above problems many Micro and small enterprises lack sustainable growth.

Many scholars forward their suggestions about such failures in their studies on other micro and small enterprises.

For example, Nogare, (2006) presented a notion that growth is more than array of factors and a need for broader perspective covering founders' characteristics, innovation, and Complexity of business environment in which the MSEs operate.

Nogare (2006) also justified that small business owners or managers fail to formulate and adopt deliberate business growth Strategies because first most owners or managers of small business enterprises have no awareness and skills of developing business growth strategies or plans. Secondly, owners or managers are not obliged to show a proof of long-term Business growth strategies or plans. Small businesses Enterprises have no or very few shareholders, and finally, most small business owners or managers have limited exposure to formal business management skill trainings.

Nogare (2006) added such business growth strategies are adopted largely to minimize effects of external factors and most small business managers feel unrealistic as they often operate in risky business environment with little room of influence to minimize such risks. Instead, most small business owners depend on instinctive flexible management techniques actually different from deliberately designed long-term business strategies and plans. Often unplanned and accidental strategies are used by small business owners to cope with unexpected outcomes as strict adherence to original plans entails losing business advantages or incurring substantial loss.

Addis Abeba entertains hundreds of MSEs and other large and small business Organizations Working in an environment of challenges common to many other enterprises, it is observed from various studies that no imperial study has been directed at understanding of factors affecting MSEs in leather manufacturers exclusively and broadly such a complex business environment characterized by the city. This indicates that MSEs owners and managers, micro and small enterprise development offices, the government and other stakeholders have little awareness on marketing challenges and their influences on growth and sustainability of the enterprises in general and marketing efficiencies in particular.

As the matter of fact, lack of awareness of these concerned bodies about marketing challenges in MSEs would undoubtedly hesitate them from taking measures against problems. These would obviously hinder marketing efficiency and resulted in failure of these enterprises. Hence, the intention of this study is to identify factors affecting the competitiveness of MSEs engaged in leather manufacturing and impact on Marketing competitiveness and forward recommendations that help the MSEs and other concerned bodies, understand about the challenges and develop better strategy that enables them proactively respond against these challenges and turn marketing of existing MSEs into more effective revenue generator and maximizing opportunities. Finally

,based upon the literature review as it is clearly indicted there are various factors that influence the marketing performance of micro and small enterprises, which is undertaken by different researchers .But still the sector need more researches to be done. Based on this fact, this study will give much focus on identifying and describing factors affecting competitiveness of micro and small enterprises, in the case of leather and leather product in Addis Ababa.

And again most of the studies by UNIDO are conducted on medium and heavy tanneries operated on leather and leather product. But this study will focus on MSEs operated on leather and leather product critically and contribute much for MSEs in this sector and policy maker. In this research, even though there is many internal and external environments contribute for competitiveness of MSEs. The researcher will focus on independent variables such as regulatory factors, resource, market access, and infrastructure. Based on this fact, this study will give much focus on identifying and describing factors affecting competitiveness of micro and small enterprises, in the case of leather and leather product in Addis Abeba.

### **1.3 Research question**

The study will be expected to address the following key Research Question.

What are the factors affecting the competitiveness of MSE's engaged in leather and leather product?

The study also will be expected to address the following sub Research Questions:-

1. Does a regulatory factor affect marketing activities of MSEs?
2. Does resource factor affects marketing activities of MSEs?
3. Does market access factor affect marketing activities of MSEs?
4. Does technical factor affect marketing activities of MSEs?

## **1.4 Objectives of the Study**

### **1.4.1 General Objective of the study**

The general objective is factors affecting the competitiveness MSEs found in leather and leather product in Addis Ababa .

### **1.4.2 Specific Objectives of the study**

In line with the general objective specifically the following objectives have been achieved.

1. To identify regulatory factors affecting competitiveness of MSEs.
2. To identify resources factor affecting competitiveness of MSEs.
3. To identify Technological factor affecting competitiveness of MSEs.
4. To identify market access factor affecting competitiveness of MSEs.

## **1.5 Significance of the Study**

In addition to meeting the objectives of the study mentioned above the study will be significant in the following areas: This study will Contributes to Micro and Small Enterprises under the study to be aware of factors affecting competitiveness of micro and small enterprise and to develop strategies that minimize risks.

It also enables them understand marketing as key factor of growth and profitability of their businesses. And Give a way or serve as a source for other researchers who want to make further investigations in the area and to conduct detailed research on the issues.

The study intends to contribute or serve as an additional source of reference that will add to some existing literature.

The output of the study helps other MSEs look through their businesses and understands risks facing their enterprises so as to proactively take measures that reverse these risks. Furthermore, insights gained in this study are likely to contribute towards the development of policies by the government, MSE development offices and other concerned organizations dealing with MSEs in the country.

## **1.6 Scope of the Study**

The current data shows that there are 257 registered MSEs are operational in the city according to Addis Ababa micro and small enterprise Development Bureau. 10 Sub cities are listed including the number of enterprises in leather sector. The study will cover theoretical, empirical, and conceptual findings of MSEs. Addis Ababa as research setting, Thematically, the survey appears to concentrate only on those MSEs engaged on leather and leather product manufacturing and sales, such as:- jacket, bags ,purses, both male and female shoes, belt, up holster, school bags.

The issues of the study limited to the effect of external environment on the competitiveness of MSEs operated on leather and product and related marketing activities. And the population size concentrate on 257 registered and licensed MSEs operating on leather and leather product. Thus, the scope of the assignment included identification of sample units from ten sub cities and filling the questionnaires. And again the scope of the work extends further to Processing these questionnaires analysis with the at most care and effort. And the research will adapt explanatory survey method through developed questionnaire taking a case study of factors affecting the competitiveness of MSEs operated in leather sector

## **1.7 Limitation of the Study**

The researcher has the following study limitation, among others, the study also being challenged by financial constraints, the other limitation is that of the respondents' restriction and the study has been highly challenging due to lack of adequate data for trend analysis as the data may not kept properly in a consumable manner. The study assessed factors influencing the competitiveness of MSEs in Addis Ababa city. One of the main limitations of the study was using sampling mechanism. The sample sizes were limited and take into account all Addis Ababa enterprises into the study. The operator's reluctance to cooperate due to suspicion in disclosing information may lead to negative effect on their business. Most of the documents in Ethiopia that are concerned with micro enterprises are written in Amharic. To translate in to the required instruction language (English) takes longer period. And the study concentrate on independent variables market access, infrastructure, policy and legal environment, and infrastructure for analysing competitiveness for this study.

## **1.8 Organization of the study**

The study has been divided into five chapters. The first chapter deals with introduction which encompasses background of the study, statement of the problem, research questions, purpose of the study, significance of the study, scope of the study, limitation of the study, as well as organization of study. The second chapter deals with the review of related literatures. This part would give a highlight on the theoretical, empirical and conceptual framework of the topic under study. The third chapter deals with research methodology which includes population and sampling size, data type and source, data collection, data analysis technique & method and ethical consideration. The fourth chapter will deal with presentation and analysis, interpretation of data diagnosed carefully. The fifth chapter will be dedicated to the summary of findings, conclusions and recommendations. Interpretation of the finding. Finally, conclusions and recommendations will be presented in the fifth chapter.

## **1.9 Definition of Terms**

In most business literatures, enterprises are grouped into four categories based on their size as micro, small, medium and large enterprises. However, there is no universally accepted definition of MSEs across the world. The definition varies from country to country based on their social, economic and institutional context.

The acceptable criteria used to differentiate small and large firms is based on capital assets in the case of Bangladesh and Indonesia, while capital assets or full-time work force are taken into account in Ethiopia. The definition of micro and small enterprises does not show consistency. The National Micro and Small Enterprise Development Strategy of the Ministry of Trade and Industry defines micro enterprises as those enterprises with a paid-up capital of not more than 20,000 birr and excluding high technology consultancy firms and other high technology establishments. Small enterprises are those business enterprises with a paid-up capital of above birr 20,000 and not more than birr 500,000 excluding high technology consultancy firms and other high technology establishments (MOTI, 1997).

The Central Statistical Authority (CSA), in its small-scale manufacturing industrial survey of 2001/2002, defines small and micro-scale manufacturing enterprises as those engaging less than 10 workers and other non-power-driven machines in the former case and power-driven machines in the latter case (CSA, 2003). For the purpose of this study, micro and small enterprises were defined

as: Micro enterprises: are those firms having a paid up capital up to 20,000 and having up to five workers including the owners of the firms.

Small enterprise: are those enterprise having a paid up capital between birr 20,000 and 500,000 and having 6-49 workers including owners of the enterprise.

Micro enterprises: are enterprise having a total capital, excluding building, not exceeding 50,000ETB in the case of service sector or not exceeding 100,000 ETB in the case of industrial sector and engage 5 workers including the owner, his family members and other employees. (Regulation No. 2011/2011- Federal micro and small enterprise development agency, 2011)

Small enterprises are enterprises with 6-30 employees and a total capital of 50,001-500,000ETB for service sector and 100,001-1,500,000 ETB for industrial sector, (Regulation No.2011/2011- Federal micro and small enterprise development agency, 2011).

# CHAPTER TWO

## 2. Review of Related Literature

In this chapter, assessment of a number of theoretical and empirical works on Micro and Small Scale Enterprises which would inspire a great deal of attention in development literature is done. A literature research undertaken involved reviewing relevant published materials from various Sources including websites, internet, Federal and regional MSEs agencies 'proclamations and directives, journals on subject under the study and Operational manuals of Micro and small enterprise development offices. Thus the chapter presents the theoretical, Empirical and Conceptual basis of the study.

### 2.1 Theoretical Review

#### 2.1.1 Theoretical Framework

The theoretical framework of this study is a blend of the industrial organization (I/O) and the resource-based model.

##### *Model*

The I/O model asserts that the performance/growth of enterprises is primarily determined by external factors such as business development service, government policy and legal environment, training, finance, market, suppliers, buyers and competitive rivalry among small enterprises that are currently in the industry (Abdullah and Baker 2000:231–232; Mullei 2003: 121). An industry is defined as a group of firms or small enterprises producing products that are close substitutes and where these firms influence one another in the course of competition (Verhees and Muhlenberg 2009: 20; Liedholm and Mead 1999: 34).

##### *The Resource-Based Model*

Findings from studies of small enterprises in various parts of the world have shown that managerial skills and business knowledge are important factors that promote the survival of small enterprises and enable them to remain competitive in the global market economy (Goedhuys 2002: 68; Harding 2002: 45; Hitt et al. 2009: 37–40). Competitive advantage in small enterprise can be achieved through social capital networks in which business skills, information and innovative ideas are shared at firm level (Haerg 1999: 102; Harding 2002: 78; Gurmeet and /rakesh 2008: 301-302). According to Newton (2001: 111) and the National Agency for the

Development of Small and Medium Enterprises in Ethiopia (NADSMEE) (NADSMEE: 2005: Findings from studies of small enterprises in various parts of the world have shown that managerial skills and business knowledge are important factors that promote the survival of small enterprises and enable them to remain competitive in the global market economy (Goedhuys 2002: 68; Harding 2002: 45; Hitt et al. 2009: 37–40). Competitive advantage in small enterprise can be achieved through social capital networks in which business skills, information and innovative ideas are shared at firm level (Hallberg 1999: 102; Harding 2002: 78; Gurmeet and Rakesh 2008: 301–302).

