

ADDIS ABABA UNIVERSITY
COLLEGE OF MANAGEMENT, INFORMATION, AND ECONOMICS SCIENCE
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION
MASTER OF BUSINESS ADMINISTRATION

Analysis of the Success Factors of Micro and Small Business Enterprises in Addis
Ababa

By Tiruneh Abebe

A thesis submitted to the School of Graduate Studies of Addis Ababa University in partial
fulfillment of the requirements for the Degree of Masters of Business Administration

Advisor:

Dr. Tufail Ahmad

June, 2011

Addis Ababa, Ethiopia

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Approved By the Board of Examiners

1. _____

Advisor

Signature

Date

2. _____

Examiner

Signature

Date

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List of Acronyms

MSEs = Micro and Small Business Enterprises

MoTI = Ministry of Trade and Industry

CSA = Central Statistics Agency

ILO = International Labor Office

GDP = Gross Domestic Product

ABSTRACT

The research study evaluated the relation between personal related success factors and business related factors on the performance of MSEs in Addis Ababa. This is with a view to identify these personal and business related factors that have a favorable relation to the performance of the enterprises business performance. Primary data, through structured questionnaire, were collected from the samples of 73 MSEs randomly selected from among those industries engaged in Food and Beverage; Textile and Garment, Wood and Metal, and Merchandise and Retail shop. Data were analyzed using descriptive and inferential statistics with the aid of Statistical Packages for Social Scientists (SPSS). Also, analysis of variance was carried out to examine the variation in the performance of enterprises related to the variation in each of the independent variables of the study. The ANOVA result indicates there is no significance variation on the performance of MSEs in relation to the variations to each of the eight independent variables of the study. But the descriptive statistics result shows better performance for enterprises owned by individuals with better education level, have prior management and industry experience. In addition it also shows better performance for those enterprises that uses planning and record keeping.

1.INTRODUCTION

1.1. Background of the Study

Research on Micro and Small Enterprises (MSEs) has grown during the last decade. Majority of firms worldwide are dominated by businesses of small and medium enterprises. These enterprises play a significant role in the economy through innovation and employment creation. Consequently, the performance of an economy of a nation is closely associated with the performance of MSEs.

In developing countries the informal sector that mainly constitutes microenterprises is the major source of employment and income for the urban population. ILO (2000) estimated the share of informal employment to the total non-agricultural employment accounts for nearly half or more in all regions of the developing world and about 72% in sub-Saharan Africa. Besides employment creation, they also play a very important role in the developing world economy. For example, in Sub Saharan Africa, the contribution of the informal sector in non-agriculture Gross Domestic product (GDP) is about 41 %. Hence, their efficiency matters in determining overall economic performance and poverty reduction.

Despite their potential to improve economic growth, micro and small enterprises (MSEs) in developing countries lack serious attention. They produce largely for the low income group and employ lower levels of techniques. Many of them are self-employed type with a low transformation rate into higher size categories and their innovative activities are limited (Gebreyesus, 2009).

Small and Medium Enterprises are widely acknowledged to contribute towards promotion and development of inventions, and thereby generate employment opportunities in Ethiopia. MSEs are particularly important in the context of the country's poverty-reduction strategy because they are seedbed for the development of medium and larger enterprises, and because they absorb agriculturally under-employed labor, and diversify the sources of income for farming families.

In this respect, Ageba (2006) reported that, the role of the MSE sector in employment creation, economic growth and poverty alleviation has received the recognition it deserves as opposed to being viewed as marginal and unproductive, tax evader, and with limited contribution to economic growth.

Recognizing the significance of this sector, the Ethiopian Government issued the National Micro and Small Enterprises Strategy in 1997 and established the Federal Micro and Small Enterprises Development Agency in 1998. The country's industrial policy in 2003 and the poverty reduction strategy in 2006 have singled out MSEs as major instruments to create a productive and vibrant private sector and reduce poverty among urban dwellers. These documents reiterated the importance of MSEs, promotion through the provision of finance, training, and infrastructure services among other things.

It is natural to say that every small business owner starts with high hopes of success, but it is a usual phenomenon that each year firms go out of businesses. Although failure is not the sole reason for enterprises to leave the business, many enterprises do fail each year. Thus, the odds of forming a profitable venture are a critical issue for those weighing the risk of starting a business (Dennis and Fernald, 2001), and understanding of why firms succeed is crucial to the stability and health of the economy (Pompe and Bilderbeek, 2005).

However, discovering which factors or practices lead to business success is an unfulfilled purpose of business research (Rogoff 2004).

1.2. Statement of the Problem

The Micro and Small Enterprises Sectors contribute to the economy of nations' by creating employment opportunities, production of goods and services and other value added activities. The existence of a strong small business sector is necessary for the boosting of the economy. However, the transition of this sector to medium and large business sectors is as crucial to preserve the flow of new small businesses into the economy. In addition, such transition or growth will further reduce the unemployment rate and increase the number of products or services offered to the society. Hence, growth of MSEs considered as synonymous with success.

There are a lot of factors that affect the performance of MSEs either positively or negatively which in turn will determine their fate in the competitive business environment. These factors which contribute to the success of the enterprises are mainly related with the personal attribute of the owners' and attributes related to the enterprises.

Given the importance of small business for an economy, the survival, success and performance of these enterprises in this sector is an issue of continuous concern. Research that can lead to the identification of those factors associated with small business performance is therefore of a great interest to policy makers, owner-managers and their advisors (Alasadi and Abdelrahim, 2007).

Shonesy and Gulbro (2004), reported from their review of literatures on small business success studies, 'there have been several studies, which seek to identify the critical success factors for small businesses. However, there appears a problem to develop a common list of the factors which contribute for success of small business performance operating in various business environments and regions'. It is important to define these factors for any new business, as the owner should be concerned about the chances for success.

Understanding of why some firms succeed and others not is crucial to the stability and health of the economy. Despite this fact, however, which factors are the most important to the success of MSEs sector in Ethiopian has not been adequately studied empirically.

So this study tries to examine the relationship between selected success factors identified from literature with the performance of Micro and Small Business Enterprises operating in Addis Ababa.

1.3. Objective of the Study

In the literature of small enterprises, some variables are identified as they are very important for their success in the business area they are involved in. From these variables identified in previous works of different authors; age of the business owner, education, planning, record keeping and financial control, management experience of owners, prior business and industry experience

marketing skill, and ownership type of the enterprise are taken as independent or explanatory variables to see the variation in the performance of enterprises in relation to these variable.

Then the purpose of this survey study is;

- ❖ To analyze the relation of the above mentioned variables (success factors) with the performance of MSEs operating in Addis Ababa by taking the variation of enterprises performance in relation to these variables.

1.4. Scope of the Study

This study delineates its scope only to those enterprises which are Micro and Small Enterprises according to the Ethiopian Ministry of Trade and Industry (MoTI) definition. Also it takes the sample of the study only from those Micro and Small Enterprises operating in two Sub City Administrations in Addis Ababa involving only in four major sectors.

1.5. Conceptual Framework

Previous studies investigating factors behind small business success have all lead to the valid assumption that there is a common set of underlying success factors, whose effect tend to vary depending on the cultural context in which small businesses operate. Accordingly several studies in this regard were conducted in different countries all over the world, very few of which were conducted in developing countries. Hence, the essence of this study is to contribute the literature of small business success by identifying the success factors and their effectiveness or relation with small business performance operating in Addis Ababa, Ethiopia, which relies heavily on small private business for its economic development.

In this study, the researcher has chosen eight success factors to investigate. These are: principal owners' educational background, ownership form of the business, record keeping and financial control practice of the enterprises , the use of planning, principal owners' age, owners' previous management experience, owners' experience of establishing related enterprise, and the marketing skills of owners'.

Some of the literature sources written by different authors in the field that help to insight the small business success factors considered in this study are; Lussier (1995); Praag (2003);

Shonesy and Gulbro(2004); Walker and Brown (2004); Lussier and Halabi (2010) and soon. The most extensive work was that of the Lussier's (1995) 'perceived causes of small business success factors and failure factors', because his work examined the efficacy of the 15 variables identified from 20 prior studies on the subject of small business.

To make each of the independent variables selected for this study more clear, one can see the explanations and research finding reported by Lussier (1995). He has discussed these eight variables in relation to their effect on small business success as follows:

Record keeping and financial control: Businesses that keep updated and accurate records and uses adequate financial controls have a greater chance of success than firms that do not use.

Industry Experience: Businesses managed by people with prior industry experience have a greater chance of success than firms managed by people without prior industry experience.

Management Experience: Businesses managed by people with prior management experience have a greater chance of success than firms that are managed by people without prior management experience.

Planning: Businesses that develop specific business plans have a greater chance of success than firms that do not.

Education: People without any college education who start a business have a greater chance of failing than people with one or more years of college education.

