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**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF MANAGEMENT**

**FACTORS OF GROWTH IN MEDIUM ENTERPRISES**  
**(THE CASE OF ADDIS ABABA)**

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## **Acronyms**

ACET	African Center for Economic Transformation
ADB	Asian Development Bank
AF	Access to Finance
AFDB	African Development Bank
ASGA	Average Sales Growth Perineum
BDS	Obtuseness Development Service
BIS	Bank For International Settlement
DV	Dependent Variable
FMMEA	Federal Micro & Medium Enterprises Agency
GS	Government Support
IVs	Independent Variables
JVET	Technical & Conational Education and Training
KBV	Knowledge Based View
MCS	Management Cohesion & Strategy
ME	Medium Enterprise
MNS	Market Networking and Sales
OECD	Organization of Economic cooperation and Development
RBV	Resource Based View
SME	Small and Medium Enterprise



StDev	Standard Deviation
TLD	Training and leadership
UDCM	Urban Development & Construction Ministry
UNDP	United Nations Development Program
WB	World Bank
WBES	World Business Environment Survey
WEF	World Economic Forum

## **Abstract**

*In Addis Ababa the city administration graduating small enterprises into medium enterprises in a bid to promote broader social objectives like job creation. The enterprises after fulfilling the required asset liability threshold joined their new rank. However, their Journey as a firm is not studied as such as their graduation is relatively a new phenomenon for the city. The enterprises graduating taking their growth trajectory into consideration. This study set out to examine what firm level growth is, how factors like access to finance, market networking, training and leadership development, strategy and management cohesion, as well as government support affects enterprises in keeping their growth momentum. The result shows despite the variation in degree all factors have positive relation with firm level growth.*

# **CHAPTER ONE**

## **1. Introduction**

### **1.1 Background of the Study**

Enterprise growth and their broader contribution of the wellbeing of a society is a widely discussed subject in developing nations economy without distinction in their level of development. (Karpak and Topcu, 2010, Pauset al, 2007). Of all types of enterprises SMEs has been getting a good deal of attention as a vehicle of Job creation, hence distributive Justice in the economy. African Development Bank (AFDB,2012) reported SMEs in the manufacturing sector on average contributed for the 60% of total formal jobs in the said sector. Not far apart from AFDBs assessment, the world economic forum (WEF, 2011) taking the whole economic activities into consideration hailed the SMEs contribution. It reported SMEs took the lion share by contributing around 80% of the jobs created in Africa.

In the developed economy as well the place accorded to SMEs is not different from the less developed and or developing as well. (African Business, 2016) reported that in the world's leading economy, the US, there are 30 million SMEs which provide 55% of all jobs. In china SMEs accounted for 99% and contributes 60% of the GDP, and 75% of the Jobs every year.

Small or medium enterprises are not new to any nation's economy. However, the realization of their importance in the development endeavour and governments policy attention to that effect is relatively new. An (OECD report, 2004) recounted historical studies on SMEs and the entrepreneurship development initiatives that supports their growth. The report discussed that SMEs and their development was introduced

into the development discourse as early as the late 1940's with the introduction of targeted policies like subsidies, tax incentive etc. This relative novelty of the SMEs role in development makes their understanding critical.

In Ethiopia the number of large enterprises is insignificant. (ገጽ ፳፻፲፱ ስኔ 2006 ዓ.ም). Sources from the city administration indicated the number of large enterprises well below 1% in the whole nation. Therefore, it is logical to view SMEs are almost everything to the economy. Thus, the policy imperatives in support of SMEs development is highly important, as discussed by officials, the broad objectives in supporting enterprises is hoped to bring more jobs, to improve wealth distribution and to reduce poverty (Ibid, 2013) . The city administration official sources has told the writer of this study, up to the year 2016 -17 there are slightly above 27,000 SMEs in Addis Ababa. The overarching objective that is widely discussed in official performance reports of the SMEs development is to support the nation's industrialization through the development of small enterprises into a medium statues. (የአዲስ አበባ አካባቢ ጥቅም አገልግሎት ልማት ኤጀንሲ ሪፖርት 2008 ዓ.ም) so far as the same report indicated 830 of the enterprises transitioned to a medium status, around 960 enterprises are recognized as medium enterprises but up to the end of the data collection period their data were not fully consolidated, therefore, they are not included in the study.