Jennings and Beaver (1997: 209–210), Nieman et al. (2008: 65–86) and Wole (2004: 80) argue that basic knowledge for managing and running an enterprise can be gained through social networking, where owners or managers of small enterprises acquire vital skills and innovative knowledge. Such individuals should be competent in areas such as financial management, marketing products and competition rules; failure to possess such skills leads to eventual bankruptcy or stagnation (Verhees and Muhlenberg 2009: 25–38). Entrepreneurs in small enterprises should be able to generate profit and compete successfully with other market players in view of the fact that firms can only survive if their returns are higher than the costs of their production.

For this reason, the resource-based model emphasizes the unique resources of an enterprise as an important factor in the firm's growth/performance over time (Baum and Locke 2004: 226–236; Blackman 2000: 31–42; Casson 2003: 93–102). The model emphasizes the point that intangible resources are superior sources of core competencies where, in the global economy, the success of a business lies more in its intellectual and systemic capabilities than in its physical assets and other business development services (Gebrehiwot and Welday 2004: 7–8; Hitt et al. 2009: 32–40).

### **2.1.2 Marketing efficiency of Micro and Small Enterprises**

Marketing is a crucial factor for success of business. MSEs may offer the best products or Services, but without marketing none of potential customers would know about it and sales may Crash and they may have to close. Marketing allows you to compete with larger competitors. Accordingly, good Marketing efficiency allows small businesses the opportunity to compete with well-known larger corporations and compete for their market share. Smaller businesses often

have an advantage over larger companies because of the greater amount of personal attention they can provide to each client. Good customer service and a real sense of value are more important to clients than the lower rates they may pay for the services or products of larger companies (Sims 2013)

### ***Market Access***

Access to market can be related to location and transportation facilities where large buyers can participate in buying. Primarily, some products of the MSE may be produced and consumed by Local markets. Hence, transportation facilities have a vital contribution for being finding new markets at new places and importing cheaper raw materials from where it widely available which resulted in using cheaper raw materials for reducing costs of production which in turn decrease the price for products and then increase market demand and revenue of enterprises. In addition to transportation facilities, location of the business can play a central role in marketing of MSEs. Those MSEs located in urban and nearer to urban or commercial areas are more likely to survive than their counters in rural areas. Those that operate in commercial districts or on road sides typically show greater growth rates than those that are based on their home, although it can vary at the country level (Liedlholm, 2002).

According to Sgustafson (2012), economic growth in developing countries is often constrained by a lack of access to regional and global markets. Without reliable access to fair, transparent markets, the poor in developing countries stand little chance of escaping poverty and hunger. Furthermore, Enterprises can provide quicker delivery to buyers if they are closer to buyer's than are producers. However, there are various constraints to market access of which some are Poor infrastructure, location of the business itself, problem of proximity to buyers.

Clough (2011) stated that location of the business can play a role in their customer reach. If a business located on a main route people from other towns may purchase their products and recommend them to other people further away. For businesses located in rural areas there are not always as many institutions and commercial businesses close by compared to those in more urban areas or commercial centers and they may rely on local households as their main source of customers. Geographic location has its implications for access to markets and other resources like finance, skilled labor, subcontractors, infrastructure, distribution and transport logistics and

other facilities. SME success also depends on neighborhood appearance and continued or maintained future business operations in that location (Tustin, 2001)

### ***Marketing Communication***

The study by OECD (2005) suggested that to reach a target market, the marketer uses three kinds of marketing channels. Communication channels deliver messages to and receive messages from target buyers. They include newspapers, magazines, radio, television, mail, telephone, billboards, posters, fliers, CDs, audiotapes, and the Internet. Beyond these, communications are conveyed by facial expressions and clothing, the look of retail stores, and many other media. Marketers are increasingly adding dialogue channels (e-mail and toll-free numbers) to counterbalance the more normal monologue channels (such as ads). The marketer uses distribution channels to display or deliver the physical product or service(s) to the buyer or user. There are physical distribution channels and service distribution channels, which include warehouses, transportation vehicles, and various trade channels such as distributors, wholesalers, and retailers. The marketer also uses selling channels to effect transactions with potential buyers. Selling channels include not only the distributors and retailers but also the banks and insurance companies that facilitate transactions. Marketers clearly face a design problem in choosing the best mix of communication, distribution, and selling channels for their offerings. Major factors determining marketing channels according to OECD (2005) are:

### ***Resource***

#### **a) Infrastructure**

Micro, Small and Medium Enterprises in developing countries are however confronted with several drawbacks and challenges they have to overcome in order to operate successfully. Major obstacles include for example access to finance, competition, market access, appropriate technology and access to raw materials (Mead & Liedholm, by Eva, M., 2008).

As indicated in the Ethiopian urban Socio-economic Survey, the problems of MSEs in Ethiopia both at the existing and the emerging enterprises. Some of these includes: access to financial capital and credit, problems of raising investment capital, lack of sufficient loan able funds and facilities, (Fasica, D. & Daniel, A. by Wolday, A. 1997). In addition, lack of access to premise and

land, considerable insecurity on business owners concerning location and acquire lands which are not suitable to get easy access to markets, lack of training on entrepreneurial and management skills, lack of training institutions and centers, lack of infrastructures, lack of sufficient market and promotional supports, lack of business information, lack of specific national policy to enhance the development of the sector and problems on the education system (Andu-Alem T.,1997).

### **Supply Chain/local supply**

Whereas marketing channels connect the marketer to the target buyers, the supply chain describes longer channel stretching from raw materials to components to final products that are carried to final buyers. For example, the supply chain for women's purses starts with hides, tanning operations, cutting operations, manufacturing, and the marketing channels that bring products to customers. This supply chain represents a value delivery system. Each company captures only a certain percentage of the total value generated by the supply chain. When a company acquires competitors or moves upstream or downstream, its aim is to capture a higher percentage of supply chain value. (Kotler, 2000)

### ***Competition***

Competition, a critical factor in marketing management, includes all of the actual and potential rival offerings and substitutes that a buyer might consider. Competitiveness is a complex concept, long debated in the worldwide specialized literature. There are noticed many ways in which there is defined competitiveness of the company, but no definition is universally accepted. Being inseparable from the notion of competition, the concept expresses at general level, the ability of individuals, companies, economies, regions etc.; to remain in the internal and/or international competition and to obtain economic benefits from it. For the company, the competitiveness concerns its ability to increase profits in market shares where it operates, context in which firms seek strategies to adapt to business environment and try to identify their competitiveness factors: improving quality standards, developing new products and production processes, adopting modern technologies etc.

(Kotler, 2000)As interior feature of an economic entity, the competitiveness is defined by company's potential and occurs in relation with the environment in which it operates. Competitiveness means, essentially, —the liability and skill for market contention and the skill

for position gain and permanent commitment that are indicated especially by expansion of business successfulness, market share and profitability (Markovics, 2005).

Competitiveness is determined by productivity, and depends on firms strategies, it is partially, the result of relationship between firms and local business environment depends on social and economic objectives synergy and is influenced by factors from external environment (Porter and Ketels, 2003).

Enterprises competitiveness is —the ability to sustain a market position by supplying quality Products on time and at competitive prices. This ability is reflected by —acquiring the flexibility to respond quickly to changes in demand and by successfully managing product differentiation by building up innovative capacity and an effective marketing system (UNTAD, 2005).

It is stated in the study of UNCTAD, (2005) that since the company has to face both domestic/Indigenous competitors and foreign/ international ones in each market where penetrates; an analysis is needed to identify the behavior of these competitors of the company and in this Context, a more accurate assessment of their potential. Clearly, the number, size and quality of Competitors influence the firm's ability to enter and compete profitably in a particular market and its competitiveness requires strengthening of its activity in a particular market, the existence of a strategy to maintain or increase market share through marketing elements which allow maximizing the strengths that distinguish it from the other competitors.

## **2.2 Empirical Review**

In his research Dereje (2008) studied the nature, characteristics, economic performance, opportunities and challenges of MSEs in the construction sector based on 125 sample enterprises. The results of the study revealed that the main constraints of the MSEs were shortage of capital, lack of raw materials, absence of government support, lack of market, lack of credit facilities and high interest rate. Studies were also conducted specifically with a purpose of identifying the problems that MSEs encounter. For instance, Workneh (2007) research undertaken in Kolfe Keraneo sub-city of Addis Ababa indicated that lack of capital, lack of market, unfavorable policy, and inadequate infrastructure, absence of adequate and relevant training, bureaucratic structure and procedures are among constraints faced by MSEs. Similarly, Adil's (2007:63)

research carried out in Addis Ababa shows that inappropriate government intervention, shortage of capital, location disadvantage, and lack of market and lack of display room are the major challenges that obstruct MSEs.

Mulugeta(2011)has also identified and categorized the critical problems of MSEs into market related problems, which are caused by poor market linkage and poor promotional efforts institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related short coming slick developing dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak Accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally, society-related problems such as its distorted attitude about the operators themselves and their products.

### **2.2.1 External Factors**

Researchers have used different approaches to explain external factors affecting marketing competitiveness and in turn the growth of MSEs. Some of them have a big impact on the performance and growth of small firm's (Lumpkin and Dess, 1996). Major external factors affecting Marketing efficiency of MSEs are further explained below.

## **I. Resource**

### **a. Infrastructure**

Infrastructure relates to provision of adequate power, access roads, telecommunication, sewage, and water. It has been a main restraint in the development of MSEs (Dondo &Mutiso, 2007). If the government failed to provide infrastructural framework it gets difficult to bring development and growth within MSEs. Ardjouman (2014), suggested frequent water shortages, power rationing and the high cost of electricity experienced in a country, can hinder growth for MSEs given that most modern processes are electrical .The availability of proper infrastructure will have positive effects to marketing manager strategies that can influence marketing performance of MSEs.

## **b. Local Supply**

Suppliers form an important link in the company's overall customer value delivery network. They provide the resources needed by the company to produce its goods and services. Supplier problems can seriously affect marketing. Marketing managers must watch supply availability and costs. Supply shortages or delays, conflict, and other events can cost sales in the short run and damage customer satisfaction in the long run. Rising supply costs may force price increases that can harm the company's sales volume (Kotler, 2012).

Many manufacturers depend on raw materials supplied from outside sources. Some of the factors that can delay or hamper a regular delivery schedule include a glitch at the site of a supply source, problems with transportation or inclement weather. If supplies are not forthcoming as needed, the potential for shutdown or a major slowdown in the manufacturing process can result. Hence, the fate of such enterprises depends on access and level of local supply from the surrounding. The fluctuation of local supply may therefore make it difficult to plan and that may precipitate some stock that may destabilize the setup (Kotler, 2012).

