

**EXTERNAL FACTORS AFFECTING THE PERFORMANCE OF MICRO
AND SMALL ENTERPRISES (MSES): A STUDY ON SELECTED MSEs IN
BEDELE TOWN**

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Declaration

I, the under signed, declared that this thesis is my original work and has not been presented for a degree in any other university, and that all sources of materials used for this research are duly acknowledged.

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Abstract

The study was designed to assess the external factors affecting the performance of Micro and Small Enterprises (MSEs) in Bedele town. A sample of 297 operators or owners of the enterprises engaged in five sectors was taken for the study using stratified random sampling technique. The head of Bedele micro and small enterprises development agency was purposely selected for the interview. From the distributed 297 questionnaires 269 were returned. The data collected through questionnaire is analyzed using both descriptive and inferential analysis (Pearson's product moment correlation coefficient and Multiple Linear Regression Model). Besides, the interview questions were analyzed using descriptive narrations. The empirical finding elucidated that factors affect the performance of MSEs which include; accessibility of external source of finance, accessibility of business development services and marketing factors are significantly affect the performance of micro and small enterprises in Bedele town. While, government policy and bureaucracy and infrastructure are found to be insignificantly explaining the performance of MSEs. The finding further indicate that, the existence of linear and positive significant, ranging from weak to strong relationship was found between independent variables and dependent variable. Based on the findings recommendations to stakeholders, to operators of MSEs and suggestions for further researchers are forwarded.

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List of abbreviation and acronyms

Art	Article
BDS	Business Development Service
CSA	Ethiopian Central Statistics Authority
ETB	Ethiopian birr (Local currency)
FeMSEDA	Federal Micro and Small Enterprises Development Agency
GTP	Growth and Transformation Plan
ILO	International Labor Organization
MFI	Microfinance Institutions
M	Mean
MSEs	Micro and Small Enterprises
MoTI	Ministry of Trade and Industry
MSEDA	Micro and Small Enterprises Development Agencies
MSED	Micro and small Enterprise Development
MSEDS	Micro and Small Enterprise Development Strategy
MWUD	Ministry of Work and Urban Development
NGOs	Non Governmental Organizations
NMSEDPS	National Micro and Small Enterprises Development Promotion Strategy
NBSSI	National Board for Small Scale Industries
OCSSCO	Oromia Credit and Saving Share Company
OUPI	Oromia Urban planning institute
ReMSEDA	Regional Micro and Small Enterprise Development Agencies
SD	Standard Deviation
SPSS	Statistical Package for Social Science
TVET	Technical and Vocational Education and Training
UNIDO	United Nations Industrial Development Organization

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Micro and small enterprise (MSE) sector is highly diversified sector and plays a predominant role in the economy of developing countries (Kokobe, 2013). This is because Micro and small enterprises are an important source of job opportunity and income for many people in most developing countries (Hibret, 2009).

In developing countries, MSEs by virtue of their size, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level of training, large sums of capital or sophisticated technology (ILO, 2008).

MSE sector is described as the natural home of entrepreneurship for it provides an ideal environment that enable entrepreneurs to exercise their talents to fill and attain their goals. Due to these, MSEs are recognized as a real engine of economic growth and technological progress (Carrier, 2008 and Mulhern, 1995). Moreover, MSEs exert a very strong influence on economic growth of all countries over the world (Aharoni, 1994 and Drillhon et.al, 1994). This is implied by the important role they play in unemployment reduction, income generation and equitable income distribution, import substitution, innovation, poverty alleviation. And also they play an important part in the provision of services in the community and they can make an important contribution to regional development programs. The county's urban development policy document also states the role of MSE in reducing urban poverty, strengthening rural-urban linkage, and source of entrepreneurs for private sector development (MWUD, 2006).

According to Sievers and Vandenberg(2007), the MSE activities can contribute to increasing tax-incomes for the government and enable the government in the long run to invest the money and also strengthening and the expansion of existing MSEs and the support of new enterprises can contribute to fulfill social objectives, attract considerable foreign reserves into a country and have a clear importance in providing employment, meaning they are the backbone of the private sectors in developing countries.

Despite their important role in economic development, most MSEs are affected by both internal and external factors. The external factors affecting the performance of MSEs are related to marketing, technology, access to capital or finance, training or education facilities, institutional or government support, other barriers to trade and competition from large scale which have a significant impact on their performance and influence the continuity and success of the enterprises (Mohammed, 2012). Internal factors are derived from the external ones and include lack of entrepreneurial and management skill, lack of marketing knowledge, marketing strategies, innovation level and investments on technology due to absence of training (Eveliina and Labinot, 2011).

Empirically, the ILO (2000), report shows the institutional, regulatory and legal frameworks in these days are the important pillars shaping business environments. Institutional frameworks determine effectiveness and efficiency of key business infrastructures such as business development support (BDS), micro-finance institutions, marketing and research and development. A good institutional framework enables access of these services to the needy with minimum cost.

This being the case, however, most MSEs have limited access to external source of financing. As a result, they depend mainly on their internal resources to finance investment. Thus, low profit may imply limited internal resources, which may in turn limit firms' capacities to upgrade their investments (Ishengoma, 2005 and Reinikka et.al, Arimah and Muguma et.al, (2001).

Another factor hindering the growth potential of MSEs, is their limited access to business development services (BDSs) (viz., marketing information, networking, short-term training, counseling and consultancy services).It is also obvious that the inadequacy of education and

training leads to improper record keeping or rather say no record keeping at all (Ishengoma et.al, 2007 and Nkonoki, 2010).

In Ethiopia, the government has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. As claimed by the government of Ethiopia, that the MSEs sectors is a prime strategy to economic development in urban and rural areas of the nation. To this effect, it has formulated a National MSE Development and Promotion Strategy in 1997, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (NMSEDS, 1997).

A national survey conducted by Central Statistics Agency (CSA) in 2007 indicates that more than 1.3 million people in the country are engaged in MSE sector and this makes the MSEs the second largest employment generating sector next to agriculture in the country. But, a large number of MSEs are unable to grow and remain to be survival (non-growing) type which cannot provide enough employment. It is found that 69% 1000 MSEs in the country are found in a survival status. This is because they produce largely for the low income group and employ lower levels of techniques. Many of them are self-employed type with a low transformation rate into higher size categories and, thus, their innovative activities are limited (Gebreyesus, 2007).

The need for economic development and expansion of Bedele town are growing from time to time mainly due to the population increase as a result of immigration from surrounding rural areas. In Bedele town, the MSEs sectors have been increased from time to time following the extensive growth of the number of graduate from technical and vocational schools but many of MSEs found at Bedele town have not been successful and they have not grown in to medium and large scale enterprises (OUPI, 2011).

According to the data obtained from Bedele MSEs report (2005), the current capital and number of the enterprises dramatically decreased and shows minimum growth rate. The growth rate of both the number of enterprises and capital shows the sector exhibits a negative growth rate to the minimum of 59.69 below zero in the fiscal year 2003 and also shows a minimum growth rate in the fiscal year 2005.

According to structure plan study report (2011), the major constraints that affect MSEs performance in the town are lack of integration among sectors, shortage of working capital, lack of motivation, lack of managerial skills, inability to compete with the large sectors, high ambition for profit in short time, lack of capacity to bring commodities from Addis Ababa by owners. So that, these structure plan study report more emphasize the internal factors that affect the performance of MSEs in the town. To fill in this gap, this study tried to assess the external factors affecting the performance of MSEs in Bedele town (Access to external source of finance, access to business development services, marketing, government policy and bureaucracy and infrastructure) because the study assumes that these are the most relevant external factors influencing small business performance.

1.2. Statement of the Problem

Micro and Small businesses play a vital role in poverty reduction, employment generation as well as economic development of both developed and developing countries. Some of the MSE have grown extremely large and profitable and on the other hand, many others have failed or have not been as successful as they might have been (Tirune, 2011). In most developing countries, MSEs face constraints both at start up phases and after their establishment. Owing to their small size, these enterprises are severely affected by both internal and external factors.

As in other developing countries, different scholars have studied the performance of the MSE sector in Ethiopia. According to the CSA Report (1994-1995), the major obstacles experienced by MSEs were lack of access to finance, working premises, infrastructure, information and marketing. These problems result in failure of these businesses to expand and have the effect on their performance to grow. Belay (2012), stated that these environmental/external factor are influencing small business success in the context of developing countries like Ethiopia.

In recent times, a lot of scholars and researchers have identified the factors that affect the performance of micro and small enterprises on different areas throughout the country. Most of these studies indicate that the sector faces a range of financial, managerial, demographic back ground and firm characteristics that influence MSEs performance. However, only few researchers have been conducted study on external factors affecting the performance of MSEs

like corruption, technology, market fluctuation, competition, political factors and access to finance. Recognizing this gap, therefore, this study tried to assess the impact of poor infrastructure, inadequate access to business development services, marketing and access to external source of finance, government policy and bureaucracy on the performance of MSEs in Bedele town. To achieve the objectives of this study, the investigator put forward the following basic research questions:

- What problems are MSEs facing related with access to external source of finance in Bedele town?
- What problems are MSEs facing related with access to Business development services in Bedele town?
- What marketing problems are affecting the performance of MSEs in Bedele town?
- What government policy and bureaucracy issues are affecting the performance of MSEs in Bedele town?
- What infrastructural problems are affecting the performance of MSEs in Bedele town?
- Is there any relationship between external factors and performance of MSEs in Bedele town?

1.3. Objective of the Study

Like most other studies, this study has both general and specific objectives.

1.3.1. General Objective

The general objective of the study is to assess the external factors affecting the performance of micro and small enterprises in Bedele town.

1.3.2. Specific Objectives

The specific objectives of the study are:-

- To identify the problem related with access to external source of finance that affects the performance of MSE in Bedele town
- To identify the problem related with access to business development service that affects the performance of MSEs in Bedele town.
- To identify the problem related with government policy and bureaucracy that affects the performance of MSEs in Bedele town.
- To identify marketing problem that affects performance of MSEs in Bedele town.

- To identify infrastructural problem that affects the performance of MSEs in Bedele town.
- To determine the relationship between external factors and performance of MSEs in Bedele town

1.4. Significance of the Study

The findings of this study will be useful for the following stakeholders:

- Findings from this study will assist researchers or academicians to provide a deeper understanding of the key external factors that affect the performance of MSEs.
- This study will also be a guideline and springboard for upcoming researchers in the area
- The study will help Bedele MSEs Development Agency to understand the external factors affecting the performance of MSEs and to identify the area that need improvement in order to overcome the effect of external factors with the support of FMSEDE regarding with critical finance, marketing, work premises, infrastructure and other external factors that affect the performance of MSEs.
- The study will also be useful for micro and small business owners to know what and how an external environment affect their business and tackle failure of their business by suggesting some possible solution.

1.5. Scope of the Study

Among the different types of business classification based on their size, this paper focuses on micro and small business enterprises. The study focuses on the assessment of external factors affecting the performance of micro and small enterprises in Oromia regional state Illu Abba Bor zone specifically in Bedele town urban area only. The study has been limited only to cities or urban area because many micro and small enterprises are actively concentrated in the town.

The data were collected from MSEs operates those engaged in business sector of Manufacturing, Construction, urban Agriculture, service, trade and from those are formally registered under Bedele Micro and Small Enterprises office and Bedele Trade and Industry bureau.

There are different issues that can be researched in relation to MSEs but this study was assess those external factors such as external source of finance, access to business development

services, government policy and bureaucracy, marketing and infrastructure factors affecting the performance of MSEs.

1.6. Limitations of the Study

- The survey in Bedele town was conducted in urban area only; therefore, it may not reflect the views and practices of MSEs in rural area.
- The characteristics of the owner managers, characteristics of the enterprises and any other significant focus areas were not discussed in any detail in this study.
- A comparative study between the sectors i.e. manufacturing, service, trade, urban agriculture and construction sectors are not performed.
- In this study while selecting the sample size, the researcher doesn't consider those MSEs operators do not formally register under Bedele MSEDAs and Bedele trade and industry bureau.