The Addis Ababa City Administration's policy orientation in SMEs development is to bring about transformational change in the economy. (Ibid,2015) . According to the aspiration and due to their vast job creating opportunities the city administration following the Federal Government footsteps prioritized the following sectors: Manufacturing, Construction, Garment & Textile, Leather and Urban Agriculture.

All the discussion we have so far provides an insight on the SMEs contribution to the overall economy and well being of a society. However, the growth narratives of the graduating enterprises to a medium status are little discussed from the dimensions of firm level growth. The researcher was engaged in discussion with various actors relevant for SMEs growth and related issues as a ground work for the study. As a result it was observed that most of them tend to take firm growth for guaranteed as a subject which can express itself. Thus the conceptual clarity of growth is one problem, and logically follows ambiguous understanding of the factors that affect growth at enterprise level.

The writer of this research report drawn his inspiration from the observed tendency of looking at enterprises from the angles of their assumed contribution to the macro – economic objectives. The preliminary unstructured interviews, formal report reviews confirmed the fact that enterprises are looked at from the macro level objectives. The dearth of information which helps to see enterprise growth from firm level parameters provided the motivation to examine the issue. In addition to this the relative newness of the medium enterprises graduation process in itself gave an additional impetus to the writer to examine and to try to explain how the factors stated on the research’s conceptual framework affect medium enterprises growth in Addis Ababa.

## **1.2 Statement of the Problem**

As discussed on the introduction SMEs in Addis Ababa are organized by the active involvement of the government pertinent authority to pave the way to industrialization. Medium enterprises despite serving the interests of their members they are also expected to serve the industrialization process by creating and developing the necessary resources. Developing the said necessary resource enable the small enterprises to made it into the medium level. A small enterprise qualified to grow to the medium

status if it attained an asset base valued at 1.5 million birr and above (ይፋ ያልሆነ የአዲስ አበባ አነስተኛና ጥቃቅን ኢንተርፕራይዞች ልማት ኤጀንሲ የውስጥ ሪፖርት፡፡ 2008)

A medium enterprise (ME) come to its status following a cycle which has a milestone or a pattern of its own. According to the (Federal Micro and Small Enterprises Agency, 2015) an enterprise passes through three phases before the possibility of reaching to the medium level start – up level: (marked by fulfilling the professional/ skill requirement and the incorporation of as an entity legally, the second phase starts after the entity starts production. This second phase is termed as growth level (in which an enterprise is identified as a growing firm when it becomes “competent in price, quality and productivity”. After passing these phases the third phase come, which is termed the maturity level (a phase marked by the enterprises ability to be profitable and invest further by fulfilling the definition given to the sector.(Ibid,2015).

It is apparent what comes next. An enterprise which is profitable and invested further and finally reached the threshold, the asset base of 1.5 million for a manufacturing entity and 500,000 for a service would graduate to join the rank of medium sized enterprises. (FMMEA,2015)

As discussed in the background medium enterprises are highly regarded for their assumed contribution to the economy, on the other side the graduating process that put them under a new label is new to the city. Experts responsible for following up the enterprises affair mentioned the graduation took place five times and less than 1000 enterprises are promoted. A figure unsatisfactory by the experts own admission.

Medium Enterprises are very few in numbers compared to small and micro enterprises. Not only the numbers, the research attention they have got is almost non – existent. There are ample studies on micro and small enterprises by Ethiopian standard. Most of the researches

conducted elsewhere jumbled all under one umbrella as SMEs. What makes the gap serious is the scarcity of information to understand enterprises growth from the firm level. As mentioned earlier reports from government regulatory bodies focuses on the macro level discussions, independent reports are rarely found. Therefore this study hopes to address this gap by examining and explaining the factors that affect medium enterprises growth.