Rocha (2010) analyzes the most binding constraint on firm growth in developing countries. They find that each country faces different sets of constraints and that these constraints also vary by firm characteristics, especially firm size. However, across all countries, access to financing is among the most binding obstacle while other obstacles appear to matter much less. The internal finance has an important part in financing of MSEs, at the same time numerous studies have confirmed that enterprises have recourse to external finance when they can't satisfy their own financing requirements with internal finance. In the case of external finance, the enterprises draw cash from external organizations and investors. Examining the external finance, the public offering and the bond issue is not characteristic to this sector, because of its high cost and big time-consumption, and the trade debt and trade credit are applied occasionally depending on the deal position of the enterprise. In the case of external debt the role of the bank loan and overdraft, the leasing and the factoring (and forfeiting) can be emphasized, but these enterprises can get loan and overdraft just by higher interest and collateral because of the relatively high cost of the credit assessment and higher operating risks. To sum it up it can be declared, that the MSEs are in more disadvantageous situation than the large size enterprises on the admittance of financing sources with respect to both equity and debt.

## **II. Legal and Regulatory Factors**

According to Lumpkin and Dess, (1996) the growth of MSEs are affected by its business climate. Clement et al., (2004) noted that an unfavorable business climate has negative effect on small firm growth. Brown (2007) identified competition as one of the major hindrances to the growth of small firm. Davidsson (1989) noted that an unfavorable tax system and complicated rules and regulations can heavily hamper small firms 'growth. Krasniqi (2007) showed that corruption is a major source of the rise in unfair competition. He further emphasized that the cost of complying with regulations and increased tax rates increases small firms 'expenses while limiting their growth. Likewise, St-Jean (2008) noted that unfair competition from the informal sector, cumbersome regulations, and tax rates are the main obstacles on small business growth.

A study done by International Finance Corporation (IFC; 2013), based on responses of more than 45,000 firms in developing countries, found that the top obstacles to their operations are a poor investment climate, especially red tape, high tax rates, competition from the informal sector, and Inadequate infrastructure, especially an insufficient or unreliable power supply. Whereas informality is a major hindrance of MSEs in middle-income countries, an inadequate power supply is the most important challenge for companies in low-income countries. High tax rates can reduce firms 'internal sources of financing Competition from the informal sector and corruption among government officials also pose significant challenges for firms.

Bouazza (2015) stated that MSEs in developing countries suffer more than large firms from many policy and institutional constraints arising from imperfect markets, and as a consequence, they benefit disproportionately from reforms. Because of savings on registration and licensing costs as well tax evasion, non-official companies gain a substantial cost advantage that can allow them to produce and sell goods at a low price compared to companies that operate in the formal sector, which prevents genuine competition and increases the relative costs of the formal firms

## **III. Technical Factors**

Small businesses are constrained not only by financial factors but also by non-financial factors such as lack of training and education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure. Many entrepreneurs rush out to establish MSEs without having good and adequate technical skills. They covet the progress and profit of existing ones without good technical background. For this reason, many enterprises collapse after few

years. It is important for entrepreneurs to recognize the role of education and training in ensuring the success of their business endeavor. Education and training will help establish a good foundation for small business growth, (Biggs and Shah, 2006).

Romijn (2001) underlined that technological capacities are considered as tools for strengthening the competitiveness of MSEs. By improving their technological capabilities, MSEs can largely improve their production abilities and profitability: the latter can be improved in several ways, such as through R&D spending, technology and knowhow agreements with domestic and foreign firms. It is possible to generalize that Micro and small business owners are in need of at least training, education and experience sharing with similar industries in order to develop their marketing skill that enable them to withstand challenges coming from marketing perspectives.

#### **IV. Market Access**

Millhold (2002) stated that Market linkage is market facilitation by each sector, including type of facilitation. Hence, Marketing Linkage among Micro and Small Enterprises is related to issues of creating Networking Structure for domestic Marketing. The study of Millhold (2002) also suggested that those MSEs that sell to traders and manufacturing firms are more likely to grow than another MSEs that sell to final consumers. The linkage can take place in the form of direct market linkage with government organization, organizing trade fair & exhibition, Local market assessment, Market linkage between & among MSEs, medium & large scale industries.

As described by UNCTAD (2005), inter firm linkages can be a remarkable source of technology diffusion and mastery. There are many types of linkages-backward, forward, R&D and spillover effects. The most fruitful are the backward linkages between large and small enterprises. In some cases horizontal linkages are established through networking activities and formal and informal cooperation among local MSEs. In other cases, vertical linkages can be fostered with larger corporations that are prepared to offer assistance and advice to small businesses. TNC-SME linkages whereby transnational corporations (TNCs) build up competitive supply chains can help MSEs access new and diversified markets, and information on market trends, acquire and master new technologies and skills, and solve cash flow/finance problems. It is most important that the TNC share its technical road map with the SME so it can reposition itself and be ready for changes in market and technology trends. The example of countries such as Ireland, Malaysia, México, the Philippines, South Africa and Singapore indicates that the developmental impact of

TNC-SME linkages can be instrumental in modernizing and dynamiting local industries. The United Nations Industrial Development Organization, UNIDO (2002) stated that these countries upgraded their local productive capacities and enhanced their industrial performance by integrating into the TNC supply chain. Experience shows, however, that this does not happen automatically. It requires a partnership among all stakeholders: government, TNCs, MSEs and their support agencies.

According to Mc Cormic (1999) inter-firm linkages between small and large firms in value chains contribute to small firms' growth and success. This type of cooperation allows small firms to reap the benefits of scale of economies. Marketing skills that the small firms develop and knowledge they acquire in inter-firm linkage can lead to competitive advantage in the global marketplace. This theory is based on the analysis of linkage that the Micro and Small Enterprises should have to raw materials input be it industrial or local market. Principally, the Linkage and MSE Growth model assumes proper value chain analysis, clustering, sub-contracting, vertical and horizontal integration could contribute to the development of the Micro and Small Enterprises in its further competitive environment.

As described in Micro and Small Enterprises development strategy manual of Addis Ababa region (2003), it is necessary to create conducive environment to facilitate market linkage, enhance market opportunities and strengthen technology transformation between Micro and Small enterprises and large industries by establishing all these businesses in separate industrial Zone. This statement conceived the fundamental concept that realizes the need of identifying industrial zone that bound all businesses at the same location to create efficient and effective market linkage, i.e. facilitates creation of value chain among enterprises. According to Kotler(1999, p.481), the firm, in its search for competitive advantage, it needs to look beyond its own Value chain, into the value chains of its suppliers, distributors and, ultimately customers. More Companies today are 'partnering' with the other members of the supply chain to improve the Performance of the customer value delivery system. Market linkage can also be enhanced through trade exhibitions and bazaars. It creates an opportunity for marketers to meet and create relationships among each other, strengthen communication and facilitate exchange of goods and services. Enterprises can have forward linkage with customers or other resellers and backward linkage with their raw material suppliers to get the required quantity and quality of inputs which in turn help to produce quality goods or services that could satisfy customer's needs and wants.

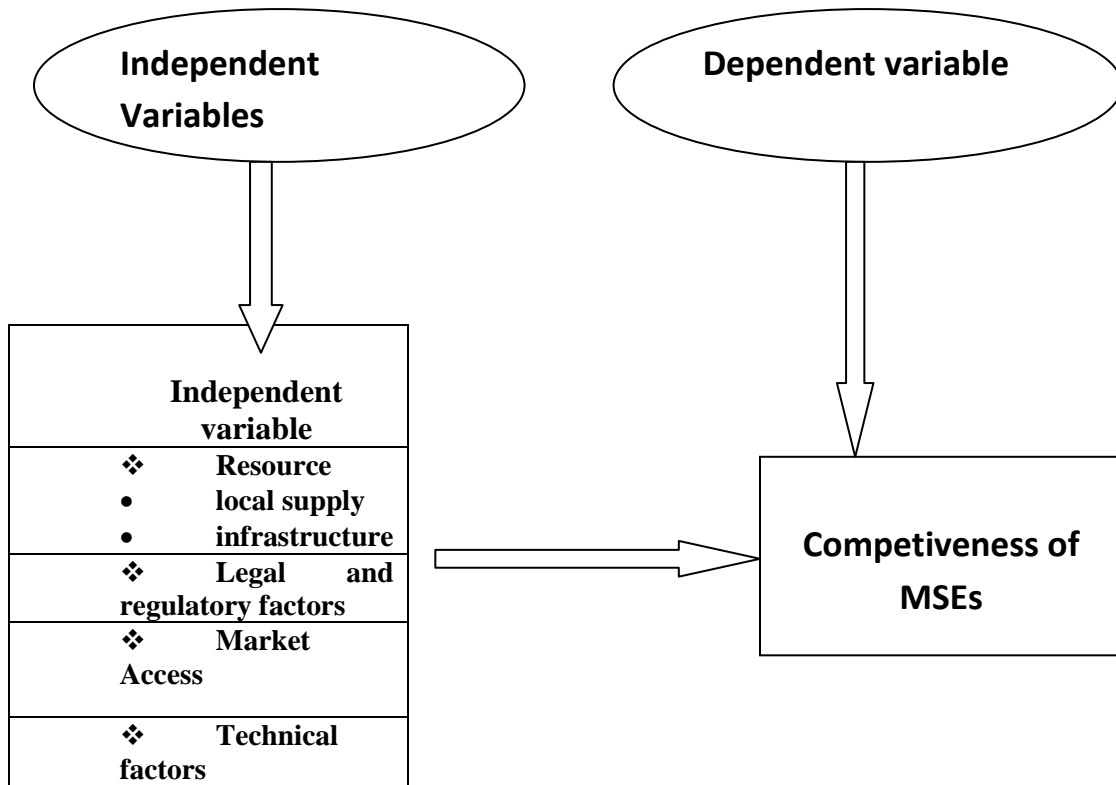
## 2.3 Conceptual Framework

Conceptual framework, as stated by Mugenda,(2003) refers to how a researcher conceptualizes relationship between variables in a study and shows them graphically or diagrammatically. It shows independent variables and dependent variables and how they are related or influences one another. Hence, understanding factors of marketing challenges in Micro and small enterprise and developing the strategy that enables to overcome these In this section, after reviewing the literature thoroughly, the researcher attempted to develop conceptual framework for the study. Variables that the study focused on are factors of Marketing challenges in MSEs in Addis Ababa city: Legal & regulatory frame work, Lack of access to market, Insufficient local supply, Lack of technical support, Lack of marketing skill, Lack of market linkage and poor potential of competitiveness are that affect marketing of MSEs which in turn affect growth and survival of businesses. Hence, if the outcomes of MSEs achieved positively, the enterprises under study will be profitable, expand, sustain and may finally grow and transform to medium enterprises. Shah (2013) explained promotion and expansion of business is impossible without sufficient resource such as. Lack of access to external financing, working premises, is one of the major challenges to the growth of MSEs, and it has accounted for high rates of failure among those MSEs. Financial institutions behave more cautiously when providing loans to MSEs and MSEs are usually charged comparatively high interest, high collateral and loan guarantees. Krasniqi (2007) finds that loan policies and collateral requirements discourage firms from obtaining loans from banks. In consonance with Berger and dell (1998), Galindo and Schantiarelli (2003) find that in both developing and developed countries, small firms have less access to external financing, which leads small firms to be more restrained in their operations and growth compared to large firms.

A study done by Beck (2005) in developing countries provides further evidence that MSEs face greater financing obstacles than large firms do. Ayyagari (2006) show that financing, crime, and political instability directly affect the rate of growth of small firms, with financing being the most significant constraint affecting small firms' growth.

