

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
REGIONAL AND LOCAL DEVELOPMENT STUDIES**

**PERSEPECTIVE ON
GROWTH AND GROWTH PATTERN OF
SMALL SCALE ENTERPRISES IN ADDIS ABABA
(WITH PARTICULAR REFERENCE TO THE MANUFACTURING SECTOR)**



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**PERCEPECTIVE ON GROWTH
AND GROWTH PATTERN OF
SMALL SCALE ENTERPRISES IN ADDIS ABABA
(WITH PARICULAR REFERENCE TO THE MANUCATURING SECTOR)**

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SCHOOL OF GRADUATE STUDIES
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Perspective on growth pattern of small scale
enterprises in Addis Ababa

(With particular reference to the manufacturing sector)

BY: KASSAW CHECKOLE

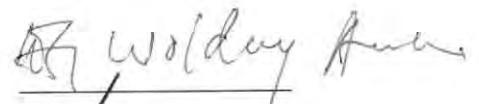
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TABLE OF CONTENT

PAGE

SECTION ONE

INTRODUCTION

1.1	STATEMENT AND SIGNIFICANCE OF THE PROBLEM	1
1.2	RESEARCH OBJECTIVE	3
1.3	SURVEY METHODS AND RESEARCH METHODOLOGY	4
1.4	LIMITATIONS OF THE STUDY	8
1.5	PURPOSE AND ORGANISATION OF THE PAPER	10

SECTION TWO

BACKGROUND TO THE SMALL SCALE ENTERPRISE SECTOR

2.1	GENERAL DESCRIPTION	11
2.2	THE PREVAILING SITUATION OF SSE's IN ETHIOPIA	
2.3	PROBLEMS AND CONSTRAINTS FACING THE SECTOR	17
2.4	THE SMALL SCALE STRATEGY	21

SECTION THREE

SURVEY OF THE LITERATURE

3.1	CONCEPTS AND DEFINITIONS	22
3.2	THEORETICAL LITERATURE	25
3.3	FACTORS THAT INFLUENCE GROWTH OF ENTERPRISE	31

SECTION FOUR

GENERAL CHARACTERSTICS OF THE ENTREPRENEURE, THE ENTERPRISE, AND THE BUSINESS ENVIRONMENT

4.1	CHARACTERSTICS OF THE ENTREPRENEURE	35
4.2	ENTERPRISE SPECIFIC FACTORS EXPLAINING GROWTH	45
4.3	THE BUSINESS ENVIRONMENT	57
4.4	THE GROWTH PROCESS	60
4.5	GROWTH DETERMINANTS OF SMALL SCALE MANUFACTURING ENTERPRISES (THE LINEAR REGRESSION MODEL)	66

SECTION FIVE

SUMMARY OF MAJOR FINDINGS AND CONCLUSION

5.1	SUMMARY	73
5.2	HOW CAN THESE FACTORS BE USED TO IDENTIFY ENTERPRISE THAT HAVE POTENTIAL TO GROW	76

ABSTRACT

The main objective of this paper is to study the most important factors for the growth of small-scale enterprises and aims at analyzing the characteristics and the determinants of growth and development of enterprises and their implications for policy and intervention design. The study was based on a survey of 182 entrepreneurs who were randomly selected from Addis Ababa. In addition, discussions and key informant interviews were also conducted with trade bureau officials, association leaders, and staff from the enterprises to get an in-depth insight on those issues that are not adequately addressed in the survey method. Secondary data sources such as CSA reports; various documents and reports produced by the supervising agency were also reviewed. The study brought together ideas from owners of enterprises, implementing agency, government officials, and other stakeholders. Both statistical methods and qualitative analysis were employed in the study as methodological tools.

The study, thus, analyses the determinants of growth in small-scale manufacturing enterprises in Addis Ababa. The findings in the study indicate that various entrepreneurial characteristics developed by a learning process that takes place through aging; experience and a prior record of enterprising activity enhance the chances of business success. It also found that enterprises that are demand driven, who find their own market niche and who have high propensity to delegate tasks tend to grow. However, Macroeconomic variables continue to play a major restraining role for entrepreneurship and enterprise growth.

Therefore, an important lesson drawn from this study is that both institutional and human capital embodied in the entrepreneur have significant effect on growth of small scale manufacturing enterprises, and adequate emphasis has to be given to the promotion of the sector, and ensure the role played by small scale production in economic development

It is the writer's belief that this study will improve our understanding of the existing and potential problems, constraints, and growth opportunities of small-scale enterprises in Addis Ababa

CHAPTER ONE

INTRODUCTION

1.1 STATEMENT OF THE PROBLEM

The important role of small and medium size enterprises (SSEs) as a source of income and employment for many households has been acknowledged for many years in many countries. In Ethiopia, the SSE's are assumed to be instruments in bringing about rapid economic growth because of their size, location, capital investment and employment creation. The enterprises are described as the national home of entrepreneurship and provides an enabling environment to exercise their talent to the full and to attain their goals.

The small and medium size sector is seen as an important force to generate employment, and more equitable income distribution, to activate competition, exploit niche markets, enhance productivity and technical change, and through all of these stimulate economic development.

Studies undertaken around the sector however, indicate that 50 per cent of total net job creation is created by a mere 4 per cent of SSE's (Manu, 1998) and indicate that the number of enterprises that significantly contribute to employment growth is in fact even smaller - 1 per cent (Mead, 1994).

It thus appears that SSE's fall into two categories. There is a large group of entrepreneurs who, for various reasons, will not develop their business beyond a certain (small) scale, and there is a small group of entrepreneurs who are capable of expanding their business. Many of the studies however yield few insights into identifying and promoting SSEs who can provide employment opportunities and have the potential to grow.

The current government of Ethiopia has adopted the Agricultural Led Development Industrialization policy, shortly referred as (ADLI) as a development strategy for the coming five years. Furthermore it has lately developed a strategy for micro and small enterprise development. However, there has been little research as to see the factors that determine the growth pattern of small sale enterprises in the development and promotion of the sector that absorb quite a significant number of people.

This research is thus designed with the aim of contributing to a better comprehensive analysis of small-scale enterprises that have greater potential for growth. It also overviews specific dimensions of small-scale enterprises that have received little attention so far. The results of the study will help policy makers in government and non-governmental organizations in designing practical and appropriate intervention measures for the betterment of the working conditions of the entrepreneurs and the sector at large.

1.2 THE RESEARCH OBJECTIVE

1.2.1 GENERAL OBJECTIVE

The objective of this study is thus, *to identify the most important factors for the growth of small-scale enterprises (SSE' s)*. It will also aim at analyzing the characteristics, and determinants of growth and development of the enterprises and their implications for policy and intervention design. In order to address these issues attempts are made to study selected enterprises in Addis Ababa and assess the working environment underlying present practices in the area of manufacturing.

SPECIFIC OBJECTIVE

- To identify small-scale enterprises that have the potential to grow in the manufacturing sector.
- To study the needs, problems and constraints of the small scale sector
- To find out the major area of support the enterprises in the manufacturing sector seek?

1.2.3 SPECIFIC RESEARCH QUESTIONS

- What are the problems and constraints faced by the entrepreneurs and of those of the enterprises?
- Which types of SSE's are worthy of support? And how can they be supported?
- Do small-scale enterprises have a real potential for entrepreneurship and industrial development given the right kind of promotional practices/an enabling environment
- Are SSE's uniformly hampered by some constraint that entrepreneurs from other sector do not face?
- Are manufacturing enterprises unable to grow despite increases in market size?
- What type of assistance does the sector need?

1.3 SURVEY METHODS AND RESEARCH METHODOLOGY

1.3.1 SURVEY INSTRUMENTS:

An existing enterprise questionnaire was administered to proprietors of small-scale enterprises that are engaged in the manufacturing sector. These enterprises were identified from a list of registered manufacturing enterprises obtained from the Zonal Trade and Tourism Bureau. . The instruments used for data collection were in-depth interviews and the observation method. The researcher with the help of six research assistants filled out the structured questionnaire. The observation method was used in

conjunction with the interview. to validate and compare information collected by the structured interview concerning:

- The setting and working conditions;
- Social behavior and social relations;
- The activities carried out, the tasks and responsibilities;
- The general management of the business;

SECONDARY INFORMATION:

The secondary data focused on: -

- Previous Research studies on SSE's with particular reference to the manufacturing sector in the west, in Africa and in Ethiopia.
- Surveys of Central Statistical Authority (CSA) on SSE's and Statistical Abstracts in different years
- Surveys of Handicraft and Small scale Industries Development Agency (HASIDA) and different publications.

Data collection method:

Six enumerators carried out data collection. The enumerators were trained for three days, followed by final field pretests of the questionnaire. To complete the questionnaire enumerators visited selected operation sites with the help of Keble personnel in locating

the sites in their kebeles. It took the enumerators 27 days to fill the questionnaire, which was 12 days more than anticipated.

SAMPLE SELECTION

A stratified sampling technique was used to select small-scale establishments with 10-50 employees from a list of the population of formal/registered manufacturing enterprises provided by the ministry of Trade and Tourism Zonal Bureau. An official register providing a list of 1173 firms with normal or simplified accounting records of which 844 enterprises are characterized as small-scale enterprises.

The establishments were first stratified into 10 different major industrial groups by zone. The major industrial groups are: food manufacturing, beverage, textiles, leather, wood works, chemicals, paper and printing, non metal, metal, and other manufacturing industries not else where classified. Since most of the private manufacturing establishments are under food sector, this sector is further divided into four sub-sectors as oil pressing, bakery, confectionary and other food products not else where classified and used as a frame.

In order to generate the right kind of data required to address the research issues, the sampling method adopted is stratified random sampling where every major industrial group is treated independently as stratum and selection is made according a selection criteria set to that end:

- The enterprise has to have ten to fifty employees
- The number of employees has to increase by at least fifty percent over a five-year period.

The sample size was 30% for all strata with greater than 10 establishments. But for strata with between 10 and 4 establishments, three establishments are selected using simple random sampling and for strata with less than 4 establishments all the establishments were covered and 182 enterprises were finally selected from all the sub-sectors.

However, there were some complications because the official register is not up to date with the number of employees in some enterprises and quite often the correct numbers were not given to avoid taxation. To overcome the problem we had to make contact with the enterprise selected. If they do not meet the selection criteria we had to find new ones. This has to be done while interviews were already being undertaken. Additional enterprises were observed using the channel of the chamber of commerce.

1.3.2 Methods of Data Analysis

The presentation, discussion and analysis of data was done concurrently. The analysis aimed at showing important relationships between the selected variables. Data were categorized and disaggregated into appropriate descriptive statistics some of which were presented in frequency tables. Cross tabulations from the descriptive statistics for some key variables of the study were produced to show the extant relationship between these

selected variables. Percentages and log-linear regression model were also used to analyze the growth model of SSE'S.

1.3.3 The Hypothesis

It is hypothesized that the success of an enterprise is a function of the business environment, the enterprise per se, and the individual behind it. The functional relationship hypothesized based on the literatures reviewed is as follows: -

- Both institutional and human capital embodied in the entrepreneur has direct and positive effect on the growth of small and medium enterprises.
- The entrepreneur's years of experience and prior enterprising activity have direct relationship with Growth
- Educational level has direct relationship with growth.
- Finance has direct relationship with growth of enterprises. Insufficient working capital is equally an important problem for entrepreneurs in the manufacturing sector as well.
- Markets have direct relationship with the growth of enterprises.

1.4 LIMITATIONS OF THE STUDY

Although efforts were made to make the survey successful and produce a reasonably reliable and representative, we encountered a number of problems

1.4.1 Respondent's unwillingness to be interviewed

Some respondents declined to be interviewed because they think that previous studies have never been implemented and have no use for them in one way or another. Some also think that the academicians just use them as ladders to acquire qualification without assisting them. Others would get tired before the end of the interview and start giving imprecise information. Hence this could lead to some level of imprecision in information and underestimation of the business activity.

1.4.2 Accuracy of income information

The respondents' response concerning their income related issues were evasive. Despite assurances of the purely academic nature of the study, they kept on giving evasive answers as far as their returns were concerned. They think that such information would be used to increase taxes. This entirely made the analysis in income very difficult.