Age: Younger people who start a business have a greater chance to fail than older people starting a business.

Partners: A business started by one person has a greater chance of failure than a firm started by more than one person.

Marketing: Business owners without marketing skills have a greater chance of failure than owners with marketing skills.

The independent variables of this study which are listed above can be categorized into two major sub groups of personal and business related factors.

Personal Related Factors: The personal factors include those variables that are specifically related to the owner of the small business. These encompass variables such as age of owner, education, management experience of owner, prior business and industry experience of owner, and marketing skills of the owner.

Business-Related Factors: The business-related factors focus on those variables that are directly related to the daily operation and make-up of the business. Variables include, planning, record keeping and financial control, and ownership form of the business.

1.6. Hypothesis

After careful consideration of all independent variables and the dependent variable of the study, the following hypotheses are developed to be tested using Analysis of Variance (ANOVA) statistical technique. The first five hypotheses of this study are about the relationship between five personal related independent variables and performance of the enterprises in relation to them. And the rest three hypotheses are about the relationship between three businesses related factors and the performance of enterprises.

HO₁: There is no significant difference on the performance of enterprises operated by owners with different age group.

HO₂: There is no significant difference on the performance of enterprises in relation to the difference on the education level of the principal owners of the business.

HO₃: There is no significant difference on the performance of enterprises in relation to the difference in the management experience of the principal owner of the business.

HO₄: There is no significant difference on the performance of enterprises in relation to the difference in prior industry experience of the principal owner of the business.

HO₅: There is no significant difference on the performance of enterprises in relation to the difference in the marketing skills of the principal owner of the business.

HO₆: There is no significant difference on the performance of enterprises in relation to the difference in planning practice of the enterprises.

HO₇: There is no significant difference on the performance of enterprises in relation to the difference in using record keeping and financial control mechanism within them.

HO₈: There is no significant difference on the performance of enterprises in relation to the difference in the type of ownership of the enterprises.

2. REVIEW OF LITERATURE

2.1. Introduction

In this part of the review of related literature, the first part begins by defining what micro and small business enterprises are in general and in Ethiopian context in particular. In addition it discusses the criteria used to differentiate them from other business activities. Then the literature review focuses on defining what success mean and how it is measured.

These success factors which will be discussed in the sections here after are independent variables of the study which is assumed to have relation and contribution to the performance of enterprises. Then the literature ends with on reviewing those studies that relate the independent variables and dependent variable of the study.

2.2. Micro and Small Enterprises (MSEs)

2.2.1. Definitions

There is a consensus among policy makers, economists, and business experts that Micro and Small Enterprises (MSEs) are drivers of economic growth. A healthy MSE sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills.

As Gebreeyesus (2009) cited from Dababneh and Tukan (2007), the characteristic of MSEs not only reflects the economic patterns of a country but also the social and cultural dimensions. These differing patterns are noticeably reflected within different definitions and criteria of MSEs adopted by different countries: whereas some refer to the number of employees as their distinctive criteria for MSEs, others use invested capital, and some other use a combination of the number of employees, invested capital, sales and industry type.

Rigorously defining small business has always been difficult, even controversial. The term covers a variety of firms and most writers use it rather loosely based on their purpose of study. As Gebreeysus (2009) adopted the definition of small business from Peterson, Albaum, and Kozmetskys (1986) ‘a small business is one which is independently owned and operated, and

which is not dominant in its field of operation'. Researchers and other interested parties have used specific criteria to operationalize the small business as a construct: value added, value of assets, annual sales, and number of employees. The latter two criteria are most often used to delimit the category.

A study done by , Commission on Legal Empowerment of the Poor (2006), conducted in Addis Ababa reported that; size of employment, capital investment or turnover is used as criteria to categorize enterprises along scales of operation and define micro, small, medium and large enterprises. This categorization is important for functional and promotional purposes to achieve the desired levels of development.

In the case of Ethiopia, there is lack of uniform definition at the national level to have a common understanding of the MSE sector. While the definition by Ministry of Trade and Industry (MoTI) uses capital investment, the Central Statistical Authority (CSA) uses employment and favors capital intensive technologies as a yardstick.

The definition used by MoTI, which uses capital investment as a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997.

According to MoTI:

- Micro enterprises are those businesses enterprises, in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments.
- Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high tech establishments.

On the other hand, CSA categorizes enterprises into different scales of operation on the size of employment and the nature of equipment.

According to CSA:

- Establishments employing less than ten persons and using motor operated equipment are considered as small scale manufacturing enterprises.

- Enterprises in the micro enterprise category are subdivided into informal sector operations and cottage industries: Cottage and handicraft industries are those establishments performing their activities by hand and using non power driven machines. The informal sector is defined as household type establishments or activities, which are non registered companies and cooperatives operating with less than 10 persons. All enterprises employing ten or more workers are grossly considered as medium and large enterprises.

In light of the above definitions and taking into consideration the Ethiopian situation, micro and small enterprises (MSEs) may be defined in the following way:

- Micro enterprises are business activities that are independently owned and operated, have small share of the market, are managed by the owner and employing five or less employees.
- Small businesses are those enterprises that employ 6 to 49 employees. They share the same characteristics with micro enterprises in other aspects.
- Medium scale enterprises are those enterprises which have a relatively higher share of the market, are independently or jointly owned or managed by the owner or by appointed executives and employ 50 to 99 persons.
- Those enterprises that employ more than 100 persons could be considered as large enterprises.

Nevertheless, there is lack of clarity, inconsistency, lack of organized information and consistent historical data is lacking in Ethiopia.

The features that distinguish MSEs from larger scale enterprises include greater owner influence, dominance of one person, more subjective decision due to centralization of decision making, close contact of the top management with employees at lower levels and greater concern with financial matters due to difficulty of attributable funds etc (Gebreeysus, 2009).

Clusters under the umbrella of MSEs are numerous activities – street vendors, shop keepers, construction, wood and metal work, food processing, textile and garments, urban farm ,municipality service , bars, shops, groceries, hairdressers, wholesale and retail traders, export import traders and small scale industries etc. Most of these enterprises in the country are largely confined to trade and services and to small scale manufacturing and handicrafts, which constitute an important subset of small scale enterprises.

The definition of small scale industries adopted by the Federal Micro and Small Enterprises Development Agency (FeMSEDA) in proclamation 124/77 is as follows:

A small scale manufacturing activity and engineering service establishment is a manufacturing establishment -except handicrafts- which has a fixed location within urban center; uses either manually operated machinery and equipment move power driven machinery and equipment and engaged in the mechanical-chemical transformation of substances into new products and in the fabrication, assembly, reconstruction, alteration and repair activity; employs at least one person other than the owner/owners, unpaid family workers and/or apprentices; and has fixed assets of value not exceeding Birr 200,000 excluding investments made on land and buildings.

2.3. Success Factors and Performance of MSEs

Micro and small enterprises considered as a vital component of the socio-economic development of both developed and developing countries, usually some of these enterprises collapse within the first few years of their start-up. Of those operating, some grow rapidly, while others grow slowly. So, it is important to identify the cause factors of success because it helps new entrants of the sector to consider the factors and use for their future in the business (Alasadi and Abdelrahim, 2007).

These factors could vary from one country to another due to the economic, geographical and cultural differences. This kind of investigation of the success factor is very important for developing countries like Ethiopia because the research conclusion could be useful for the economic development planners as well as to individual entrepreneurs and business owners in the countries concerned.

To date, there is no unified theoretical model on firm success. There are, however, several models that shed light to the issues from various perspectives.

The success of a firm is motivated by external opportunities, such as promising demand prospects for the firm's product, and/or internal inducements, such as a shift to a more efficient utilization

of existing resources of the firm. On the other hand, external and internal factors may also function as obstacles to growth and success.

As far as external success determinants are concerned, demand for the firm's products is the major factor. Second, the market actions of competitors, the supply of production factors and the features of the local business environment are typically external to a small firm.

Internal success determinants include the features of the firm itself and the attributes of the business owners of the enterprises. In this research the internal success factors of the enterprises are under consideration.

In the theory context of micro and small enterprises, empirical work has found several factors to determine the success of firms .But before going to review what other researchers have done on each of the success factors, it is more appropriate to define what success mean and how it can be measured as small enterprises concerned.

2.3.1. Defining Success

Beaver (2002), has commented there are very real problems with the term success and its various interpretations and perceptions in the small firm sector.

The subject of success factors in small businesses has become more popular in recent years amongst business researchers and entrepreneurs, each attempting to provide a definitive formula for success (Beaver, 2002). Success is often viewed in terms of growth or profitability, but this becomes more complicated when trying to determine the factors that lead towards it. It is important to recognize that while a common measure of success in business is still to be defined, there are some general factors found to influence the success potential of businesses (Beaver, 2002).