To align the conceptual framework with the research objectives, marketing competitiveness of MSEs is a dependent variable whereas factors affecting competitiveness are independent variables and the relationships shown in the following figure

## Conceptual frame work



**Fig. 2.1 Conceptual framework**

Source: Own sketch

Research Model is an important tool which elaborates the relationship between various variables. The research model for this research is adapted from an article “Sources, Sidika, I. (2012). Conceptual framework of factors affecting SME development: Mediating factors on the relationship of entrepreneur traits and SME performance.

## **CHAPTER THREE**

### **3. Research Methodology**

#### **3.1 Introduction**

Research methodology is the specific procedures or techniques used to identify select, process and analyze information about a topic. In a research paper, the methodology section allows the reader to critically evaluate a study's overall validity and reliability. It includes the research approach, research design, population and sampling, source of data, data collection method, the research instrument, validity and reliability, data analysis and ethical consideration.

#### **3.2 Research Approach**

This research takes a deductive approach. The reason for selection of this approach is that the researcher assumes that there are sufficient amounts of studies done in marketing challenges and opportunities of micro and small enterprises. Factors affecting competitiveness MSEs one of the researched areas of marketing management. These plausible theories and empirical findings, therefore, would accurately present the basis of explanation. Deductive reasoning forms a view about the likely nature of a thing, and then tests whether the view is correct. It often report findings in terms of the relationship between one variable and another.

The study has been conducted to analyze that how the challenges affects manufacturers and sellers of leather product in Addis Ababa. For this reason, quantitative analysis used to describe the research problem. In this respect, quantitative analysis and data collection tools has been used to describe factors affecting the competitiveness of MSEs engaged leather manufacturing and sellers. The quantitative research used to provide empirical investigation about research purpose regarding marketing factors affecting the competitiveness MSEs.

#### **3.3 Research Design**

The research employed a descriptive research design for this study. Descriptive research design describes behavior, attitudes, values and characteristics (Kothari, 2004). The descriptive research design found to be appropriate for this study because the purpose of the study is to investigate the factors affecting the competitiveness of micro and small enterprises in leather and leather

product sector, to accomplish the study objective and to answer the stated research question, descriptive approaches will be employed.

Descriptive statistics has been used to compute frequency, percentage, mean and standard deviation. The researcher will be used descriptive approaches to interpret and reduce the data into a summary form in tabulations, charts, bar graphs and measures of central tendency (mean and standard deviation). He also conducted an investigation of the underlying motives, desires, feelings or thoughts of people regarding a particular situation or institution, using research methods such as in-depth interviews and focus group discussions (Silverman (1993: 78–79). This approach is commonly applied when people are the focus of the study, particularly in small groups or with individuals, but it can also be used when dealing with beliefs or customs in a community (Bernard 2000: 103–104).

The main purpose of descriptive research is to describe the state of affairs, as it exists at the present time. The distinguishing feature of this method is that the researcher has no control over the variables, but only describes what has happened or what is happening. Survey methods of all kinds, including comparative methods, can be used in descriptive research. This type of research is also concerned with predictions and the narration of facts about a particular individual or a group (Bernard 2000: 28; Bryman 2004: 18–19; Ghosh 1982: 70; Silverman 1993: 35).

Thus this study explains and describes the various challenges and opportunities that have a direct bearing on operators of small enterprises; using descriptive narrations .These factors in the study, include access to market, technical factors, resources and government rules and regulations affecting competitiveness of MSEs.

### **3.4 Data Sources and Types**

Both primary and secondary sources of data have been used for the study. The primary data has been collected through the use of questionnaires that will be administered by the researcher to Addis Ababa enterprises in leather sector. The secondary sources of data obtain from Addis Ababa micro and small enterprise development bureau and statistics agency. And six focus groups with 36 members ‘for an hour discussion and 12 key informant interview from bureau and sub city experts has been carried out.

The questionnaire has been design to collect survey data from employees has been selected randomly from MSEs offices found in Addis Ababa that satisfy the requirements. In the

questionnaire, there have been only close-ended Likert scale type questions. Saunders et al. (2007) hypothesize that the Likert scale is the most widely used method of scaling in the social sciences today. Perhaps this is because they are much easier to construct and because they tend to be more reliable than other scales with the same number of items.

The study employed questionnaire as a tools for obtaining the necessary information for the research. The questionnaire made up of closed-ended items. The survey will be measured by 5-point Likert type scale ranging from strongly disagree (1) to strongly agree (5).

## **3.5 Population and Sample**

### **3.5.1 Population**

Bryman (2003), describe a study population as the whole group that the research focuses on. The population for this study consists of enterprises engaged in leather and leather product in Addis Ababa city, the total population for the entire number of enterprises has been 257.

The secondary data source of this study has been survey conducted by the researchers on small business enterprises. The study area covered Addis Abeba city. The study has been conducted in Addis Ababa particularly in sub cites where MSEs engaged in leather and leather product business.

### **3.5.2 Sample Size**

The minimum estimated sample size (n) of the Addis Ababa MSEs is 50. The estimated sample was calculated by using yemane will be 50.

A Simplified Formula for Proportions

- Yamane (1967:886) provides a simplified formula to calculate sample sizes.

To determine the sample size from a finite target population using Yamane formula, the computation is: 95% confidence level

$$n = \frac{N}{1 + (N * e^2)}, \text{ where:}$$

N= Target Population

n= Sample Size

e= Margin of error= 5%

The sample size from the finite population=

$$n = 257 / 1 + (257 * .05 * .05)$$

$n = 257 / 1.64 = 160$  and 7 percent has been added to minimize error and to find convenient data.

The sample size has been 172. Since the population size is 257 micro and small enterprise to get proportional sampling representation from micro the researcher uses 137 micro and since small enterprises are 38 by purposive sampling from small enterprise has been taken and to find convenient data. Using this technique 172 respondent from micro and small enterprise had been selected.

### **3.5.3 Sampling Techniques**

In sampling technique the sample has been drawn from registered MSEs and inventory data taken by Addis Abeba micro and small enterprise bureau and Civil Service University. Where proportional and purposive sampling technique has been used so as to get the necessary representative sample from MSEs operating in leather sector and to meet the research objectives.

## **3.6 Data Collection Procedure**

The study has been used questionnaire in order to collect data from Addis Ababa enterprise operators working on leather and leather product to be selected randomly. Self-administered questionnaire that are structured has been used to collect quantitative data from the respondents because this method help to give independent opinions without fear since the respondents did not need to specify their names. The questionnaires have been also used because they enable the researcher to code the information easily for subsequent analysis.

## **3.7 Data collection Instrument**

The study has been conducted based on both primary and secondary data sources. It began by secondary data analysis through the detailed review of related literature and survey questionnaire was used as the main primary data gathering instrument for this study. Questionnaire prepared and distributed to the samples that are selected from Addis Ababa MSEs in leather sector. The

first part of the survey is in relation to demographics. The researcher believed it would be beneficial to collect information in relation to other sector' age group, gender, educational background and current job.

The next part involves a series of statements about the impact of factors affecting in MSEs marketing of leather and leather product. The respondent must rate on these statements on a scale. These are called Likert Scales. Likert Scales are a method of rating scales generally used to gather the opinions and attitudes of people. The respondent is given a series of statements and will be asked to choose a position on a five point scale between strongly agree and strongly disagree. The objective of the questionnaire is to gather data in order to measure both the attitudes and the opinion of the MSEs towards the factors affecting competitiveness of MSEs particularly on leather and leather products.

### **3.8 Data Analysis**

The descriptive research design has been employed to describe the competitiveness of MSEs in leather product business. The primary data has been collected from the sampled 172 MSEs representatives in the study area. Generally; primary and secondary data have been utilized to assess the MSEs. The secondary data competitiveness in leather products. The collected data has been analyzed using descriptive methods with the aid of Statistical Packages for Social Sciences (SPSS).

### **3.9 Validity and Reliability**

#### **3.9.1 Validity**

For the perspective of validity, it means the measurement should be implemented accurately by various aspects. Improving the validity of measurement can reinforce the availability of empirical results, conclusions and the propositions of the study. Validity can be divided into four types which respectively are internal validity, external validity, construct validity and conclusion validity. For the internal validity, it checks if causal relationship between independent variables and dependent variables are existing. While for the external validity, it tests if the results of the study should be generalized. (Adams, 2007, p.237)

### 3.9.2 Reliability

Reliability has to do with the accuracy and precision of a measurement procedure. Cronbach's alpha is a coefficient of reliability. It is commonly used as a measure of the internal consistency or reliability of the instrument. According to statistical interpretation, the closer the reading of Cronbach's Alpha to digit 1, the higher the reliability is in internal consistency. In general, reliabilities less than 0.60 are considered to be poor, those in the 0.70 range, acceptable and those over 0.80 good. (<http://www.ats.ucla.edu/stat/spss/faq/alpha.html>). Cronbach's Alpha had been calculated to test the reliability of the research instrument reliability statistics shows below from spss data its internal consistency is good.

Cronbach's Alpha	No. of Items
0.85	56

### 3.10. Ethical Considerations

Ethical conduct states that it is the responsibility of the researcher to assess carefully the possibility of harm to research participants, and to the extent that it is possible, the possibility of harm should be minimized (Bryman & Bell, 2007, p.128). as a module combined by Graduate Studies and Research Office of Addis Ababa University (2009) says research ethics deals primarily with the interaction between researchers and the people they study (and in recent decades, on laboratory animals as well); while professional ethics deals, among others, with additional issues such as collaborative relationships among researchers, mentoring relationships, intellectual property, fabrication of data and plagiarism. The researcher will use the data from randomly selected enterprises that lives in Addis Ababa through questionnaire, permission will have to request before gives the questionnaire to the respondents in order to fill it. To maintain the confidentiality of the information provided by the respondents, the respondents will instruct not to write their names on the questionnaire and assure of that the responses to be used only for academic purpose and kept confidential.

## CHAPTER FOUR

### 4. RESULT AND DISCUSSION

#### 4.1. General Information

This chapter comprises the data presentation of the study. The data were collected using questionnaires, FGD and Key informant interview as well as secondary data collection tables has been used. The MSE related secondary data source boundary and MSE primary respondents covers 3 years of age and above.

Pertained to the MSE classification; MSEs sampled; (134)78% and (38) 22% have been at the micro and small growth level respectively Regarding the respondent's marital status survey data MSEs sampled have been (94)54% are married and (79) 46% unmarried enterprises are responding to the questioner. Pertained to the MSEs. Pertained to the age interval of the respondents (54)92 %respondents are between 20-30 years and( 69)40 % are between 31-40 years respondents are 5.2 % and two greater than 50 years of age .Shows that majority of the small businesses (41%) of the sampled MSE shave been operating as sole proprietorship and 51% of them operating as partnerships business. Regarding the age of the MSEs sampled' (149)87%, (15)8% and (8) 5% of the MSEs aged in the 3-5 years, 6-10 Years and above 10 Years of intervals respectively.