1.7. Operational definitions

Business development service (BDS): is any non-financial service to business, offered on either a formal or informal basis. These services include: training/skills development, network brokering, business consultancy, market research, technical information.

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

Enterprise: It refers to a unit of economic organization or activity whether public or private engaged into different sectors of activities i.e. manufacturing sectors, construction sectors, trade sectors, service sectors, urban agriculture sectors.

External Factors: External factor is a contributory aspect that emerge from outside of the operator such as access to external source of finance, access to business development services, government policy and bureaucracy, infrastructures and marketing influences that affect performance of micro and small enterprises.

External source of finance: in this paper external source of finance refers to the formal institution that provides finance for MSEs i.e. Banks, NGOs, Micro finance institutions.

Formal TVET: Currently, formal TVET in Ethiopia includes 10+1 to 10+3 programs, which currently redesigned in to five levels (level I to V) provided by public and private/government/non government institutions and finally accredited by the regional Education bureau/TVET agency.

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

Manufacturing sectors: the enterprises engaged in food processing, preparing ‘baltina’ products and manufacture of bakery products, Manufacture of metal products, Manufacture of wood and wood products i.e. manufacturing of furniture.

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

Micro finance: refers to the provision of financial services to low-income clients, including consumers and the self-employed.

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

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

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

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

Trade sector: the enterprises engaged in product wholesale and retail trade

Urban agriculture sector: the enterprises engaged on the practice of cultivating food, animal husbandry.

1.8. Organization of the Study

This research report is organized into four chapters: Chapter one is the introductory chapter and presents the back ground of the study, statement of the problem, objectives of the study, significance of the study, scope of the study, limitations of the study, definition of significant terms and the organization of the study. Chapter two contains the review of related theoretical and Empirical literature as well conceptual frameworks. Chapter three presents the methodology that was used to answer the research questions and objectives. Chapter four contains data presentation, analysis and discussion of the result. Chapter five presents summary of the finding, conclusion and recommendation.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Theoretical Literature

2.1.1. Definition of Micro and Small Enterprises

Creating and implementing a worldwide multilateral definition of micro Small enterprises (MSE) quickly becomes very technical and challenging. Definitions vary between multilateral institutions like the World Bank and United Nations Development Program. Definitions also vary between countries, largely depending on geographic location and the size and scope of a nation (Bloem, 2012).

There is no universally accepted definition of MSEs. Egbuogu (2003), noted that definitions of SMEs vary both between countries and between continents. The major criteria use in the definitions according to Carpenter (2003), could include various combinations of the following: Number of employees, financial strength, Sales volume, Relative size, Initial capital outlay and Types of industry.

Different regions or countries have defined MSEs based on local operations and conditions. It should be noted therefore that certain definitions may not be applicable in certain regions or settings. For instance the features and mode of operation of small businesses in Ghana makes the paper to adopt the definition by the NBSSI. The NBSSI (1998) cited by Daniel (2010), provided an operational definition of MSE to include the following: The micro enterprises employ up to 5 employees with fixed assets (excluding land and building) not exceeding the value of \$10,000; small enterprises are those employing between 6 and 29 employees or having fixed assets excluding land and building not exceeding \$100,000.

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

An MSE is thus defined as any enterprise, whether or not incorporated or registered under law, which consists mainly of persons carrying on small business concerns in any economic sector, or

which has been established for the purpose of promoting the interests of small business concerns (National Small Business Act, 1996).

In Kenya, MSEs defined as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting, gathering and forestry), whether in the formal or informal sector which employ 1-50 people and More specifically, according to them, micro enterprises are those that employ 10 or fewer workers and small-scale enterprises are those that employ 11-50 workers. The same study argued that the above definitions are based on one of the three criteria mainly used in literature to define MSEs-number of employees. The second criterion relies solely on the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, MSEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes and labor laws. The last criterion defines MSEs by their limited amounts of capital and skills per worker. The above indicated writers emphasized that the degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of MSEs is based ;and lastly they claimed that the term MSE incorporates firms in both the formal and informal sectors (Ronge, 2002 cited in Admasu, 2012).

In Ethiopia, according to Ministry of Trade and Industry (1997) micro enterprises are those small business enterprises with a paid-up capital of not exceeding Ethiopian Birr (ETB) 20,000, and excluding high tech consultancy firms and other high tech establishments. While small enterprises are those business enterprises with a paid-up capital of and not exceeding ETB 500,000, and excluding high tech consultancy firms and other high tech establishments.

According to Ethiopian regulation, “micro enterprise” means an enterprise having a total capital, excluding building, not exceeding Birr 50,000 in the case of service sector or not exceeding Birr 100,000 in the case of industrial sector and engages 5 workers including the owner, his family members and other employees (Art. 2(1)). The same regulation defines “small enterprise” as an enterprise having a total capital, excluding building, from Birr 50,001 to 500,000 in the case of service sector or Birr 100,001 to Birr 1,500,000 in the case of industrial sector and engages 6 to 30 workers including the owner his family members and other employees (Art.2(2)).

Micro and Small enterprises can be defined as one, which is independently owned and operated, and not dominant in its field of operation. It can also be defined in terms of sales volume and by the number of employees in the firm (Endalkachew, 2008).

Micro and small Enterprises may be defined as businesses with the size or number of employees less than 11 workers and 11-50 workers relatively (Bloem, 2012).

2.1.2. The Concept of Business Performance

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

The most commonly adopted definition of success [good performance] is financial growth with adequate profits. Other definitions of success [good performance] are equally applicable. For example, some entrepreneurs regard success [good performance] as the job satisfaction they derive from achieving desired goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models (Rami Alasadi and Ahmed Abdelrahim,2007).

Firm performance refers to the firm's success in the market, which may have different outcomes. Firm performance is a focal phenomenon in business studies. However, it is also a complex and multidimensional phenomenon. Performance can be characterized as the firm's ability to create acceptable outcomes and actions (Aminul, 2010).

The measure of performance of MSEs are performance indicators which are commonly used to help an organization define and evaluate how successfully it is, typically in terms making progress towards its long term organizational objectives (Gibson,1990).They are therefore quantifiable measurements agreed to beforehand, that reflect the critical success factors of an organization. Measurement of actual performance must be done in the same terms in which

standards have been laid down so that comparisons are easier and meaningful. MSEs performance can be measured in monetary terms like profits, costs, incomes or revenue, savings and value of assets held. It can also be measured quantitatively like units of production, units of sales / percentage of market share and quantity of stock held. In terms of time measurement, it includes man-hours or machine-hours. Performance of MSEs can also be measured in terms of capital employed typically expressed in financial terms as rate of return on investment or in terms of current ratio arrived by dividing current assets to current liabilities (Ivancevich,1980).

2.1.3. The Micro and Small Enterprise Sector in Ethiopia

In Ethiopia, the idea of Micro and Small Enterprises (MSEs) development emerged as a promising agenda in the 1980s. A variety of reasons have been cited for the surge of interest in MSEs development, like:

1. MSEs are a better means for poverty reduction.
2. MSEs are a platform for sustainable development and productivity.
3. MSEs are important actors within the trade sector and a platform for economically empowering women and men.
4. The MSE sector plays an important role in providing people with livelihood and income generating opportunities, providing income and services to people who cannot get employment in the formal sector.

In Ethiopia, MSE sector plays pivotal roles in bringing about economic transition through creating opportunities to use existing human and material resources; and through this contributing to poverty alleviation in the short term and poverty eradication in the long run. Particularly, the sector has crucial role in playing as a quick remedy for the increasing unemployment problems in the country. Due to this the five-year Growth and Transformation Plan (GTP) has given particular attention to the expansion and strengthening of micro and small-scale enterprises (MWUD,2007).

According to MWUD (2007),the sector is believed to be the major source of employment and income generation for a wider group of the society. The major objective of this program, which

is creating and promoting MSEs in urban areas, envisages reducing urban unemployment rate.

2.1.3.1. Micro and Small Enterprise Development Strategy

In recognition of the important role MSEs have to play in creating income and employment opportunities and reducing poverty, the government drafted its first Micro and Small Enterprise Development Strategy in November, 1997 (NMSEDS, 1997).

Elements of the 1997 NMSEDS include measures with regard to creating an enabling legal framework and streamlining regulatory conditions that hinder the establishment of new and expansion of existing MSEs. In addition, specific support program also include measures related to providing working premises, facilitating access to finance, provision of incentives, promotion of partnerships, business skill development training, access to appropriate technology, access to market, access to information and advice, infrastructure and institutional strengthening of the private sector associations and chambers of commerce.

The primary objective of the Ethiopian MSEs development strategy framework is to create an enabling environment for MSEs. In addition to this it has specific objective which include; Facilitating economic growth and bring equitable development, creating long-term jobs, strengthening cooperation between MSEs, providing the basis for the Medium and Large Scale Enterprises, balancing preferential treatment between MSEs and bigger enterprises and Promoting export. The strategy outlines the policy framework and the institutional environment for promoting and fostering the development of MSEs and stimulating the entrepreneurial drive in the country.

2.1.3.1.1. The Implementation Structure of the Strategy

The two most important institutions that are directly involved in the promotion of MSEs are MOTI and the newly established MSEDAs. The latter is envisaged to operate the federal and regional level of government (NMSEDA, 1997).

The ministry of trade and industry has responsibility, as the organ of the federal government for the formulation of policies and strategies to promote the expansion of enterprises and to facilitate the provision of assistance to MSEs. The other duties given to the ministry is to support and create conducive environment for the development of private promotional institutions. Regional bureau of trade and industry were delegated to develop and promote the sector in their regions by coordinating regional activities and creating networks with business associations to strengthen the flow of information to MSEs (NMSEDA, 1997).

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

The FMSEDA provide leadership by delivering ‘training the trainers’ programs to equip regional agencies, business associations, and other professionals to deliver entrepreneurship training and facilitation services and BDS to MSEs; studying the problem of identifying viable markets for MSEs and addressing product quality issues; disseminating information to MSEs; and advising government on MSE policies and strategies. FMSEDA also operates skills and technology training facilities, much like incubators, where training is offered in woodworking, metalworking, garments making and handicrafts. It also provides a marketing outlet for MSE products in its sales and display centre and organizes MSE product exhibitions at national and local trade fairs (FMSEDA, 2006). The regional

governments also provided for the establishment of RMSEDAs to provide extension services to MSEs at the regional, zonal and woreda level.

2.1.4. Concept of Business Environment

Business environment of an enterprise consists of the internal and external environment factors affecting the performance of business enterprises. According to Delmar (2008), the business environment has a significant impact on the performance of small business enterprises. Smith (2007) defines business environment as all factors or variables, both inside and outside the organization that may influenced the continued and successful existence of the organization.

2.1.5. External Factors affecting the Performance of MSEs

2.1.5.1. Access to external Finance

All business ventures regardless of size require finances from inception and throughout their life cycles. The amount invested will influence greatly the size of the venture, which in turn determines the early survival of an enterprise and Finance provides the enterprise with funds for purchasing inputs and for general expansion. Finance, particularly the working capital, supports the day-to-day activities of an enterprise (Orser, 2000).

Most of the funding of young firms came from own savings or money borrowed from relatives and friends. However, the amount of cash needed to sustain or accelerate growth processes usually exceeds these personal sources. Many growing firms relay on external sources of finance to accelerate their growth perspectives (Gilbert, 2006 cited by kokobe, 2012).

Both in the developing and developed world, small firms have been found to have less access to external finance and to be more constrained in their operation and growth (Berger and Udell, 1998, Galindo and Schantiarelli, 2003).