1.4.3 Underestimation of certain sub- sectors

Since the approach of the survey was that respondents were interviewed at business operation site, it was not easy to locate their places. We therefore approached the zonal/Keble council with list of selected businesses to help us locate the operation sites, which was not an easy task. Even when we found the premises with the help of Keble

officials (who are hostile at times) many of them were closed for various reasons. The most frequently mentioned reason for the closure was that the owners, who were Eritreans, in many of the cases, have left the country. It is therefore likely that such sub-sectors were under enumerated.

1.5 PURPOSE AND ORGANIZATION OF THE PAPER

The failure of state owned enterprises in generating development has re-kindled the interest in the private sector and small-scale enterprises that are owned and managed by private entrepreneurs. The role played by small-scale production in economic development has thus gained new attention in academic research.

Innovative and analytical approach to understand the production systems and further insights that extend beyond the present territory of literature on small-scale enterprise are now called for. The efficiency issue need to be extended beyond the issue of the performance of the enterprise as a unit and should include broader analysis of the unit, the individual and the environment as a whole.

After so much neglect for so long, the SSE's, which constitute the majority of the private sector in Ethiopia are now given a great deal of attention by the government, NGO'S and donor agencies. This recognition has fueled debate as to the most efficient and cost effective ways of promoting SSE's and entrepreneurship (Hailey, 1992 as sited in Andualem)

This study is thus meant to address three major aspects of an enterprise in light of this new development paradigm in the Ethiopian context. It investigates the characteristics of the entrepreneurs; examine the determinants of growth of firms and overviews the business environment in which they operate. Data was obtained from concerned institutions and gathered by interviewing more than hundred eighty-enterprise owners working in the manufacturing sector in Addis Ababa. The data set allows us to analyze growth in relation to enterprise-specific and entrepreneur related factors.

The paper is organized as follows. Section one presents the introduction that contains, statement and significance of the problem, research objective, specific research questions, research methodology, the hypothesis and limitations of the study. Section two provides background of SSE's in general and prevailing situation of SSE's in Ethiopia in particular. The section also discusses the macro-economic policies and problems and constraints of the sector. Section three deals with the concepts and definitions regarding enterprises and entrepreneurship and presents the existing literature on the subject. It also reviews the literature. Section four analyses the survey findings and tries to examine the characteristics of the entrepreneur, discuss enterprise related issues and the business environment. Finally based on the findings of the survey, determinants of the growth of small-scale enterprises and summary of major findings and recommendations are presented.

CHAPTER TWO

BACKGROUND TO THE SMALL SCALE ENTERPRISE SECTOR

2.1 GENERAL DESCRIPTION

The recognition of SSE's as an integral segment of the economy presupposes that they should be treated on equal basis with their large-scale counterparts. However, in many countries, including Ethiopia, economic development policies and practices seem to favor large-scale enterprise. These biases adversely affect SSE's and prevent them from competing with their counterparts on a level playing field.

In the first place, large firms are able to maintain their own internal advisory services in the form of support staff departments (such as financial, legal, planning, public relations research development) Large firms usually have no problems in allocating capital for new activities, and the risk of new activities is offset by the broad base of income from ongoing operation. In the larger firm, ownership and risk are usually separated from the daily management, which in most cases means fewer worries for the owners as well as for the managers.

The smaller entrepreneur by contrast, must do without diversified expertise, business support knowledge and internal financial resources. These must be made available to him if he is to become a productive force within the market. The small entrepreneur to utilize

the strong points of his size, including the flexibility to react more quickly to changes in market demand and the exploitation of small market niches that do not look attractive enough for larger firms. Nonetheless, the small firm is in an excellent position to convert know-how and raw materials into services and products for local population. Because of the smaller scale, the small business is able to offer very specialized or specific goods and services and last but not least, the entrepreneur professional approach and personal commitment to his products and customers can effectively bind a customer to the small business.

The task of managing a small business is not also an easy one. The owner manager of a business not only bears the responsibility for all operations, in his business, but usually has to carry them out too. The small entrepreneur not only has to conduct the primary processes of his business (involving technical skill) but he must also organize the sale of his product (marketing) he must perform the vital production, sales, and financial planning function and on top of that he is liable for the performance of these activities and his family personal property and belonging if anything should go wrong. Nevertheless, the small enterprise sector is a widespread and vibrant sector and strategically significant in development for various reasons.

A number of constraints to the development of small business are also rooted in socio-cultural aspects of the Ethiopians as well. It is assumed that there is a more marked tendency to avoid uncertainty or risk (in comparison to greater uncertainty or risk acceptance in most industrialized countries) also the traits needed to make an enterprise

successful, including individual assertiveness and managerial creativity are difficult to come by. Small enterprise managers are not likely to develop creative ideas or to manifest themselves assertively on the market. Thus, the bulk of the small enterprises are found in the small trade. A small enterprise managed by professional, skilled and growth oriented entrepreneur is extremely rare in Ethiopia. Comparative studies in developed countries show that small enterprises are able to play important roles in offering variety of services, in producing substitutes for imports, in subcontracting to larger firms and in the independent export of industrial and agricultural products. But this is not the case in Ethiopia.

2.2 THE PREVAILING SITUATION OF SSE'S IN ETHIOPIA

The small-scale enterprise sector might be regarded as the largest force with the greatest potential within the Ethiopian economy. The following section discusses some empirical explanations obtained from the central statistics office and other concerned institutions about the sector.

2.2.1 SIZE STRUCTURE AND DIVERSITY OF THE SECTOR

According to the sample survey of CSA on small scale manufacturing industries published in may 1997, the total number of small-scale manufacturing industries surveyed in Ethiopia were 2,731 small-scale manufacturing industries that absorb 8,929 persons of which 25.92% were female. The survey also found out 96.01% of the total establishments were privately owned and most of them (1173) were located in Addis Ababa. Like any other developing country, the Ethiopian small scale industry is

concentrated in few urban centers and is characterized by a large number of food and beverages whose output include edible oil, flour, bread pastries, candies, table salt etc, and leather and textile industries, The latter's dominance is due to the relatively low level of initial capital requirement and their dependence on locally available materials as well. This has been challenged by a number of empirical researches. (Webster, 1996) On the other hand, the survey on small scale manufacturing industries showed that the small manufacturing industries are mainly engaged in the manufacture textiles (31.8%), food and beverages (14.7%), wearing apparels (16.6%) and fabricated metal and wood accounting the rest. The survey of CSA, on some of the industrial group indicated that the intensity of local raw material consumption varies among the industrial groups of the sub-sector. The finding illustrated that, on the average the quantity of major local raw materials consumed by the identified industrial groups are by far larger than those of imported ones. The food-manufacturing sub-sector for instance use only about 2.8% of the total flour it uses as major ingredients imported in its production process. The metal manufacturing industrial group, on the other hand, utilizes relatively a significant quantity of imported raw materials as its major input.

2.2.1 ROLE AND CONTRIBUTION OF THE SECTOR

As discussed in the literature above, in Ethiopia, the SSE's are assumed to be instruments in bringing about rapid economic growth due to its size, location, capital investment and employment creation. The enterprises are described as the national home of entrepreneurship and provides an enabling environment to exercise their talent to the full and to attain their goals. The sector is seen as an important force to generate employment,

and more equitable income distribution, to activate competition, exploit niche markets, enhance productivity and technical change, and through all of these stimulate economic development. The survey result of CSA indicated that the various industrial groups employ different number of workers. Out of the 8929 persons engaged in all establishments, as indicated above, 3750 were recorded as permanent employees. The food-manufacturing group engaged about 37.1% of the total. The manufacture of fabricated metal products (excluding machinery and equipment) and the manufacture of furniture follow. The food manufacturing contributed 19.2% and 17.5% of the total employment, respectively. The contribution of SSE's to GDP fluctuates from year to year. According to the survey, AA. Has the largest number of SSE's implying more value added* to the region. According to MEDaC (1997) computed from the national account of Ethiopia, Addis Ababa gets about 30 million Birr every year.

2.3 PROBLEMS AND CONSTRAINTS OF SMALL SCALE ENTERPRISES

The central statistics authority has defined small business as 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. (the capital ceiling has been later raised though) The definition is based on capital and takes into account the account the level of technical and technological capacities. These enterprises in Ethiopia, face a wider range of constraints and problems. The constraints are tied with demand, supply and policy sides.

*The value added in the national account concept (at market price) is defined as the difference Between the gross value of production and industrial and non-industrial costs. To get the same indicator at factor cost indirect taxes net (i.e. indirect taxes less subsidies) are subtracted.

2.3.1 The demand side constraints, include:

- Weak aggregate demand
- Unequal distribution of income and limited size
- Competition from subsidized large scale industries

2.3.2 The supply side constraints, include:

- Lack of access to investment and working capital
- Problems of raw material supply
- Lack of skilled labor
- Insufficient training and knowledge
- Inadequate infrastructure and in appropriate equipment

2.3.3 *The policy environment*

In the Ethiopian context, the economy, which was characterized by weak institutional capacity, market imperfections, and poor economic management with hardly any changes in the structure of production, employment, and trade has arrested the growth of the sector for over several decades.

In the 1980's, the Derg regime passed on various laws and proclamations aimed at minimizing the role of the private sector in the lives of the people and the nation as a whole. The legal requirements to obtain license were bureaucratic and discouraged business people to participate both in the formal and the informal sector. The tight control

of foreign exchange gave rise to import restrictions to basic needs which in-turn created scarcity of imported consumer goods thereby generating rent seeking traders. (Selamawit, 1994)

Following the fall of the Derg many of the proclamations were rescinded and replaced by new legislation aimed at enhancing the development of the private sector. Macro economic reforms to liberalize the domestic markets were introduced to transform the economy from a command economy to a market - based system. (Assumed to limit the role of the state while leaving the market activities to the private sector.) As a result, a number of reform measures have been put in place. Among those measures the devaluation of the local currency, the privatization process, deregulation of prices, mobilization of foreign currency, devolution of power through decentralization and Agriculture Development Led Industries (ADLI) are worth mentioning.

Restrictive policies of the previous regime such as the fixing of a ceiling on industrial capital, a one- man -one license principle, provision of foreign exchange and bank loans, which favor state and parasatal organizations, restrictions on license and investment, and the discriminatory practice against the private sector in extending loans have been removed. Hence a competitive business environment is encouraged. However there prevails a serious practical snag to the development of SSE'S. The wide gap between policies issued and their implementation, little attention accorded to SSE's by the government and unfavorable policies and regulations still impede the smooth functioning of the SSE's (Taye, 1996) Although the economic policy of the country gives due

emphasis for entrepreneurship values and appreciation of the sectors' s economy there are still constraints related to infrastructure, credit, working premises, extension service consultancy information provision, prototype development imbalance preferential treatment, and many others, which therefore need proper attention.

Yet the new Federal government current political stance on the development of the sector clearly reflects that it has recognized the need for more balanced economic development. Concomitantly, however certain policies and measures of the total reform process have become sources of concern and discomfort to the development of SSE's, some of which are highlighted below

2.3.3.1 Market liberalization and price control

The relative importance of market liberalization and price deregulation is argued on two grounds. Teshome (1994) argues that an attempt to introduce growth of SSE's by an upward adjustment of prices can fail because of the purchasing power of the local population in the economy. On the other hand if domestic market cannot sustain SSE;s growth, the export market can be considered as a an alternative source of SSE's growth, which in case of Ethiopia is improbable if not impossible because of economies of scale. According to CSA, SSE's in Ethiopia are not in a position to export their products because of the escalating price of imported raw materials and machines coupled with their internal problems.