As regarding the educational level of operators at the study site was assessed. It emerged that the majority 57.56 percent of them had a diploma or a degree. 42.44 percent of MSEs had grade ten and less at school. Have been sampled responses have aggregated for the simplicity of statistical data analysis. Generally, the parametric tools based analysis and discussion of the results were carried out using a descriptive research design, including statistical tools such as frequency, charts, tables. For the purpose of comparisons, the researcher also provided a general picture of the sample respondents in both MSEs and later separated the general findings of the survey according to variables under study. Generally the collected data have been analyzed descriptively and statistically.

## 4.2 Descriptive Analysis

**Table1. Resources Market regulatory infrastructure Factors**

No	Variable	Agree	Percent	Disagree	Percent	Mean	SD	Variance
1	Inadequate supply of input affecting the enterprise competitiveness	126	73	46	27	1.27	0.444	0.197
2	There is no timely input supply in the market	128	74	44	26	1.26	0.438	0.191
3	High price of input affecting sales profit margin	156	90.7	16	9.3	1.09	0.291	0.085
4	Lack of Access to bank loans affecting MSEs business	126	73.0	46	27	1.27	0.444	0.197
5	High collateral requirement is not affordable	119	70	11	30	1.69	0.463	0.214
6	In adequate stock of input by distributors for lead time	131	76	41	24	1.24	0.427	0.183
7	Lack of marketing network affecting sales of our product	134	78	38	22	1.73	0.447	0.2
8	Lack of market linkage among enterprises is a challenge for MSEs competitiveness.	47	27	125	73	1	0	0
9	Lack of market linkage with government institution for competitiveness	168	98	4	2	1.32	0.468	0.219
10	Lack of market linkage with wholesalers	117	68	55	32	1.78	0.412	0.17
11	Lack of promotion budget affecting MSEs competitiveness	37	22	135	78	1.78	0.458	0.21
12	High-cost of production affecting enterprise competitiveness	121	70	51	30	1.7	0.5	0.25
	Quality of product supplied by MSEs to	121	71	50	28	1.31	0.463	0.21

	the markets are competitive							
14	Imported synthetic product in the market affects MSE sales profit	49	29	122	71	1.72	0.613	0.25
15	High cost of machinery rent affecting enterprise competitiveness	129	75	43	25	1.27	0.444	0.197
16	High Tax Rate affecting the enterprise business	126	73	46	27	1.26	0.438	0.191
17	Regulation and procedures in market access affecting the MSE competitiveness	123	72	49	28	1.09	0.491	0.085
18	Unfair trade competition from large enterprises affecting competitiveness	123	71	49	29	1.27	0.444	0.197
19	Unfair competition from other small enterprises affecting competitiveness	86	50	86	50	1.69	0.463	0.214
20	Lack of production equipment affecting competitiveness	146	84	26	16	1.24	0.427	0.183
21	Collateral based finance accesses affects MSE competitiveness	146	85	26	15	1.23	0.463	0.215
22	Input supply service on credit base affecting MSEs Competitiveness	129	75	43	25	1.73	0.447	0.2
23	Criteria for Machinery leasing for long term is difficult process	112	65	60	35	1	0	0
24	Inadequate Infrastructure affecting enterprise competitiveness	145	84	27	16	1.32	0.468	0.219
25	Access to working premise affecting business competitiveness	112	65	60	35	1.78	0.412	0.17
26	Lack of On-line marketing technology affecting MSEs competitiveness	41	24	131	76	1.78	0.458	0.21

27	Leather product branding techniques affecting competitiveness	149	86	23	14	1.31	0.463	0.21
28	Input quality identification technical problem	168	97	4	3	1.72	0.613	0.25
29	Lack of skill in technology transfer affecting competitiveness	147	85	25	14.5	1.65		0.368
30	Product development technique of MSEs	139	81	33	19	1.27	0.444	0.197
31	Competitiveness is difficult in leather and leather product business	147	86	24	14	1.26	0.438	0.191

In relation with inadequate supply of input affecting the competitiveness of MSEs; 126 (73%) and 46(27%) have been resounded as “Agree” and “disagree” respectively (**Table1.**). The data obtained from the FGD and KII also reveals the same result.

When statistically measured, inadequate supply of input supply has negative relationship with MSEs market competitiveness in that it deviates from average mean by 0.44 Percent. It implies that the inadequate supply of input affecting the leather market competitiveness of MSEs by 0.44 percent. Regarding timely supply of input Operators of MSE sampled 128 (87.8%) and (44) 26% of the respondents have been responded as “agree” and “disagree” respectively (table-1). As the interview conducted with the key informants; because of the distributors were selective in supplying the input honestly for leather operator MSEs and the amount of the leather obtained from the distributors also not available within the time required by the MSEs. Statistically; it deviates from average mean by 0.43. This implies on-time input supply is affecting the MSEs leather product market competitiveness by 0.43percent. Regarding Increasing price of input affecting sales price sampled Operators of MSE sampled 156(91 %),16(9%) of the respondents have been responded as “SA”, A’ N; DA and SDA for but decision making the statics condensed to agree and disagree respectively. The data obtained from FGD also reveals the same. Regarding increasing price of input affecting competitiveness of MSEs business has negative relationship with MSEs market competitiveness in that it deviates from average mean by

0.29 percent. This implies increasing price of input is affecting the MSEs leather product market competitiveness by 0.29 percent.

In relation with lack of Credit access affecting the competitiveness of MSEs; 126(73%), 46(27%), and 4% of the respondents have been responded as "A"; and "DA", respectively (table-1). The FGD participants also concluded that shortage of finance has been safely affecting the competitiveness of the MSE sector market. Regarding access to bank loan affecting competitiveness of MSEs business has negative relationship with MSEs market competitiveness in that it deviates from average mean by 0.44 percent. This implies bank loan is affecting the MSEs leather product market competitiveness by 0.44 percent. In relation with high collateral requirement distressing factor of the leather product market competitiveness of the MSEs, 119(70%) and 11(30%) of the respondents have been responded as "Agree"; and "Disagree", respectively (table-1). The FGD concluded that poor accessibility of credit from microfinance and banks affects the MSE market competitiveness. Statistically; high collateral requirement affecting sales of enterprise product MSEs business market competitiveness in that it deviates from average mean by 0.46 percent. This implies high collateral requirement is affecting the MSEs leather product market competitiveness by 0.46 percent. Inadequate stock handling of the distributors that affect the MSE competitiveness has been responded as "Agree" and "Disagree" by 76% and 24% of the respondents (table-1). Statistically, the variable deviates by 0.42 from the average mean. It implies the inadequate stock handling of the distributors affecting the leather product market competitiveness of the MSEs by 0.42 percent.

### **4.2.1. Market Access factors**

Regarding lack of marketing network among enterprise and other traders, 80% and 20% of the respondents has been responded as "Agree" and "Disagree" respectively (table-1). Statistically; lack of marketing network of the MSEs for leather product market, it deviates from average mean by 0.46 percent. This implies lack of market network is affecting the MSEs leather product market competitiveness by 0.46 percent..

Regarding the market linkage problem among enterprises; 125% and 47% of the respondents has been responded as "Agree" and "Disagree" respectively (table-4.16). As to the key informants MSEs are allowed to participate in bazaar and exhibition to sell and promote their product.

Majority of the MSEs in this sector had the opportunity of creating market linkage with each other only during annual public holidays which may not create sustained profitability and income.

Statistically; market linkage problem among MSEs; it deviates from average mean by 0.44. This implies that market linkage problem among the MSEs has been affecting the MSEs leather product market competitiveness by 0.44 percent.

Pertained with the market linkage problem with government organization; 98% and 2% of the respondents have been responded as “Agree“ and” Disagree’ respectively (table-1). Statistically; it deviates from average mean by 0.47. This implies linkage with government institution problem is affecting the MSEs leather product market competitiveness by 0.47%.percent.

Regarding lack of market linkage problem with whole sellers MSEs sampled 117(68%)and 55(32%)of the respondents have been responded as “Agree” and “Disagree” respectively (table-4.18). Statistically; lack of market linkage with the wholesalers deviates from average mean by 0.46. This implies that lack of market linkage with wholesalers is affecting the MSEs leather product market competitiveness by 0.46.percent.

In relation with impact of promotion budget on MSE market; 135(78%) and **37(22%)** of the respondents have been responded as “Agree” and “Disagree” respectively (table-4.19). The FGD also concluded that there is no practice of media based MSE product promotion by the MSEs or by the government rather than during the exhibition and bazaar programs. Statistically, MSE promotional budget problem deviates from average mean by 0.46%.percent. This implies budget for promotion problem is affecting the MSEs leather product market competitiveness by 0.46 percent.

Regarding the influence of high-cost of leather production 121(70%) and 51(30%) of the respondents have been responded as “Agree” and “Disagree” respectively (table-1). Key informants have been responded as that the high price of inputs created an increase in production cost of the leather product of the MSEs. Statistically; high cost production deviates from average mean by 0.46. This implies high cost of production affecting the MSEs leather product market competitiveness by 0.46 percent.

Regarding competitiveness of MSEs Product supplied in the market sampled, (121)71% and (50)28%, of the respondents have been responded as “Agree” and “Disagree” respectively (table-1). The Key informants have been responded that even though the quality of the leather products of the MSEs has been satisfactory in the market; MSEs are not competitive due to high price setting for the product. Statistically, quality of the leather product produced by MSEs deviates from average mean by 0.50. This implies quality of the product of MSEs has 0.50 percent of contribution to the MSE leather product market competitiveness.

Regarding the influence of the imported synthetic product on the profitability of the leather product of MSE; 122(29%) and 49(29%) of the respondents have been responded as “Disagree “and “Agree “respectively (table-1). Statistically, synthetic product imported deviates from average mean by 0.47. This implies quality of the product of MSEs has 0.47 percent of contribution to the MSE leather product market competitiveness. But the data obtained from the key informants depicts that the low priced imported synthetic products in the market currently affecting the leather product market of the MSE sustainable production. on the other hand, small enterprises used this synthetic product for technology transfer.

Regarding positioning the enterprise product in the market; 111(64%) and 61(36%) of the respondents have been responded as “Agree” and “Disagree” respectively (table-4.23). Statistically; product positioning it deviates from average mean by 0.61. This implies product positioning problem is affecting the MSEs leather product market competitiveness by 0.61 percent.

## 4.2.2 Regulatory factors

The impact of high cost of machinery rent on sales prices setting of MSEs has been responded as “Agree” and “Disagree” respectively by 129(75%) and 25(25%) of the respondents respectively (table-4.25). Statistically; high cost of machinery rent affecting competitiveness deviates from average mean by 0.43 percent. This implies high production machinery rental cost is affecting the MSEs leather product market competitiveness by 0.43%.percent.

Pertained to the influence of high cost of renting of sales shops on the market competitiveness of the MSEs’ 135(78 %) and 37(22%) of the respondents have been responded as “Agree” and “Disagree “respectively (table-4.26). The key informants also responded as that the escalation of the price of rental shops affects the price of the product which might hinders the price competitiveness of the MSEs leather product. Statistically; high cost of rent in the study area it deviates from average mean by 0.41. This implies that it is affecting the MSEs leather product market competitiveness by 0.41 percent.