Firm level growth has been discussed over the years from different perspectives by different scholars. For instance, we can mention here two widely discussed approaches the stochastic (random) model, a model credited as the very first approach to understand growth in SMEs which have evolved from economics. (Matthew Dobbs & R,T Hamilton,2006) as quoted by (AmrFarouk and Mohamed Saleh, 2011). The model assumes there are too many factors affecting growth.Hence no specific factors have a dominant effect that can be used to explain growth. Contrary to the stochastic model, the deterministic (static) approach focuses on distinguishing a set of internal and external variablesthat can explain the growth of SMEs (small Bone &Leig& North, 1995) (Becchetti & Trovato, 2002), (Davidson &Klaftsen2003), (Barringer etal, 2005). This approach stands on the assumption identifying some characteristics, strategies and practices that are significantly related with growth able to explain SMEs growth. (Amr Farouk, Mohamed Saleh, 2011)

This paper draw on the deterministic approach and adopted the following framework to explain the growth phenomenon of the selected medium enterprises. The variables are selected after reviewing some reports, and after having the preliminary interviews on the day to day challenges and growth outlooks of the enterprises managers and management members as preliminary search to have some on the Source.

### **1.3 Research Questions**

The study is conducted to inquire the following fundamental questions to find out the enterprises condition that are under consideration.

- How the factors in the framework affects enterprise growth?
- How the enterprises perceive their own growth and to what extent the factors affected them?
- How does the factors inter relate with each other to affect their growth?

### **1.4 Objective of the Study**

#### **1.4.1 General Objective**

The main objective of the study is to assess the factors that determine the growth of medium enterprises in Addis Ababa

#### **1.4.2 Specific Objectives**

- To assess the context of medium enterprises growth in Addis Ababa.
- To assess firm level dynamics of growth factors in affecting the enterprises management.
- To assess how each factors are viewed by the enterprises
- To identify the level at which they affected the enterprises.

### **1.5 Significance of the Study**

The role the SMEs could play is not a source of debate, rather, the range and scope of their contribution is a subject which needs rigorous



investigation and an attempt at describing what shapes their behavior, how they behave and contribute is at the heart of this study's overall objective. Understanding the SMEs world in Addis Ababa, more specifically the transitioned enterprises, would help the firms to understand themselves better, to devise plans to maintain and sustain the growth trajectory.

- In a more narrow sense the study may help enterprises to sort out their problems and easily identify opportunities for growth.
- Policy makers in charge of SMEs development and regulatory bodies alike should have some insight on what is currently on the ground (especially on firm level performances and environmental cues of growth, and thus, it is hoped they could have inputs on what is to be done.
- It is also the hope of the researcher the study would help in codifying experiences at the clustered firm level and enhance the learning process in identifying growth challenges that may have bearings beyond the focus of the study area.

## **1.6 Scope of the Study**

As the SMEs are vast in number, varied in size, form, years in business, this research is limited to assessing the present conditions and challenges of the selected medium enterprises in Addis Ababa that are graduated according to the government criteria's and procedures since 2009 since graduating firms started as a growth management exercise by the government.

### **1.6.1 Overview of Data Collection and Analysis Methods**

This study followed an explanatory design primary and secondary data are used. The primary data is collected from the sampled enterprises managers and management members. Semi structured interviews were also employed to gather information from the Addis Ababa city Administration relevant office in charge of overseeing the enterprises growth and development.

Unstructured observation is also entertained in the process so as to gain some insight on the enterprises operations by being present at their work stations, sale cites (show rooms).

Secondary data is gathered from various sources in order to have sound theoretical framework and an empirical understanding on the SMEs world elsewhere. As secondary sources books, scholarly articles, public documents (published and unpublished) reports, policy papers, magazines, business newspapers, and relevant electronic sources have been consulted.

Stratified sampling is used. This technique is found suitable to accommodate the nature of the sample. The total population is 830 working in different sectors apart from being similar in their status (as medium enterprises). Stratified random sampling requires the researcher to divide the population into sub-categories. (For more on the sampling size, and the applied technique please see chapter three.)

### **1.7 Limitation of the Study**

This paper have the following limitations according to the writer's present understanding. The limitations discussed are some of the core issues believed to have a direct bearings on the study output but obviously the list is not limited to what are mentioned here.

The first major problem is the number of enterprises that made the transition are more than 800. Not only the number, the attributes the firms have differed them one from the other. As the research do not follow a census method could not cover all of them. Therefore, the conclusion may not represent the totality of the enterprises in their respective sub- sector, and of course, not possible to show the whole of a particular enterprise situation.

The second limitation comes from the enterprises and the regulatory bodies information management. Hence the data gathered, despite the effort exerted to make it whole may lack some significant information. This fact in return may affect the degree of accuracy in drawing the generalizations.