MSEs cite the lack of finance as the greatest constraint to their growth and development, whether they are formally registered or not. The financial needs of different types of micro and small enterprises vary widely, with access problems particularly severe for start-up enterprises (MOTI, 1997).

The financial constraints include those factors that prevent micro and small scale enterprises (MSEs) from accessing funds easily, inadequate sources and supply of funds

has been a major setback to the realization of many brilliant business ideas and outward expansion of existing business. Lack of adequate investment capital, lack of sufficient loan, inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business. Access to finance is a major bottleneck for the rapid growth and development of MSEs mainly due to targeted mechanism put in place to address the financial needs of small scale enterprises. Most micro and small enterprises do not have access to micro finance institutions and most banks are reluctant to avail credit facility to small enterprises (CLEP, 2006). Their standards of operation, the long waiting time they take to sanction loans, limited collateral requirements are some of the problems that are found to be discouraging micro and small enterprises from approaching them (MOTI, 1997).

2.1.5.2. Access to Business Development Services

Business Development Services are designed to help micro, small, and medium-sized enterprises overcome barriers to increased profitability, by improving their productivity and access to high value markets (Gibson, 2001). The service include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services.

Among the factors expected to hinder the performance of MSEs is their limited access to business services (BSs) (viz., marketing information, networking, short-term training, counseling and consultancy services) (Ishengoma and Kappel, 2007). Access to marketing information is expected to increase MSEs' market knowledge about the behavior of their customers, price, and the best sources of inputs. Through counseling and consultancy services, MSEs can solve some of the technical problems they face. Their participation in networking activities may enable them to obtain more technical and marketing information about the behavior of their customers, in terms of honoring their debts; new customers; and business partners.

Lack of sufficient access to business supports that enterprises receive from local government bodies which are clearly mentioned both in the old and new MSEs strategies of the government has impact on the performance of MSEs. Those include availing loan services, providing working premises, trainings, and consultancies, organizing in clustering and others for to the enterprises improved performances (MOTI, 1997). The acquisition of relevant vocational,

technical and business skills is generally regarded as one of the critical factors for success in small enterprises. Lack of initial seminars offering advice and guidance for potential entrepreneurs, lack of training to help in the preparation of a business plan, financial record and house hold budgeting (MUDA, 2013). In addition, literacy and entrepreneurial awareness are seen as particularly important requirements to enable people to advance lower level activities into larger and better earning enterprises.

Numerous public, private and non government agencies have been established programs to promoting and supporting enterprises development, specifically those who lack business experience and have poor access to resource (Richardson, Rhona and Gerry, 2004). Despite their support the effectiveness of their promotional activities may be questioned.

It should be clear that government funding will not be sufficient enough to support the implementation of the strategy. Hence, in order to mobilize all the available resources and coordinate programs optimally, it will be necessary to closely work and cooperate with all stake holders. This calls for close cooperation among federal and regional governments, NGOs, and the private sector at large (MOTI, 1997). Experiences have shown that government institutions engaged in supporting MSEs have succeeded in providing limited services due to resource constraints. In order to solve the problems as exercised in other developing countries, (NGOs) especially local ones, with funding coming from local or foreign sources will be encouraged to provide their support. Those wanting to be eligible for MSE support will be accredited with the concerned organization.

2.1.5.2. Marketing

In the words of Stanton (1981), marketing is “The creation and delivery of a standard of living”. It includes; finding out what consumers want, planning and developing a product or service that will satisfy those wants, determining the best way to price, promote and distribute that product or service. Fulop (1970), concurs with Stanton (1981), as he defines marketing as “the making available of the product at the place, at the time and at the form in which they are required by customers”. It also includes provision of services as an integral accompaniment of products, investigation of customer needs, and initiation of the product of merchandise to satisfy customer needs.

All types of business enterprises face marketing problems, but these problems are more severe in case of small scale units because of lack of knowledge, adequate funds and lack of experience. Some of the marketing problems commonly faced by the small scale are; ***Competition from large scale sector:*** Because of scarcity of resources, small entrepreneurs usually use inferior technology. As a result their products are not standardized. The obsolete technology used by them gets translated into inferior quality of products. ***Lack of sufficient marketing and promotional support:*** There are no sufficient institutional facilities that nurture the promotion, growth and development of MSEs. And also marketing their products effectively as well as accessing and acquiring information on business opportunities are the major bottlenecks that small and micro entrepreneurs face all over the country (CLEP, 2006).

Usually market constraints and the inability to sell their products and services are listed as one of the most serious obstacles to the starting of business and growth beyond mere subsistence level. The problem of demand or access to market is also another problem (Ageba, 2006). This demand problem has prevailed because of existence of weak or absence of inter linkage mechanisms with other medium or large enterprises and existence of weak or absence of appropriate marketing channels, open markets, exhibitions, trade fairs, displays centers etc which MSEs would have used to market their outputs (CSA, 2003).

Business Premises in which MSEs are to display and sell their products is also the major problem affecting the performance of MSEs. Many may sell their products in someone else's shop or from their home. Business location is also important to maximize on passing trade. If the business is located far from the market the entrepreneur may rely on customers coming to them or will have increased transportation costs to get their products to market (Kokobe, 2013).The enterprises may also have limited space available to them for both the production and storage of their products, which will limit the amount they can produce.

The product line of MSE activities relatively similar there is Lack of product diversity, however, is prevalent and as a result similar products are over-crowding the market (Asegedech, 2004).

2.1.5.4. Government Regulation and Bureaucracy

The government and its regulations are a major obstacle to MSEs operations (CLEP, 2006). Among the problems in government regulations, getting license and regulation of obtaining working premises were the major problems to start operation in this sector .

Absence of appropriate policy support and there still exists an overly bureaucratic government system that often results in unnecessary delays in compliance and is excessively costly. This includes a complex system, lengthy procedures and rules. For example, registration of a business, getting working places, payment of stamp duty among others. For MSEs, lack of premise and land is unquestionably a serious problem. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of micro, small and medium enterprises who aspire to start up businesses (Syed, 2001).

2.1.5.5. Infrastructure

Infrastructure is one of the basic factors required to enhance the pace of industrialization in any country. The development of business and industrial premises (shops, offices, factories, market stands, etc.) and infrastructure facilities, mass transportation, water system, septic tank system, solid squander organization, drainage and deluge safety, electric fitting, telecommunication connections, sewage systems, etc. are crucial infrastructural facilities and utilities which warrant the growth and expansion of business enterprises (Fox, 1994) cited by Muneeb A, Ejaz A (2012).

The micro and small scale enterprises (MSEs) sector in developing countries operates in an environment with very poor infrastructure which constitutes a barrier to entry and hinders international competitiveness. In many developing country, nonexistent of infrastructure, inability to access market, communication, power, water etc. prevent development of micro and small scale enterprises (Osotimehin, 2012).

Well-developed physical structure that includes reliable transportation, warehousing and port facilities and communications networks has an influence on MSEs development (Hallberg, 2000 cited by Satt, 2014).

2.1.6 Challenges of MSEs Development in Ethiopia

In Ethiopia, MSEs are confronted with various problems, which are of structural, institutional and economic in nature (MOTI, 1997). Lack of capital, working premises, marketing problems, shortage of supply of raw materials is the most pressing problems facing MSEs. Although the economic policy of Ethiopia has attached due emphasis to entrepreneurship values and appreciation of the sector's contribution to the 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 and improvement.

In Ethiopia, although the number of financial institutions in the local credit market has increased since 1990, the degree of practical assistance provided by such financial institutions to MSEs has not improved much. The majority of small businesses and enterprises still have limited access to bank services that are essential for supporting their business initiatives (Adera, 1995 and Ageba.et.al, 2006).

Small enterprises usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of businesses and growth beyond mere subsistence level. This assertion also holds true in the case of Ethiopian MSEs, as revealed from various studies undertaken concerning the MSE sector. Demand problem According to Ageba (2006), MSEs in Ethiopia, usually market constraints and the inability to sell their products and services are listed as one of the most serious obstacles to the starting of business and growth beyond mere subsistence level. The CSA (2003), report showed that 48% of the total establishments have faced a problem of demand or access to market. This demand problem has prevailed because of existence of weak or absence of inter linkage mechanisms with other medium or large enterprises and existence of weak or absence of appropriate marketing channels, open markets, exhibitions, trade fairs, displays centers etc which MSEs would have used to market their outputs (CSA, 2003).

Most Ethiopian MSEs lack adequate marketing channels through which they could market their outputs. Marketing channels could serve both as means through which marketing information is made available and sales outlets created for the products and services of MSEs. Like Chambers

of industry and trade, sectoral associations of MSEs, government promotional institutes, NGOs, etc (MOTI, 1997).

It is clearly indicated in the strategy that the government facilitates provisions of loan services at preferential interest rate to small and micro enterprises in the nation during the specified time. Though such instrument is very supportive for the growth of MSEs, availability and quality of this support instrument has its own impact on their performance (MOTI, 1997, Negash and Kena, 2003, Ageba et.al, 2006).

There are some enterprises complaining about the existing system, for instituting a number of different criteria on borrowers to be eligible for the service. For instance, since the new MSE strategy was issued, there are some Survey of MSEs in Selected Major Urban Areas of Ethiopia regions that oblige or force enterprises to save about 20 % of their revenue to be eligible for borrowing from micro financial institutions, which some found difficult to fulfill. There are still others who mentioned number of members was the limit to get the intended loan. For instance, in cooperatives, the minimum number of members to be eligible both for getting loans and entering into any other legal relation with other institution is ten (Adera, 1995, Ageba and Amha,2006).

The physical infrastructure like mass transportation, water system, septic tank system, solid squander organization, drainage and deluge safety, electric fitting, telecommunication connections, sewage systems, etc are not adequately developed and expanded to meet the growing demand of business activities in Ethiopia (MOTI, 1997).

2.2 Empirical Literature

From the literature, various determinants of MSEs' growth and performance have been proposed and identified. Ishengoma and Kappel (2006), categorized factors hindering the performance of Micro and small enterprises into three, namely internal, external and inter firm. Fredland and Morris (2009), classifying causes as endogenous (internal to the firm and presumably within its control) and exogenous (external to the firm and beyond its control). Such a classification has the merit of providing a somewhat better policy handle since if causes are endogenous, appropriate policy 'helps firms help themselves'; if exogenous, appropriate policy may seek to change the economic environment.

The study conducted in Kosovo reveal that external factors such as access to finance, competition, corruption, and government policies have very important impact in the development of MSEs. Another study carried out by (Mohammed, 2012) on Assessing the Influence of External Environmental Factors, on the Performance of Small Business Manufacturing enterprises in Bauchi state, Nigeria reveals that, capital access and government support were found to be significantly related to business performance of the enterprises. Njanja (2012), on his study of “The Effects of the External Environment on Internal Management Strategies within Micro, Small enterprises in Nairobi, Kenya” indicates the significant correlations between the management strategies and the environmental or external factors.

According to Mead and Liedholm (1998) and Swierczek et.al, (2003), the main factors that affect the performance of MSEs in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support. The research undertaken in Tanzania by surveying 160 micro enterprises showed that high tax rates, corruption, and regulation in the form of licenses and permits, are found to be the most important constraints to business operations of micro enterprises(Fjeldstad et al., 2006 cited in Admasu,2011).

In Ethiopian context, a study undertaken by (Endalkachew, 2008), stated that causes of small businesses failure are multidimensional and diverse. They include both internal and external factors. In practice, many of these are interrelated. The study established causes of micro and small businesses failure, among which are: lack of capital, lack of business plans, high taxes, lack of land and premises, and, poor market, high rent charges and wrong pricing in the study area.

Mulugeta (2011), has identified and categorized the critical problems of MSEs in to market-related problems, which are caused by poor market linkage and poor promotional efforts; *institution-related problems* including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; *operator-related* shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; *MSE-related challenges* including lack of selling place,

weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally *society-related problems* such as its distorted attitude about the operators themselves and their products.