Tax rate influence on the MSE leather product market responded as “Agree” and “disagree” by 73% and 27% of the respondents respectively (table-4.27). Statistically; high tax rate has been deviates from average mean by 0.44. This implies tax rate problem is affecting the MSEs leather product market competitiveness by 0.44 percent.

Regarding the impact market based government regulation or directives in supporting MSEs; 123 (72 %,.) and 49(28%) of the respondents have been responded as “Agree” ‘Disagree’ respectively (Table-4.28). The data obtained from the FGD and key informants shows that the government regulation in supporting the MSE market access has not been practical. For instance foreign market support should be full expense coverage for the MSEs those have got the opportunity of event based foreign market opportunity, but MSEs cover all the cost incurred. Similarly; competitive advantage that reserved for the MSEs during governmental based bidding, 3% has not sufficient to compete with the large private competitors. Statistically government regulation forged to support MSEs market access deviates from the average mean by 0.45 that implies unpractical government regulation has been affecting the MSEs leather product market competitiveness by0.45% percent. The negative effect of unfair trade competition from big industries has been responded as “Agree” and “Disagree” by 146 (85) and 26(15 %) of the

respondents (Table-4.29). The FGD participants also concluded that MSEs could not compete with the large competitors in the market in leather product marketing in the study area. Statistically; unfair competition with large private enterprises deviates from average mean by 0.35; it is affecting the MSEs leather product market competitiveness by 0.35.percent.Pertained with the negative influence of unfair trade competition of MSEs with small enterprises; 86 (50%) and 86(50 %) of the respondents have been responded as “Agree” and “Disagree” respectively (table-4.30).Statistically, unfair trade competition of MSEs with small similar businesses it deviates from average mean by 0.50 which implies it is deterring the MSEs leather product market competitiveness by 0.50%.percent (table.4.35).according to key informants the unfair practice developed from the rent seeking behavior in exploiting the limited market opportunity.

“Lack of production equipment affecting competitiveness” has been responded as “agree” and “Disagree” by 84% and 16% of the respondents respectively (table-4.31). FGD and key informants also informed leather producer MSES have the shortage of production equipment to which led them to follow labor intensive production system. The variable “lack of production equipment “deviates from average mean by 0.35. This implies that lack of production equipment is affecting the MSEs leather product market competitiveness by 0.46.percent.

Impact of the collateral based finance accesses of the MSE responded by as “Agree” and “Disagree” by 146(85%) and 26(15%) of the respondents respectively (table-4.32). Collateral based access to finance deviates from average mean by 0.35. This implies it is affecting the MSEs leather product market competitiveness by 0.35 percent.

Regarding the negative impact of credit base input supply service on the MSEs market competitiveness; 129(75%) and 43(25 %) of the respondents have been responded as “agree” and “Disagree” respectively (table-4.33). FGD participants also concluded lack of credit based raw material supply affecting the market competitiveness of the MSEs in leather product. Statistically; lack credit based input supply service deviates from average mean by 0.47. This implies lack of credit based input supply problem is affecting the MSEs leather product market competitiveness by 0.47percent.

The difficulty of criteria for machinery leasing of MSEs responded by 65% and 35 % of the respondents as “Agree “and” disagree’ respectively (table-4.34). Statistically; machinery leasing

criteria difficulty deviates from average mean by 0.43 percent. This implies input machinery leasing problem is affecting the MSEs leather product market competitiveness by 0.43% percent.

### **4.2.3 Infrastructural Factors**

Regarding infrastructure like water electricity, road and internet access in the MSEs production and sales shop area problem responded by 145(83%) and 75(15 %)of the respondents as “Agree “and ”Disagree” respectively (table-4.36). Statistically; inadequate infrastructure has been affecting MSEs leather product market competitiveness by 0.36 percent in that it deviated from an average mean by 0.36 percent.

Regarding to Access to working premise 112 (65%) of the respondents have been agreed and 60(35 %), of the respondents have been disagreed in that access of working premise has been affecting the MSEs market competitiveness in the study area (table-4.37). Statistically in that it deviates from average mean by 0.46 percent. This implies input Inadequate Infrastructure of working premise problem is affecting the MSEs leather product market competitiveness by 0.36 percent.

The current contribution of on-line marketing technology to the MSE competitiveness has been responded as “Agree) and “Disagree” by 112 (76%) and 65(35 %) of the respondents respectively (table-4.38).Likewise; the FGD data result indicates that lack of application of on-line marketing technology infrastructure in the country for MSEs product currently affecting the market competitiveness of the MSEs negatively. Statistically; **on-line marketing technology** deviates from average mean by 0.42 factors. This implies input lack of on line technology Infrastructure problem is affecting the MSEs leather product market competitiveness by 0.42 percent.

### **Technical Factors**

Pertained with MSEs the impact of leather product branding technique; 149 (86%), and 23(14 %) of the respondents have been responded as “Agree’ and “Disagree “respectively (table-4.40). The data obtained from the key informants also shows that MSEs have poor capability at arriving at the process of branding their leather product. Statistically; it deviates from average mean by 0.34

factors. This implies input lack of technical skill in product branding of the MSEs affecting the MSEs leather product market competitiveness by 0.3 percent.

Input quality identification technique problem of the MSEs have been responded as “agree” and “Disagree” by 168 (97%) and 4(%3) of the respondents respectively (table-4.41).Majority of the key informants also agreed in that poor input quality identification technique of the leather producer MSEs creates in setting competitive price of the product. Statistically it deviates from the average mean by 0.15 percent. This implies input lack of skill in quality grading problem is affecting the MSEs leather product market competitiveness by 0.15 percent.

Regarding Lack of MSE skill in technology transfer responded by 85 % and 15 % of the respondents as “Agree “and “disagree” respectively (table-4.42). Statistically; MSEs lack of skill in technology transfer deviates from average mean by 0.35 percent. This implies input lack of on line technology Infrastructure problem is affecting the MSEs leather product market competitiveness by 0.35 percent.

Regarding product development technique of MSEs; 81% and 19 %,.) of the respondents have been responded as “Agree” and “Disagree“ respectively (table-4.43). Statistically; product development technical skill problem of the MSEs deviates from average mean by 0.39 percent. This implies poor product development technique of the MSEs affecting the MSEs leather product market competitiveness by 0.39 percent.

Pertained to the difficulty of the MSEs leather product business competitive; 147(86%) and 24(14%) of the respondents have been responded as “agree” and “disagree” respectively (table-4.44). The data obtained from the FGD and key informants shows that MSE leather product competitiveness has been difficult in the study area due to multiple internal and external factors. Among the MSEs internal factors those affecting the market competitiveness of the leather product; financial constraints, technical capability of the operators and tying to governmental support based market linkage opportunities. Among the external factors identified by the focus group discussion; poor infrastructural development in the production and shopping areas of the MSEs, input price inflation and unfair competition from the large and small private leather producers.

### 4.3 Correlation Test among Variables

The conceptual model adapted by this research has five major independent variables: resource, market access, regulatory, infrastructure & technical factors, competitiveness dependent variable. Therefore, to check how the independent variables have associations/relationships with dependent variable, Pearson's correlation was used for each variable. Pearson's correlation was used to find out a correlation between at least two continuous variables which can fall between 0.00 (no correlation) and 1.00 (perfect correlation). Generally, correlations above 0.8 are considered pretty high. Hence, Pearson's correlation analysis was used for each variable. The Research Questions:-

How do a regulatory, resource, market access, technology, and infrastructure factor marketing factor independent variable affects the dependents variable (competitiveness) and MSEs?

Table 4.46 correlation Test

		RESOURC E FACTORS	MARKETA CCESS	REGULAT ORY FACTOR	INFRASTR UCTURE FACTOR	TECH FACTOR	COMPITIT IVNESS
<b>RESOURCE</b>		1	.655**	.564**	.539**	.385**	.267**
	Sig.(2t ailed)		.000	.000	.000	.000	.000
<b>MARKETACC ESS</b>		.655**	1	.528**	.414**	.260**	.311**
	Sig.(2t ailed)	.000		.000	.000	.001	.000
<b>REGULATORY FACTOR</b>		.564**	.528**	1	.500**	.472**	.327**
	Sig.(2t ailed)	.000	.000		.000	.000	.000
<b>TECHNICAL FACTOR</b>		.385**	.260**	.472**	.351**	1	.227**
	Sig.(2t ailed)	.000	.001	.000	.000		.003
<b>INFRASTRUCT URE FACTOR</b>		.539**	.414**	.500**	1	.351**	.223**
	Sig.(2t ailed)	.000	.000	.000		.000	.003
	N	172	172	172	172	172	172
<b>COMPITITIV ESS</b>		.267**	.311**	.327**	.223**	.227**	1
	Sig.(2t ailed)	.000	.000	.000	.003	.003	
<b>**.</b> Correlation is significant at the 0.01 level (2-tailed).							
<b>*</b> Correlation is significant at the 0.05 level (2-tailed).							

The two variables- **resource factor and competitiveness are positively correlated** are positively correlated ( $r=0.267$ ,  $p=0.000$ ). There is low correlation between the variables significant at 0.01 levels.

The two variables- market access competitiveness are positively correlated ( $r=0.311$ ,  $p=0.000$ ). There is low correlation significant at the 0.01level.

The two variables- regulatory factors and competitiveness decision are positively correlated ( $r=0.037$ ,  $p=0.032$ ). There is low correlation significant at the 0.05 level.

The two variables- infrastructure variable are positively correlated ( $r=0.223$ ,  $p=0.003$ ). There is low correlation between the variables significant at the 0.01 level.

The two variables-technical factors& competitiveness are positively correlated  $r= 0.227$ ,  $p=0.000$ ). There is low correlation significant at the 0.01 level.

The two variables- resource factor and competitiveness are positively correlated ( $r=0.267$ ,  $p=0.000$ ). There is low correlation significant at the 0.01level.

## 4.2 Regression Analysis

In this research multiple regression analysis was used because there were four independent variables adapted by the research model to be analyzed. Multiple regressions were used to estimate the coefficients of the linear equation for each independent aggregate variable that best predicts the value of the dependent variable. The research consisted four independent variables (impact of resource, market access, regulatory and infrastra structure factors) to predict on market competitiveness of (dependent variable). The assumptions to be considered before the regression analysis take place that included:

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.347 <sup>a</sup>	.120	.094	.254
a. Predictors: (Constant), RESOURCE FACTOR, INFRASTRUCTURE FACTOR, MARKETING FACTOR, TECHINICAL FACTOR, REGAVEARAGE				
b. Dependent Variable: COMPETITIVNESS				

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.467	5	.293	4.548	.001 <sup>b</sup>
	Residual	10.709	166	.065		
	Total	12.176	171			
a. Dependent Variable: COMPETITIVNESS						
b. Predictors: (Constant), RESOURCE FACTOR, INFRASTRUCTURE FACTOR, MARKETING FACTOR, TECHNICAL FACTOR, REGAVEARAGE						

Coefficients										
Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Co linearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	3.642	.409		8.905	.000	2.834	4.449		
	TECHINICAL FACTOR	-.011	.044	-.019	-.258	.797	-.098	.075	.951	1.051
	MARKETING FACTOR	.058	.038	.117	1.515	.012	-.017	.132	.881	1.136
	REGAVEARAGE	.149	.040	.292	3.691	.000	.070	.229	.847	1.180
	INFRASTRUCTURE FACTOR	-.063	.064	-.072	-.977	.330	-.189	.064	.989	1.011
	RESOURCE FACTOR	-.121	.071	-.128	-1.695	.002	-.262	.020	.932	1.073
a. Dependent Variable: COMPETITIVNESS										
Regression output table showing the effect of independent variables on dependent variable.										