Previous research into the relationships between various factors and small business success has been lacking a comprehensive theoretical framework, and many small business owners are

aiming to discover the management strategies, business objectives and personal characteristics most closely linked to small business success (Walker and Brown, 2004).

2.3.2. Measures of Success

Business success is usually measured in terms of economic performance. As Walker and Brown (2004), small business success can be measured by financial and non-financial criteria although the former has been given most attention in the literature. Traditional measures of business success have been based on either employee numbers or financial performance, such as profit, turnover or return on investment. Implicit in these measures is an assumption of growth that presupposes all small business owners want or need to grow their businesses.

For businesses to be deemed successful these financial measurements require increases in profit or turnover and/or increased numbers of employees. As Walker and Brown (2004) cited from the study of Hall and Fulshaw (1993), ‘the most obvious measures of success are profitability and growth’. In economic terms this is seen as profit maximization. Economic measures of performance have generally been popular due to the ease with which they can be administered and applied since they are very much hard measures.

Furthermore Walker and Brown (2004) suggested, ‘all businesses must be financially viable on some level in order to continue to exist’. However, given that some businesses have no interest in growth, thereby implying that financial gain is not their primary or only motivation, then there must therefore be other non-financial criteria that these small business owners use to measure their business success.

In smaller, entrepreneurial and independent firms, measures of success may have more complex dimensions than just financial performance (Mohan-Neill 2009).

Non-financial measures of success used by business owners, such as autonomy, job satisfaction or the ability to balance work and family responsibilities (Walker and Brown, 2004; Mohan-Neill 2009) are subjective and personally defined and are consequently more difficult to quantify. The

hard measures previously mentioned therefore, are easier to understand and can be used in a comparative way against existing data and as benchmarks for future measures.

Non-financial measures are based on criteria that are personally determined by the individual business owner although commonalties within the partners of small business owners occur. These non-financial measures presume that there is a given level of financial security already established; it may be that this is within the business, or that the small business owner does not require the business to be the primary source of income (Walker and Brown, 2004).

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

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

In this study as MSEs concerned, the financial measure of success that is the growth of total capital of the enterprises is used since it is better than the non financial measures in terms of reducing the subjectivity of the measurement results.

2.4. The Success Factors

There can be various factors like socio-economic, political and motivational factors that affect the success of small business in general and MSEs in particular. Searching on the literature of MSEs success across the world, we can find various factors affecting their success.

In the following section of the review of related works of previous researchers regarding each of the independent variables (success factors) of this study, they are presented and discussed under two main sub topics of personal and business related factors.

2.4.1. Personal Related Factors

2.4.1.1. Education

Some business owners are highly educated and extremely successful whereas others have yet to complete their high school but are equally successful. In many instances, it may depend on the individual himself/herself. Nevertheless, education level can have an effect on the performance of a business as noted in many studies.

A reason for supposing it would do so is that education improves literacy, quantitative training, and social and communication skills. And of course specialized education is necessary for many occupations.

The study of Lussier (1995) suggested that ‘people without any college education who start a business have a greater chance of failing than people with one or more years of college education.

Education can provide the skills set and knowledge, which can help owner/managers with tools, like technology literacy, which helps to increase productivity and success. ‘If education cultivates comprehensive literacy, this would help owner/managers to integrate relevant information to do effective planning and to make well-informed decisions, which would ultimately enhance the organization’s success’ (Mohan -Niell, 2009).

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

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

2.4.1.2. Age

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

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

Similarly, Praag (2003), in his study of business survival and success of young small business owners, younger small business starters have a lower success and survival probabilities than older starters. The chance of both voluntarily and forced exit from the business is higher to young starters. From this one can understand that the age of small business owners have its own contribution to the success and failure because individuals learn not only from formal education but also from their walks of life.

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

2.4.1.3. Prior Business and Industry Experience

Prior to starting their businesses, entrepreneurs are involved in a number of different fields of work and for a variety of reasons such as desire, flexibility, independence, and family commitments decide to open their own businesses. In most instances, they start a business in an area in which they feel comfortable. However, there are also a number of individuals who have absolutely no experience in a given field, but\ start businesses nevertheless.

Because prior business experience is useful training to both a prospective entrepreneur and to that person's prospective employers, the empirical effect of such experience on business success is not entirely unambiguous.

Praag (2003), reported that experience as in the same industry as a business venture gives better chances and so does experience within the same occupation. Relevant experience helps to become a successful business owner and to survive.

Shonesy and Gulbro (2004) cited from the study of Beckman and Marks (1996) and reported that, business experience is a factor in the success of small firms. Dyke, Fischer, and Reuben (1992) also found that management experience may be a significant factor in achieving success or successful performance in the small business environment. In their study they stated that 'would-be business owners should be concerned to gain related industry, management, and start-up experience regardless of the type of industry in which they plan to operate'. It was also noted, however, that while experience was a significant factor, it could vary by industry in importance.

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

This finding reinforces the argument about the importance of clearly identifying the enterprise owner's capacity to put into practice his/her specific knowledge in day-to-day and sound

decisions, in order to effectively evaluate the relationship between the benefits derived from previous work experience and successfully manage the enterprises operations.

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

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

2.4.1.4. Prior Management Experience

Management experience may provide entrepreneurs with prior knowledge of markets, ways to serve markets, and of customer problems.

Zelege (2009) conducts a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises. Successful businesses are significantly associated with the ability to generate profit on a sustainable basis. Profitability has enabled successful businesses to achieve their next level of growth as well as the potential to stay competitive in business.

The main reason for failure is inexperienced management. Managers of bankrupt firms do not have the experience, knowledge, or vision to run their businesses. In diagnosing the root causes of small firm failure it should not be surprising that this turns out to be the management inefficiency of owner-managers (Zelege 2009).

Managerial effectiveness influences every aspect of a business and is often believed to be the most important factor contributing to small business failure. The management skills and management concepts of business founders are deemed much more important than their technical skills and their concern about production which has resulted in an overall positive organizational performance (Lin and Yeh-Yun 1998).

In contrast, the study report of Rose, Kumar and Yen (2006), indicates 'management experience prior owning business' was found not significant for the success of small enterprises. Apparently individuals who were found successful in their small business venture were less dependent upon their previous business skills. In addition their study shows that; marketing functions such as 'promoting company and its product and services', 'understanding market needs', 'customer feedback' and 'market analysis' ensure the long term success of business ventures.

In addition Temtime and Pansiri (2004) also reported in their study managerial of background has less significance on the success of the enterprises. This may arise from the fact that most managers of failed enterprises do not accept the fact that their lack of managerial education and experience is also responsible for failure.

Lin and Yeh-Yun (1998), in their study of, Success factors of small and medium sized enterprises, suggested that the management skills and management concepts of business founders are much more important than their technical skills and their concern about production which has resulted in an overall positive organizational performance. They argued in their study that, 'although technical skills may guarantee the survival of a given SME, for an enterprise to truly thrive, founders need to enhance their capabilities in carrying out contemporary management concepts, such as satisfying employees' growth needs, delegating responsibility, and participative management'.

Another study done by O.Okpara (2011), on MSEs operating in Nigeria supports the argument that, lack of management experience of the small business owners is the other major reason to small business failure. As the findings of this study shows that, most business owners who do not

have management experience and adequate training and skills to operate a business faces a problem of collapse of their businesses.

2.4.1.5. Marketing Skill of Business Owners

The study of Lussier (1995), and Lussier and Pfeifer (2001) emphasizes on the importance of marketing skill of the business owners as one factor to the success and better performance of small businesses.

Marketing skills, such as identifying new prospects, showing effective corporate positioning, customer handling, finding ways to efficiently advertise, and the ability to come up with new ideas are very important factors that micro and small business enterprises should possess to be successful long term survival in the future.

Temtime and Pansiri (2004) also reported in their study of Small business Critical Success/Failure Factors in Developing Economies, in Botswana shows that; marketing activities such as product marketing, market research, and demand forecast and so forth have a greater impact on the success of small businesses performance. In this study customer relationship also reported as one of the important success factors of the small business owners. From this study report one can understand the importance of marketing skills of the business owners to be successful in their competitive environment.

Pulendran, Speed and Widing (2002), suggest that the quality of marketing planning is associated with a higher level of market orientation. Perhaps one can argue that, better quality planning assists managers seeking to implement a market orientation to achieve their goal, or conversely, market orientation assists planning by providing a clear and unambiguous goal that serves to focus the planning effort.

This study also indicates that managerial functions in small enterprises are limited to routine short term focused activities, and very little emphasis is given long term competitiveness which in turn has an impact on the long-term success and profitability of the enterprises.

2.3.3.2. Business Related Factors

2.4.2.1. Planning and Performance in Small Enterprises

Planning was also recognised by several studies as a key factor to small business success such Lussier (1995), Lussier and Pfeifer (2001), Alasadi and Abdelrahim (2007).