2.3.3.2 Trade liberalization

Trade liberalization is regarded as having positive and negative impact on SSE's. Although trade liberalization could encourage healthy competition and help improve the

quality of goods produced by SSE's, it would also enhance fierce competition with imports, large-scale enterprise products and among themselves. The effect of which could result against the SSE's development (Helming, 1993) Furthermore, the important linkage effects and specialization that could have been existed would be endangered.(the case of footwear and oil dumping)

2.3.3.3 Credit policy and financial liberalization

The credit policy and the inflexibility of the banking system is most often mentioned as one of the outstanding factors that impede the growth and expansion of SSE's (ILO/SAAT) Entrepreneurs complain of the collateral requirement and the interest rate of banks. For instance, the DBE (development bank of Ethiopia) requires SSE's a collateral of 125% of the total loan demand and a contribution of 30% or above to the total project. Furthermore the lending interest is 10.5%, as a result of which very few access credit from banks (Solomon, 1996)

2.3.3.4 Monetary policy and exchange rate adjustment

Some authors contend that the devaluation of birr has pushed cost of products and prices of imported goods high and thus SSE's could not afford to buy raw materials, spare parts or commodities at exorbitant price (Taye, 1996) It is also argued that the foreign exchange rate adjustment highly favors export geared SSE's, which are very few in Ethiopia.

2.4 Micro and Small Enterprises Development Strategy:

In Ethiopia to address the issue of the informal sector, a national strategy framework is now being developed on the basis of the country's overall development strategy of ADLI

and the adoption of the market economic system, where the private sector will take the lead. The primary objective of this national strategy framework is to create an enabling legal, institutional and other supportive environment for the growth and development of MSEs. The specific objectives are outlined as follows: -

- Facilitate economic growth and bring about equitable development
- Create long term jobs
- Strengthen cooperation between them
- Provide the bases for the medium and large-scale enterprises
- Balance preferential treatment between SSEs and bigger enterprises

In order to achieve the above mentioned objectives the fundamental principles that should be adhered to are indicated in the strategy. The principles emphasize the advancement of the most vulnerable group of the society (the women), the provision of support services on fee basis, and training support needs. and covers all the elements of support programmes considered necessary for the advancement of the sector. The elements of the support programmes include measures with regard to creating an enabling legal framework and streamlining regulatory conditions that hinder the coming up of new and expansion of existing MSEs. (MOI, 1997)

SECTION THREE

SURVEY OF THE LITERATURE

3.1 *CONCEPTS AND DEFINITIONS*

One major problem that arises when dealing with SSEs is the lack of clear-cut definition of small scale or any other type of enterprises. Many countries use different measures including annual turnover, paid up capital and number of paid employees. (An ILO study undertaken in 1987 claimed that there are 50 definitions of SSEs in 75 countries)

In Ethiopia, an official and legal definition of small-scale industries was provided by proclamation no. 124 of 1977. (HASIDA,) The proclamation defined small-scale industries as manufacturing activities that uses motive power and machines with a capital of not more than ETB. 200,000 and which have a fixed asset excluding land and buildings. Industrial groups such as oil mills, garment factories, shoe factories, shoe polish making, candle making, steel works, confectionaries, bakeries, grain mills liquor distillers and breweries, metal works, plastic molding etc. are all considered as small scale enterprise. The proclamation was later revised to raise the capital ceiling.

Recent HASIDA literatures consider any manufacturing activity with a fixed location employing at least one other person other than the owner and operating manually or with

machinery in the transformation of products into a new substance is considered as small scale.

Apart from HASIDA's attempt to define SSIs there is no any nationally accepted definition. SSE's have not been accorded clear definitions and each connecting group or researchers use only ad-hoc working definitions. The absence of a nationally accepted definition of SSEs affect not only the promotion and development strategy to be adopted but also causes conceptual confusion among agencies and bodies leading to inconsistent support and development efforts to the SSE sector in general.

In light of the qualitative definition (dwelling on their role in development such as the decision of employment, income and poverty reduction) and quantitative definition (parameter like number of employees, sale turnover assets, capital, network etc) and the country's level of development taken into consideration, SSEs can safely be defined as "those business activities, that are independently owned and operated, have a small share of the market, are managed by the owner and employing 6-49 employees. (Andualem, 1977)

In many cases SSEs are therefore, considered as those business enterprises with a paid up capital of above 20,000 Birr and not exceeding Birr 500,000 and excluding high technology, consultancy firms and other high technology establishment. However it is argued that the use of number of employees could not be the basis for some enterprises

with capital intensive technology may have less than 5 employees. (MOTI, 1977) It is also difficult here to separate the household from the family.

3.1.1 OPERATIONAL DEFINITIONS:

The term *enterprise* is defined by many as a business establishment run by an owner - manager with a number of employees. (Billetof, 1996) Others define it as a business undertaking for the purpose of profit making and risk involved. The definition employed in this paper for the term enterprise is synonym with a small-scale establishment, a firm or a small scale industry and follows the operational definition cited above.

Small Scale enterprises: - In view of the discussion above, this study follows the classification in employment size as stated in the HASIDA literature and define small scale enterprises as "*business establishments which engage 5-50 persons and use power driven machines and covers all forms of ownership, individual, share, private limited company, partnership and cooperative in the manufacturing industry, with a capital range of birr 20,000-500,000.*"(HASIDA,1990/91)

An establishment is defined as the whole of the premises under the same ownership or management at a particular address.

An individual proprietor is a person who owns and controls an establishment.

Partnership is an establishment owned and operated by more than one person with unlimited liability

Share Company is a business organization formed by an agreement made between at least 5 or more persons with limited liability. The shares are transferable.

Private Limited Company is a business organization formed by an agreement between two or more persons but not exceeding fifty, with limited liability. The shares are not transferable except with consent of 3/4th of the members.

3.2 THEORETICAL LITERATURE

Until recently, small-scale industry was considered as complimentary to large-scale industrial development but not central instrument for development policy. This view is now changing and researchers these days argue that small-scale enterprise in itself constitutes a valid policy subject. This new paradigm has been generated by three different rationales.

The first emerged from the realization that balanced development was to be achieved through gradual economic transformation with emphasis on rural development and the adoption of technologies more appropriate to the factor endowments of developing countries. Accordingly, small scale and informal activities that were considered appropriate to the poor and that reduce the capital cost of employment were supported.

The second rationale was based on Schumpeterian (1961) thinking that highlights the potential role of the small-scale sector in-relation to the management skills and entrepreneurship in the development process. The third emerged from the assumed importance of the flexibility of small-scale enterprises in production organization

The earlier development thinking considered industrialization as a means for economic development and structural transformation. (Clark, 1951) However, the development trend show that there is much more to development than industrialization such as, the balance between industry and agriculture, efficiency issues etc. and the undisputed supremacy of modernization strategies based on the different versions of the Lewis model began to be seriously questioned. (Streeten, 1981) New development strategies rejected the idea that unqualified economic growth could necessarily be equated with development. The new paradigm advocated balanced developments opposed to selective modernization, gradual economic transformation with emphasis on rural development and the adoption of technologies more adequate to the factor endowments of the less developed countries (Stewart, 1973)

In the 1970's advocates of the advantages of 'smallness' emerged. Best exemplified by Schumacher and the Schumpeterian thinking other research findings built up during the seventies strengthened the case for small-scale industries. Since then small industry promotion gained further impetus from the perceived failure of large enterprises to create enough productive jobs to absorb a significant share of the rapidly growing labor force in many developing countries.

On the other hand, quite a number of research interests have been inspired around academics and other research centers in order to understand the essence of small and micro-enterprises. In the past many consider small and micro as marginal, unproductive, not contributing to the national economy, with little or no potential for growth or development. In recent years however, the informal sector has been viewed as holding for broad-based employment generation and for spurring overall economic growth. (Hyman, 1989, Billetoft, 1996, Webster, 1996).

In many of the literatures, SSEs are justified for the following reasons: -

- Small enterprises broadly defined display a remarkable capacity to absorb labors thus contributing to easing the pressure of employment.
- They provide income-earning opportunities for a large proportion of the population. According to a survey made in 1986/87 in Ethiopia, 7600 small scale enterprises were found to employ a total of 38,678 people (MOI, 1991)
- They generally tend to contribute to a more equitable distribution of income.
- They produce relatively cheaper goods and services using local resources and labor-intensive methods satisfying the needs of the poor.
- They develop a pool of skilled workers as a basis or the future industrial expansion.
- They facilitate skill formation and ultimately fastening human resource development.
- They are able to mobilize savings of proprietor who would no use the banking system; hence increasing the propensity to reinvest.

- They inject competition into the economy and provide checks against monopoly.
- In rural areas, they constitute centers of innovation and act as sub contractors to large-scale enterprises as a reserve they facilitate effective technology transfer.
- They provide significance inter sectoral linkages. Integrating economic sector through backward and forward linkages, as they
- They greatly rely on indigenous resources and raw material
- SSEs Are flexible and adopt to market change
- SSE'S Are generally loose foot and also convenient for geographical spread of industrialization.
- They are seed-beds for entrepreneurial development
- SSEs Affect excellent opportunities for entrepreneurial Management talent to develop and mature, which is often stressed as a major handicap to economic development to developing Countries.
- They generate more employment per unit of scarce capital than their large-scale counterparts.
- They generate more output per unit of scarce capital than their large-scale counter parts
- They generate higher 'economic' rate of return to capital than did large-scale industrial counterparts.
- They are less dependent on imported inputs than are larger firms.
- They do not require substantial prior investment to infrastructure.
- SSEs can be located closer to dispersed rural sources if increased demand for non-agricultural goods and services.

- They are responsive to the changing market condition.
- SSEs Allow peasants to remain in their villages and engage in manufacturing production for rural market and even for urban market.

Are all these claims of SSEs true? Do the supposed advantages of SSEs hold true in the developing countries? The literature on the supposed advantages of SSEs reflects much disagreement, as we will see in the following section raising the most important points pertinent to the issues at hand.

Employment creation:

It is assumed that small scale manufacturing uses less capital per job created and can therefore be said to generate more employment for a fixed stock of capital. They also demand more labor and utilize unskilled workers who are excessively available in developing countries, thereby increasing income and reduce the level of poverty. Moreover it is claimed that they produce goods that are appropriate for the poor, they are more appropriate means of producing poverty (Little, 1987) Others contend that small-scale sector is fairly small compared with the impact of investing in large-scale industry (Sutcliffe, 1971, Meller.1978) Other authors (Bromely, 1985) are concerned about the poor quality of the employment generated in these enterprises.

Potential for Entrepreneurship

SSEs are considered as the breeding institutions of entrepreneurship and managerial capabilities and a good example is India who has bred two million new entrepreneurs most of whom have graduated from small to large business operators in forty years, as a

case in point (Kapur, 1994) But references to entrepreneurial behavior are often questioned on the grounds of inaccurate identification of small scale operators. As Berry (1987) pointed out initial, small, rural based industries in Colombia played a very little role in later industrialization.

Small-scale industries as a key to the satisfaction of basic needs and equitable growth:

It is believed that small-scale industries are labor intensive, use simple techniques and specialize in products that are consumed by the poor. (Morawitz, 1974; Tokman, 1974) but this assumption is questioned and some empirical evidences lend support to the questioning. (Haymer, 1969; Leidholm, 1976)

Improve the regional balance

It is always argued that large-scale industries are often concentrated in urban centers where you find relatively improved infrastructure and market. On the other hand small-scale industries have locational flexibility, less infrastructure and narrower geographical market (world bank 1978). Others like Echevarria, contend that small scale production to reduce regional inequalities is unqualified as a result of which changes in the spatial structure of supply are not equivalent to shifts from small to large scale production.

Efficient uses of resources

Many evidences suggest that efficiency gains in using small scale, labor-intensive production rather than large-scale capital intensive production for the same products is by far superior but conclusions differ in between sectors types of plants and regions. Some indicate that small-scale producers are rather inefficient users of capital (Vinod, 1973, luger and evans, 1988) Some have come up with mixed results with no significant differences in capital-labor and/or capital output ratios.

The debate is not only limited to the relationship of the sectors but also revolves around the role of micro enterprises in the process of economic development. Islam (1996) contends that micro and small enterprises do have important role to play in developing countries characterized by high degree of unemployment. However the job creation and growth compared to large and medium sized enterprises and the claim on relative labor intensity is seriously questioned by others.