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

2.2.1. Conclusions and knowledge Gaps Emerged from Survey of Related Studies

The significance of rapidly growing Micro and small enterprises in creating employment opportunity and in economic growth of a country is very obvious to many. Despite their role MSEs have constrained by different factors and different researchers have been conducting study related with factors that hinder the performance of MSEs.

The empirical literature presented in the above part indicates that, performances of MSEs are influenced by a range of internal factors; inter firm factors and external factors. Internal factors include demographic characteristic (i.e. age, gender, educational background, experience, managerial skill, motivation), inter firm factors which include size of enterprises, type of business, age of the enterprises and external factors such as access to finance, competition, corruption, and government policies, access to markets, institutional support, absence of training, and inadequate infrastructure.

The above empirical literature shows that most of the research findings give more focus on their internal factors rather than the external factors therefore this study is concern with the external factors such as access to external source of finance, access to business development services,

marketing, government policy and bureaucracy and infrastructure factors affecting the performance of MSEs to fill the gap of previous study.

As the empirical literature indicate more of the researches have been conducted in foreign country, in reality , literature on MSEs in Ethiopia is very little and most of the available studies were not conducted in line with performance aspects of micro and small enterprises. Even those studies conducted in Ethiopia were mainly focus on major urban area not on different town or wereda found in different regional states. However, this research tries to assess in a holistic way by targeting and investigating those operators engaged in Manufacturing, services, construction, urban agriculture and trading sectors in Bedele town.

2.3 Conceptual Framework

Conceptual framework means that concepts that relate to one another were used to explain the research problem. Since business performance is influenced by external factors, operators need to understand what influences businesses to reach peak performance. The contextual or external factors include finance, business development services, marketing, infrastructural, and government regulation and bureaucracy.

To align the conceptual framework with the research objectives, business performance is the dependent variable and whereas access to external source of finance, access to business development service, marketing, government regulation and bureaucracy and infrastructural factors are all independent variables. The independent variables are the factors which influence the performance of a small and micro enterprise.

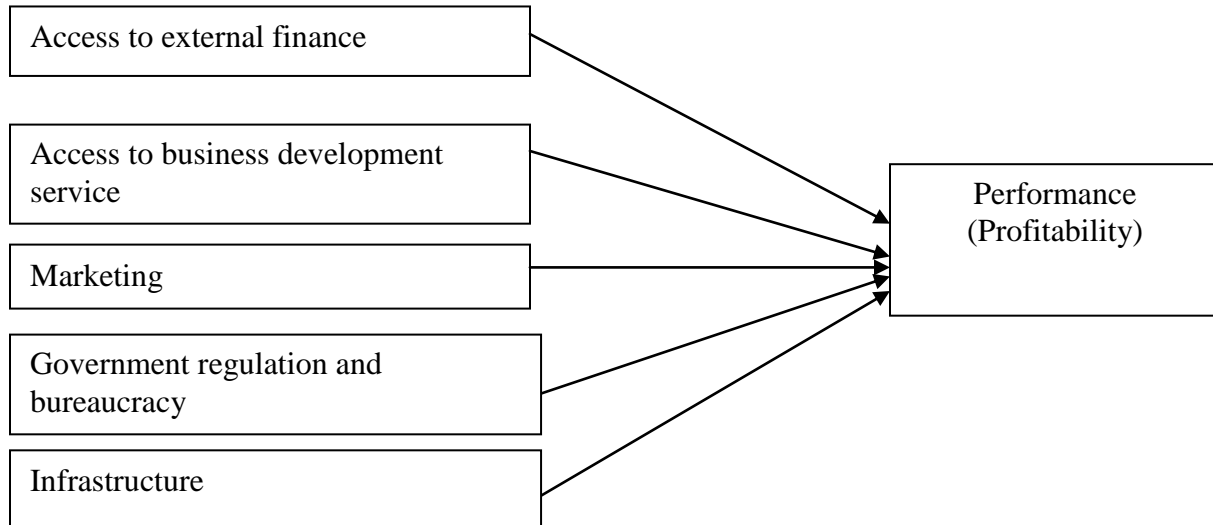
In this study profitability were obtain to measure performance of these MSEs. This is mainly because of the following reasons. First, as the previous study clearly indicates that these MSEs are more focusing on profitability than other modes of performance measures. Second, the MSEs were not applying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

The relationship of independent and dependent variables can be expressed as follow:-

Figure 2.1. Conceptual framework of the study

Independent variables

Dependent variable



Source: own model

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

The research design is the general plan of how the researcher goes towards answering the research question. In other words, it is a master plan specifying the method and procedures for collecting and analyzing the needed information. According to Kothari (1990), the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data.

To meet the objectives of the study, descriptive and analytical research design were employed. The descriptive research design is employed to describe the state of affairs as it exists at present while the analytical research design is used to explain the relationship between variables affecting performance of MSEs in Bedele town. In short, the combinations of qualitative and quantitative research approaches are used in this study.

3.2. Source of Data and Method of Data Collection

3.2.1. Source of Data

The study used both primary and secondary source of data. The secondary sources of data included information obtained from different reports, books, and journals. The primary source of data was collected from randomly selected operators of MSEs and from the head of Bedele MSEs bureau.

3.2.1. Method of Data Collection

Gay (1996) explains that descriptive data are usually collected using questionnaires and interview. Similarly, Simon (1998), Cohen and Manion (1998) have also identified questionnaires and interview as crucial instrument of data collection in descriptive research. With this backdrop, the primary data for this study was collected by using questionnaire and semi structured interview.

The designed questionnaire has four parts. The first part in close ended format and consists of the demographic profile of the respondents. The second part consists of general information about the enterprises. The third and the fourth parts are designed in the form of a Likert scale; and address issues relating to performance measurement and key external factors affecting the performance of Micro and Small Enterprises (MSEs) in the study area. The Likert scale ranges from 'strongly agree' to 'strongly disagree' (6= strongly agree 5= agree 4= inclined to agree 3= inclined to disagree 2= disagree 1= strongly disagree). In addition to Likert scale, the fourth part contains open ended questions in order to allow respondents to provide additional information related to the external factors affecting the performance of MSEs operating in the study area.

A Likert scale item is in fact a set of ordered categories; while technically the Likert scale item is ordered, using it in parametric tests is valid in some situations. According to Lubke & Muthen (2004); found that it is possible to find true parameter values with Likert scale data, if assumptions about Skewness, number of categories, etc., were met.

The questionnaire was primarily prepared in English language. Taking into account the respondent's educational background and to enhance understandability of the questions, the questionnaire was translated into Afan Oromo. Similarly, the semi-structured interview with the head of Bedele MSEs development agency was made in Afan Oromo.

3.3. Description of the study area

Bedele town is located in South Western part of Oromia National Regional State, Ilu Ababora Zone Bedele district. It is located at 480 km from Addis Abeba, the capital city of Ethiopia. The town shares boundaries with surrounding peasant administrations (PAs); namely Mirga Mute from the north, Like and Kereno from the south, Bita Mute and Sidisa from the west and Odoos from the east. Bedele town have two urban and 42 rural kebeles.

According to the information obtained from the Topographic map of Bedele town the total area of the town is 2878.1 hector including the adjacent peasant administration as a part of the town administration. Astronomically the town is located approximately between $8^{\circ}17'$ and $8^{\circ}37'$ N latitude and $36^{\circ}13'$ and $36^{\circ}19'$ E longitude. Bedele is found in the altitudinal range between 1800m at lowest to 2100m above mean sea level at the highest. The climate condition of the town is categorized under Woina Dega climate of warm and Humid class. The mean annual temperature of the town is around 27°c average annual maximum is 24.87° whereas the average annual minimum is 12.82°c .

According to CSA (2007), the total population of Bedele town is 25,987 and the town is the second most populous town in Ilu Ababora Zone following Gore and Kumbabe town.

3.4. Population, Sample and Sampling Technique

3.4.1. Study Population

The population to be considered in this study is all MSEs currently operating and those engaged in manufacturing, construction, service, trade and urban agriculture sector in Bedele town urban area only and those formally registered by Bedele MSEs Bureau and Bedele Trade and Industry development bureau from 1997 to 2005 E.C. The total number of MSEs in the study area, according to Bedele MSEs Development Agency is, 1104 people which consists of 1001 micro enterprises and 103 small enterprises which are engaged in urban Agriculture (74 micro and 20 small), Manufacturing (91 micro and 32 small), Construction (251 micro and 0 small), Service (356 micro and 26 small), and Trade (229 micro and 25 small) sectors are there (Bedele MSEs report, 2005 E.C).

3.4.2. Sample and Sampling Technique

The sample size of this study is determined to be 297 MSE operators or owners in Bedele town. The respondents were selected from urban agriculture, manufacturing/processing, construction, service, and trade sectors on proportional basis. To select the sample size this study uses stratified random sampling technique. Stratified random sampling is modification of random sampling in which the population is divided into two or more relevant and significant strata based on one or more attributes. Each of the stratum to which the population is divided obtain an equal chance of being included in the sample.

Stratified random sampling has been used to get information from different sizes and sectors of the MSEs. This technique is preferred because it is used to assist in minimizing bias when dealing with the population. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. According

to Janet (2006), this step increases the probability that the final sample will be representative in terms of the stratified groups.

For the purpose of this study the population was stratified twice. First, the stratification was done according to the size, thus counting for micro and small size enterprises as defined by Ethiopian Micro and Small enterprises agency. Second, stratification was done according to the sectors, so that differences in population in terms of manufacturing, trade, agriculture, construction and service sectors. In addition to stratified random sampling technique, this study used purposive sampling technique; the head of Bedele MSE development agency are purposely selected for interview in order to obtain detail information about MSEs in Bedele town and additional information about external factors affecting the performance of MSEs in Bedele town.

To calculate sample size the following formula is used (Watson, 2001):-

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

- Where,
- n = sample size required = 297
 - N = number of population = 1104
 - P = estimated variance in the population = 50%
 - A = margin of error = 5%
 - Z = confidence level = 1.96 for 95% confidence
 - R = estimated response rate = 96%

Since variability is too difficult to estimate, so it is best to use the conservative figure of 50%, 95% confidence level is standard for most social-science applications, though higher levels can be used and Response rate (R) is not known before the collection of data or before conducting pilot study, so that this figure is obtained from previous study of Admasu, 2012 and selected by assuming that direct contact increase response rate.

3.4.2.1. Sampling Frame

The sampling frame consists of a list of items from which the sample is to be drawn (Kothari, 2004).

Table 3.1. Sampling frame

	Micro	Small	Total	Sample
Urban Agriculture	74=20	20=5	94	25
Manufacturing	91=24	32=9	123	33
Construction	251=68	0=0	251	68
Services	356=96	26=7	382	103
Trade	229=61	25=7	254	68
Total	1001	103	1104	297
Sample	269	28		

3.5. Data Processing and Analysis Techniques

3.5.1 Data Processing

Processing implies editing, coding, classification and tabulation of collected data so that they are amenable to analysis (Kothari, 1990).

After having collected the relevant data from both primary and secondary sources, the data were coded, classified and processed using manual and computerized system.

3.5.2. Data Analysis

Data analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data-groups. In this study, descriptive and inferential data analysis were employed. Statistical Package for Social Scientists (SPSS) Software (Version 20) was used to analyze the data.

3.5.2.1. Descriptive Analysis

Descriptive analysis were used to reduce the data in to a summary format by tabulation(the data arranged in a table format) and Descriptive statistics including, frequencies, percentages, mean and standard deviation were used to discuss the data. Regarding the data collected through interview was analyzed using narrative description.