A business often begins with an idea that is acted upon. However, to get from the idea stage to the actual business start-up generally involves considerable Planning. In many cases, the amount of actual Planning done is dependent on the willingness of the entrepreneur to do it. Some entrepreneurs prepare business plans as a means to attain financing for their businesses while others use a plan to get all their ideas down on paper to assess whether their business idea is sound and viable.

Ahmed, Shahbaz and Mubarak (2008) suggested that no one should start a business in today's economy without a business plan. They argued that success for small businesses is achieved through planning, commitment, and time, nurturing, financing, and positioning to seize opportunities. Many of these activities must be done on a continual basis as the environment in which businesses operate is continuously evolving.

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

2.4.2.2. Record Keeping and Financial Control

Poor record keeping can also lead to strained relationships with vendors which may result in difficulty in obtaining and receiving merchandise. Inadequate working capital decisions and accounting information have been referenced consistently as causes of small business failure.

The study of Lusseir (1995) supports this fact. In his study, he reported that 'businesses that do not keep updated and accurate records and do not use adequate financial controls have a greater chance of failure than firms that do.

However, the study of Rose, Kumar and Yen (2006) did not show any significant relationship between small business performances and the record keeping, and financial control practices of the enterprises.

2.4.2.3. Form of Ownership

The other study report of Lafuente and Rabetino (2011) indicates the relationship between enterprises performance and forms of ownership. They reported that rather than those firms with a single-tier leadership structure (entrepreneur-manager), the presence of entrepreneurial teams increases firm's resources and capabilities, a fact that enhances employment growth indicating that the presence of entrepreneurial teams improve internal decision making processes leading to higher growth rates.

Similarly the study of Lusseir (1995), supports the fact that enterprises which are owned by more than one owners have a higher chance of success than those enterprises owned and managed by a single owner.

3. METHODOLOGY AND DATA

3.1. Introduction

The main purpose of this study is to examine the relation of eight success factors (independent variables) identified in the literature of small enterprises to the performance of MSEs operating in Addis Ababa.

The sample was drawn from registered Micro and Small Businesses Enterprises in the private sector in Addis Ababa. The sample enterprises were selected based on the following criteria:

1. Enterprises with initial total capital up to 500, 000 Birr which includes both Micro and Small Enterprises. This criterion is based on the guide line given by MoTI to separate Micro and Small Enterprises from Medium and Large Enterprises.
2. Enterprises located in Addis Ababa. Addis Ababa is the capital city and is considered the primary business area in Ethiopia.
3. Enterprises owned by owner manager(s) who had all decision making rights.
4. Firms have been in business for a minimum of 2 year.

The main participants and the dominant activities in the small enterprise sub-sector are in the area of food and beverage, textile and garment, wood and metal, merchandise and retail shop, and in sectors categorized in 'other' industries. Therefore, the focus of this study were 73 randomly selected sample Micro and Small Business Enterprises engaged in food and beverage processing, textile and garment, wood and metal products, merchandising and retail shop and 'other' sectors in Arada and Gulele Sub City Administrations in Addis Ababa.

Data were analyzed by using descriptive and inferential statistics. Descriptive statistics involved the use of frequencies and mean. Inferential statistics were used to see the variation in the performance of enterprises in relation to the different levels of each of the explanatory (independent) variables with the aid of Statistical Packages for Social Scientists (SPSS). Analysis of variance (ANOVA) is used to test the hypotheses stated in this study regarding the performance of enterprises in relation to each of the independent variables of the study.

3.2. Sample Design

In Addis Ababa City Administration there are ten Sub City Administrations. Each of the City Administration has their own Micro and Small Business Development Agencies with a registration list of MSEs operating within them.

Among the ten Sub City Administrations, Arada and Gulele Sub City Administration were selected based on their nearness and convenience to collect data in short time. In the two Sub City Administrations, there are 727 registered MSEs operating in wood and metal, food and beverage, merchandise and retail shops, textile and garment and sector that labeled by the Agencies as 'other'.

For the purpose of this study, from the 727 MSEs registered and now in operation in the two Sub City Administrations, 73 sample enterprises were taken for data collection purpose. The sample size is approximately ten percent of the total MSEs operating in the two Sub Cities in different industries.

3.3. Variables and Measures

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

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

In this study, the growth in total capital of enterprises is used as dependent variable to measure performance. Here the change in capital growth as ratio data is used as the measure of the dependent variable performance of the enterprises involved in the survey.

The reason to use this change in total capital as performance measurement is because enterprises are generally suspicious to disclose information related to revenue and profit and it would be difficult to get response from respondents as it is demanded.

Also growth in employment level of the enterprises would not be another appropriate alternative measure of performance because this micro and small enterprises are primarily established as a source of self employment.

3.4. Questionnaire

The questionnaire was the main instrument of the study; the research questionnaire was administered to a random sample of 73 Micro and Small Business owners. The sample frame of the study in which the enterprises were chosen at random was accessed from a record archive of Arada and Gulele Sub City Micro and Small Business Development Agency. To enhance the response rate, the questionnaires were delivered by hand to the enterprises randomly approached and convinced to participate on this study. The participants of this study fill up most of the questionnaires by themselves but when necessary the data collector (the researcher) gave assistance by elaborating and explaining the idea of the questions.

This kind of distribution and collection has done to minimize the problems of non response error of respondents to some questions which they considered sensitive as well as to those questions they do not understand in a way as they intended to be in the questionnaire.

The questionnaire was designed as to encompass two sections: the first part of the questionnaire is about the demographic information of the principal owners and profile information about the participant enterprises. The second part of the questionnaire was about the dependent as well as

the independent variables of the study. Both open ended and closed ended questions were used to extract the required data from respondents.

Performance of the enterprises is the dependent variable of this study. Total capital growth of MSEs is used to measure the performance of the sample enterprises from their establishment to date. To this end open ended questions about the enterprises total initial capital used to start the venture and the amount of the total capital enterprises currently have was included in the questionnaire. Then based on the data from these two questions, the capital growth of each participant enterprises from establishment to date were calculated and then this growth index as a ratio data was taken as indicator of enterprises performance.

The independent variables in this study are eight factors obtained from the literatures of small business: age of the principal owner, education level of the principal owner, prior management experience of the owner, industry experience of the owner, marketing skill of the owners, plan, record keeping and financial control and forms of ownership of the enterprises.

To measure the independent variable age, a discrete random data about the age of the enterprise owners is collected then this discrete random data of respondents' age has changed into categorical data at the time of data analysis in order to see the variation in performance in terms of capital growth for enterprises under each of the age categories.

The other independent variable education of the enterprise owners was collected as a discrete random data for education levels 10th grade and below by asking respondents the education level they completed. For owners who have an education level above 10th grade, ordered categorical measurement scale is given to choose.

Management experience shows the year in which principal owners spent in a managerial position either being employed in other organizations or managing their own independent enterprise before the current one. Then to measure this variable continuous random data is collected by asking the respondents their management experience in year. The continuous data elicited in this way has changed to categorical form for the data analysis.

Industry experience of the owners shows the number of related independent enterprises respondents established before the business they are operating now. To measure this variable discrete random data is collected by asking respondents the number of independent enterprises they established and operate before the current one. Finally this data obtained from respondents has changed to categorical form for the analysis purpose.

The other variable of this study is the marketing skill of the business owners obtained either in formal education or other alternative options like training. Data about this variable is collected in categorical form by providing respondents a yes, no choice.

The variable plan indicates the time coverage of the plan enterprises prepare in their business operation. Then a continuous data about this variable is collected by asking the respondents the time coverage of their plan. Finally this continuous data about the time coverage of the enterprises plan has changed to categorical form.

Ownership form of the business indicates the way that the enterprises are possessed either by one individual or sole proprietor or more than one co owners. In this case data about the ownership form of the enterprises was collected in a categorical form by providing respondents two choices to select.

The last independent variable is record keeping and financial control. It indicates the internal practice of the enterprises' use of formal system to record their day to day operation and financial inflow and out flow data. Then a categorical yes, no choice is given to the respondents regarding the use of this system in their internal operation.

4. DATA ANALYSIS AND INTERPRETATIONS

4.1. Introduction

The sample for this study consisted of 73 MSEs which were randomly selected from Arada and Gulele Sub City Administrations as they were registered by the City Administrations Small and Micro Business Enterprises Development Agency. The criterion used for selecting the sample enterprises is based on criteria defined by the Ministry of Trade and Industry (MoTI) which uses capital investment as a yardstick.

In this definition of MoTI, Micro enterprises are those enterprises which have a paid up capital below Birr 20,000. Whereas enterprises which fall in the category of Small Enterprises are those who have a paid up capital of Birr 20,000 to 500,000.