Regression output table shown above indicates the co linearity statistics between the independent variables determined by Tolerance & VIF values.

Research Question H1: marketing factor has impact on market competitiveness. As indicated in the above table, the p-value (0.012) is less than the threshold value of 0.05. Therefore, the alternative hypothesis, H1 is accepted. Hence: marketing factor has impact on market competitiveness

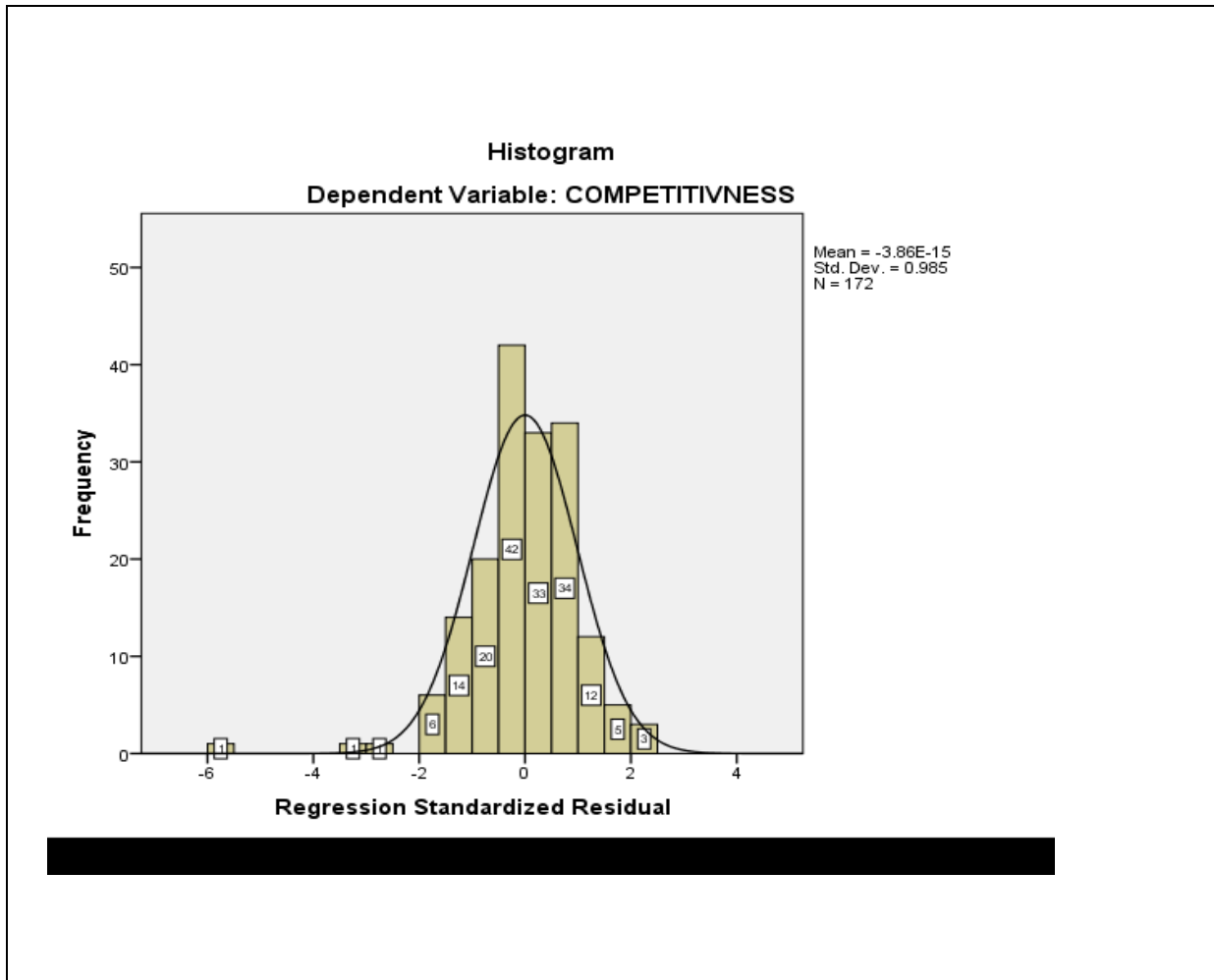
H2: Regulatory factors are the p value (0.001) less than the threshold value of 0.05.

H3: Resource factors have an impact on market competitiveness the p- value (.002) shows it is less than the threshold value 0.05 therefore it has significant impact on market competitiveness of MSEs in leather and leather product businessman.

H4: Infrastructure the p- value (0.03) shows less than the threshold value and therefore rejected. Therefore they will evaluate four factors has significant impact on competitiveness of micro and small business engaged in leather and leather manufacturing business. There was also a study conducted by A. Nyangor, (2010), lack of access to credit, inadequate managerial and technical skills, low levels of education, poor market information, inhibitive regulatory environments, lack of access to technology, lack of infrastructure such as roads, adequate power, water, sewerage and telecommunication has been a major constraint in the competitiveness of Small and Micro enterprises.

<b>Residuals Statistics</b>					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.31	3.81	3.50	.093	172
Residual	-1.459	.488	.000	.250	172
Std. Predicted Value	-1.976	3.419	.000	1.000	172
Std. Residual	-5.742	1.920	.000	.985	172
<b>a. Dependent Variable: COMPETITIVENESS</b>					

**The output table of regression analysis indicating outliers in data scores determined by the Cook's Distance.**



**Fig.4.1: Regression standard Residual**

**Histogram:** The output of Regression analysis showing data scores of the study the independent variables & dependent variable is normally distributed.

**Sample size:** The total sample of the research was 172 MSEs in which the sample size was proportionally determined to the geographic area. A good size sample, e.g., 200-500, is needed for multiple regressions, analysis of covariance, or log linear analysis, which might be performed for more rigorous evaluations (University of Florida, Florida Cooperatives Extension Service, page 4).

**Normal distribution of data:** The data scores for independent & dependent variables should be distributed approximately between two standard deviations, that is, in a normal distribution, approximately 95% of the sample values are within two standard deviations of

the true population value. The above shown histogram indicated the normal distribution of data scores that lie between -2 to +2.

**Linearity:** Data scores between independent & dependent variables should have linear relationship for regression analysis to take place. The p-p plot shown above has a straight line with minor deviations for few data scores indicating the linearity between the independent & dependent variables.

**Multi co linearity:** Adding more independent variables to multiple regression procedures doesn't mean that the regression will be "better" or offer better predictions; in fact, can make things worse which is called **over fitting**. In addition, more independent variables create more relationships among them. So not only are the independent variables potentially related to the dependent variable, they are also potentially related to each other, called **Multi co linearity**, resulting redundancy in predicting dependent variable. The status of Multi co linearity is determined by the **tolerance** (how much of the variability of the dependent variable is not explained by the independent variable) and **VIF** (Variance Inflation Factor) which is the inverse of the tolerance. Tolerance values less than 0.1 and VIF greater than 10 shows the presence of Multi co linearity that may result the deletion of variables. In this research all the independent variables have more than 0.1 & less than 10 tolerance & VIF values respectively indicating there was no Multi co linearity

Therefore, the above tables & graphs indicated that multiple regression analysis could be performed to test each of the developed research question.

## **CHAPTER FIVE**

### **5. CONCLUSION AND RECOMMENDATION**

#### **5.1 Conclusion**

This chapter comprises the conclusion and recommendation part of this paper. Primary data has been collected by using questionnaire and interview guide check-list as a data collection tools. In the data collection process 172 MSE representative respondents, 6 FGD with 36 members and key informant interview with 12 respondents have been participated. The collected data has been analyzed descriptively and statistically by employing SPSS software as data analysis tool. The MSEs leather product competitiveness in the market have been analyzed from the viewpoints of resource factors, market access factors, regulatory factors, infrastructural factors and technical factors.

Pertained with the resources factors; inadequate supply of input has been affecting the MSEs leather product competitiveness in the market. This has been due to the selective characteristics of the suppliers and shortage of finance. On-time input supply of input also affecting the leather market competitiveness of the MSEs in the study area. Likewise; an increased price of input deterring the leather product market competitiveness of MSEs which resulted to an increased selling price of the leather product in the market. Shortage of finance also identified as a determinant factor for the MSE leather product market competitiveness. High collateral requirements, limited average loan size set by the MFIs, low pre-loan saving culture of the MSEs and low access of the MSEs to bank loan service were among the factors for the shortage of financial supply for the MSE. Generally, inadequate input supply, on-time input supply problem, increased price of the MSEs leather product, financial constraint, collateral requirements and MSEs access to bank loan have been identified that among the factors affecting the market competitiveness of MSEs leather product.

Regarding the market access factors; lack of marketing network among MSEs and other traders has been identified that it is affecting MSEs leather product market competitiveness. This has been due to poor market linkage support of the MSEs and under capacity productivity of the MSEs. Government market linkage problem support also identified that it is deterring the market

competitiveness of the MSEs. The comparative advantages granted by the government in market linkage aspects for instance government bidding participation(3%)and limited access to annual and holidays based exhibition and bazaar participation identified as in adequate market linkage support. MSEs' lack of market linkage with whole sellers identified that it is affecting the MSEs market competitiveness in the study area. This is because of the wholesalers do no interest to supply the raw materials to the MSEs due to their financial constraints. Unclear government regulation and procedures in market access such as market linkage support strategy of the government; affecting the competitiveness of the MSEs in that small number of MSEs repeatedly use this opportunity; like exhibition and bazaar as well as supplying their leather products to the government emporium. The market linkage problem coupled with lack of promotion budget for MSEs business identified another loosed tie side of the MSEs market competitiveness. High cost of MSEs leather production affecting the market competitiveness of the MSEs. High cost of production results to high selling prices setting. MSEs with low capital access couldn't compete with the private competitors in leather product market. Imported synthetic leather product considered violets the price of natural leather product produced by operators because of low price, design and attractiveness and consequently affecting the preference of the natural leather product users. Product positioning practices of the MSEs in the market also identified deterring the market competitiveness. Generally; marketing network, government market linkage strategy, market linkage between the MSEs and MSEs, MSEs with wholesalers and with the government institutions, Promotion budget, high cost of production, imported synthetic and product positioning have been identified as the market access factors affecting the competitiveness of the MSEs in the leather product market.

Regarding the impact of the regulatory factors on the market competitiveness of the MSEs in leather products; poor regulation for machinery leasing, high rental cost of machinery, lack of production equipment, high cost of sales shop renting, lack of credit base input supply service, unfair trade competition with big industries and among MSEs themselves, high tax rate and fiancé accesses with loose collateral have been identified those regulatory factors affecting the leather product competitiveness of the MSEs in the study area.