3.5.2.2. Inferential Analysis

Inferential statistics allows to infer from the data through analysis the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable (Sekaran, 2000). Inferential statistics (The Pearson Product Moment Correlation Coefficient and Linear Regression analysis) were taken in this study.

3.5.2.2.1. The Pearson product Moment correlation Coefficient

Pearson Product Moment Correlation Coefficient is a widely used statistical method for obtaining an index of the relationships between two variables when the relationships between the variables is linear and when the two variables correlation are continuous. To ascertain whether a statistically significant relationship exists between access to external source of finance, access to business development services, government policy and bureaucracy, marketing and infrastructure factors with the performance of MSEs, the Product Moment Correlation Coefficient were used.

According to Duncan C. and Dennis H. (2004), correlation coefficient can range from -1 to +1. The value of -1 represents a perfect negative correlation while a value of +1 represents a perfect positive correlation. A value of 0 correlations represents no relationship.

3.5.2.2.2. Multiple Linear Regressions

Multiple linear regression analysis is an extension of simple linear regression analysis, used to assess the association between two or more independent variables and a single continuous dependent variable. The objective of this analysis is to make a prediction about the dependent variable based on its covariance with all the concerned independent variables.

Based on the conceptual relationships described above, the equation of regressions in this study is generally built around two sets of variables, namely dependent variable (profitability) and independent variables (access to external source of finance, access to business development services, marketing, government policy and bureaucracy and infrastructure).

To associate performance with the independent variables the paper employs a linear regression model, the equation is as follows:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} + e_i$$

Where

Y_i = is the predicted or expected value of the dependent variable,

X_1 - X_5 = distinct independent or predictor variables,

b_0 = is the value of Y when all of the independent variables (X_1 through X_5) are equal to zero and

b_1 - b_5 = the true population parameters to be estimated by regression analysis. Each regression coefficient represents the change in Y relative to a one unit change in the respective independent variable.

Y_i = performance

X_1 = Access to external source of finance related factors,

X_2 = Access to business development services factors,

X_3 = marketing factors,

X_4 = Government policy and bureaucracy factors,

X_5 = infrastructural factors,

e_i = is a normally distributed error term.

Accordingly, these regression techniques were used to explain the relationships of the above variable.

3.6. Variables and Measurements

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

Such performance measures include but not limited to: market share, sales volume, company reputation, profitability, and established corporate identity. While some might argue that most of these performance measures are appropriate for large corporations, they are not always perfectly applicable to small businesses (Mulugeta, 2010).

In this study, profitability is used as a proxy measurement of performance. This is mainly because of the following three reasons. First, as the different study's indicates that MSEs are more focuses on profitability than other modes of performance measures. Second, as recommended by Rami and Ahmed (2007), change in profit has been widely adopted by most researchers and practitioners in business performance models. Also, another performance measurement are may not be appropriate alternative measure of performance because this MSEs are primarily established as a source of self employment. The independent variables are access to external source of finance, access to business development services, marketing, government policy and bureaucracy, infrastructural variables.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND

DISCUSSION OF RESULTS

4.1. Introduction

This chapter presents the results and analysis of data collected via questionnaire and semi structured interview. This chapter is organized into two parts, the first part consists presentation of the demographic profile of respondents, the general information about the enterprises, description of performance or perceived profit and external factors affecting the performance of MSEs in Bedele town respectively by using descriptive statistics (frequency, percentage, mean and standard deviation). The second part contains inferential analysis i.e. The Pearson Product Moment Correlation Coefficient and Linear Regression analysis.

Two hundred ninety seven (297) questionnaires were distributed to urban agriculture; manufacturing, construction, services and trade. Specifically, 25, 33, 68, 103 and 68 questionnaires were distributed to these sectors respectively. The number of the questionnaires retrieved from urban agriculture, manufacturing, construction, services and trade are 25, 30, 43, 103, and 68 respectively. Except construction and manufacturing sectors, all the other sectors retrieved all the questionnaires distributed to them. In short, only two hundred sixty nine (269) or 90.6% of the distributed questionnaires were properly filled by respondents and, thus, are used for analysis.

4.2. Demographic profile of the respondents

The following table 4.1 summarizes the demographic profile of respondents by sex, age, educational level, marital status and work experience.

Table 4.1. Respondent's demographic profile

Item	Frequency	Percentage
1. Sex		
Male	153	56.9
Female	116	43.1
Total	269	100

2. Age		
Below 20 Years	34	12.6
21-30 Years	183	68
31-40 years	43	16
Above 40 years	9	3.3
Total	269	100
3. Level of education		
Can't read and write	8	3
Grades 1-4	3	1.1
Grades 5-8	38	14.1
Grades 10 complete	124	46.1
10+1 & 10+2	57	21.2
10+3 /diploma	29	10.8
BA/BSC and above	10	3.7
Total	269	100
4. Marital status		
Single	125	46.3
Married	135	50
Divorce	7	2.6
Widowed	2	.7
Total	269	100
5. Work experience in business		
less than 1 year	10	3.7
1-5 years	182	67.7
6-10 years	64	23.8
Greater than 10 years	13	4.8
Total	269	100

Source: survey data, 2014

As can be seen from table 4.1, 153(56.9%) and 116(43.1%) of the 269 respondents are male and female respectively.

The result in same table shows that the majority, 183 (63%), of the respondents are within the age category of 21-30 years followed by 43(16%) who are under the category of 31-40 years. The remaining 34(12.6%) and 9(3.3%) of the respondents are under the age category of below 20 years and above 40 years respectively. Furthermore, out of 269 respondents 124 (46.1%) of them are grade 10th completed. This is followed by 57 (21.2%) who are 10+1 and 10+2 and 38 (14.1%) who are within grade 5-8. The result in table also shows that 29 (10.8%) and 10 (3.7%) of the respondents has 10+3 / diploma and BA/BSC and above respectively. From

the total respondents 8 (3%) of them cannot read and write and 3 (1.1%) respondents are within 1-4 grade level.

The marital status of the respondents shows that the majority of them 135 (50.2%) are married followed by single.125 (46.5%). The remaining7 (2.6%) and 2 (.7%)of the respondents are divorced and widowed respectively.

With regard to the work experience of the respondents, the result of table 4.1 above shows that majority of the respondents182 or (67.7%) have 1-5 years of experience in business. It is also the result of the table 4.1 indicate that 64 or (23.8%) have an experience of 6-10 years and 13 or (4.8%) of the respondents have above 10 years experience. The remaining 10 or (3.7%) of the respondents have less than 1 year work experience on the business.

4.3. General information about the enterprises

In this section the legal ownership status of the enterprises and the sector that the respondents engaged in is presented.

4.3.1. Legal ownership status of the enterprises

Enterprises included in the study are having different legal ownership status such as sole ownership, partnership, family business, cooperatives and others. The following table shows the respondents legal ownership status of enterprises in Bedele town.

Table 4.2.Legal ownership status of the enterprises

Items		Frequency	Percentage
Valid	sole ownership	30	11.2
	Partnership	73	27.1
	Family	44	16.4
	Cooperative	122	45.4
	Total	269	100.0

Source: survey data, 2014

As one can see from the table 4.2, majority of the respondents 122 (45.4%) establish their enterprise in the form of cooperatives followed by partnership 73(27.1%).The number of respondents with a family business and sole ownership is 44(16.4%) and 30(11.2%)respectively.

4.3.2. Sectors Respondents Engaged In

Micro and small enterprises are engaged in different business activities such as service sector, construction sector, manufacturing sector, trade sector and urban agriculture sector. The following table shows business activities the engaged in.

Table 4.3.Sectors respondents engaged in

	Items	Frequency	Percentage
Valid	service sector	103	38.3
	construction sector	43	16.0
	manufacturing sector	30	11.2
	trade sector	68	25.3
	urban agriculture sector	25	9.3
	Total		269

Source: Survey data. 2014

As shown in table4.3, the sample populations were operating in five sectors of the enterprises. Most of them are engaged in service sector 103 (38.3%) followed by trade sectors 68 (25%) and 43(16%) construction sector, 30 (11.2 %) manufacturing sectors sector and 25 (9.3%) of urban agriculture.

4.4. Performance Measurement

The dependent variable considered in this study is performance of MSEs in terms of perceived profit. Due to lack of financial record keeping and unwillingness of respondents to tell their profit, the dependent variable is generated by asking the following integrated questions (see Table 4.4). This is accomplished by calculating the mean and standard deviation of each of the questions in Table 4.4 below, which are believed to measure the performance of the respondents.

Table 4.4.performance measurement

Item	N	Mean	Std. Deviation
my business is not promising to continue	269	2.21	1.29
My business profit is not in a good position	269	2.18	.673
I have not sustainable profit since I start my business	269	2.10	.721
my business profit is not increasing from time to time	269	2.52	1.15
my business has not potential to grow/expand	269	2.68	.687
my business have not able to serve debt	269	2.88	1.53
my business profit is not above expected	269	3.96	1.61
Valid N (list wise)	269		

Source: Survey data, 2014

As indicated in table 4.4, the mean and standard deviation of perceived profit of the respondents were calculated.

The result of the table show that on the idea regarding with my business profit is not above expected has the mean score of 3.96 with 1.61 standard deviation. Therefore, these imply that the respondents are inclined to agree with this statement.

According to the result of table 4.4, on the idea regarding with my business profit has not ability to serve debt, my business has not potential to grow/expand and my business profit is not increasing from time to time has the mean score of 2.88, 2.68 and 2.52 with standard deviation of 1.53, .687 and 1.15 of standard deviation respectively. So this shows that the respondents are inclined to disagree with these statements.

The result of the same table shows respondents are disagree with the idea of my business is not promising to continue, my business profit is not in a good position and I have not sustainable profit since I start my business. This is justified by the mean score of 2.21, 2.18 and 2.10 with the standard deviation of 1.29, .673 and .721 respectively.

4.5. External Factors Affecting the Performance of MSEs

As described in the literature, there are a number of challenges that affect performance of MSEs. With this milieu, this section explains the external factors that affect the performance of MSEs in Bedele town. Though external factors may include technological, political, economical and socio-cultural factors, only financial, government policy and bureaucracy, marketing, business development services and infrastructural factors are included in this study. The impact of each of these variables is described in the following.

4.5.1. Financial factors

Table 4.5. Financial factors affecting the performance of MSEs

Items	N	Mean	Std. Deviation
In availability of sufficient credit institutions	269	5.22	.58
high collateral requirement from bank and other lending institution	269	5.07	1.11
High interest rate charged by banks and other lending institution	269	3.97	1.49
Too long Loan application procedures of banks and other lending institutions	269	5.18	.519
Lack of sufficient loan	269	5.40	.499
Long waiting time to take sanction loan	269	5.16	.877
Valid N (listwise)	269		

Source: Survey data, 2014

As it is presented in table 4.5 above lack of sufficient loan and in availability of sufficient credit institutions are major problems of MSEs. This is justified by agreement of respondents with 5.40 and 5.22 mean score with .499 and .580 of standard deviation respectively.

Similarly, too long loan application procedures of banks and other lending institutions, long waiting time to take sanction loan and high collateral requirement from bank and other lending institution have the mean score of 5.18, 5.16, 5.07 and standard deviation of .519, .877, and 1.11 respectively. So, this shows that respondents are agreed with these statements.

Furthermore, the respondents tend to agree to the impact of high interest rate charged by bank and other lending institutions. This is implied by the mean score of 3.97 and 1.485 standard deviations.

The interview made with the head of Bedele MSEs development agency reveals that unavailability of sufficient credit institutions has an effect on the performance of MSEs. The head said that most of MSEs use Oromia credit and saving share company as a source of finance however, it is obvious that Oromia credit and saving share company (OCSSCO) by alone may not to fulfill the financial needs of different types of micro and small enterprises. Due to this MSEs in the town have suffered with lack of sufficient credit to invest on their enterprises. The head also said that a Collateral requirement is one of the problems that are found to be discouraging micro and small enterprises from approaching financial institution.