Entrepreneurship is quite often an issue in the discussion of small-scale enterprises. In the decision process of the individual, Cultural psychological and Sociological factors are taken into consideration. Shapiro and Sokol (1982) stressed 'displacement' as a sociological factor for entrepreneurship. Among the psychological factors the most frequently mentioned are the locus of control (persons with an 'internal locus of control' are more likely to become successful entrepreneurs as they perceive the outcome of an event as within their personal control.), the need for achievement (McClelland, 1961) and the attitude towards risk. As entrepreneurship involves important risk bearing, and less risk averse individuals are found to be more likely to start up a business.

3.3 *FACTORS THAT INFLUENCE GROWTH OF ENTERPRISES*

Small-scale enterprises and their subsequent growth performance have recently gained new attention in academic research. Many of the literature on enterprise growth attempt to study to what extent the growth performance of enterprises after start-up is affected by factors related to the entrepreneur and to other structural growth determinants. Attempts

were made by many researchers to use statistical methods to identify the important variables affecting growth.

Econometric models of firm growth are divided into two groups. Those that represent the 'stochastic' models of growth and those that represent the learning processes. The first group view enterprise growth independent of enterprise size. In this view, firm's growth rates are distributed independently of firm size. The theory was then combined with this class of stochastic growth models. This class of models has been superceded by learning models that describe firm growth and firm efficiency to be correlated. In contrast to stochastic models, the learning models predict that firm age and firm size are both negatively correlated with firm growth. In other words, as firms grow older and become larger their rate of growth slows. The literatures reviewed below (Storey, 1994, Mead and Lead holms, 1998) identified factors that influence or determine the growth of micro enterprises, which are both internal and external to the enterprise

Gender

The Gender factor has increasingly received attention by many researchers. Very often, cultural norms impose restrictions on the possibilities of women becoming self employed in developing countries (Stevenson 1988) Nevertheless, some researchers claim that women do pose a number of characteristics that can give them an entrepreneurial advantage over men.

The human capital

Pakes and Erickson (1990) elaborated the view of Jovanovich indicating that an enterprise growth is a post entry learning process where individuals improve their level of managerial ability through human capital formation in a process of active learning. Bates (1990) found that a positive relationship between the levels of human capital reflected in age and education and the longevity of the business in US firms. McPherson (1996) in his studies in African countries demonstrated that experienced, educated and trained entrepreneurs grow more rapidly than those of lesser stock of human capital.

Others like Alfab and Rahim (1989) also found evidence that the lack of formal education and training act as barriers for expansion of enterprises in Pakistan. On the other hand Nafziger Terrill (1990) found that education of the entrepreneur reduces firm survival due to opportunities of entrepreneurs outside the firm.

Finance capital

Evan and Jovanovich (1989) show that liquidity constraints influence investment decision inducing a negative relationship between the entrepreneur's income, enterprise age, and the growth of enterprises. In contrast to Jovanovich theory, Bates argued that the size of initial financial investment determine the survival/growth of small-scale enterprise. However business growth depends on the availability and magnitude of working capital which in-turn determines the performance of the firms (Webster, 1996)

Enterprise size and enterprise age

Empirical results in developed countries show that enterprise size and age are positively related to growth (Storey, 1994, Bates 1993) But this is not the case in developing countries where small-scale enterprises that start smaller tend to grow more (Lied Holm and Mead, 1998) Enterprise age is also inversely related to growth in developing countries (Mead and Liedholm 1998) This is consistent with Jovanovich model where problems of economic and financial efficiency are not considered as the only reasons for closure of enterprises. The assumption is that younger enterprises have higher growth rate than their older counterparts.

Sector

Small-scale enterprise comprise of various activities of which some have low return and others greater opportunities for growth (Mead, 1998). Slauwaagen and Goedhys (1991) found that entrepreneurship is significant in the textile sector than in other sectors due to lower barriers to entry and lesser capital requirement. In Ethiopia, several studies (MOLSA, 1991) indicated that in-terms of earning the return on trading is higher compared to other sectors such as manufacturing.

Institutional economists also view the growth process in developing countries being affected by institutional factors such as ill developed markets institutions and transaction costs arising from this. In the same line of reasoning, Hannon and Carroll (1996) found an association between the legal status of the firm, firm growth and the likelihood of bank lending. In this particular study, the predictions following from the theoretical considerations will be tested against a data set on growth pattern of small enterprises in this research.

SECTION FOUR

GENERAL CHARACTERISTICS OF THE ENTREPRENEUR, THE ENTERPRISE AND THE BUSINESS ENVIRONMENT

4.1 *Characteristics of the Entrepreneurs*

As indicated in the literature above, the growth of an enterprise must be viewed in light of the function of the individual, the enterprise per se and the business environment. This section analysis the major characteristics of the entrepreneur in Ethiopia by investigating such factors as sex, age, ethnicity, family background, education, prior working and enterprising experience, and international exposure.

4.1.1 **Gender**

By looking into the gender division of the enterprises, we can certainly say that there is a dominance of men in our sample. The division by sex among the sample entrepreneurs interviewed is as follows.

<i>Sex</i>	<i>Prevalence</i>	<i>Percent</i>
<i>1. Male</i>	<i>129</i>	<i>(70.9%)</i>
<i>2. Female</i>	<i>53</i>	<i>(29.1%)</i>

Total number of responses is 182

As indicated in Table 1, female entrepreneurs accounted for 29.1% of the entrepreneurs interviewed. Looking at the sample closely there are no sub-sectors where women are

significantly over or under represented. They are active in all the sub-sectors. Nonetheless, the dominance of men entrepreneurs does neither help us conclude that gender is an important indicator of success, nor does it indicate the factors related to unequal opportunities that have a negative effect on women's chances of expanding their business.

4.1.2 MARTIAL AND AGE CHARACTERISTICS OF THE ENTREPRENEUR

The survey indicated that 42.8% of the entrepreneurs were in the age category of 41-50 while the majority of them were in the age category of 31-40, with mean age of 45 and 35 respectively. It was also found that the majority of operators were married accounting for 41.8% while those who were single account 8.2%.

Table 2 Martial status and Age Characteristics of the Entrepreneur

<i>Age category</i>	<i>Prevalence</i>	<i>M</i>	<i>F</i>	<i>Martial Status</i>				
				<i>Single</i>	<i>Married</i>	<i>Divorce</i>	<i>Widowed</i>	
<i>Below 30</i>	<i>25 (8.2%)</i>	<i>11</i>	<i>14</i>	<i>(m)</i>	<i>9</i>	<i>2</i>	<i>-</i>	
				<i>(f)</i>	<i>10</i>	<i>4</i>	<i>-</i>	<i>-</i>
<i>31-40</i>	<i>76(41.8%)</i>	<i>49</i>	<i>27</i>	<i>(m)</i>	<i>7</i>	<i>32</i>	<i>6</i>	<i>4</i>
				<i>(f)</i>	<i>8</i>	<i>16</i>	<i>-</i>	<i>3</i>
<i>41-50</i>	<i>58(42.8%)</i>	<i>49</i>	<i>9</i>	<i>(m)</i>	<i>1</i>	<i>37</i>	<i>3</i>	<i>8</i>
				<i>(f)</i>	<i>-</i>	<i>4</i>	<i>2</i>	<i>3</i>
<i>51-60</i>	<i>23(7.1%)</i>	<i>20</i>	<i>3</i>	<i>(m)</i>	<i>-</i>	<i>11</i>	<i>5</i>	<i>4</i>
				<i>(f)</i>	<i>-</i>	<i>3</i>	<i>-</i>	<i>-</i>

The results in Table 2 suggest that people with responsibilities are the ones that are engaged in enterprising activities, to supplement their income than the single that relatively have the prime objective of self-employment. The incidence of young and successful entrepreneurs is significantly low. This might imply that the need for personal contacts gained through previous employment is low in the case of young entrepreneurs.

4.1.3 Ethnicity

In the literature it was discussed that there are structural differences between the various ethnic compositions in a society resulting in income disparities. But in our selection of enterprises we have tried to ignore the ethnic imbalances and attend only the enterprise characteristics.

4.1.4 Educational status of the entrepreneurs

The entrepreneurs in this study have different educational level. As shown in table 4 a significant proportion of them have secondary education, which account 28% % of the total sample surveyed, junior secondary level education accounting 22.5% and a good number of entrepreneurs (14) have a university level record.

<u>Level of education</u>	<u>Male</u>		<u>Female</u>		<u>prevalence</u>
	<u>No</u>	<u>%</u>	<u>No</u>	<u>%</u>	
<i>Primary Education (1-6)</i>	12	(6.6)	7	5	
<i>Junior secondary (7-8)</i>	41	(22.5)	23	18	
<i>Secondary Education (9-12)</i>	51	(28.0)	36	1	
<i>12 complete</i>	39	(21.4)	28	11	
<i>Diploma</i>	25	(13.7)	21	4	
<i>University</i>			14	(7.7)	14

In general, the educational level of sampled entrepreneurs seems to be very high relative to the population at large. The observations made from our study indicate that education has some bearing on success. This is in -line with studies undertaken in other African countries (Hills and Narayana, 1989, Trullson, 1997). Of those with higher education, there is no specific field of study that dominates. Consequently, the figures above give no reason to believe that a certain kind of education is more likely to produce a successful entrepreneur. However, they do lead us to believe that a relatively high level of education is an important asset in expanding an enterprise.

4.1.5 Family-related issues

In Western environment where business is a way of life, it is assumed that the young will follow the footsteps of his elders whom he consider role models (Katz, 1989; Stanworth 1989) But several researches indicate that this is not the case in Africa. African entrepreneurs are less likely to come from families with an enterprising history (Trullson, 1997). The following observations are made from our sample surveying.

<i>No = 182</i>		
<i>(Total % is greater than 100% because of multiple responses)</i>		
<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
<i>Parents were in business</i>	12	(6.6)
<i>Entrepreneurial history in the family</i>	42	(23.1)
<i>Grew up in an extended family</i>	107	(58.6)

Approximately 23% percent of the entrepreneurs have a history of enterprising activity in their extended family and many others had been exposed to enterprising activity through family ties by living close to other entrepreneurs (mostly elders), almost 7% have parents who were in business. The sample in our study seems to be in-line with Trulsson prediction. Given our socialist orientation, attitude, and policies of the past, it is no surprising that the older generation faced obstacles (legal and financial as well as social) to enter into the formal sector.

Looking at our sample, there is a higher percentage of entrepreneurs who have entrepreneurial history in their family. This can partly be explained by the fact that only a little more than fifty percent of the entrepreneurs in our sample grew up in an extended family. The corresponding figure for those who grew up in a nuclear family is 41.4 percent. This may rather indicate that, relative to the total population, entrepreneurs behind most of the enterprises come from a non- urban and traditional background.

4.1.6 Work experience and prior enterprising activity

Many research studies confirm that Experience has a positive impact on enterprise success. (Brochhaus, 1982). Experience gives a person the required technical skill necessary contacts and knowledge of products of high demand. If an entrepreneur also run an enterprise before, he will acquire the art of business skill, which will contribute in the development of his enterprise. Is experience and prior working experience important for growth in our sample?

Table 5. Prior Employment and Enterprising Activity

<i>Responses</i>	<i>prevalence</i>	<i>Percent</i>
<i>Entrepreneurs who had previously been employed</i>	133	(73.1)
<i>Number of Entrepreneurs who had run an enterprise(s) before</i>	24	(13.)
<i>Neither</i>	25	(13.7)

The finding in table 5 shows that there are a relatively higher number of entrepreneurs who have been employed before. Asked where they used to work, many of them reported that they were ex-government employees. In general the number of entrepreneurs who have been employed is very high (73.1%). To find out whether the entrepreneurs have benefited from work experience and/or prior enterprising activity, the respondent were asked what they think the experience of an entrepreneur.

Table 6. Work experience and/or prior enterprising activity

<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
—		
<i>Only work experience is relevant</i>	26	(14.3)
<i>Only prior enterprising activity is relevant</i>	16	(8.8)
<i>Work experience and prior enterprising activity are both relevant</i>	111	(61.0)
<i>Neither is relevant</i>	29	(15.9)

Table 6 indicate that 14.3% have positively responded implying that they have learned some skills from their past employment. Although there are several issues the research did not answer one can safely suggest that it is beneficial to have work experience and to

run a business in the same general field. However, the absence of such factors does not preclude a person from succeeding, but improves the chances of success.