The third limitation is the writer's own limited exposure and the fact of having even more limited scholarly research firsthand experience might have caused limitations despite the effort exerted in the presentation of the final report.

## **1.8 Structure of the Study**

The study have five chapters. The first chapter is an introductory part which covers the background, the objectives, the data collection and methods followed in sampling is overviewed. The research significance and limitations are also covered in the chapter.

The second chapter is dedicated to the review of related literature along with some selected empirical literatures that have strong relevance to the subject matter are concisely presented so as to furnish the theoretical framework adopted in the study as cogent as possible.

The third chapter discussed the research design. How the data is gathered, the method followed including the sampling technique and the process followed. It also discussed the data analysis aspect, the techniques and the instruments used .

Chapter four covered the data analysis and presents the findings of the study.

Chapter five provides the conclusion, and the recommendations of the study.

## **CHAPTER TWO**

### **2. Review of Related Literatures**

#### **2.1.SMEs Defined**

There is no single criterion, not even an agreeable set of criterion to all that defines an SME. In a study undertaken by ILO (2005), over 50 definitions were identified in 75 countries. However, most literatures made references to some measurable attributes to define them; such as, investment outlay, annual turnover, number of employees, return on investment and/or any combination of these measures.

Official definitions across nations and multilateral organizations are also highly differed. The issue here is not with the numbers but the implication of those defining numbers, basically the number define size. In firms development size may mean many things.(Ibid,2005)

Vaughan Evans (2013) states that “the strategy pyramid” the strategy development process, should start by knowing an entities business. Where exactly do the sources of profit lie.... in other words, which are the product/market segment the company set out to serve, which product/market can make the greatest contribution towards operating profit. (Ibid, 2013) Product/market segmentation implies size and all that matters following size. As firms live in an open system, they must interact to grow.(Michael E Porter, 1980) Porter emphasized the importance of understanding “the relevant environment” a firm is working and went on to say the essence of formulating strategy is relating a company with its environment. Understanding the business environment is one of the key area to achieve the potential growth. (Iraj et al, 2011). For this scholars business environment is a multidimensional concept which constitute the prevailing institutional

framework, the regulatory mechanism, macro-economic stability, industry growth.

**Table 1: Official National Definitions of SMEs**

<b>Country by SME size</b>	<b>Maximum number of Employees</b>	
Vietnam	300	Note that the disparity in setting the definition does not conform to Per Capita (PC), Gross National Product (GNP) and Gross National Income (GNI), as some of the countries have advance economy, some are developing fast, and the rest trying hard to move out of the LDC's
Switzerland	250	
Norway	100	
Australia	200	
Brazil	100	
Egypt	50	
Tanzania	20	
Ghana	100	

**Source:- adopted from Brookings Global Economy and Development report.**

**Table 2: SME Definitions used by Multilateral Institutions**

<b>Institution</b>	<b>Maximum number of Employee</b>	<b>Maximum Revenue or Turnover \$</b>	<b>Maximum Asset \$</b>
WB	300	15,000,000	15,000,000
MIF-IADB	100	3,000,000	None
African Development Bank (ADB)	50		
Asian Development Bank (ADB)	No official definition	No official definition	No official definition
UNDP	200	None	None

Source: Ibid,2008

\* Note that the defining attributes for medium enterprises starts as the small enterprises borders defined above ends. The Asian Development Bank use definitions of national governments.

## **2.2.SMEs Growth and it's Context**

### **2.2.1.Entrepreneurship and Enterprises**

Entrepreneurship recognized as a force for the betterment of humanity (Jason Bohoney, 2011). Productive use of resources and wealth maximization are often at the heart of the efforts in defining it, nonetheless, the definitions here also, like in the SMEs are not universal. (African Center For Economic Transformation, 2014). One of the most notable scholar credited for arguing for the creation of new enterprises as the vital force behind the progress of capitalism is Joseph Schumpeter (1934). He viewed entrepreneurship as “new combinations including the doing of new things or the doing of that are being done in new way.” Schumpeter’s new combination include: introduction of new good, new method of production, opening new market, new sources of supply, and new organization. Kirzner (1973) viewed entrepreneurship as the ability to perceives new opportunities; Drucker (1985) said, it is an act of innovation that involves endowing existing resources with new wealth producing capacity. Low and Mac Millan (1988) simply put it as the creation of new enterprises, Rumelt (1987) add a distinction to the low and Mac Millan definition... “they do not exactly duplicate... but have some elements of novelty.”