4.5.2. Accessibility of Business Development Services Factors

Table 4.6. Accessibility of business development services factors

Items	N	Mean	Std. Deviation
Lack of sufficient training, consultancy and advisory services	269	5.30	.458
Lack of marketing assistance and information provision	269	5.02	.826
Absence of technology development and transfer support	269	4.48	1.145

Absence of planning and financial reporting training from MSEs development agency	269	5.38	.590
Lack of support from NGOs	269	3.19	1.977
Valid N (listwise)	269		

Source: Survey data, 2014

The result in Table 4.6 below shows that among accessibility of business development service factors, absence of planning and financial reporting training from MSEs development agency and lack of sufficient training, consultancy and advisory services scores the highest mean of 5.38 and 5.30 with 0 .590 and 0.458 standard deviations respectively.

The second highest mean score from factors that affect the performance of MSEs in relation with accessibility of BDS are lack of marketing assistance and information provision. This is justified in the result of above table 4.6 that indicate the respondents mean score of 5.02 and .826 of standard deviation. The mean score of 4.48 and standard deviation of 1.15 in table above shows that absence of technology development and transfer support is also a problem of MSEs.

It can, thus, be inferred that the respondents have agreed accessibility of BDS factors such as absence of planning and financial reporting training, lack of sufficient training and consultancy services, lack of marketing assistance and information provision and absence of technology development and transfer support have effect on their performance. However, the respondents inclined to disagree to the idea that lack of support from NGOs affect the performance of MSEs with the mean score of 3.19 and standard deviation of 1.98.

During the interview on the idea related to training; the head said that his office provides different technical trainings in collaboration with TVET School though the training supports given by TVETs are still not satisfactory for they focus on some technical training aspects rather than business matter.

The head added that there is no segmentation based on educational background and work experience giving training for MSEs operators. MSEs operators from different social backgrounds, with varying degrees of education, little or no business experience and with little or no prior training are all trained all together. The head further said that proper selection

mechanisms were not used in screening the candidates, screening the same trainees for different training programs at different times are observed.

4.5.3. Marketing factors

The following table displays the key marketing factors that affect the performance of micro and small enterprises in Bedele town.

Table 4.7. Marketing factors

Items	N	Mean	Std. Deviation
Competition from large and medium scale sectors	269	5.17	.855
Lack of sufficient promotional institutes and marketing support	269	4.38	1.28
Lack of appropriate marketing channels	269	4.94	.586
Absence of exhibitions, Chambers of industry and trade and bazaar	269	4.72	.926
Poor business premises in which to display and sell	269	5.46	.499
Inconvenient business location	269	5.57	.496
Lack of product diversity with that of other enterprises	269	4.12	1.61
Absence of relationship with an organization that conduct marketing research	269	3.67	1.74
Demand problem	269	5.33	.531

Shortage of supply of raw material	269	4.39	1.66
Valid N (listwise)	269		

Source: Survey data, 2014

As shown in table 4.7 above, inconvenience business location and poor business premises in which to display and sell are the major marketing factors that affect the performance of micro and small enterprises in the town. This is so because the mean scores (5.57 and 5.46) and standard deviations (.496 and .499) respectively show that respondents strongly agree to these statements.

The average score mean of 5.33, 5.17, 4.94 and 4.72 with standard deviation of .531, .855, .586 and .926 respectively shows that respondents agree that demand problem, competition from large and medium scale sectors, lack of appropriate marketing channels and absence of exhibition, chambers of industry and trade and bazaar are the second major problems of MSEs.

Other result in table 4.7 shows respondents tend to agree to the idea of shortage of raw material, lack of sufficient promotional institutes and marketing support, lack of product diversity with that of other enterprises and absence of relationship with an organization that conduct marketing research with mean score of 4.39, 4.38, 4.12 and 3.62 with standard deviation of 1.657, 1.277, 1.613 and 1.738 respectively.

Similar to these findings, the interview with the head confirmed that most MSEs are operating their business in poor business premises and inconvenient business locations. The head said that land given for them for work lacks accessibility for the customers, which in turn create shortage of demand for their product. The interview result also shows that MSEs are unable to compete with the large traders and they do not have the capacity to bring the commodities from Addis Ababa by themselves.

4.5.4. Government policy and bureaucracy

Table 4.8. Government policy and bureaucracy factors

Items	N	Mean	Std. Deviation
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Bureaucracy in company registration and licensing	269	5.19	.501
Lack of government support	269	3.82	1.16
Political intervention	269	2.10	1.35
Tax levied on my business is not reasonable	269	3.35	1.69
Regulation of obtaining working premises	269	5.30	.461
Valid N (listwise)	269		

Source: Survey data, 214

As it is indicated in table 4.8, regulation of obtaining working premises and bureaucracy in company registration and licensing has high mean score of 5.30 and 5.19 with .461 and .501 standard deviation respectively. Therefore, it can be concluded that regulation of obtaining working premises and bureaucracy in company registration and licensing is the main factor that affects the performance of MSEs in the town.

Another result of table 4.8 above shows respondents inclined to agree that lack of government support has an effect on their enterprises; this is justified by the calculated mean score of 3.82 and standard deviation of 1.16.

On the contrary, the respondents tend to disagree on the idea that tax levied on their business is not reasonable; the mean score of 3.35 with standard deviation of 1.692 implies that tax levied on their business does not as such affect their performance. Lastly, the result in the table indicates respondents disagreed to the factor related with political intervention. As implied by the mean of 2.10 and standard deviation of 1.35.

The interview result reveals that there is a problem of working premises and this seems a problem observed from the side of the municipalities.

4.5.5. Infrastructural factors

Table 4.9. Infrastructural factors

Items	N	Mean	Std. Deviation
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Power interruptions	269	4.47	1.57
Insufficient and interrupted water supply	269	4.58	1.23
Lack of appropriate dry waste and sewerage system	269	3.66	1.71
Lack of sufficient and quick transportation service	269	2.33	1.69
Valid N (listwise)	269		

Source: Survey data, 2014

Table 4.9 shows that respondents agree to the problem of insufficient and interrupted water and power supply affecting their performance. The mean scores of 4.58 and 4.47 with 1.23 and 1.57 of standard deviation respectively clearly justified this idea. And the respondents tend to agree to the fact that lack of appropriate dry waste and sewerage system has an effect on their performance with the mean score of 3.66 and standard deviation of 1.71.

However, the respondents are disagreeing towards the idea that lack of sufficient and quick transportation service has an effect on performance of MSEs. This is indicated in the above table by the mean score of 2.33 with standard deviation of 1.69.

Similar to the mean and standard deviations result, the interview with the head shows that interrupted water and power supplies are common problems of Bedele town. The head replied that the feeder roads of Bedele town are poor and this has hampered the accessibility to the MSEs working site by incumbent and potential customers.

4.6. Results of Inferential Statistics

This sub-section presents the result of Pearson's product moment correlation coefficients and regression analysis.

4.6.1. Pearson's product moment correlation coefficient

In this study, the Pearson's product moment correlation coefficient test is used to determine whether there exists a significant correlation between performance and the variables affecting

performance of MSEs in Bedele town. The results of the correlation test are summarized in Table 4.10 below.

As shown in the Table, the correlation value 0.726 and 0.671 implies there is strong relation between finance and marketing with performance at the 5 % level of significance. A moderate relationship exists between business development service and infrastructure, with a correlation coefficient of 0.467 and 0.452 respectively, and performance at the 5 percent level of significance. Furthermore, there is weak relationship (since the correlation value is 0.154.) between government policy bureaucracy factors and performance at 5% level of significance.

The result implies that as there is positive relationship between financial factors, marketing factors, business development service factors, infrastructure factors and government policy and bureaucracy factors and performance.

Table 4.10. Results of the Pearson’s product moment correlation coefficient

		performance
Financial factors	Pearson Correlation	.726**
	Sig. (2-tailed)	.000
	N	269
Business development services factors	Pearson Correlation	.467**
	Sig. (2-tailed)	.000
	N	269
Marketing factors	Pearson Correlation	.671**
	Sig. (2-tailed)	.000
	N	269
Government policy and bureaucracy factors	Pearson Correlation	.154*
	Sig. (2-tailed)	.012
	N	269
Infrastructural factors	Pearson Correlation	.452**
	Sig. (2-tailed)	.000
	N	269
**. Correlation is significant at the 0.01 level (2-tailed).		
*. Correlation is significant at the 0.05 level (2-tailed).		

Source: Survey data, 2014

4.6.2. Multiple Regressions Analysis and Findings

To determine the factor that has the highest influence on performance of MSEs and to determine the extent to which the explanatory variables explain the variance in explained variable, the data was further analyzed using multiple regression analysis. The result is presented on the following table.

Table4.11.The Performance model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.783 ^a	.614	.606	.67865

a. Predictors: (Constant), infrastructure, government policy and bureaucracy, business development service, marketing, finance

Source: Survey data, 2014

Table 4.12 reports the model of performance with the coefficient of determination $R^2=0.606$. The coefficient of determination indicated that 61.4% of the variation in performance for the sample of 269 can be explained by finance, marketing, business development service, infrastructural and government policy and bureaucracy factors. Conversely, 38.6% of the variation in performance remains unexplained by the included model variables.

Table4.12.The Performance regression model

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-4.906	.481		-10.205	.000
Finance	.814	.123	.394	6.611	.000
Business development service	.339	.076	.190	4.474	.000
Marketing	.364	.068	.295	5.388	.000
Government policy and bureaucracy	.034	.062	.022	.556	.579
Infrastructure	.074	.040	.083	1.843	.066

a. Dependent Variable: performance

Source: Survey data, 2014

Table 4.13 presents the regression output of the linear regression model specified in chapter three. The regression output established that all the independent variables except government policy and infrastructure factors significantly contribute to the variation in performance at 5 percent level significance. But, the relative importance of each independent variable is different.

All variables are having a positive impact on performance and the estimated equation is:

$$\text{Performance} = -4.906 + 0.814 * \text{Finance} + 0.339 * \text{Business development service} + 0.364 * \text{Marketing} + 0.034 * \text{Government policy and bureaucracy} + 0.074 * \text{Infrastructure}$$

Finance factor was positively related to performance with $\beta=0.394$ ($\alpha<.05$). Therefore, support was found to indicate that the Finance factor has an influence on performance. It is, therefore implied that the better improvement of Finance factor, the more effective the performance of MSEs.

Business development service were positively related to performance with $\beta = 0.190$ ($\alpha<.05$). This evidence indicates that Business development service factors have an influence on performance. It is therefore, implied that the better improvement of the Business development service factors the more effective the performance of MSEs.

Performance was positively related to Marketing with $\beta = 0.295$ ($\alpha < .05$). Therefore, support was also found to show that there is a relationship between performance and Marketing. But both Government policy and bureaucracy and Infrastructure have no influence on performance at 5% level of significance.

2.7. Discussion of the result

The results of multiple linear regressions in Table 4.12 indicate that there is a positive and statistically significant relationship between finance factors and performance of MSEs with a beta coefficient of .814 and p-value of 0.000. This shows that a 1 unit improvement in financial factors, improves performance by 0.814 units. This finding is consistent with the finding of Mohammed (2012); Mead and Liedholm, (1998); Endalkachew, (2008) and Endalkachew et al, (2012).

Ageba (2006) and Kokobe et al (2013) state that marketing constraints are one of the serious obstacles to the starting and growth of business performance of MSEs. In support to these studies, the current study found that marketing factors have a significant positive effect on performance with beta coefficient of .364 and p- value of 0.000.

The regression result presented in the table 4.12 shows that BDS have a significant positive impact on performance at the 5% level of significance. This means that a 1 unit improvement in business development services would improve performance by 0.339 units. This outcome is consistent with the finding of Gibson (2001); Ishengoma and Kappel et al (2007).