A questionnaire was distributed to the MSEs principal owners of each of enterprise included in the sample. To enhance the response rate, the questionnaires were delivered by hand to the enterprises identified for the study and collected by hand immediately after they completed the questionnaire. For those respondents not able to finish it immediately the questionnaire was collected on a scheduled pick-up date.

A total of 73 questionnaires were distributed, and 70 questionnaires returned, representing 96 percent response rate. From the 70 questionnaires returned, 8 questionnaires are not included in the analysis just because the responses received were incomplete and not relevant for the analysis purpose. The rest of the responses, representing 62 MSEs, were used in the study.

In this section of data analysis and interpretation, the first part presents and discusses descriptive statics results related with the demographic factors and the independent variables of the study and then followed by analysis of variance to examine in the variation on the performance MSEs in relation to the eight variables of the study.

4.2. Results and Discussion

Prior to running ANOVA to test the null hypotheses, descriptive statistics analysis and interpretation of the sample enterprises' responses with regard to the demographic and the eight main research variables of this study is performed.

Table 4.1 given below show the count and percentages of the responding enterprises in relation to the demographic and enterprises profile data and the remaining eight tables provides information about the descriptive statistics result regarding each of the eight independent variables of the study and the performance of the sample enterprise. The last table indicates the ANOVA result of this study regarding the eight independent variables and the performance of the enterprises.

4.2.1. Demographic and Enterprises Profile Related Data

As it is depicted in Table 4.1 majority of the enterprises 46 (74.2%) were Micro Enterprises with a total capital less than Birr 20,000 while the rest of the sample 16 (25.8%) of the respondent enterprises are in the category of small businesses enterprise which have total capital within the range of Birr 20,000 to Birr 500,000 according to the classification scheme of MoTI.

The other demographic character is sex of the respondents or owners, in this regard 30 (48.40%) of the respondents were male business owners while 32 (51.6%) were female business owners which makes the respondents in this study somewhat proportional in terms of sex.

Also from Table 4.1 one can easily identify the type of the industry that the enterprises engaging in. Majority of the enterprises 44 (71.0%) involved in a business that can be included in four major industry type namely, Merchandise & Retail Business, Food and Beverages ,Textile &Garment and , Wood and Metal. While the rest of the enterprises in the sample 18 (29.0%) are engaged in different business activities such as internet rent service, barber shops, mobile maintenance, gift shops, video rentals ,electronics equipment service, home appliance production and maintenance business. See the data again.

In this study the sample respondents included for the analyses are those enterprises that stay in business at least two years since establishment. In this regard, the majority of the enterprises 57 (91.9 %) have the age of 2 to 10 years since establishment while the rest, 5 (8.1%) of the respondent enterprises have stayed in business for more than 10 years.

When we classify the enterprises involved in this study on the bases of the number of employees as they initially established, one can get the following facts in Table 4.1 below. 24 (38.7%) of the enterprises were operated only by the principal owner of the business as self employed sole business owner. But majority of the enterprises in this study 30 (48.4%) were started their business with 2 to 5 employees including the principal owners of the enterprises. The remaining enterprises in the sample, 8 (12.9%) have started their business with 6 and more employees including the principal owner of the business.

Table 4.1. Count and percentage of the demographic characteristics of the respondents and profiles of the enterprises

Demographic Variables	Frequency	Percentage	Cumulative percentage
Sex of the principal business owner			
Male	30	48.4	48.4
Female	32	51.6	100.0
Total	62	100.0	
The type of industry Enterprises operating			
Food and Beverages	14	22.6	22.6
Merchandise & retail business	16	25.8	48.4
Textile &wearing business	9	14.5	62.9
Wood and Metal	5	8.1	71.0
Others	18	29.0	100.0
Total	62	100.0	
Age of the Business Enterprises			

Enterprises within 2-5 years	39	62.9	62.9
Enterprises within 6-10 years	18	29.0	91.9
Enterprises more than 10 years	5	8.1	100.0
Total	62	100.0	
Number of initial employees of the enterprises including the owner			
One employee	24	38.7	38.7
2-5 employees	30	48.4	87.1
6-10 employees	6	9.7	96.8
More than 10 employees	2	3.2	100.0
Total	62	100.0	
Current capital of the enterprises			
Current capital below 10,000 Birr	33	53.2	53.2
10,000-20,000 Birr	13	21.0	74.2
20,001-500,000 Birr	16	25.8	100.0
Total	62	100.0	

4.2.2 Descriptive Statistics Results and Discussion about the Main Variables

The discussion here after is related to the descriptive statistics result of the eight independent variables in relation to the performance of MSEs operating in Addis Ababa.

The first variable considered in this study as the success factor for performance of MSEs is the age of the principal owner of the enterprises. To examine the variation in the performance of the enterprises in different age categorizes, the sample is grouped into three age groups as depicted in Table 4.2 below.

As it is indicated in the table, from the total sample taken 21 enterprises are possessed by principal owners with the age of 29 years old and below. When we look at the capital growth of the enterprises in this age category on average they show a total capital growth of 1.157 or 115.7% from the time of establishment to date.

The other 32 MSEs in this study are owned by individuals with the age range of 30 to 45 years which roughly shows the adult age group of the population in Ethiopia. The performance of MSEs under this age category in terms of average capital growth is about 8.38 or 838% from the year they have been established to date.

The remaining 9 enterprises have owners with age above 45. In terms of the total capital growth of the enterprises possessed by individuals in this age category, on average they grow by 5.37 or 537% since establishment to date.

Over all from this descriptive statistics result, those MSEs owned by individuals with the age of 30 to 45 shows higher average capital growth than those enterprises owned by individuals with age 29 and below and those individuals with age above 45 years old. The possible argument for the better performance of those enterprises owned by individuals with this age bracket would be, first business owners in this age category would have better chance of acquiring business experience compared to those 29 years and below on the other hand relative to business owners above the age of 45 this age category would be more energetic to spend more time in their

business. These two conditions may in turn makes enterprises owned by those individuals in this age category perform better.

Table 4.2 Enterprises Capital Growth In relation to Different Age Categories of Owners

Age of MSEs owners	No	Mean Capital Growth	Std. Deviation (CG)	Std. Error (CG)	95% Confidence Interval for Mean (CG)		Min (CG)	Max (CG)
					Lower Bound	Upper Bound		
29 years old and below	21	1.1569	1.94409	.42424	.2720	2.0419	-.70	9.00
30 to 45 years old	32	8.3841	15.03348	2.65757	2.9640	13.8043	.00	65.67
Above 45 years old	9	5.3732	13.00956	4.33652	-4.6268	15.3732	-.53	39.77
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-.70	65.67

CG-capital growth of the enterprises

The other independent variable of this study is the education level of the principal owners of the enterprises which is expected to have a relation with the performance of the enterprises and in turn determines their success. Some business owners are highly educated and extremely successful whereas others have yet to complete their high school but are equally successful. In many instances, it may depend on the individual himself/herself. Nevertheless, education level can have an effect on the performance of a business as noted in many studies.

To see the difference in the performance of enterprise with respect to the difference in the education level of the owners of the enterprises, the education status of the principal owners of the sample enterprises in this study is grouped into three categories.

As it is indicated in Table 4.3, 16 sample enterprises have principal owners below 10th grade in terms of their education level. When we see the performance of these enterprises in terms of total capital growth in relation to the education status of the principal owners of the business enterprises, on average they scored a 6.79 or 679% growth of total capital in their stay in the business from the time they have established to date.

The other 28 enterprises or enterprise owners of this study have an education status of 10th to 10+2 which means those completed 10th grade and have 2 years additional education either in technical and vocational or preparatory classes. Enterprises owned by owners with this education level or status on average scored 3.23 or 323% growth in total capital from their establishment time to the time of data collection.

The remaining 18 MSEs involved in this study are owned by individuals having an education level 10+3 and above. This educational status category of the principal owners includes those completed 10th grade and have stayed three additional years in further education and those completed their preparatory class and have one year additional education. In addition this category also includes those owners having first degree and above.

Regarding performance of the enterprises in this category of the educational status of the principal owners of the enterprises; on average they showed a 7.88 or 788% growth in total capital since establishment.

Over all, MSEs owned by individuals with an education level of 10+3 and above shows better performance compared to those enterprises with owners education status below 10th grade and those 10 to 10+2. A reason for supposing this better performance of enterprises owned by owners would do so is that education improves literacy, quantitative training, and social and communication skills and this in turn increases the chance of success to the enterprises.