Though the contributions of scholars that dates back to the 1930’s is noted (like that of Schumpeter) entrepreneurship as a discipline of study has been controversial. Michael et al (2002) discussed, the 1990’s were a decade of a debate over the domain of entrepreneurship research. As the debate were to build the body of knowledge, and hence legitimacy to research based insight. Low and Mac Millan (1988) observed the range of disciplines represented in the entrepreneurship literature: Economics, Sociology, Anthropology, Psychology, History, Finance... and thus implied the field as a discipline is at a tender age and evolving. (Michael

A. Hitt et al.2002).It is apparent entrepreneurship and the study of it borrowed its contextual nature from its inherently multidisciplinary orientation. Traditionally, it use to focus on studying individual entrepreneurs and firm performances to draw insights, gradually broader perspectives begun to be shaped. Entrepreneurship is not only about new firms, it also focuses on entrepreneurial actions of an already existing firm/s. Shane and Venkataraman (2000) further refined the definition of entrepreneurship as the study of “how, by whom, and with what effects opportunities creates further goods and services are discovered evaluated and exploited.” (Ibid,2002) Scott Johnson et al (2002) further noted two key observations: “many entrepreneurial ventures do not represent new business that create new industries, and seldom are new businesses successfully commercialized by individual entrepreneurs; instead they depend upon the actions of numerous entrepreneurs who collectively build a new industrial infrastructure that supplants or replaces existing population or industries.” (Alvarez and Barney, J.B,2000). These observations pave the way to look into some important levels of analysis that would certainly help in understanding the SMEs growth, growth management and the challenges (responses favored by firm/s or an industry in crafting its present reality and shaping its destiny) before developing into the levels of analysis (theoretical frameworks of firm vis-à-vis industry) it is fair to briefly highlight the “new operating environment” that forced firms to re-view their “ operating assumptions”

### **2.2.2 Globalization and the New Operating Environment as Firms’ Growth Context**

The renowned economist Kinichi Ohmae (1988) conceptualized the term ‘globalization’ as a worldwide process of intensification of the movement of goods, information and production requirements, especially capital



and financial instruments.(Erenesto Screpanti and Stefano Zamagni, 2005) With globalization, hosts of issues are also emerged, but that seem very much relevant to SME conditions in developing nations are, the three phenomenon, that some economists begun to question are restructuring of production (production is no longer carried out in a place where decisions are taken-a trend referred to in the industry language as delocalization); increasing aggregate wealth and an increase in poverty; the growing tension between economic globalization and political democracy. (Ibid, 2005) These distinct faces of globalization have opportunities and threats, it is a matter of how a firm, an industry or a given economy may prefer to perceive it. But, the rule of engagement has changed. The whole phenomenon is forcing “the information age” organizations to work with “a new set of operating assumptions” Robert S. Kaplan and David P. Norton (1996) has epitomized the information age organization must work with new set of assumptions: cross functional organization (combining specialization with the speed, efficiency and quality of integrated business process), Links to customer and suppliers(operations are triggered by customer orders, not by production plans), customer segmentation (customized product and services to diverse customer), global scale (combination of global operation efficiency with marketing sensitivity to local customers) and innovation (continuous improvement in process and product capabilities) are pointed out as key to long term success in what they call “ the information age organization” (Robert S. Kaplan and David P. Norton, 1996).

In some aspects the domestic and global contexts appear to be seamless, the capability needed to win a domestic market may prove instrumental in building global operations.Robert S.Kaplan and David P.Norton(1996). The globalization impact is unfolding everywhere. Now a days, even the worst positioned LDC’s are witnessing delocalization, are observing the

paradox of increasing aggregate wealth along with an even increasing inequality between the haves and have not's (Kinichi Ohmae(1988) which in turn piling up the pressure on states to help build a robust SME development path that can bring "growth with depth". A positive growth with deeper macro level externalities like provisions of jobs, asset a better quality of life,(AFDB,2012) which is the central agenda of most of the nations development plans.