Haulberg (2000) cited by Satta (2014) found that well developed physical structure has an influence on MSEs development. In contrast, this study found that the infrastructural factors have no significant impact on the performance of MSEs.

Similarly, this study established that government policy and bureaucracy have no influence on performance of MSEs. This is in contrast with CLEP (2006) and Syed et al. (2001), both of which found that government policy and bureaucracy factors have an impact on the operation of MSEs.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1.Introduction

This chapter presents the summary of major findings, conclusion and important recommendations stemming from the research results and suggestion for upcoming similar researches to be conducted on factors affecting the performance of micro and small enterprises.

5.2.Summary of Major Findings

This research was conducted in Bedele town with the title of “External factors affecting the performance of MSE operators engaged in manufacturing, construction, services, trades and urban agriculture sectors”. The specific objectives of the study was to identify the problems related with accessibility of external source of finance, accessibility of BDSs, marketing, government policy and bureaucracy and infrastructure that affect the performance of MSEs in Bedele town.

The study tried to address the demographic profile of the respondents in MSEs and the general information about the enterprises. A sample of 297 respondents engaged in 5 sectors was taken for the study using stratified random sampling and purposive sampling techniques. After the data has been collected, it was analyzed using descriptive statics (frequency, percentage, mean and standard division) and inferential statics (Pearson's product moment correlation coefficient and multiple linear regression). Based on 269 respondents and interview results acquired from the head, the finding of this study is summarized as follows.

The major financial factors that affect the performance of MSEs according to their severity order are lack of sufficient credit institutions (M=5.4, SD=.499), in availability of sufficient credit institutions (M=5.22, SD=.580), too long loan application procedures of banks and other lending institutions (M=5.18, SD=.519), long waiting time to take sanction loan (M=5.16, SD=.877), high collateral requirements from bank and other lending institutions (M=5.07, SD=1.11) and high interest rate charged by banks and other lending institution(M=3.97, SD=1.485).

The BDS factors that affect the performance of MSEs according to their severity order are absence of planning and financial reporting training from MSEs development agency (M=5.38, SD=.590), lack of sufficient training, consultancy and advisory services (M=5.30, SD= .458), lack of marketing assistance and information provision (M=5.02, SD=.826) and absence of technology development and transfer support (M=4.48, SD=1.145). However, lack of support from NGO (M=3.19, SD=1.145) are not as such problems of MSEs.

The marketing factors that affect the performance of MSEs according to their severity rank are inconvenient business location (M=5.57, SD=.496), poor business premises in which to display and sell (M=5.46, SD=.499), demand problem (M=5.33, SD=.531), competition from large and medium scale enterprises (M=5.17, SD=.586), absence of exhibitions, chambers of industry and trade bazaar (M=4.72, SD=.926), shortage of supply (M=4.39,SD=1.657), lack of sufficient promotional institutes and marketing support(M=4.38, SD=1.277), lack of product diversity with that of other enterprises (M=4.12, SD=1.613) and absence of relationship with an organization that conduct marketing research.

From government policy and bureaucracy factors that affect the performance of MSEs; the major factors are regulation of obtaining working premises ($M=5.30$, $SD=.461$), bureaucracy in company registration and licensing ($M=5.19$, $SD=.501$) and lack of government support ($M=3.82$, $SD=1.16$). Nevertheless, tax levied on their business ($M=3.35$, $SD= 1.69$) and political intervention ($M=2.10$, $SD=1.35$) is not a problem of MSEs.

From infrastructural factors insufficient and interrupted water supply ($M=4.58$, $SD=1.23$) and power interruptions ($M=4.47$, $SD=1.573$) are major factors. Lack of appropriate dry waste and sewerage system ($M=3.66$, $SD=1.713$) and lack of sufficient and quick transportation service ($M=2.33$, $SD=1.699$) are not a serious problems of MSEs in this study area.

As the interview result shows MSEs are constrained by unavailability of sufficient credit institution, lack of sufficient credit, collateral requirement, lack of sufficient training which enhance their performance, ways of providing training, poor business premises, inconvenience business location, competition from large scale enterprises and shortage of demand and supply, regulation of obtaining working premises, interrupted water supply and power interruptions and feeder road of the town.

The result of Pearson's product moment correlation coefficient shows that, financial factors, BDS factors, marketing factors, government policy and bureaucracy factors and infrastructural factors do have a positive correlation with performance of MSEs.

The result of multiple linear regression shows that finance marketing and BDS have positive influence on performance at 5% level of significance. But both Government policy and bureaucracy and Infrastructure have no influence on performance at 5% level of significance.

5.3.Conclusion

In this part conclusions of the finding are discussed. For clarity purpose, the conclusions are based on the research objectives of the study. The aim of this study was to identify the external factors affecting the performance of MSEs in Bedele town and examine the extent to which the independent variables (accessibility of external source of finance, accessibility of BDS, marketing, government policy and bureaucracy and infrastructural factors) are associated with

dependent variable (performance).Based on the result of this study, the following conclusions are drawn.

The findings reveal that access to external source of finance factors which includes in availability of sufficient credit institutions, high collateral requirement from bank and other lending institutions, high interest rate charged by banks and other lending institutions, too long loan application procedures of banks and other lending institution, lack of sufficient loan and long waiting time to take sanction of loan hinder the performance of MSEs. Also, it was found out with multiple linear regression models that when access to external finance increases the performance of MSEs significantly increases. The result implies at 1% improvement on finance factors results 81.4% change on performance.

The provision of business development services in Bedele town is not at satisfactory level. Lack of planning and financial report training, lack of consultancy and advisory service, lack of marketing assistance and information provision and absence of technology development and transfer support affect the performance of MSEs. It was found out with multiple linear regression models; it implies that when improvement on access to business development services increases at 1% the performance of MSEs significantly increases in 33.9%.

The finding also reveals that marketing factors which include competition from large and medium scale sectors, lack of sufficient promotional institutes and marketing support, lack of appropriate marketing channels, absence of exhibitions, chambers of industry and trade and bazaar, poor business premises in which to display and sell, inconvenient business premises in which to display and sell, inconvenient business location, lack of product diversity with that of other enterprises, absence of relationship with an organization that conduct marketing research, demand problem and shortage of supply of raw material hinder the performance of MSEs. It was found out with multiple linear regression models, that when market related factors are improved performance of MSEs increases significantly.

The results of measure of central tendency reveal that poor infrastructure such as interrupted power supply and water interruptions and from government policy and bureaucracy, regulation of obtaining working premises and bureaucracy in company registration and licensing a problem of MSEs in Bedele town. However, the result of multiple linear regression shows both

Government policy and bureaucracy and Infrastructure have no influence on performance at 5% level of significance.

5.4. Recommendations

This section contains recommendations drawn from the findings and conclusions of the study. The researcher believes that the following recommendations would enable MSEs for improving their performance.

In line with the financial factors, the office of MSED A is highly recommended to invite and facilitate other microfinance institutions beside OCSSCo to satisfy desperate need of finance by MSEs. The stiff and limited nature of collateral requirements that are currently being requested by the formal financial institutions is better to be relaxed; in order to create more access to small borrowers. It is important that credit providers like banks and other financial institutions maintain a good relationship with MSEs. It is also better if government further encourages and creates the enabling ground for the establishment financial institutions.

In accessibility of BDS lead the operators of MSEs to poor project planning capacity, lack of managerial skill, lack of record keeping skill, internal financial management. Therefore, it is better for the stake holders, i.e. TVET, MFIs, MSED A to provide the services appropriately and sufficiently. To make MSEs competitive and profitable, increasing the capacity and skill of the operators through continues training, experience sharing from successful enterprise and provision of advice and consultancy are crucial. It is advisable if the training is given by qualified trainers. It is important if the training is given separately based on classification of education level and work experience as well as the sectors that they are engaged in. It is better if private agencies are participating in provision of BDS, this may help those potentials MSEs operators to acquire the services by themselves at the time they want.

Marketing factors are indicated as most problems faced by MSEs. Therefore, it is necessary to solve. In order to improve the problem of MSEs related with working premises, it is better to work with micro and small enterprises development agency with Bedele city municipality. Bazaar, exhibition and networking with large firms have positive contribution in promoting MSEs product and increasing number of customers and also linking the MSEs with medium and large enterprises help to reduce the competition. The government should invest in research and development so as to explore what can be done to improve the status of small firms in the country. The office of MSED A is strongly recommended to enhance promotional activities for MSEs.

Moreover, improved provision of necessary infrastructure and enabling environment for business operations is generally imperative. Uninterrupted power and water supply are basic to effective performance of the enterprises. So it is better if the improvement program is made.

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Appendix

Appendix

**QUESTIONNAIRE
JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT
MBA PROGRAM**

Questionnaire to be filled by the owner of the enterprises.

I am a graduate student in the department of management MBA program, Jimma University. Currently, I am undertaking a research entitled 'External Factors Affecting the Performance of Micro and Small Enterprises in Bedele town'. You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of the external factors affecting the performance of Micro and Small enterprises in Bedele town.

I would like to assure you that the information you provide will be used only for the purpose of achieving academic award. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study. Your honest and thoughtful response is invaluable. Thank you in advance for your kind cooperation and dedicating your time.

Sincerely,
Lense Getachew

Instructions

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

PART 1: DEMOGRAPHIC INFORMATION

1. Sex A. male B. female
2. Age
 A. below 20 Years C. 31-40years
 B. 21-30 Years D. Above 40 years
3. Level of education
 A. Can't read and write B. Grades 1-4
 C. Grades 5-8 D. Grades 10 complete
 E. 10+1 & 10+2 F. 10+3 /diploma
 G. BA/BSC and above
4. Marital status
 A. Single B. Married C. Divorced D. Widowed
5. Work experience in business
 A. less than 1 year
 B. 1-5 years
 C. 6-10 years
 D. Greater than 10 years

PART 2: GENERAL INFORMATION ABOUT ENTERPRISES

1. What is the form of organization of the enterprise?
A. sole ownership B. Partnership C. family business
D. Co-operative E. other specify -----
2. What sector is your business in?
A. service sector
B. construction sector
C. manufacturing sector
D. Trade sector
E. Urban agriculture sector

PART 3: PERFORMANCE MESUREMENT

Please indicate your opinion about the following statement (6=strongly agree 5=agree 4=inclined to agree 3= inclined to disagree 2=disagree 1=strongly disagree)

Perceived profit	1	2	3	4	5	6
1. My business profit is not promising to continue doing						
2. My business profit is not on a good position						
3. I don't have sustainable profit since I start my business						
4. My business profit is not increasing from time to time						
5. My business has not the potential to grow/expand						
6. My business have notable to service debt						
7. My business profit is not above expected						

How many profit your business generate per year.....

PART 4: EXTERNAL FACTORS AFFECTING THE PERFORMANCE OF MICRO AND SMALLENTERPRISES

The major external factors that affect performance of MSEs are listed below. Please indicate the degree to which these factors are affecting the performance of your business enterprise. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (√) under the choices below.

Where, 6 = strongly agree, 5 = agree, 4= inclined to agree 3 = inclined to disagree, 2 = disagree and 1= strongly disagree

1. Please indicate the degree to which you agree with the following statements concerning accessibility of external finance factors.