International exposure

Travel facilitates innovation and could be a source of inspiration- a wider frame of reference and new ideas. The study has examined if the entrepreneurs are in one way or another are exposed to the outside world and capitalized on that exposure.

Table 7 Instances of Having Lived Abroad

<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
<i>Has lived abroad for more than six months</i>	<i>33</i>	<i>(18.1)</i>
<i>Has never left the country</i>	<i>143</i>	<i>(78.6)</i>

As the table above indicates 37 of the entrepreneurs, i.e. more than 17% have lived outside the country of operations for more than six months. The percentage is lower compared to other African countries. This is not surprising given the stringent immigration policies in the country.

The proportion of entrepreneurs in the sample who have lived outside their country of operations is however, larger than for the population at large. In addition to this figure there are several more who have been abroad for shorter periods, e.g. for training. Some entrepreneurs' even claim they traveled to the rest of the world only to find out about new

to find out about new business trends or ideas. Hence, foreign exposure would seem to have a positive impact on enterprise growth. The survey does not indicate however, that people who have lived abroad are more likely to export their products. Of the 39 entrepreneurs who have lived abroad, none operate outside Ethiopia.

4.1.8 *Reasons for going into business*

Proprietors were asked why they chose to operate a small scale manufacturing enterprise, as well as their reason for choosing the particular type of activity. In the first case the largest proportion of them, 43.4% felt that a business will provide more money 9.8% of them reported that they decided to be their own boss, while 32.9% mentioned they saw a business opportunity. The remaining respondents decided to start their enterprise after having enough money or experience to do it.

Among western entrepreneurs the reason most commonly stated for starting business is that they want to be autonomous. (Daniels, 1991) This is not the most commonly reason in our sample survey.

Table 8. Reasons for starting a business

<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
<i>Saw an opportunity</i>	60	(32.9)
<i>Income generation</i>	79	(43.4)
<i>Ambition</i>	18	(9.8)
<i>Had enough experience</i>	15	(8.2)
<i>Had Other enough money</i>	10	(5.4)

As is shown in table 8 the number of entrepreneurs who started their enterprises for monetary reasons is high, possibly because of the low pay if employed and the low standard of living in the country. Finally, although it is difficult to explain, it might be noted that the response rate for ambition (including the desire to be self-employed, to be one's own boss, as well as the more general ambition to create something) is relatively high.

Plan for the future development of the enterprise:

Although all the entrepreneurs in the sample have a desire to grow, this does not indicate that they plan for growth. Asked about their plans 23.6% of the entrepreneurs gave no indication of the direction the enterprise was heading. Some have specific ideas. On the other hand entrepreneurs may have plans, but few will be able to carry them through because of constantly sometimes rapidly changing market conditions. Researches however, indicate that entrepreneurs with short/long term plans usually succeed

Table 9. Plans for future Development of the Enterprises

<u>Responses</u>	<u>Prevalence</u>	<u>Percent</u>
<i>Has several ideas but none chosen</i>	26	(14.2)
<i>Has a specific idea</i>	35	(19.2)
<i>But few details provided</i>	31	(17.0)
<i>And provides a detailed account</i>	31	(17.0)
<i>Gives no indication of any ideas</i>	43	(23.6)
<i>Has ideas, but was thought by interviewers to be making them up</i>	16	(8.7)

Conclusion on entrepreneurial characteristics:

There is nothing in the background of the entrepreneurs behind the enterprises that allows us to single them out beforehand. That is, there are no factors that conclusively lead us to believe that this or that person will start a successful and growing enterprise.

What we can say is that *in some respects* the entrepreneurs behind the enterprises do appear to differ from the population at large. 23.1 Percent of the entrepreneurs behind the enterprises come from families where there is prior experience of enterprising activity. Likewise, 21.4 percent have at least completed twelve grade, which means that they are relatively well educated. Furthermore, a disproportionately high number of entrepreneurs (18.1 percent) have at least six months of foreign exposure. Finally, most of the entrepreneurs have gained experience in jobs or other enterprises, which has been helpful in their activities in the enterprises. In addition, on an aggregate level, ethnicity and sex affect the likelihood of growth through various structural features of society, primarily the opportunity structures. However, on an individual level, ethnicity and sex seems not to determine business success in this study.

The fact that successful entrepreneurs differ from the population at large in some respects does not mean, however, that a prospective entrepreneur who does not differ in the same ways will not be successful. Neither does it mean that other people with those characteristics would be successful entrepreneurs, if only they tried. In general one could say that the typical entrepreneur behind an enterprise seeks opportunity, and has an ambition to be self-employed in order to earn a better income.

4.2 ENTERPRISE-SPECIFIC FACTORS EXPLAINING GROWTH:

Certain enterprise-specific factors seem to have an impact on the success of the business. We will examine the following: form of ownership, character of activity, market orientation, quality and characteristics of employees, operational characteristics, investment propensity and financial management.

4.2.1 *Legal form and ownership:*

The survey result indicates that more than seventy percent of the entrepreneurs start the business alone and own the business privately with a limited liability. About 8.8% of the respondents reported that they started the business with their spouses.

Table10 Who started the enterprises?

<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
<i>Entrepreneur alone</i>	<i>130</i>	<i>(71.4)</i>
<i>Entrepreneur with one or two friends</i>	<i>16</i>	<i>(8.8)</i>
<i>Entrepreneur with spouse</i>	<i>6</i>	<i>(3.3)</i>
<i>Entrepreneur with other family members</i>	<i>28</i>	<i>(15.4)</i>
<i>Other</i>	<i>2</i>	<i>()</i>

On the other hand the enterprises in our sample are all registered and even their licenses renewed to date. Registration is a legal requirement before the commencement of the operation and is made possible directly on start up. The entrepreneurs make use of this legality to get loan from the banks and are credible in the eyes of suppliers and buyers.

Looking closely at our sample survey it seems that those enterprises that are likely to grow are the ones that are started and run by one person. This is consistent with Mead's finding in other African countries. (Mead, 1996)

4.2.2 *Magnitude and Sectoral Orientation:*

In general a total of 182 establishments were covered. As shown in table --- the structural distribution of small scale manufacturing enterprises among different industrial groups in terms of number of establishments was concentrated on manufacture of food products as compared to other manufacturing industrial groups. The sample survey revealed that 50% constitute manufacture of food products. The other important manufacturing industrial groups in this respect were manufacture of fabricated wood (12.6%), metal products (14%), manufacture of wearing apparel (12%), and the rest constitute (11%).

Industrial Group	Number	Percent
Food products	91	(50.8)
Manufacture of furniture	23	(12.6)
Manufacture of metal products	27	(14.8)
Manufacture of wearing apparel	21	(11.5)

Most of the activities seem to be in fields that are long established and also provide very common products. In some cases however, the enterprises are different in that they provide higher quality products than most competitors and look for a slightly different market niche.

4.2.3 Market Orientation

Absence of market orientation often result in concentration of similar enterprises in the same locality that makes competition very high and reduces the market opportunity of the enterprise. As indicated in table 13 most of the enterprises in our study tend to focus on domestic/local market rather than the export market.

Table 12 Market orientation at present

<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
Primarily producing for local and domestic market	135	(95.6)
Exporting some of their production	8	(4.4)

A closer look at the sample reveals that none of the enterprises produce their products outside the local/domestic market. Most of them for that matter expanded their geographical outreach by initially starting in the local market, and avoid rushing into something they cannot handle. Despite complaints about the low purchasing power of the local population, there is apparently enough domestic demand to spur enterprise growth. The study has also examined whether marketing is important and the kind of markets the enterprise target. As discussed in table 17, 58.8%of the entrepreneurs took marketing into their own hands and all entrepreneurs have a similar market orientation emphasizing on

the quality of their products. Quality per se is often mentioned as a means of creating a market niche.

4.2.4 Changes in market conditions

An entrepreneur has to be aware of the changes in customer's preferences to deal with changing demand. Respondents in the sample were asked how they cope with shifting market demand. There are three strategies for coping with shifting market demand. One way is to stick to your product and try to identify new customers when the old ones want something else. A second way is to stick to old customers when their demand shifts and adapt to their new demands. And thirdly one may do both. In other words, the choice of activity can be supply driven, demand driven or both. Is there a prevalence of the one or the other in this sample?

Responses	Prevalence	Percent
Stick to customers and respond to their new demands	25	(13.7)
Stick to product and identify new kind of customers	73	(40.1)
Both	17	(9.3)

In just under 54% of the cases, a change in operations can be attributed to demand *and* supply factors. Operations of entrepreneurs change because of competition. New entrants mean more supply and a fall in profit margins. The enterprises therefore want to change to a more profitable line. Enterprises have also grown because of demand factors. They

pick up feedback from consumers and use it to realize new market opportunities. The remaining few are enterprises that cling to the competence of their core people, or that change with the recruitment of a core person with a new quality. Few have grown this way and it may be inferred that enterprises that are supply driven will soon lose their market niche and cease to operate. Obviously it is very important for enterprises to be aware of market demand and adjust to it

4.2.5 The insiders view:

The study has tried to see growth from the point of view of the entrepreneurs themselves. Respondents were asked about the factors they consider important in the growth of their entrepreneurial activity and what it takes to grow in general?

*Table 14. Entrepreneurs' perspectives on reasons for growth**

<i>Responses</i>	<i>prevalence</i>	<i>Percent</i>
<i>Mentality of the entrepreneur</i>	126	(69.2)
<i>Staff</i>	101	(55.5)
<i>Character of the product/service</i>	33	(18.1)
<i>Efficiency in operations</i>	56	(30.8)
<i>Technical skills of the entrepreneur</i>	21	(11.5)
<i>External factors</i>	56	(30.8)
<i>Customer orientation</i>	45	(24.7)

**Multiple responses*

As the table indicate the mentality of the entrepreneur, which include hard work, commitment, focus, ability to cope with change and willingness to learn and staff including competence and commitment of personnel were often mentioned. In addition to that enterprise related factors such as efficiency in operations and customer orientation were considered important. In other words, the factors relate to the individual as a person and to the enterprise as a productive organization. A closer look at the survey show that we find more enterprise than person specific factors mentioned as pointed out in table 16.

Table 15. Entrepreneurs' perspective on what it takes to grow in general

<i>Response</i>	<i>Prevalence</i>	<i>Percent</i>
Know-how	78	(42.9)
Commitment	61	(33.5)
Customer orientation	38	(20.9)
Growth orientation	20	(11.0)
Capital	68	(39.4)
Financial management	38	(20.9)
General management	32	(17.6)
Machinery	29	(15.9)
Know-who	26	(14.3)

The assumption mentioned above is strengthened by the emphasis on staff qualities such as know how, commitment and customer orientation etc.

4.2.6 Use of human capital in the enterprise

In line with other research studies the entrepreneurs in the study perceive human capital expressed in the quality and commitment of staff important for growth. Furthermore, it is assumed that the growth potential of an enterprise is positively correlated between number of employees and propensity to delegate authority. What observations can be made from our sample survey?

Table 16. Tasks and responsibilities

<i>Responses</i>	<i>Prevalence</i>				
	<i>Book keeping</i>	<i>Buying costing</i>	<i>Marketing overview</i>	<i>financial Mang't</i>	<i>Personnel product Dev't</i>
<i>1.The entrepreneur(s)</i>	61(33.5)	152(83.5)	107(58.8)	126(69.2)	23(12.6) 114(66)
<i>2.Others in the enterprise</i>	57(31.3)	25(13.7)	38(20.9)	30(16.5)	136(74.7) 34(19)
<i>3.Others outside the enterprise</i>	9(4.9)	5(2.7)	-----	1(0.5)	-----
<i>(1 + 2)</i>	36(19.8)	-----	37(20.3)	25(13.7)	23(12.6) 38(20)
<i>(1 + 3)</i>	10(5.5)	-----	-	-----	-----
<i>(2 + 3)</i>	7(3.8)	-----	-----	-----	-----
<i>Not performed</i>	2(1.1)	---	---	---	-----

In almost all cases, the entrepreneurs delegate at least some activities. In 4.9% of the enterprises, bookkeeping is outside the control of the entrepreneurs. In other words, bookkeeping is the most commonly delegated job. Other tasks are also delegated although the entrepreneurs prefer to keep some control over the activities. The study has examined whether the assumption in the literature is in-line with our sample. It seems that there is a high degree of delegation in the enterprises studied of the different tasks

involved although it is not clear at what point or at what number of employees that becomes necessary.