Table 4.3 Enterprises Total Capital Growth by Education level of the Owners

Education level of MSE owners	No	Mean (CG)	Std. Deviation (CG)	Std. Error (CG)	95% Confidence Interval for Mean(CG)		Min (CG)	Max (CG)
					Lower Bound	Upper Bound		
Below 10 th grade	16	6.7859	12.89412	3.22353	-.0849	13.6567	-.50	39.00
10 to 10+ 2 completed	28	3.2333	7.17163	1.35531	.4524	6.0142	-.70	36.60
10+3 and Above	18	7.8799	17.05246	4.01930	-.6001	16.3599	.20	65.67
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-.70	65.67

CG- capital growth of the enterprises

The third variable of this study is the ownership form of the enterprises. This ownership form deals with whether the enterprises are possessed by single individual or sole proprietorship or owned by more than one owners as partnership or private limited enterprises and this ownership form of the enterprises would have relation to the performance of MSEs and determine their success in the business environment they are working in.

As shown from Table 4.4, 17 MSEs are owned and operated by one person as sole proprietorship business. When we look at the performance of the enterprises under this category ownership type in terms of capital growth, on average they show 3.05 or 305 % growth since establishment to date.

On the other hand, from the same Table 4.4, 45 sample enterprises in this study are owned by two or more owners either as partnership or private limited company. Looking to the performance of the enterprises in terms of the growth in total capital, on average they show a 6.42 or 642% growth in total capital to date.

Generally from this statistical data, those enterprises owned by more than one owner perform better in total capital growth compared to those possessed by only one owner. The possible reason for the better performance of those enterprises owned by more than one individual is that the pooled entrepreneurial capacity and skill of different individuals may positively contribute to the performance of the enterprises.

Table 4.4 Enterprises Total Capital Growth by Ownership Type

Ownership Form of the MSEs	No	Mean (CG)	Std. Deviation (CG)	Std. Error (CG)	95% Confidence Interval for Mean (CG)		Min (CG)	Max (CG)
					Lower Bound	Upper Bound		
Owned by one person	17	3.0504	9.31249	2.25861	-1.7376	7.8385	.00	39.00
owned by 2 and more persons	45	6.4242	13.11677	1.95533	2.4835	10.3649	-.70	65.67
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-.70	65.67

CG- the capital growth of the enterprises

The other variable of this study which is expected to have relation to the performance MSEs is the internal practice of planning in advance for different activities to be executed in the day to day operation of the enterprises for attaining pre established goals.

As it is indicated in Table 4.5, from the total sample enterprises in this study, 33 MSEs do not use any kind of plan in their day to day operation of business. Looking to the performance of the enterprises that do not use any plan using total capital growth of the enterprises as a measure of performance, on average these enterprises show 3.69 or 369% growth in total capital from the year they have established to date.

On the other hand 25 enterprises in the sample taken have planning practice in their day to day business operation that covers 1 to 2 years. In terms of performance using capital growth as a measure, enterprises which uses 1 to 2 years plan for their business activities have scored 8.47 or 847% average capital growth.

The remaining 4 enterprises in the sample have a plan that covers 3 to 5 years which can be considered as a medium term plan. The performance of the enterprises in this category in terms of average capital growth is about 1.86 or 186%.

The overall picture of the descriptive statistics result about enterprises performance and their planning practice shows that, those enterprises using a plan covering 1 to 2 years performs better in terms of total capital growth when compared with those enterprises that do not use any kind of plan and those using 3 to 5 years plan in their day to day operation of business.

The possible justification to the importance of using plan is that, planning in advance what needs to be done helps enterprises to act strategically to realize established development goals rather than moving in a random and unsystematic way to the opportunities as well as unfavorable situation that will happen in their business operations. This proactive move of the enterprises increases their chance of success in the dynamic environment. And this also works to the enterprises that use a short term plan of 1 to 2 years for their business activities.

Table 4.5 Enterprises Total Capital Growth in Relation to Planning

Plan	No	Mean (CG)	Std. Deviation (CG)	Std. Error (CG)	95% Confidence Interval for Mean(CG)		Min (CG)	Max (CG)
					Lower Bound	Upper Bound		
no plan	33	3.6865	11.38245	1.98143	-.3495	7.7226	-.53	65.67
use 1 to 2 years plan	25	8.4741	13.73686	2.74737	2.8038	14.144 4	.00	39.77
use 3 to 5 years plan	4	1.8596	3.68600	1.84300	-4.0057	7.7248	-.70	7.33
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-.70	65.67

CG- the capital growth of the enterprises

Use of formal record keeping and financial control mechanism in the enterprises day to day business operation is considered as another variable that would result difference in performance between those use the system and those do not use.

As it is depicted in Table 4.6 below from the total sample enterprises considered in this study, 33 enterprises do not use any kind of formal record keeping and financial control mechanisms related to their day to day operation. When we look at the performance of enterprises in this category in terms of total capital growth from the time they have established to date, on average they have show 3.26 or 326% growth in total capital.

The remaining 29 sample enterprises included in this study use record keeping and financial control system to facilitate their day to day business activities. In terms of their performance in total capital growth, enterprises in this category on average shows 8.05 or 805% increase in total capital since their establishment.

Overall the average performance of those enterprises using record keeping and financial control system in their operation is better than those do not use. This system helps enterprises to distinguish the financial expenses as well as revenues generated by the business operation.

Table 4.6 Enterprises Total Capital Growth in Relation with Record Keeping and Financial Control Practice of the Enterprises

Record keeping and financial control	No	Mean (CG)	Std. Deviation (CG)	Std. Error (CG)	95% Confidence Interval for Mean(CG)		Min (CG)	Max (CG)
					Lower Bound	Upper Bound		
Enterprises don't have record keeping and Financial control mechanism	33	3.2555	6.88654	1.19879	.8136	5.6973	-.33	29.00
Enterprises have record keeping and financial control mechanism	29	8.0522	16.06400	2.98301	1.9418	14.1626	-.70	65.67
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-.70	65.67

CG- the capital growth of the enterprises

The other variable in this study is the management experience of the principal owners of the business which is expected creates variations on the performance of MSEs operating in Addis Ababa.

From Table 4.7, 31 principal owners of MSEs in this study have no any prior management experience acquired either being employed in other organizations and working in a management position or managing their own independent enterprises before the current one. In terms of

performance of enterprises owned by individuals without any prior management experience, they show on average total capital growth of 4.86 or 486%.

From the same Table 4.7, 26SMES are owned and managed by owners which have a prior management experience of 1 to 2 years. Regarding the performance of the enterprises in this category on average they show 6.02 or 602% increase in total capital.

The remaining 6 MSEs in this study are owned and managed by individuals who have a prior management experience of more than 5 years. The performance of the enterprises in this category in terms of average total capital growth is 6.65 or 665% increase throughout their stay in the business.

Generally from the descriptive statistics results in Table 4.7, the performance of those enterprises owned and managed by those individuals having more than 5 years management experience is better than the others. This is because, management experience may provide entrepreneurs with prior knowledge of markets, ways to serve markets, and of customer problems and this kind of exposures in turn increases the chance of the enterprises' success in their business environment.

Table 4.7 Enterprises Total Capital Growth in relation to Management Experience of Principal Owners

Owners management experience	No	Mean (CG)	Std. Deviation (CG)	Std. Error (CG)	95% Confidence Interval for Mean(CG)		Min (CG)	Max (CG)
					Lower Bound	Upper Bound		
No experience	31	4.8581	10.57927	1.90009	.9776	8.7386	-.50	39.77
1 to 5 years experience	25	6.0168	14.51295	2.90259	.0262	12.0075	-.70	65.67
more than 5 years experience	6	6.6542	11.47258	4.68366	-5.3856	18.6939	.08	29.00
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-.70	65.67

CG- the capital growth of the enterprises

Prior industry experience in related business areas is considered here in this study as another variable that may result difference on the performance of MSEs which in turn determines their success in operation.

As it is shown in Table 4.8, 33 owners of MSEs in this study have established and run the current business without any prior experience of establishing and operating business of their own which was related to the business enterprises currently operating. In terms of the performance of enterprises run by individuals without any prior industry experience, on average they show 4.59 or 459% increase in total capital since establishment to date.

The remaining 29 owners of the MSEs in this study have a prior experience of establishing and running at least one business of their own similar to the business they are operating currently. The performance of these enterprises owned by owners having prior industry experience, on average shows 6.53 or 653% increase in total capital.

Overall SMEs owned and run by individuals who have prior industry expertise shows better performance in capital growth compared to those enterprises operated by individuals without any prior industry experiences. The possible argument for this better performance of enterprises with prior industry experience of the owners is because prior business experience is useful training to utilize opportunities that maximize performance and minimize the risk of failure.

Table 4.8 Enterprises Total Capital Growth and Prior Industry Experience of Owners

Owners Industry experience	No	Mean (CG)	Std. Deviation (CG)	Std. Error (CG)	95% Confidence Interval for Mean(CG)		Min (CG)	Max (CG)
					Lower Bound	Upper Bound		
No prior industry experience	33	4.5944	10.34440	1.80073	.9264	8.2623	-.53	39.77
Have prior industry experience	29	6.5287	14.16261	2.62993	1.1415	11.9158	-.70	65.67
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-.70	65.67

CG- the capital growth of the enterprises

The last variable considered in this study is the marketing skill of the business owners' which is expected to create variations in the performance MSEs.