No.	Accessibility of external finance factors	1	2	3	4	5	6
1.1	In availability of sufficient credit institutions						
1.2	High collateral requirement from banks and other lending institution						
1.3	High interest rate charged by banks and other lending institution						
1.4	Too long Loan application procedures of banks and other lending institutions						
1.5	Lack of sufficient loan						
1.6	Long waiting time to take sanction loan						
1.7	Other specify it and give rank -----						

2. Please indicate the degree to which you agree with the following statements concerning accessibility of business development services factors

No.	Accessibility of Business Development Services factors	1	2	3	4	5	6
2.1	Lack of sufficient training, consultancy and advisory services						
2.2	Lack of marketing assistance and information provision						
2.3	Absence of technology development and transfer support						
2.4	Absence of planning and financial reporting training from MSEs development agency						
2.5	Lack of support from NGOs						
2.6	Other specify it and give rank -----						

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

No.	Marketing factors	1	2	3	4	5	6
3.1	Competition from large and medium scale sectors						
3.2	Lack of sufficient promotional institutes and marketing support						
3.3	Lack of appropriate marketing channels						
3.4	Absence of exhibitions, Chambers of industry and trade and bazaar						
3.5	Poor business premises in which to display and sell						
3.6	Inconvenient business location						
3.7	Lack of product diversity with that of other enterprises						
3.8	Absence of relationship with an organization that conduct marketing research						
3.9	Demand problem						
3.10	Shortage of supply of raw material						
3.11	Other specify it and give rank -----						

4. Please indicate the degree to which you agree with the following statements concerning government policy and bureaucracy factors

No.	Government policy and bureaucracy factors	1	2	3	4	5	6
4.1	Bureaucracy in company registration and licensing						
4.2	Lack of government support						
4.3	Political intervention						
4.5	Tax levied on my business is not reasonable						
4.6	Regulation of obtaining working premises						
4.7	Other specify it and give rank -----						

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

No.	Infrastructural factors	1	2	3	4	5	6
5.1	Power interruptions						
5.2	Insufficient and interrupted water supply						
5.3	Lack of appropriate dry waste and sewerage system						
5.4	Lack of sufficient and quick transportation service						
5.6	Other specify it and give rank-----						

Yuunivarsitii Jimmaa
Kollejjii Bizneesii fi Ikonoomiksii
Mastersii Biizines Adiministireshinii

Gaaffilee abbaa qabeenyaa/gageessa intarpiraazichaattin kaan guutamu.

Anni baraattuu Digrii lamaffa/ Mastersii Gosa barnoota Biizinees Adiministireshinii Universitii Jimmati. Yeroo ammaa qorannoo mata dureen isaa Haalawwan Alaa/Bakkee Raawwii ykn Ga'umsa IMX Magaala Baddallee Miidhan (External Factors Affecting The Performance of Micro and Small Enterprises in Bedele Town) jedhu irratti qorannoo gaggeessan jira. Gaaffileen kun qorannoo mata dureen isaa armaan olitti ibsamee qorachuuf namoota abbaa qabeenyaa ykn gageessa intarpraayizichaa irraa odeeffanoo wallitti qabuuf kan qopha'ee dha.

Qoratichi oddeeffannoon deebistootni gaaffilee kana kennaan dhimma barnootaf qofa kan ooluu ta'u isaa kabajaan hubaachisa. Deebiin keessaan icciitiidhan kan qabamu ta'a. Hirmaannan keessaan qoraannoo kanaaf murteessaa fi bu'aa gudda qaba. Kanaaf, gaaffi kana guttudhaan/ deebisuu dhaan hirmaana akka gotaan abdi gudaan qaba.

Gaaffilee kana deebisuun gargarsaa naaf gootaniif durseen isiin galateeffadha.

Leensee Geetaachoo

Hub!

- Maqaa barreessuun hin barbaarchisu
- Gaaffiilee armaan gaditti tarreeffamaniif deebii sirrii ta'a jettu mallattoo (✓) sanduqaa keessa ka'i.

KUTAA 1: ODEEFFANNOO HAALA DHUUNFA A

1. Saala A. Dhiira B. Dhalaa
2. Umurii A. Waggaa 20 gadi C. Waggaa 31-40
 B. Waggaa 21-30 D. waggaa 40 ol
3. Sadaarkaa baruumsaa
A. Dubbisuu fi barreessuu hin danda'uu B. Kutaa 1-4
C. Kutaa 5-8 D. Kutaa 10 xumuureera E. 10+1 fi 10+2
F. 10+3/ Dipilomaa G. Digrii ykn isaa ol
4. Haala fuudhaa fi heerumaa
A. Kan hin heerumne/ fuune B. Kan heerumte/ fuudhe
C. Kan hiikte/hike D. Abbaan manaa/ hatti manaa kan dura du'e/duute
5. Muuxannoo hojii biizinesii
A. Waggaa 1 gadi B. Waggaa 1-5 C. Waggaa 6-10 D. Waggaa 10 ol

KUTAA 2. ODEEFFANNOO WAALII GALAA WA'EE INTARPIRAAYIZICHA

1. Haala mirga abba qabeenyummaa dhaabbatichaa
A. kan dhuunfaa B. Kan wallinii C. Kan maatii
D. Gamtaa E. Kan biro(ibsi)-----
2. Abban qabeenya seektara hojii irratti bobaa'e
A. Seektara tajaajila
B. Seektara konistraakshini
C. Seektara manuufakcheriing
D. Daldaala
D. Qoonna

KUTAA 3. SAFARTUU RAAWWII

3(a). Tilmaamaa bu'aa

Kanneen armaan gadii irratti yaada kee sadarkaa keennuudhaan ibsi.(6= cimseen walii gala, 5= waliin gala, 4= walii galteetti dhiyaachuu 3= wali galteetti dhiyaachuu dhabuu, 2= wali hingaluu , 1= cimsee walii hingaluu)

Lakk.	Tilmaamaa bu'aa	1	2	3	4	5	6
1	Bu'aan bizineesii koo abdi itti fufaa qaba hin qaabu						
2	Bu'aan bizineesii koo sadarkaa garrii irra hin jiru						
3	Bizineesicha ergaan jalqabee bu'aa itti fufiinsa qabu argata hin jiru						
4	Bu'aan bizineesiin koo yeroo dha gara yerootti dabalaa hin jiru						
5	Bizineesiin koo liqii deebisuuf hin danda'u						
6	Bizineesiin koo caalatti guddachuu/ bal'aachuu hin danda'u						
7	Bu'aan bizineesii koo hanga eegame ol mitti						

3(b).Safartuu raawii

Bizineesiin kee waggatti bu'aa hangaam argamsissaa?-----

KUTAA 4.HAALAWWAAN GURGUDDO ALAA/ BAKKEE RAWWII IMX IRRATTI MIIDHAA QABAN.

4.1. Dhiibbaa argama madda maallaqaa/ finaansi alaa

Dhiibbaan argama madda faayinaansii/ maallaqaa waliin walqabatee akka armaan gadiitti tarreefamaniiru, yaadaa kee sadarkaa inni itti raawwii kee midhu agaarsisuun ibsi (6= cimseen walii gala, 5= waliin gala, 4= walii galteetti dhiyaachu 3= wali galteeti dhiyaachuu dhabu,2= walii hingalu , 1= cimsee walii hingalu)

Lakk.	Dhiibbaa argama madda maallaqaa/ faayinaansii	1	2	3	4	5	6
1	Dhaabbileen liqii kennan ga’aan dhabamuu						
2	Baankii fi dhaabbilee liqii kennaan irraa qarshii liqeeffachuuf qabeenya guddaa qabsisuun barbaachisaa dha						
3	Dhalli baankii fi dhaabileen liqii kennaan gaafaatan ol aanaa dha						
4	Liqii liqeefachuu dhaaf adeemsa hojii dherra keessaa darbamu						
5	Liqii ga’aan dhabamu						
6	Eyaama liqii argaachuu dhaaf yeroo dheera fudhaata						
7	Kan bira (ibsi)-----						

4.2. Haalawwaan deeggarsaa Eejensii Guddina IMX

Dhiibbaa argama deeggarsaa Eejensii guddina IMX waliin walqabattee akka armaan gadiitti tareefamaaniru, yadda kee sadarkaa itti rawwi kee midhu agarsisuun ibsii (6= cimseen walii gala, 5= waliin gala, 4= walii galteetti dhiyaachu 3= walii galteeti dhiyaachuu dhabu,2= walii hingaluu , 1= cimsee walii hingaluu)

Lakk.	Dhibbaa Argama Eejeensii guddina IMX	1	2	3	4	5	6
1	Hanqina deegarsa leenjii fi gorsaa						
2	Hanqina gargaarsa gabaa fi odeefaannoo						
3	Hanqiina gudiina teknolajii fi deggeersa ce'uumsa						
4	Hanqinaa deegarsa leenjii karoora fi gabaasa faayinaansii						
5	Hanqinaa deegarsa dhabbiilee miti moottuumma						
6	Kan bira(ibsi)-----						

4.3. Haalawwaan Gabaa

Dhiibbaa gabaattin waal qabatee akka armaan gadditti tareefamaniruu, yadda kee sadarkaa itti rawwi kee midhu agarsisuun ibsi (6= cimseen walii gala, 5= waliin gala, 4= walii galteeti dhiyaachu 3= walii galteeti dhiyaachu dhabu ,2= walii hingaluu , 1= cimsee walii hingaluu)

Lakk.	Haalawwaan dhibbaa gabaa	1	2	3	4	5	6
1	Dorgoommii intarpirayizii gurgudda fi giddu galeesa irra						
2	Hanqinaa dhabbiilee moottuumma IMX jajjaabeesani fi gargaarsa gabaa keennaan						
3	Hanqinaa walitti dhufeenya gabaa sirri						
4	Dhabaamuu egzibiishiinii(agaarsiisaa),fi baazaarii						
5	Iddoo mijaataa gurguurtaa fi agaarsiisaa dhabuu						
6	Iddoo mijaata bizinaasichaaf dhabuu						
7	Intarpirayizii gara garaa waliin omishaa wal fakkaatu omishuu						
8	Walitti dhufeenya dhabilee qorannoo gabaa faana dhabuu						
9	Rakko bittaa ykn feedhii bittaa dhabuu mamilaa						
10	Hanqina meeshalee dheedhii						
11	Kan bira (ibsi)-----						

4.4. Haalawwaan seeraa bulchinsaa mootuumma fi birookiraasii

Dhiibaa halla seeraa bulchiinsa mootuuma fi birookiraasii waliin walqabattee akka armaan gaditti tareefamaniruu, yadda kee sadarkaa itti rawwi kee midhu agarsisuun ibsi (6= cimseen walii gala, 5= waliin gala, 4= walii galteeti dhiyaachu,3= walii galteeti dhiyaachu dhabu,2= wali hingaluu,1= cimsee walii hingaluu)

Lakk.	Dhibaa hala seeraa bulchinsa mootuumaa fi birookiraasi	1	2	3	4	5	6
1	Birookirasii galmee fi eeyyama argachuu						
2	Hanqina deeggarsa mootumma						
3	Mootummaan harkaa isaa gabaa keessa galchuu (fkn. Gatii murteessuu fi k.k.f)						
4	Gibirri narratti mutaa'e sirri miti						
5	Qaama dhimmaa ilaalatu irraa Sirnaa eeyyama bakka hojii argachuu						
6	Kan bira(ibsi)-----						

4.5. Hallawaan Bu'uura Misoomaa

dhiibaa hallawaan bu'uura misooma waliin walqabattee akka armaan gaditti tareefameera, yadda kee sadarkaa itti rawwi kee midhu agarsisuun ibsii(6= cimseen wali gala, 5= waliin gala, 4=walii galteeti dhiyaachu,3= wali galteeti dhiyaachu dhabu, 2= wali hingaluu , 1= cimsee walii hingaluu)

Lakk.	Hallawaan dhiba Bu'uura misoomaa	1	2	3	4	5	6
1	Babbaduu ibsaa						
2	Bishaan ga'aan dhabaamuu fi babbaduu						
3	Hanqina balfaa gogaa fi dhangala'aa dhabamsiisuu/ittisuu						
4	Hanqiina dandii sadarkaa gadii bu'aa magaalaa keessaa						
5	Kan bira(ibsi)-----						