As shown in table 16, in nearly all of our sample enterprises, the entrepreneurs have delegated at least some activities. In 5 enterprises the buying and costing task has been delegated, but the entrepreneurs supervise the tasks closely. The rest of the entrepreneurs delegate two or more tasks.

4.2.7 *Family and enterprise*

Family involvement as co-owners and as employees was examined in this study. The latter's involvement is indicated in the following table 18.

Table 17. Family members working in the enterprises

<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
<i>No family member is employed</i>	<i>23</i>	<i>(12.6)</i>
<i>Family members are employed</i>	<i>137</i>	<i>(75.3)</i>
<i>Spouse</i>	<i>19</i>	<i>(10.4)</i>
<i>Parents/children</i>	<i>32</i>	<i>(17.6)</i>
<i>Other</i>	<i>28</i>	<i>(15.4)</i>

Family members are employed in 75.3% of the enterprises as a whole. Respondents with family members were also asked if they have certain basis to employ family members or a strategy for that matter?

Table 18. Strategies on employing members of the extended family

<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
<i>Have no specific strategy</i>	67	(36.8)
<i>Employ only on the basis of certain criteria</i>	38	(20.9)
<i>Employ only children to train future leaders</i>	26	(14.3)
<i>Want no family members at all</i>	27	(14.8)
<i>Other explanation given</i>	23	(12.6)

Almost 36.8% of the enterprises have no strategy on employing extended family members. Of the other 20.9% the most common strategy on employing family members is according to certain criteria, to employ them on the basis of merit.

Employing family members was often perceived to be beneficial because they could help with surveillance and were generally trustworthy. The most commonly mentioned drawback of employing family members was that they tend to be lax and they are difficult to discipline or even fire if they misbehave.

There are different research results on business and family relations. Some suggest that family relations may have a negative effect on enterprise growth (Trulsson, 1997). Other studies consider family members as loyal and willing to work for nothing if necessary. (Nafziger, 1999) What can we say about the involvement of family members as employees in our sample? In -depth discussion with the entrepreneurs confirm that

(assuming growth is the objective), if family members are to work in the enterprise it should be mainly because they have the required competence. However, this does not mean that family members must be kept out. Only 14.8% of the sample enterprises have employed that strategy. Nevertheless, it seems that if family members are to work in the enterprise it should be mainly because they have the required competence.

4.2.8 Investments undertaken during growth:

Table 20 indicates that the majority of the entrepreneurs have grown by further investing since start up in machinery and equipment. For manufacturers this seems to be a necessity regardless of the use of accumulated profits or external finance. Expanding a business generally means expanding output, which in turn means buying new machinery or equipment and/or employing more people. What investments in machinery and equipment have these enterprises made?

Table 19. Investments made since start-up

<i>Responses</i> <i>Percent</i>	<i>Prevalence</i>	
New machinery	112	(61.5)
Second-hand machinery	42	(23.1)
Computers	10	(5.5)
Vehicles	19	(10.4)
Buildings and/or land	21	(11.5)
Office equipment	56	(30.8)
No new investment	25	(13.7)

There are concerns that the introduction of new technology leads to a reduction in employment. The data from this research are not detailed enough to comment on this subject. What we can say is that, although 61% of the enterprises have bought new technology, the number of employees has still grown. A more detailed study is required to analyze the employment effects of newly acquired technology.

Extent of seasonal variations and their causes

We asked the entrepreneurs if they experienced seasonal fluctuations in their operations and, if so, how did they respond?

Table 20. Extent of seasonal variations and their causes

<u>Responses</u>	<u>Prevalence</u>	<u>Percent</u>
Experience seasonal variations	120	(70)
Reasons behind seasonal variations:		
Weather	11	(6.0)
Holidays	63	(34.6)
School year	9	(4.9)
Budget year of customers	6	(3.3)
Tourist season	1	(.5)
Other	30	(16.5)

Almost 70 percent of the enterprises experience seasonal fluctuations and there appears to be little prospect of escaping them. In most cases the variations are due to weather conditions or holidays, usually New Year and Christmas. Due to the variety of sectors studied here the ways in which weather and holidays affect enterprising activity vary quite a lot. For a wholesaler, the rainy season may be a slow period because large portions of sales reach the customers through street vendors (who of course are less active during the rainy season). For a paint manufacturer the rainy season means that few people will paint outside and demand goes down. The holiday season affects retailers and wholesalers alike. Demand goes up before the holidays and down after. But holiday seasons also affect service providers and manufacturers who supply industry. We also studied how the enterprises deal with seasonal variations in demand. Although some stated that this caused specific problems, few had really taken seasonality into account. They simply ran their operations at a slower pace when demand was low and adjusted when demand rose again. We have seen that a substantial number of the enterprises have reinvested their profits. This indicates that they have taken into consideration the depreciating value of equipment and machinery and saved money to reinvest later.

If there is a negative correlation between inflation rates and willingness to reinvest, protracted inflation would seem to affect the economy negatively. If inflation is accompanied by a weakened local currency the problem would seem to be compounded. A positive side effect may be that enterprises shift their preference from imported machinery and equipment to local purchase. However, unless the quality and efficiency of the local substitute is high enough to meet international standards, future growth and perhaps even sustainability may be hampered.

Conclusion: Enterprise-specific factors contributing to growth

In this chapter we have looked at enterprise-specific factors that contribute to growth. The following observations have been made. Enterprises tend to register quite soon after starting operations. The number of founders does not appear to correlate with expanding the enterprise successfully. However, most of the enterprises are more often started by one person only. Entrepreneurs behind the enterprises delegate various tasks in the enterprise to others. And in quite a few cases they even give up control of some tasks. However, there is no correlation in this sample between number of employees and propensity to delegate.

The enterprises generally focus on new market segments. They try to find a niche, which often involves high-income groups. In doing so they tend to emphasize quality. To remain competitive and profitable the enterprises change with demand. Growth is rarely supply driven. Growth has been achieved through reinvestment, using accumulated profits as well as external finance. This applies to all the sub-sectors. Investments are generally put on hold in highly inflationary environments. In no cases has new technology been employed to reduce the number of workers. In describing what factors have been important for growth, the entrepreneurs mention entrepreneurship and the commitment and skills of the workforce. The same points are emphasized when describing what it takes to grow generally. In both cases, finance is mentioned but not as a dominant element. On a final note, although this chapter deals with enterprise-specific factors that promote growth, upon closer scrutiny, it becomes clear that they all boil down to essentially the same issue, i.e. the quality of human resources.

4.3 THE BUSINESS ENVIRONMENT

The following section discusses the entrepreneur's attitude towards the general business environment in general and the major trade regulations in particular.

Table 21. Positive aspects of the business environment

<i>Responses</i>	<i>Prevalence</i>	
<i>Percent</i>		
<i>No positive aspects</i>	119	(65.3)
<i>Positive aspects in certain trade regulations</i>	23	

As many as 65 % of the respondents have no positive remark to make about the business environment in general, but think the financial deregulation i.e. access to credit and foreign exchange (9%) as positive compared to past experiences but complain about taxation and others. The lower frequency however, should not be attributed to a favorable taxation system; it is rather to the fact that they have more serious things to complain about which are categorized under "others" Respondents were also asked about their perception on foreign trade, if that affect the domestic production or not.

Table 22. Perception of how foreign competition affects domestic production

<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
<i>A challenge</i>	43	(23.6)
<i>A problem</i>	46	(25.3)
<i>It kills domestic industry</i>	43	(23.6)
<i>Both a challenge and a problem</i>	37	(20.3)
<i>None of their concern</i>	12	(6.6)

25% of the respondents think that foreign competition a problem, 43% take it as a challenge and 6% do not think that the issue concerns them. Their operations are purely local and they consider their enterprise is not affected in one way or another.

Institutional support

Respondents mention no organization other than the chamber of commerce and the association of entrepreneurs that support them. Only here can we say that institutional support is important for enterprises. Government support is also perceived as very low or non-existent. Financial institutions seem to be catering relatively well on the growth phase rather than the start up phase.

Conclusion - The Business environment

Ethiopia has been implementing structural adjustment programme for some time. Although the country is still relatively poor, macroeconomic indicators are pointing essentially in the right direction. Thus when interpreting the results we should bear in mind that most decisions concerning the enterprises were taken at a time when growth prospects looked good and the macroeconomic indicators are relatively pointing in the right direction.

Certain policies have been enacted to help the population engage in enterprising activity, and various financial schemes have more or less explicitly been reserved for entrepreneurs. When asked about the business environment the entrepreneurs mention no major positive aspect. The negative ones relate primarily to taxation. It is worth noting

that entrepreneurs are generally thought to be very sensitive to the business mood in their country. Experience shows that where the general environment for business is perceived as bad, entrepreneurs are hesitant about future investments and growth. Growth-oriented entrepreneurs do not seem to fit this stereotype. Although some are very negative about the business climate and the prospects for national industrial development, this does not put *them* off. They try to look beyond the gloomy picture and do whatever they can to improve their lot - and by implication that of those who work for them.

Finally, when interpreting data about the extent to which enterprises use assistance from external sources, we should remember that the institutional support available might not have been significant or efficient to begin with.

4.4 THE GROWTH PROCESS

The study has examined how the enterprises have grown in terms of employment, financial indicators, the growth pattern, and preparations before start-up and resources sought and obtained.

4.4.1 Growth in - terms of employment

Growth in terms of employment is an important indicator of growth in this study. The following table shows the pattern of growth with regard to employment within the last three years time.

Table 23. Number of people employed in the enterprises

<i>Responses</i>	
<i>Initial number of permanent employees</i>	<i>1256</i>
<i>Present number of permanent employees</i>	<i>2584</i>
<i>initial average number of employees</i>	<i>6.9</i>
<i>Present average number of employees</i>	<i>14.1</i>

As shown in table 23, growth in terms of employment has been substantial among the enterprises in the sample. The survey asked about employment at the time the enterprise started, as well as levels of employment now, for any enterprise that was in operation for a period of five years. The figures suggest a growth in the sector by more than 50%. Using current estimated employment level from the survey and working backwards, the figures imply that an average employment growth rate among the SSE's is almost 3% per year during the five year. We can thus safely say that the enterprises have grown in terms of employment during the last three years.

4.4.2 Growth in terms of turn over and profits

The respondents in the sample survey believe that they grow in terms of turnover and profits (132) In contrast to Schumpeter theory , turnover and profits have gone hand in hand. (Schumpeter's theory indicates that rapidly growing companies are those that identify a unique opportunity to exploit a de facto monopoly position before other enterprises enter (Schumpeter, 1934/1993). In such companies profits soar quickly. When

other enterprises enter, profits eventually slow down because competition forces profit margins down)

4.4.3 Change in the character of activity

Examining closely, the enterprises in our sample survey, in almost all cases they chose to start with a limited range of products and gradually change or add to it. None have grown by expanding the size of their operation but attend to customer preference and adjust to that.

Surprisingly none of the enterprises have changed their original product. About 50% of the cases have shown change in terms of improved quality or design. The results of the sample survey indicated that unlike other sectors manufacturers tend to stick to their original products, focus on a limited range and expand little by little. It should also be noted that in almost all cases the entrepreneur rarely run more than one business at a time, and when they do, the activities are often closely connected.

4.4.4 Preparations before start-up:

In the following section we examine what preparations are made before starting up an enterprise and what external sources are sought and obtained.

Table 24. Preparations before starting the Enterprise

<i>Responses</i>	<i>Prevalence</i>	<i>Percent</i>
<i>No detailed market survey</i>	96	(52.7)
<i>Own "market survey"</i>	28	(15.3)
<i>Check competition</i>	30	(16.4)
<i>Detailed business plan</i>	12	(6.5)
<i>Own "business plan"</i>	27	(14.8)
<i>Training</i>	5	(2.7)

As the table above indicate as many as 52% began operation without any specific preparation in terms of market survey, a business plan, or training. In most cases the drafting of business plans are made because they are required by banks to access credit and are always contracted to others.