As in is indicated from Table 4.8, 20 MSEs in this study are owned and run by individuals without any marketing skill acquired ether in their formal education or informal ways like training. In terms of performance, enterprises run by individuals without marketing skill on average show 6.01or 601% increase in total capital since their establishment to date.

The remaining 42, MSEs involved in this study are owned and run by individuals with marketing skill. In terms of performance enterprises in this category shows on average a 5.50 or 550% increase in total capital throughout their stay in the business.

But when compared to those enterprises run by individuals without marketing skill, the performance is lower. But this better performance of those enterprises owned by owners without any marketing skill is an exceptional to the common wisdom that marketing skill and knowhow helps businesses to a better performance in their operation.

Table 4.8 Enterprises Total Capital Growth and the Marketing Skill of Business Owners

Owners marketing skill	No	Mean (CG)	Std. Deviation (CG)	Std. Error (CG)	95% Confidence Interval for Mean(CG)		Min (CG)	Max (CG)
					Lower Bound	Upper Bound		
Owners without marketing skill	20	6.0141	11.71229	2.61895	.5325	11.4956	-.50	39.77
owners with marketing skill	42	5.2539	12.57561	1.94046	1.3351	9.1727	-.70	65.67
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-.70	65.67

CG- the capital growth of the enterprises

4.2.3 ANOVA Results and Discussion

The second part of this data analysis and discussion section deals with the analysis and interpretation of the ANOVA results in relation to the variation in each of the independent variable of the study and the related variations in the performance of enterprises taking total capital growth of the enterprises from their date of establishment to date as a performance measure of the enterprises.

The Table given bellow shows the ANOVA result of performance of MSEs in relation to the variation of the eight explanatory variable of the study.

Table 4.9 Analysis of variance in performance in relation to the different levels of to each of the independent variables

Variables	Source of variation	Sum of squares	df	Mean square	F	Sig.
AGBO	Between groups	662.433	2	331.216	2.317	.108
	Within groups	8435.753	59	142.979		
	Total	9098.186	61			
EDUCBO	Between groups	272.272	2	136.136	.910	.408
	Within groups	8825.914	59	149.592		
	Total	9098.186	61			
OWNERSHIP	Between groups	140.444	1	140.444	.941	.336
	Within groups	8957.742	60	149.296		
	Total	9098.186	62			
PLAN	Between groups	382.669	2	191.335	1.295	.282
	Within groups	8715.517	59	147.721		

	Total	9098.186	61			
RECORD	Between groups	355.150	1	355.150	2.437	.124
	Within groups	8743.035	60	145.717		
	Total	9098.186	61			
MGTEX	Between groups	27.444	2	13.722	.089	.915
	Within groups	9070.742	59	153.741		
	Total	9098.186	61			
INDEXP	Between groups	57.751	1	57.751	.383	.538
	Within groups	9040.435	60	150.674		
	Total	9098.186	61			
MKTGSK	Between groups	7.829	1	7.829	.052	.821
	Within groups	9090.357	60	151.506		
	Total	9098.186	61			

Significance level for alpha $\alpha = 0.05$

AGBO-Age of the business owner, EDUCBO – education level of the owners, OWNERSHIP – the ownership form of the enterprises, PLAN – the planning practice of enterprises, RECORD – record keeping and financial control system, MGTEX – management experience of owners, INDEXP – prior industry experience of owners, MKTGSK – marketing skill of owners.

Enterprises performance and Age of Business Owners. Table 4.9 shows there is no significance difference between MSEs performance (as defined by capital growth) with respect to the difference in the age of the principal owners of the enterprises ($F=2.317$, $p=.108$, $df 2, 59$) at 5 percent significance level .

The null hypothesis which states that, there is no significant difference on the performance of enterprises operated by owners with different age group can be accepted. The result indicates there is no significant difference on the performance of Micro and Small Enterprises run by

owners who have an age of 29 years and below, those between 30 to 45 and those above 45 years old. But it doesn't mean that there is no difference in the performance of the enterprises in the three categories, but the variation in performance is not statistically significant among these three age categories of the owners.

Though the ANOVA result do not show a statistically significant variation in the performance of MSEs in terms of owners age difference, those enterprises run by individuals with age between 30 to 45 shows better average performance in capital growth than the other two categories(see Table 4.2).

To sum up about the variable age of the business owners as one factor that contribute to the success of MSEs, the statistical result do not show a significant variation on the performance of enterprises owned by individuals in the three age categories. Based on this it can be conclude that, age of the principal owners is not the factor that determines the success of MSEs operating in Addis Ababa.

Performance and Owners' Education: Table 4.9 shows there is no significance difference among the performance of MSEs (as it is defined by capital growth of the enterprises) and the difference in the education level of the principal business owners($F=.910$, $p=.408$, $df 2, 59$) at 5 percent significance level.

Hence the null hypothesis of the study which states that, there is no significant difference on the performance of enterprises in relation to the difference on the education level of the principal owners of the business is accepted.

Even though the ANOVA result indicates absence of statistically significant variation in the performance of MSEs in relation to the difference in the education level of the principal owners of the business, SMEs owned and run by individuals having education level of 10+3 and above shows better performance in average capital growth compared to the other two categories of enterprises. But in this case also the statistical result do not support to conclude, enterprises owned by individuals with an education level of 10+3 and above are successful. Better education

of the owners of the business is not proofed by this study as the factor that contributes to the success of business enterprises in Addis Ababa.

Performance and Ownership Type: As it is indicated in Table 4.9, there is no significance difference in the performance of MSEs (as defined by capital growth) in relation to the type of ownership of the enterprises; those owned by one individual and those owned by more than one individual($F= .941$, $p= .336$, $df= 1, 60$) at 5 percent level of significance.

Hence based on this ANOVA result the null hypothesis of this study which states, there is no significant difference on the performance of enterprises in relation to the difference in the type of ownership of the enterprises is accepted. But it is not to mean the performance is the same for MSEs owned and run by single owner and those owned by more than one owner, it means the variation in performance of enterprises is not statistically significant.

Though the variation in performance between these two groups of enterprises based on ownership form of the business is not statistically significant, the performance of those enterprises owned by more than one individual or those partnerships and private limited enterprises shows higher average capital growth than those MSEs owned by single owner (see Table 4.4).

To sum up the ANOVA result does not enable us to conclude those enterprises owned by more than one individual are successful and establishing enterprises in partnership or private limited company form is important to the successful performance of the enterprises. Because the variation in performance between enterprises in these two groups is statistically insignificant.

Performance and plan: the other variable in this study is the internal practice of preparing plan for business activities and the related variation in the performance of enterprises with respect to the enterprises practice of planning.

As Table 4.9 shows there is no significance difference in the performances of MSEs among those enterprises that do not use plan at all, those use 1 to 2 years plan and those enterprise use 3 to 5

years plan for their business activities with ($F= 1.295$, $p = .282$, $df 2, 59$) at 5 percent level of significance.

Thus the ANOVA result helps to accept the null hypothesis which states that, there is no significant difference on the performance of enterprises in relation to the difference in planning practice of the enterprises.

When we look the performance of enterprises in each category separately; the performance of MSEs using 1 to 2 years plan shows better average performance in capital growth than the other two groups of MSEs in this study (see Table 4.5). But this variation in performance of the enterprises is not statistically significant to say enterprises using 1 to 2 years short term plan are successful compared with those enterprises that do not use any plan and those enterprises that use 3 to 5 years plan. This ANOVA result could not enable us to proof a short term plan of 1 to 2 contributes to the performance of MSEs as a result of this planning is not one of the success factors to MSES operating in Addis Ababa.

Performance and Record Keeping and Financial Control: Record keeping and financial control practice of the enterprises is considered as one variable that creates variation on the performance of MSEs. Then the variation in performance between those enterprises using record keeping and financial control system and those do not, is indicated in Table 4.9, the ANOVA result in the table implies, there is no significance variation in the performance between MSEs, ($F=2.437$, $p = .124$, $df=1/60$) 5 percent level of significance, that uses record keeping and financial control mechanism to facilitate their day to day operation and those do not use record keeping and financial control mechanism.

This result supports the null hypothesis of this study which states that, there is no significant difference on the performance between those enterprises that use record keeping and financial control and those do not use record keeping and financial control mechanism in their day to day operation.

When we look at the performance of the enterprises separately in each category, those MSEs that uses record keeping and financial control mechanism in their day to day operation shows much better performance in average capital growth than those enterprises that do not use record keeping and financial control mechanism in their operation (see Table 4.6), though the variation in average capital growth is not statistically significant.