### **2.2.3An SME Growth and Structural Perspectives**

A firm and its environment are the immediate concern in discussing a firm level growth and its supporting or inhibiting infrastructures. It is a common sense understanding that a firm must grow in some way to survive, and even more to thrive in its mission as a business entity. The point is how a firm can measure its growth? What are the parameters? What factors advance its growth ambitions? What may inhibit it? are some of the questions that come to the fore in discussing growth and the very essential capability of managing it so as to make the growth sustainable. (Packard,1957). The concept of sustainable growth, originally termed affordable growth used by David packed to describe maximum rate of growth in sales the firm would achieve given its level of profits without availing additional capital (Ibid, 1957).

While (costa, 1997) explained sustainable growth saying, sustainable growth rate is like a break – even growth rate "Just as an operating breakeven point reflect a minimum level of sales needed to off set fixed production costs, so does the sustainable growth reflects the maximum rate of growth in sales that a firm can maintain given its resource and earning capacity" what will happen if the reverse is true?. That is to mean, if the growth is unsustainable?. The growth will be dependent on the willingness and conditions for additional supply of capital.

Unsustainable growth ... can be supported, but requires continued inflow of investment. (Ibid, 1997).

Firm level growth sustainable or otherwise need to be understood in its very essence. In this regard there are some notable theories that are discussed again and again in most of the literatures that the writer of this report encountered. The first one is the stochastic Model. According, to Matthew Dobbs and R.T Hamilton, (2006). The model assumes that there are too many factors affecting growth and no specific factor have a governing effect to explain growth. In contrast to this model, the deterministic approach states set of internal and external variables can explain SMEs growth. (Smallbone and Heigand North, 1995), (Davidson and Klofsten, 2003), and (Barringer, Jones and Nevbourn, 2005)

There is another divergent model to the above mentioned options. This model which is described being adopted from the biological life – cycle analogy is the stages model (Greiner, 1972), (LawrenceH. Steinmetz, 1969). According to proponents of this model, a firm's development can be “mapped into successive and separate stages” (Churchill and Lewis, 1982). The Churchill and Lewis model noted for developing a five stages modes in which SMEs progress, the stages are: existence, survival, success, takes off, and resource maturity. However, the model has been under constant criticism for its separate, step by step stagiest approach. One such criticism came from those who view growth as an idiosyncratic phenomenon, that is unique and non repeatable for each firm (Edith T. Penrose, 1959). Penrose further argued, firms with similar resources may perform and grow differently due to unique combinations of resources, which in its own way enforce the idiosyncrasy argument.

A firm environment is complex, its success by and large determined by the micro, messo (industry level) and macro level factors. (Scott, W.R, 1995) The micro and messo level analysis should be compatible with

macro level objectives and structural aspirations of a given economy. “Economic development is all about a sustained improvement in the economic well-being of the population.” This process in the developing economy entails structural realignment in the economy (transformation of the general economy from agriculture to manufacturing and then to service). (Jason Bohoney, 2011). To foster and speed up these structural realignment the SMEs role is highly significant; to benefit from their positive influence the micro and meso level key factors must work in some fundamental way with the macro-level strategic objectives. (WorldEconomic Forum, 2011).

Any SME in any economy to live its mission and thrive- it must grow and keep on growing. But what growth is, how it is perceived, managed in all three levels of analysis is a key issue which attracts considerable interest in the academic and practicing professionals of business administration. The concept of growth, as one can note from the defining attributes of an SME, it encompasses issues related with size, asset base, return on investment.... etc. But, the most salient feature of a growing firm is profitability, for it has most of the variables at work and serves as signal of resource allocation where it add the most value (Kaplan and Norton, 1996). It goes without saying that firms live in a sustained competitive environment, due to the fact that they must compete. They have choices, and therefore, they must make decisions. Rumelt, Schendel and Teece asserted, firms if they have to survive, they have choices to make. Those that are strategic, the selection of goals, the choice of product and service to offer, the design and configuration of policies determining how the firm positions itself to compete in the product market... It is the integration among these choices that makes a set of factors into a strategy (Nicolai J Foss, 2005). It implies that a working integration sets a successful and unsuccessful firm apart.