4.4.5 Support sought and obtained

Examining closely the kind of institutional support sought and obtained by enterprises, one can see two broad dimensions. The non-financial and the financial side;

The non-financial support includes a large variety of services that are needed for limited period of time and/or for very specific tasks such as accounting, auditing, training of employees and information. In this regard respondents were asked the kind of non-financial assistance they sought and obtained.

Table 25. Assistance Sought and Obtained

<i>Responses</i>	<i>Assistance Sought</i>	<i>Assistance Obtained</i>
<i>Training for staff</i>	52	-
<i>Training for the entrepreneur</i>	23	2
<i>Networking</i>	27	3
<i>Collaboration with foreign company</i>	11	3
<i>Information</i>	18	11
<i>Import support</i>	9	-

4.2.6 Non- Financial support

The survey indicates that non-financial support sought and obtained entails a large variety of services needed for limited period of time and for specific tasks. Looking closely the entrepreneurs have sought the following services from external sources and obtained either at their own cost or at no-cost.

The non-financial support that enterprises seek is an indication of the topics that might be included in a business management programme to be developed for enterprises. When we look at the figures obtained from respondents' answers to the structured question, very few entrepreneurs have obtained any kind of external non-financial support obtained during the course of operations. None of them have invested in further training for their employees. Judging by breakdown we find the lowest incidence of staff training. This is partly related to size in our case. In addition to the services listed above, the large majority of enterprises pay for auditing services and a substantial number invested in

computer software. The total gives the impression that all enterprises that sought assistance did not obtain it, for various reasons including the absence of donor agencies and associations that cater for the betterment of the sector.

4.4.7 Financial Support:

The study confirms that the enterprises, which grow, tend to rely less on personal and family savings and more on banks for finance. Some however prefer to reinvest profits from the enterprise itself.

Conclusions: Non-financial and financial support

The situation seems to be awkward when we look at how the enterprises were set up. To begin with, only 2% of the entrepreneurs took some kind of preparatory training, and 36% made at least a simplified market survey and/or business plan. However, they rarely carry out proper market surveys or business plans unless obliged to do so as a condition for a loan.

When growing, the enterprise also tends to rely less on personal and family savings and more on banks for finance. To avoid relying on banks entrepreneurs prefer to reinvest profits from the enterprise itself. Yet, the incidence of financial assistance from banks for

expansion is much higher than for start-up. And the incidence of long-term loans is only slightly more than short-term loans.

4.5 GROWTH DETERMINANTS OF SMALL SCALE MANUFACTURING ENTERPRISES

In this section we examine the specific entrepreneurial characteristics and enterprise - specific factors explaining growth of an enterprise using statistical models. That is we will identify factors that contribute most to increase the probability of growth of an enterprise.

Before a probability model is tested to identify the most important factors that affect growth positively or negatively, a preliminary statistical test was done to see the association between the dependent variable (growth) and all explanatory variables obtained from theory and literature. A chi- square test of association was used at 5% and 10% level of significance. The following are those that show significant association from both entrepreneurs specific and enterprise specific factors considered

<i>Variables</i>	<i>Chi- square calculated</i>	<i>dif.</i>	<i>p.value</i>
Family history	2.792	1	0.095
Pre employment	7.279	2	0.026
Age	6.633	3	0.085

THE LOGISTIC REGRESSION MODEL

The logistic regression model allows regression of dichotomous dependent variable Y on a combination of dichotomous and continuous variables.

The dependent variable in this study has only two levels. i.e. there is growth in SSE's ($y=1$) or not ($y=0$) where growth is assumed to exist if the number of employees increased by more than 50% now from the start up time. The logistic model is given by; $P = 1 / (1 + e^{-Z})$ where, $p = P(y=1)$ = probability of growth and Z is a linear combination of predicted variables as $Z = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_k x_k$

The coefficient, β_i 's measure the effect of the corresponding explanatory variable to the probability of growth of the enterprise. But since interpreting β_i 's directly as effects on P is difficult, we usually speak in terms of odds or log-odds of an event. The odds of an event (q_i) are defined as the ratio of the probability of the event that occurs to the probability of the event that does not occur.

$$\theta_i = \pi_i / (1 - \pi_i) = P(Y_i=1) / 1 - P(Y_i=1) = P(Y_i=1) / P(Y_i=0) \quad [1]$$

From the logistic model the odds are given

$$\theta_i = \pi_i / (1 - \pi_i) = P / (1 - P) = e^Z = \exp(\beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_k x_k)$$

$$\text{Log}(\theta) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_k x_k$$

Assuming that π_i has not unbiased estimation P_i 's, we can write $P_i = \pi_i + e_i$, where $E(e_i) = 0$ and e_i 's are in random error terms.

The estimation of odds can be denoted by $V_i = P_i / (1 - P_i)$ and log odds as $\log(V_i) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_k x_k + ?$ Which takes the usual form of multiple regression of V_i on x_i

A.1 Explanation of variables used to estimate growth.

Y = Growth of enterprises

$Y = \{1, \text{ if there is growth.}$

$= \{0, \text{ Otherwise,}$

Sex = 1 for female entrepreneurs

Age1 = 1 for entrepreneurs who are between 15-30

Age2 = 1 for entrepreneurs who are between 31-40

Age3 = 1 for entrepreneurs who are between 41-50

Age4 = 1 for entrepreneurs who are between 51-60

Prim = 1 for primary education

Sec = 1 for secondary education

High = 1 for higher education

Preemp = 1 for employed entrepreneurs

Runent = 1 for entrepreneurs who run enterprises before

Famhist = 1 for entrepreneurs with enterprising family history

Extfam = 1 for entrepreneurs who are from extended family

Nucfam = 1 for entrepreneurs who are from nuclear family

Exposure = 1 for entrepreneurs who have lived abroad

Localmkt = 1 for enterprises who are locally oriented

Dommmkt = 1 for enterprises whose market orientation is domestic

A.2. Estimation Results

variable	First Model			Second Model			Third Model		
	β	S.E	$exp(\beta)$	β	S.E	β	S.E	$exp(\beta)$	
age		0.0676							
age1	-0.70	1.1016	0.4291			0.6	1.6149	0.5130	
age2	1.54	1.1016	4.676			1.4	1.229	4.17	
age3	0.46	1.5011	1.5848			2.1	1.2120	8.56	
famhis1	0.78	0.4568	2.186			1.0	0.4992	2.94	
preemploy		0.0196							
preempl	1.62	1.0547	5.062						
runent	2.57	1.1224	13.11						
constant	4.43	1.4686					1.5525	40.196	
extfam						-0.9177	0.4630	0.3934	
preemploy2						2.58162	1.1580	13.2	
market orie				0.1527					
market orie				-0.1967	1.0962				
market orie				1.0116	1.1267				

- b is estimate of β

- *Significance at 5 % level

- **Significant at 10 % level

In the first model variables related to entrepreneur personal characteristics are included. Those which are significant in the preliminary test and others that are obtained from theory and literature are included. As can be seen from the model, age, family history in entrepreneurship and previous employment turn out as significant factors that affect the probability of growth of an enterprise. The second age category (41-50) has a strong positive effect on the probability of growth controlling for all other variables. It increased the odds of being growth oriented by an amount 4.676 relative to the age category below 30. Previous involvement of any member of the family in business has positive effect on increasing the probability growth of an enterprise.

The other factor which is found to be significant at 5% level is record on previous employment controlling other variables. (age and family history) Both previously employed entrepreneurs and those who run an enterprise before have strong positive influence on directing the business towards growth. From the classification table for the variables growth, 83.52 % of all the observations are correctly classified by the model and hence we can say the model is adequate

The second model studies the impact of some enterprise specific factors affecting growth. The only variable included in the logistic model is market orientation. Those whose market orientation is domestic have better chance of directing their enterprise to growth than others. The over all correct classification by the model is showing the model is good (82.42%)

The final model includes all the variables used in the previous two models and their joint effect in changing the odd of the probability that the enterprise was growth oriented is studied. In the final model all the variables included from both models. But the variable market orientation included in the second model is not significant this time. but a new variable on family type (nuclear or extended) is included this time

In the final model, family history on entrepreneurship has a positive effect on the prospect of growth. The new variable included in the last model is family type. Being grown in a nuclear family has a negative effect on the probability of growth of the enterprise. It decreased the odds by an amount of (0.3994) relative to those who come from an extended family. Previous employment has again a positive impact relative to those with no work or enterprise experience. Age has again the same positive impact on growth and especially entrepreneurs in age range 41-50 run a successful enterprise, which is directed towards growth. The overall correct classification explained by final model is 84.62% showing the model is good.

SECTION FIVE

SUMMARY OF MAJOR FINDINGS

5.1 THE MOST IMPORTANT FACTORS BEHIND THE GROWTH OF ENTERPRISES

5.1.1 PERSONAL CHARACTERISTICS

There is difficulty to identify entrepreneurs who will start enterprises before they have actually succeeded. However, the findings from this study suggest a few things that entrepreneurs behind enterprises that have the potential to grow, tend to have in common. The findings in this study indicate that education is not found to affect the growth of the enterprises significantly. Entrepreneurs behind that grow tend to come from families where there is a prior record of enterprising activity. This also accounts for 23.1 Percent of our sample. Furthermore, 17 per cent of our sample had spent more than six months abroad; a figure that seems to be significantly higher than in the population at large. The results would indicate that international exposure is an important factor. Finally, although its significance is uncertain, we found that a good number of the entrepreneurs had been employed before venturing into their own business. And those who had not been employed had run at least one enterprise of their own before. It thus seems important to have either some significant work experience or a history of enterprising activity, or both.

Certain personal characteristics may enhance the chances of business success. However, the absence of these factors does not mean that entrepreneurs will not succeed anyway, while the existence of these factors does not guarantee that they will.

5.1.2 THE ENTERPRISE

In trying to assess whether an enterprise will be successful or not, the business idea is of course very important. Among the enterprises studied, few are engaged in activities where there are a lot of competitors supplying the same market segment. Although several operate in areas, which have existed for a long period, they try to find their own market niche. Quality is emphasized in these markets and customers are often higher income groups who are willing to pay for it.

Most of the enterprises have grown to such an extent that the entrepreneurs have found it essential to delegate responsibility. Bookkeeping is the task most frequently delegated. Buying and costing, marketing, periodical financial overview, personnel management and product development are also delegated. But whereas the entrepreneurs are more willing to let go of control in marketing, they are less inclined to do so in the other areas.

The propensity to employ family members in SSE's is high. This is the case in 75 percent of the enterprises. We believe these enterprises differ from other enterprises in that they

place a heavy emphasis on keeping business and family apart. In 35% of the cases the entrepreneurs either chose not to employ any family members at all, or to employ them only according to certain selection criteria, merit being the most important.

5.1.3 THE BUSINESS CLIMATE

Macroeconomic variables do indeed have an impact on growth. Where interest rates are high the willingness to borrow from banks is much less. This may slow the growth of some enterprises but it does not impede growth, because many businesses expand by reinvesting their profits. With the declining strength of the local currencies and worsening macroeconomic conditions in general, overall consumer purchasing power suffers. This has repercussions on the activities of the enterprises and may explain why so many enterprises are targeting consumers in the higher income brackets.

Finally, the present economic environment has an impact on business planning. When the business climate is positive, the entrepreneurs generally think more positively; when it is negative the momentum is negative, not much is happening. It would thus seem to be important for various actors, not least governments, to create a positive momentum.

5.1.4 THE GROWTH PATTERN

We have found that enterprises, which grow rarely, continue their original activity without making any changes. Readiness to change and respond to customer demand is essential for success. We also found that most entrepreneurs focus on one business at a

time, rather than trying to operate several simultaneously. In a few cases where this was done, it was to ensure an adequate cash flow.