Generally the ANOVA result does not support the argument, using record keeping and financial control mechanism makes MSEs successful in their day to day operation and this internal practice of using record keeping and financial control mechanism is one not the factor that contribute to the performance of MSEs operating in Addis Ababa.

Performance and Management Experience of the Principal Owners’: Difference in management experience of business owners is considered as one variable that results variations on the performance of MSEs. But as it is indicated in Table 4.9, there is no significance difference between the performances of MSEs (as defined by capital growth) and the difference in the management experience of the principal owners of the enterprises ($F = .089$, $p = .915$, $df = 2, 59$) at 5 percent level of significance.

This statistical result supports to accept the null hypothesis of the study which states that, there is no significant difference on the performance of enterprises in relation to the difference in the management experience of the principal owner of the business.

Looking separately, the performance of those MSEs owned by individuals with a management experience of more than 5 years shows higher average capital growth than those enterprises owned by individuals without any management experience as well as those with 1 to 5 years of management experience (see Table 4.7). But the ANOVA result is not statistically significant to conclude enterprises which have owners with more than 5 years prior management experience better succeed in their operation than those enterprises owned by individuals with prior experience below 5 years.

Performance and Prior Industry Experience of the Principal Owners’: The other variable in this study which is expected to create variation on the performance of enterprises is the experience of the owners in establishing related business of their own before the current enterprises they are operating.

As Table 4.9 shows there is no significance difference between the performances of MSEs (as defined by capital growth) and the variation in the prior industry experience of the owners of the enterprises ($F= .383$, $p= .538$, $df= 1/60$) at 5 percent level of significance.

Based on his ANOVA result, the null hypothesis which states, there is no significant difference on the performance of enterprises in relation to the difference in prior industry experience of the principal owner of the business is accepted. But it doesn't mean there is no variation in the performance of enterprises owned by individuals with prior experience of establishing their own independent business and those do not have the experience of establishing their own independent business.

From Table 4.9, the performance of MSEs owned by individuals with experience of establishing at least one independent business of their own in related business areas shows higher capital growth than those enterprises owned by individuals without prior experience. But this result is not supportive to conclude having prior industry experience helps owners to be successful and it is one factor to the success of MSEs in Addis Ababa.

Performance and Marketing Skill of the Owners: The last variable in this study is the marketing skill of the business owners which is expected to create difference in the performance of enterprises. In this regard Table 4.9 shows there is no significance difference between the performances of MSEs (as defined by capital growth) related to the difference on the marketing skill of the owners of the enterprises ($F=.052$, $p= .821$, $df= 1/60$) at 5 percent level of significance.

This ANOVA result enables to accept the null hypothesis which states that, there is no significant difference on the performance of enterprises in relation to the difference in the marketing skills of the principal owner of the business.

Looking separately for the performance of enterprises in each category interims of the market skill of the owner, those enterprises owned by individuals without marketing skills shows higher average capital growth than their counter parts. This result is exceptional to the conventional knowledge that marketing skill and know-how leads businesses in general to a better performance.

5. CONCLUSION AND SUGGESTIONS

5.1. Conclusions

Eight independent variables were taken in this study to examine the variation in the performance of Micro and Small Enterprises in response to each of the independent variables.

The statistical result indicates that, there is no significant variation on the performance of MSEs operating in Addis Ababa in relation to the age difference of the principal owners. In this study, enterprises owned by individuals with the age of 30 to 45 shows higher performance than the other two groups of enterprises but the ANOVA result does not support us to say this age bracket of owners' is the most important to the success of MSEs.

Also this study indicates that, there is no significant variation in the performance of MSE operating in Addis Ababa in relation to the difference in education level, management experience, and prior industry experience. But as education level of the owners concerned, those enterprises owned by individuals who have an education level of 10+3 and above shows higher performance. In relation to management experience of owners, those enterprises owned by those individuals with more than 5 years management experience shows better performance. In relation to industry experience, those enterprises owned by individuals who established at least one independent business of their own before the current enterprises shows better performance.

The other result obtained in this study is that, there is no significant variation on the performance of MSEs operating in Addis Ababa in relation to the deference in their internal practice of using or not using plan, use record keeping and financial control system or not using and the difference in terms of the type of ownership of the enterprise as possessed by single owner or more than one owners. But in terms of average capital growth, those enterprises that uses 1 to 2 years plan shows higher performance than the others. In terms of record keeping and financial control, those enterprises using this system shows better performance. With regard to the ownership of enterprises, those owned by more than one owner show better performance than those owned by one owner.

5.2. Suggestions

The suggestions of this study is only on the bases of the descriptive statistics result of each of the eight independent variables and their relation to the average capital growth of the enterprises because the ANOVA result doesn't show a significance variation in performance of the enterprises with regard to the variations in each of the independent variables.

In relation to the education level of the owners, those enterprises owned by individuals with education level of 10+3 and above shows better performance. In this respect enterprise owners should focus on up grading themselves in education by using alternative programs. Also other stakeholders of the sector, especially Micro and Small Development Agencies should work on providing short term training that helps enterprises in their business work.

In relation to management and prior industry experience of experience, enterprises owned by individuals with previous management and industry experience shows better performance. So the stake holders of the sector should work on preparing training programs on management issues and creating experience sharing opportunities especially to those enter into the sector without any previous business background.

The other two areas that this study wants to suggest based on the descriptive statistics result are issue of planning and record keeping and financial control practices of the enterprises. The result shows those enterprises that have 1 to 2 year plan and those enterprises using record keeping and financial control mechanism shows better performance. If that is so, MSEs should start using plan to their business activities and also adopt a formal record keeping and financial control system in their internal practice. On the other hand stake holders of the sector like Enterprises Development Agencies should work on increasing the capacity of enterprise owners by providing assistances in the area of training which enables them to prepare their own plans to their business activities as well as making enterprise owners' literate on basic book keeping skills.

5.3. Limitations and Future Research

This study examines the relationship between some success factors identified in the literature of small business with the performance of those MSEs in Addis Ababa; as a result of this the findings of study do not necessarily apply to other MSEs operating in other parts of the country.

In addition, the sample is very small representation of the entire MSEs business sector in Addis Ababa; therefore, the results cannot be generalized to Micro and Small Businesses Enterprises that were not part of this study. The instruments were developed by the researcher based on the literature. This instrument needs to be subjected to more statistical tests in order to establish a more robust validity and reliability. Replication of this study using larger samples size and a broader geographic base is suggested for cross-validation purposes. Another approach could be to conduct a longitudinal nationwide study in order to identify the factors that facilitate the success of MSEs. Future research should collect data on a longitudinal basis in order to help to draw causal inferences and validate the findings of this study.

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ADDIS ABABA UNIVERSITY
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION
MBA PROGRAM

Questionnaire

Dear respondents; Please spare a few minutes to complete this questionnaire. Your participation in the Small Business Research Survey will help us to understand your business and give you a chance to get to know the Small Business Perspectives in Addis Ababa. Please be assured that your responses will be treated with the strictest confidence.

Demographic information of the principal business owners.

1. Gender :

Male Female

2. Age of the principal business owner(s).....

3. Education level of the principal business owner(s)

10+1 10+4

10+2 Degree

10+3 Masters

If your education level is just below the above levels, please write the highest grade level you have completed.....

4. What is the age of your business under the current ownership?
.....

5. What is the form of ownership in this business?

Sole proprietorship Partnership

6. What is the type of business you are involved in?

Construction Merchandise and retail shop

Wood and metal work Textile and Garment

Food and beverage

If other, specify.....

7. How many employees did the enterprise have when first established including the principal owner?

8. How many employees are working currently in the enterprise including the principal owner?

9. What was the amount of total capital invested in Birr to start this business?
.....

10. Currently how much the total capital of your business in Birr?

.....

11. Do you prepare a plan for your future operations of the enterprise?

Yes

No

12. If your response for question 11 is yes, what is the time span your plan covers?

Below 1 year

3 to 5 years

1 to 2 years

Above 5 years

13. Do you have a recordkeeping and financial control system?

Yes

No

14. If your response for question 13 is yes, what kind of record keeping and financial control system you are using?

Recording the daily transaction

Balance sheet

Income statement

If others specify.....

15. Do (se) the principal owner manager(s) of the enterprise have/has any management experience before establishing this business?

Yes

No

16. If your response for question 15 is yes, how many years?

17. Do (se) the principal owner(s) of this enterprise have/has experience on establishing similar business in the industry before establishing the current business?

Yes

No

18. If your response for question 17 is yes, how many similar businesses did you establish and operate before this one?

19. Do you have any marketing related skill that you obtain either through your formal education or any kind of informal education and marketing training?

Yes

No

20. If your response for question 18 is yes, what is the specific advantage you gained?

How to price your products

How to handle customers

How to sale your products

How to create market linkages

If others, specify.....