Regarding the impact of infrastructural factors on the competitiveness of MSEs; access to working premise identified as it deterring MSEs market competitiveness in that most of the time

appropriate selling shops and market places have not been provided for the MSEs. Likewise; inadequate Infrastructure such as electricity and internet access of MSEs also the factor contributing negative impact on the market competitiveness of the leather producer MSEs in the study area. Similarly; lack of access to on-line marketing technology has been identified as the determinant factor to the MSEs leather product market in the study area.

Pertained with the technical factors; poor technical capability of the MSEs in product development technique has been identified as the determinant factor of the market competitiveness. The technical skill of the MSEs in technology transfer; accepting and forwarding new production and marketing technology; has been also identified poor and deterring the competitiveness of the MSEs. Not differently; poor input quality identification technique of the MSEs in leather production identified as the determinant factor of the MSE market competitiveness in the study area in that MSE operators have poor in technical identification of the raw materials required for leather products in the market. Poor technical capability of MSEs in identifying and producing brand fitted product also identified as one of the factors affecting the leather market competitiveness of the MSEs in the study area.

Generally; MSEs leather product business competitiveness has been recognized as a challenging area in MSE development from the viewpoints of multiple internal and external factors. Among the MSEs internal factors those affecting the market competitiveness of the leather product; financial constraints, technical capability of the operators and tying to governmental support based market linkage opportunities. In contrary to the internal market competitiveness factors; the external factors identified as poor infrastructural development, poor market linkage support, and lack of strong regulation in machinery leasing, credit access, credit based input supply, and input price inflation and unfair competition from the large and small private leather producers were among the major factors.

## 5.2 Recommendations

Benchmarking the identified MSEs' leather product competitiveness problems; the following recommendations have been given by the researcher.

- Inadequate input supply, on-time input supply problem and increased price of the MSEs leather product have been among the determinants of the leather market competitiveness of the MSEs. In order to solve such challenges; the MSEs development promoters should coordinate the MSEs for jointly bulky input purchases on demand and plan bases. The government should facilitate credit based input supply opportunity for the MSEs with governmental and private input suppliers.
- Leather producer MSEs' access to market has been identified the challenging factor of market competitiveness in leather producer MSEs' in the study area. The government should revise the national and international MSEs market linkage strategies. Additionally; the government should have MSEs product promotional budget due to individual MSEs couldn't afford the continuous product promotional costs. The government should support MSEs in foreign market access in cost-sharing bases with the MSEs. The operators should develop competitiveness knowledge in market access and should access product market by them-selves rather than depending on governmental outlets.
- The technical capability if the MSEs operators have been identified poor as the preventing factors of the MSEs leather market competitiveness. Thus; the TVET and Leather technology institute, productivity improvement centers in the study area should provide demand based MSEs technical based trainings in product development techniques, input quality identification techniques as well as technology transferring techniques.
- From the very emerging history of the MSEs in Ethiopia; MSEs access to finance has been the trapping factor that hindering the quick growth of the MSEs. Collateral requirement and limited loan sized policies of the MFIs were among the factors. Thus; the government should forge new regulation for the MSEs access to with loose collateral

base credit service. The financial institutions should follow loose collateral requirements in supporting the competitiveness of the MSEs in the market.

- In order to reduce the infrastructural factors affecting the competitiveness of the MSEs; the government should build MSE cluster based infrastructural development such uninterrupted electrical power supply, expandable working premises and market centers, and appropriate net-working technology.

### **5.3 Implication for Further Research**

The leather market competitiveness study of the MSEs has been limited to Addis Ababa city administration with parameters used by the researcher. There could be other factors significantly affecting the competitiveness of leather product market of the MSEs. Any interested body would conduct further research with the same title and with additional or other parametric tools..

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## APPENDICES

### Number of MSEs in manufacturing (source) Civil Service University with MSC Bureau 2008 E.C

S.N	Main sector	Manufacturing sub sectors which MSEs engaged	Classification		
			Micro	Small	Total
1	Manufacturing	Textile and garment	1931	152	2083
		Leather and lather product	220	37	257
		Food and beverage	721	94	815
		Metal and wood working engineering	676	437	1113
		Wood work	569	309	878
		Cultural and ornamental works	153	10	163
		Agro processing	17	7	24
		Construction input manufacturing	519	171	690
		Other manufacturing activities	50	14	64
		<b>Total</b>	<b>4856</b>	<b>1231</b>	<b>6087</b>

**Questionnaire**  
**ADDIS ABEBA UNIVERSITY**  
**SCHOOL OF COMMERCE**

**Questionnaire to be filled by Micro and small enterprise operators on leather and leather product.**

**Dear Respondent,**

The purpose of this questionnaire is to gather primary data about “*The factors affecting the competitiveness of micro and small enterprise in leather sector in Addis Ababa*”.

The information you provide will help me to better understand about factors affecting competitiveness of MSEs engaged in leather and leather product and will be used as an input for completing my MA in Marketing Management Thesis in Addis Ababa University -School of Commerce. I, therefore kindly request you to complete the questionnaire honestly. The information you provide will be strictly confidential and will not be disclosed for any third party. I would like to thank for giving your precious time and effort to fill this questionnaire.

If you have any query you can contact me via mobile no.: 0911903493.

Nurish Endale  
(The Student Researcher)

## ***Part 1: Demographic Characteristics of Entrepreneurs***

**Please show your answer by putting a tick mark in the box provided before each alternative.**

1. Gender: 1. Male . Female
2. Age of the owner 1. 20-30  2. 31-40  3. 41-50  4. Above 50
3. Education level of the principal business owner(s) 1. Below 10th grade   
2. 10+1   
3. 10+2  4. 10+3  5. Degree  6. Masters
4. Position in your enterprise  
1. Manager  2. Supervisor  3. Management member  4. Member
5. What is the age of your business under the current ownership?  
1. 1 - 5 years  2. 6-10 years  3. 10-15 years  4. 15 and above year
6. What is the legal form of your business?  
1. Sole proprietorship  2. Partnership  3. Cooperative  4. Private limited   
enterprise
7. How many employees did the enterprise have when first established including the principal owner?  
1. 1 - 5 employees  2. 6 - 10 employees  3. 11 - 15 employees   
4. employees 16 -20  5. Employees greater than 20
8. How many employees are working currently in the enterprise including the principal owner?  
1. 1 - 5  2. 6 - 10  3. 11 - 15  4. 21 - 30
9. Monthly income of your business  
1. Less than 2000  2. 2001-3000  3. 3001-4000  4. 4001-5000   
5. More than 5001

## Part 2. Rating factors across leather sectors of MSEs

**Direction:** Please indicate your degree of agreement/disagreement with the following statements by encircling the appropriate number. (1-Strongly disagree; 2-Disagree; 3-Neutral; 4-Agree; and 5-Strongly agree)

	Factors affecting the competitiveness of MSEs in leather and leather product	SDA	DA	N	A	SA
1	Inadequate supply of input affecting the enterprise competitiveness.	1	2	3	4	5
2	No timely input supply in the market.	1	2	3	4	5
5	High price of input decreasing sales profit margin	1	2	3	4	5
4	lack of Access to bank loans affecting our business	1	2	3	4	5
5	High collateral requirement.	1	2	3	4	5
6	In Adequate stock of input affecting MSEsbusiness.	1	2	3	4	5
7	lack of marketing network	1	2	3	4	5
8	Market linkage by mediator	1	2	3	4	5
9	Lack of market linkage among enterprises.	1	2	3	4	5
10	lack of market linkage with government institution	1	2	3	4	5
11	Lack of market linkage with wholesalers.	1	2	3	4	5
12	Lack of market access with consumer association.	1	2	3	4	5
13	Lack of promotion budget affecting competitiveness.	1	2	3	4	5
14	High cost of production affecting competitiveness.	1	2	3	4	5
15	high Quality of product supplied by MSEs	1	2	3	4	5
16	Imported synthetic product affecting MSEs competitiveness.	1	2	3	4	5
17	positioning product less known by MSEs	1	2	3	4	5
18	lack of Input in the nearest market affecting competitiveness	1	2	3	4	5
19	high cost of machinery rent affecting MSEs competitiveness	1	2	3	4	5
20	Access to renting sales shop affecting competitiveness	1	2	3	4	5
21	High Tax Rate affecting the enterprise business.	1	2	3	4	5
22	lengthy trade license permit process is affecting MSEs competitiveness	1	2	3	4	5
23	Regulation and procedures in market access affecting MSEs	1	2	3	4	5

	competitiveness.					
24	Unfair trade competition from large enterprise affecting competitiveness	1	2	3	4	5
25	Unfair competition from other small enterprises affecting competitiveness	1	2	3	4	5
26	Lack of production equipment affecting competitiveness	1	2	3	4	5
27	The criteria for Machinery leasing contract is difficult process	1	2	3	4	5
28	Regulations in market access affecting MSEs competitiveness	1	2	3	4	5
29	Lack of Input supply service on credit base is affecting competitiveness.	1	2	3	4	5
30	Lack of Finance accesses with loses collateral.	1	2	3	4	5
31	Inadequate Infrastructure affecting MSEs competitiveness.	1	2	3	4	5
32	Access to working premise affecting business competitiveness	1	2	3	4	5
33	On line marketing technology less known by MSEs.	1	2	3	4	5
34	product development knowledge Affecting the enterprise competitiveness	1	2	3	4	5
35	Quality grading skill affecting the enterprise competitiveness.	1	2	3	4	5
36	Lack of skill in Technology transfer affect the enterprise competitiveness	1	2	3	4	5

### **Part 3. Questions for focal group discussion**

1. What problems are the major factors affecting competitiveness of MSEs in leather and leather products business in relation to:-
  - 1.1. Legal and regulatory factors [bureaucracies (in relation to enterprise registration and licensing).
  - 1.2. Working Premises
  - 1.3 Technical factors
  - 1.4. Infrastructure (power, transportation, water supply and like)
  - 1.5. Marketing factors (relationship with suppliers, customers and others)
  - 1.6. Financial factors (situations of loan size, collateral requirements, etc from formal financial institutions)
  - 1.7. Do you have external linkage/network with other individuals or businesses?
    - 1.7.1. Who advices you in relation to your business and to what extent you have benefited from it?
    - 1.7.2. What was done to make this product more accessible and available to the market? 1.7.3. What was done to increase the visibility of this product / service and to increase its usage or exposure?
    - 1.7.4. What promotional tools are appropriate such enterprises and which do the enterprise used?
    - 1.7.5. What problems you encountered concerning promotion of your product?
2. Among the challenge of marketing, which are the main challenges affecting marketing activities of the business?
3. What was the amount of total capital invested in Birr to start this business?
4. Currently how much the total capital of your business in Birr?
5. What was the amount of total capital invested in Birr to start this business?
6. Currently how much the total capital of your business in Birr?

**Part 4. With Government Agency /bureau/micro bureau (key informants)**

1. What type of business development service does your organization offer to small enterprises in leather manufacturing business?
2. Is there an operational manual for the business development service/ product?
3. Does business development service benefits the users of business development service and Business service?
4. Do the features of business development service match with small entrepreneur demand?
5. What the main barriers you perceive in expanding the business/operation of the organization?
6. What are the main challenges that face small enterprises operating on leather and leather product?
7. What kinds of measures have to be taken to solve the challenges?