In expanding their enterprise the founders attribute their success to two major factors - their own mental capacity and the quality and commitment of their staff. It seems that the entrepreneurs in this study are genuinely interested in creating good jobs. They are willing to invest in training their staff and they consider quality employment to be an important reason for success. In almost all cases the entrepreneurs did not obtain training either for themselves or for staff that clearly demonstrate that training is not considered vital for the growth of the enterprises. The trend, however must change to meet the challenges in a rapidly changing business environment.

5.2 HOW CAN THESE FACTORS BE USED TO IDENTIFY ENTERPRISES THAT HAVE A POTENTIAL TO GROW?

Our first research objective was to find out how enterprises can be identified before they have actually grown. Personal characteristics alone provide no ready answers, neither does the character of the enterprise tell us whether it will grow or not. However, a careful analysis of these two aspects might help identify enterprises that have potential to grow. The nature of the business *activity* and the *entrepreneur's personal profile* should be given special consideration in such an analysis.

5.2.1 IDENTIFYING THE ENTERPRISES WHICH WILL GROW

The identification of potential enterprises requires a thorough investigation of the business idea and the people behind it. Evaluation of the business idea should build on evaluations of the type carried out by banks, perhaps together with a bank (thus building closer links to sources of finance). The business plan plays a crucial role, demonstrating that the idea is feasible, and identifying a market niche. In economies where purchasing power is still relatively low, enterprises that target higher income groups appear more likely to succeed. Where possible, the past performance of the enterprise should also be examined for an interest in customers and a willingness to adapt to consumer preferences.

The business plan may serve as the first screening tool. In addition, interviews should be held with the people behind the enterprise. The interviews should reveal new insights on customer orientation and on the desire to grow.

Caution should be observed when family members are going to be involved as business partners. A clear demarcation between family and enterprise interests is essential and measures must be taken to keep them apart.

The interview is also the time to assess the entrepreneurial capacity of the person. Researchers need to develop an instrument for evaluating the personal and psychological characteristics of the entrepreneurs behind these kind of enterprises. There seems to be no need to separate experienced from inexperienced entrepreneurs. These factors should not

be used as the criteria for selection but assessment should be made of entrepreneurs who have:

- Family record of enterprising activity;
- At least some level of education;
- Prior business experience, either of their own enterprise or through employment;
- International exposure.

A tool for determining the psychological profile of the entrepreneurs should be developed by adapting existing models to the target groups. Need for achievement, initiative and locus of control should be included, and *perhaps* also the desire for autonomy and risk-taking propensity.

5.2.2 ADDRESSING THE TRAINING NEEDS OF THE IDENTIFIED ENTERPRISES

The second and third research objectives were to identify the needs of these enterprises and to determine how such enterprises can be assisted. We are now in a position to address these issues.

Until now most small enterprise business management training have been targeted at entrepreneurs. The subjects of our study were entrepreneurs behind enterprises that have grown significantly in the last few years. We learned that very few of the entrepreneurs behind these enterprises felt any need for their own further training. They were more interested in obtaining good training for their employees. In fact, few of them had

obtained any training for themselves, but the majority felt the need for training of their employees. The kind of training desired varies from secretarial courses to management development. Thus, while training efforts on the entrepreneurs behind SMEs must continue, there is a need among the enterprises to widen the scope to include staff training. In more detail, the options are as follows.

Training the entrepreneurs

If we still believe that some kind of business management training would enhance the growth prospects of these enterprises, we would need to make great efforts to market the courses and to convince them that they really need training. One way would be to design the programme so that it focused on problems or opportunities encountered by the enterprises. Rather than advertising a course on export marketing, it might be more useful to collaborate with an export promotion agency. Similarly, rather than advertising a course on expanding a business, we might collaborate with financial institutions so that they suggest or require the entrepreneur(s) to undergo training as a condition of credit. This raises a fundamental question. What kind of training do we think these entrepreneurs need, but perhaps do not realize they need? Maintaining a focus on technical skills in functional areas such as marketing, production and finance, the following aspects may be emphasized and perhaps developed into separate modules of a new programme:

- *Staff management skills.* The fulfillment of this training need is a positive step towards the development of entrepreneurship. This module would emphasize the importance of delegating tasks and relaxing control. It would help entrepreneurs

develop more trusting relationships with their employees and provide employment benefits. It would also cover skill development for employees.

- **Operational skills.** As lending institutions often refuse to grant loans when skeptical about operational ability of clients, the training must aim in providing assistance and supervision of clients by ensuring that they adopt appropriate measures that will guarantee the success of the business and eventual timely repayment of loan obtained
- *Marketing skills* No matter how successful a businessman is in the administrative and financial management of business he/she cannot do without effective marketing skills as advertising and sales promotion. This would deal with finding the right market. It would include ideas on pinpointing and pursuing a niche. It would also emphasize adapting to consumer preferences.
- *Exporting.* Special consideration should be given to export orientation. In order to reduce the adverse impact of structural adjustment, earn foreign exchange, reinvest more easily and contribute to the national economy, efforts to export should be promoted. Links may be developed with existing export promotion organizations in the countries of operation.
- *Developing the product.* This module would emphasize the importance of being open to change. It would help trainees keep abreast of developments on the supply side as well as on the demand side. Various sources of information would be identified and promoted. Links with training colleges or institutions for product development may be developed.

In addition to upgrading management skills, referral systems will have to be developed further to include not only financial institutions but also training institutes. The entrepreneurs have expressed a strong interest in developing the skills of their employees, managers as well as technical staff. In order to help them identify suitable training, organizations offering entrepreneur development programmes may develop strategic partnerships with vocational training centers that meet the required quality standards.

Training the management of growth prone enterprises

There is a need to develop courses specifically for improving the competence of operation managers in SSEs. The curriculum would be very similar to that indicated above, i.e. personnel management, marketing and product development. The module on personnel management would have to be split into two - one for entrepreneurs and one for personnel managers. The module for entrepreneurs should emphasize the importance of delegation, while the one for personnel managers should emphasize human resource aspects.

The different modules should be designed to suit entrepreneurs as well as managers, leaving enterprises to decide who should attend the course.

The entrepreneurs have indicated that they really need good technical training for their employees. Thus, as a complement to management training, those offering the courses

might establish partnerships with vocational training institutes in order to provide skills training to workers.

Conclusion

When enterprises grow, the division of tasks usually becomes greater and more managers are employed. To support such developments we cannot sustain a focus on the individuals behind the enterprises. We must look at what is good for the enterprise as a whole, and cater for the needs of employers as well as employees. It is thus suggested that for enterprises the focus for training interventions be shifted from the individual entrepreneur, toward the management of enterprising activity.

In addition, I want to emphasize that if the environment is not conducive to growth little growth will be achieved. In order to enhance the impact of activities in the SSE sector it is therefore recommended the relevant government authorities be sensitized to the needs of this group of enterprises.

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SURVEY QUESTIONNAIRE ON

" Perceptions on growth and the growth pattern in SSE's in Addis Ababa"

(With particular reference to the manufacturing sector)

(Interview Schedule with Operators)

Date: _____

Time: _____

Respondent Number: _____

Place of Birth: _____

Section 1 Demographic characteristics of the operator

1 Sex

2 Age (in full years)

3 Martial Status

1) Never married 3) Divorced

2) Married 4) widowed

4 Ethnicity?

5 a) what is the highest level of academic education you have completed? (Specify field at university level)?

b) What other training or courses have you under taken (indicate when and why)?

6 If married, what does your spouse(s) do for a living?

7 What has your father (or guardian) done for a living?

8 What has your mother (guardian) done for a living?

9 Could you tell us any one else in the family who has undertaken business activities before you?

10 a) Have you ever been employed and perhaps still is?

b) Does your previous employment help in your business activity

- 11 a0 Have you previously run a business? If yes, for how long?
b) Does the experience contribute to your business/
- 12 Did you grow up in a?
1) Nuclear family 2) extended family
- 13 Have you ever lived abroad? For how long?
- 14 Why did you choose this activity?
1) Saw an opportunity 3) Had enough money
2) Income generation 4) Had enough experience
- 15 Are there any specific plans for the future of his/her enterprising activities?
1) Yes 2) No

If "Yes":

What are the plans and how are they going to be achieved? (Look for indications of intent to grow further.)

- 16 What type of enterprise do you run?
- 17 Does the enterprise have a legal status today (i.e. is it registered)?
1) Yes 2) No

If "Yes":

(a) When did this happen?

- 18 *who started the enterprise?*
1) *Entrepreneur alone* 3) *Entrepreneur with friends*
2) *Entrepreneur with spouse* 4) *Entrepreneur with family*
- 19 What were you doing before you start this activity?
1) Farming 6) daily laborers
2) Housewife 7) family unpaid worker
3) Student 8) operate own enterprise
4) Employed in government institution 9) others/specify
5) Apprentices

20 Have you previously run a business?

How many years of experience do you have in business activities?

21 How did you acquire the present skill of your enterprise activity/

- 1) Family tradition 4) Formal training
- 2) Apprenticeships 5) Others
- 3) Self thought

22 *Before starting the enterprise, what did you do?*

- 1) Undergo business training. 4) Register the enterprise.
- 2) Conduct a market survey. (e) Other (specify).
- 3) Write up a business plan.

23 a) what market(s) did you target (mark several if appropriate)?

- 1) A specific town area. 4) All parts of the country.
- 2) Addis and surroundings. 5) Neighboring countries.
- 3) Only in the major cities of the country. 6) Others/specify.

b) Why was this/these market(s) targeted?

24 What were your investments at first?

Machinery new old computerized automated mechanical
manual

(e.g., if machinery was bought, indicate what kind of machinery: new/old, computerized/automated/mechanical/manual, origin).

25 How did you finance the start-up (estimate proportions)?

- 1) Bank loan: 5) Retrenchment capital:
- 2) Borrowed from friends and family: 6) Partner investment:
- 3) Given from friends and family: 7) other, namely:
- 4) Own savings: 8) No finance required

26 When *the enterprise started*, were the products service different in any of the respects below (tick an appropriate box (es))?

- 1) The method of production was markedly different from that of other local producers.
- 2) Had another market orientation than others in the locality.
- 3) The product/service had not previously been marketed in the locality.
- 4) The source of supply gave a competitive advantage over other producers.

27 *At present*, are the products/service different in any of the respects below (tick appropriate box (es))?

- 1) The method of production is markedly different from that of other local producers.
- 2) Has another market orientation than others in the locality.
- 3) The product/service is not marketed in the locality.
- 4) The source of supply gives a competitive advantage over other producers.

28 Has the enterprise been operating on markets different from the ones they were operating on when they began?

- 1) Yes
- 2) No

If "Yes":

- (a) What new markets have been targeted?
- (b) Have any old markets been abandoned?
- (c) Why did this/these change(s) come about?

29 .Did the products remain the same all the time?

- 1) Yes
- 2) No

If "No":

- (a) What changed and when?
- (b) What were the reasons behind these changes?
- (c) Did the ownership remain the same throughout the period?

- 1) Yes
- 2) No

If "No":

What changes were made?

30 Do you think you have a market niche in the locality where you are selling the product/service?

- 1) Yes, namely:
- 2) No

(c) Does she/he succeed in separating family and business? How or why not? _____

39 Are there seasonal variations in annual turnover?

- 1) Yes 2) No

If "Yes":

(a) What are the causes?

(b) How does she/he deal with shifting market demand?

40 How have profits changed over time?

If profits have changed over time:

(a) What does she/he think are the reasons why profits have changed over time?

(b) How has she/he dealt with it?

41 How has the overall volume of your enterprise changed over the past 5 years?

- 1) Significantly increased 3) Not changed
2) Slightly increased 4) Slightly decreased
5) Significantly decreased

42 Could you indicate whether the revenue from your activity has changed since the beginning of 1987?

- 1) Significantly increased 4) Slightly decreased
2) Slightly increased 5) Significantly decreased
3) Not changed

43 Do you ever sell on credit?

- 1) Yes 2) No

If "No":

(a) Why not?

If "Yes":

(b) To what kind of customers?

(c) Why to these customers?

(d) What experiences does she/he have from selling on credit?

DECLARATION

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other University, and that all sources of material used for the thesis have been duly acknowledged.



Kassaw Checkole

May 2001

The thesis has been submitted for examination with my approval as a University Advisor

Wolday Amha, Ph.D

May 2001

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