The implication here is growth itself is taken as prelude to a sustained success. Fitzsimmons, J.R., et al (2005) described the use of growth as a measure of firm performance is based on the belief that growth is precursor to the attainment of sustainable competitive advantage and profitability. Taking Stewart's (1991) definition of entrepreneurship as a creation of rent through innovation... they argued, profitability measures are particularly appealing. (Fitzsimmons, J.R, etal, 2005)

Profit as "signal" for firm performance and possible as a growth indicator is key. From the perspective of the neo-classical micro-economics, a firm, should earn "normal return" to survive:

"Earning normal returns is the same as earning zero profit, which means that often the firm pays all of its bills it has just enough left over to compensate its owners for the investment they have made." (Scott Johnson, et al, 2002)

They also discussed earning more than zero profit, what they call "positive profit" intensifies competition which implies more new entrants to the industry, which in other way means- competition is inevitable and positive profit in most case is a temporary situation. If a firm enjoys a sustained profit, the factors contributed to it may mean different things to different school of thoughts. For micro -economists the profit scenario is two.Excess return that will soon be competed away are called profits while sustainable excess returns are all rents (ibid.2002)

For others, for instance, those who view firms performance from the perspective of RBV (Resources Based View) sustained profit is the result of sustained competitive advantage (SCA).

A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy (Barney (1991), as quoted by J. Foss (2006).

In both thoughts one analysis is common-enjoying a sustained profit is difficult and wherever it is possible for a firm to enjoy a rent, even positive profit, there must be some “uniqueness” that may be the result of some “barriers” like that of the five forces of industry analysis. (Michael porter, 1980)

Indeed profitability is the necessary condition for a business to survive but not a sufficient condition to judge a firm is growing in a sustainable manner. Sustained profit is a function of multiple capabilities. (Andy Locket et al, 2011) Initially, looking into one or two variables might give us a clue about a growing firm. An organization which have a growth capabilities displays overtime growth along one or more dimensions e.g. size, market share, profitability assets (Ibid 2011). Capability is the essence of growth Vaughan Evans (2013) defines capability- as how a firm deploys its resources. A sustained capability may result in a sustained growth. If a firm has to do well in an increasingly dynamic competitive environment, need to develop a strategic capabilities – a concept which refers to a more adept resource allocation; in words of Andy Lockett et al, (2011), it is a firm’s capacity to routinely deploy resources including knowledge, in combination with strategically important organizational process to affect a desired end. They also categorized capability into two: substantive (growth) capabilities, which enable a firm to compete in its market on a day-to-day basis; and

dynamic capabilities, which extend, modify or create new substantive (growth) capabilities.

This perspective of growth is all aligned with some of the views we have been discussing so far, like that RBV, which advocates uniqueness as a way of building growth by building sustainable competitive advantage. Why RBV particularly discussed here is, because it is distinguished from other approaches for it takes individual resource as a unit of analysis when it comes to grasp the source of SCA, and hence growth and the management of it. (Dhirendra Kumar, 2009) Sums it up this way “.... One of the most fundamental aspects of the growth process is the formation and distribution of competences within and among organizations. The goal of any business growth is to increase revenue and profitability with a reduced business cycle time that is more productive, innovative which results in high value products (services).” (Ibid,2009).

#### **2.2.4 Growth Vs. Structural Perspectives**

At firm level management in every SME is faced with creating and maintaining substantive capability that would take the firm through the day to day challenges of staying alive and thriving in its mission (Edith T. Penrose, 1959). The management is also faced with the necessity of charting through a growing uncertainty while pressured to develop the dynamic capability discussed earlier which makes it fit to survive and grow in the new operating environment. The SME collectively, as a sub-economy should be viewed structurally if society is to benefit from it. (Michael et al, 2002)

It is earlier discussed the key insights that gives shape to a structural view of firms (Ibid, 2002) many entrepreneurial ventures do not represent new businesses that create new industries, and the observation that new

business seldom successfully commercialized by individual entrepreneurs. New firms may have that Novelty which make their entry to the market, their growth is subject to their own capabilities and the nature of their environment. (Nicoli J. Foss, 2005) discussed the dynamics that governs the firm and its environment; he states that strategy research is increasingly and heavily influenced by modern organizational economics and a host of other trends that may be placed under KBV (knowledge Based View); which others, like Rumelt (1984) and Grant (1996) generally views it as 'a strategic theory of the firm' which they say should address four issues:

- i. **The existence of the firm:-** why do firms exist as distinct mechanisms for resource allocation in a market economy
- ii. **The boundaries of the firm:-** Why certain transactions are governed in - house while others through market relations
- iii. **Internal organization:-** Why do we find different types of organizational structure
- iv. **Comparative advantage:-** Which factors account for superior rent - earning capability

They also reiterate that any theory of a firm to be comprehensive must address all the four issues. The first three issues are borrowed from the theory of economic organization; the last one is from- strategy. It should be noted here, these scholars views RBV under the domain of KBV.

### **2.2.5 Industry as a Model for Firm Performance**

Industry is an organizing concept here. According to Michael E. Porter (1980) industry is defined as the group of firms producing products that are close substitutions for each other. (Scott Johnson et al



2002). Acknowledges the importance of viewing firms performance from an industry level analysis, saying, A model of an industry provides both a model of environment in which a firm operates and a model of the populations with which a firm competes. Comparative advantage depends on the nature of competition in industry. (Ibid, 2002)

In competitive advantage lies the growth possibility of a firm. Competitive advantage:- as stated by Van De Van is the strategic advantage possessed by one firm over others... which enables it to make a superior return. Van de van (1993).) Argues organizational theory adds depth to understanding the competitive advantage scenario. The four perspective under the umbrella of economic theory of organization are: population ecology (which generally dictates: firms earn profits in a period of time before an industry reaches carrying capacity; and firms can only earn rents if new entrants are barred. The second perspective is new institutionalism (in population ecology-the ecology has carrying limit which affects the firms growth, in new institutionalism, the success of firms ultimately depends on achieving legitimacy for the industry, after legitimacy all firms within the industry earn the rents. The third perspective is organization evolution, in this perspective industry emergence is exogenous as in the population ecology, and firms chance of succeeding is dependent up on achieving "greater fitness" in responding to their environment, in this view firms have no power over the environment, thus fitness, if not matched by other firm can produce profit. The fourth perspective is industrial communities, the perspective proponents tries to address the limitation of the three perspectives - those views look industry as a collection of essentially similar firms, industrial communities perspective emphasizes that creation of an industry is a collective achievement requiring numerous roles....in both the publics and the private sectors. In this model firm survival depends

on doing well in all aspects of strengths that are discussed in the rest of the models.

The models show that growth is very complex. If not deeply scrutinize, our everyday experience would rather push us to believe otherwise. Observing the drivers of growth is not an overnight study of industry reports, as porter observes, (1980) industries evolve because some forces are in motion that create incentives or pressures for change. These can be called the evolutionary processes. In the process, “the luck, skills, resources, and orientation of firms in the industry can shape the evolutionary path the industry will actually take.” (vanDe van,1993) The contrast here is, as porter’s perspective heavily built on the competitive advantage - firms resources and capability can affect the path of an industry whereas in population ecology and organizational evolution models, the environment is exogenous to the firm, it means the creation and size of an industry is out of the firms control. The other two perspectives (organizational evolution and industrial communities) basically shares the final remarks of porterian organizational evolution - firms differ in their competitive strategy: in their strategic options and in their ability to acquire new abilities over time; and can ultimately affect or be affected by the environment.

### **2.2.6The Challenges of Managing Growth**

It is already noted an SME growth context is a mix of micro and macro level variables; the micro-level settings are characterized by creating and honing substantive and dynamic capabilities, that made the road easier for a firm to be built from inside and be able to match the ever changing micro-macro world that demands dynamism from a growing firm. (Andy locket et al, 2011) Through the lens of structural perspectives - firms in an industry may or may not influence their environment (from which perspective we see them, makes the difference). However, the

fundamentals are the same - all firms must do better than most to earn profit. Profit from financial point of view is “signal to resource holders where resources are most highly valued by a society” (Michael R. Baye, 2006). For a growing firm earning an accounting profit (total revenue – the cost of producing that good or services) may not be enough, growing need deeper than an accounting profit, that is economic profit which means “the explicit (accounting cost) of resources and the implicit (opportunity cost) of giving up the next best alternative use of the resource” (Ibid, 2006) a cost which is generally higher than the accounting cost because it adds up both (the implicit and explicit costs), the implication is, the investment decision and the growth prospect of a firm is not as simple as earning marginal profit which may not support growth of a growing firm.

Institutionalizing growth needs strategic entrepreneurship. As in the definition of Low and Mac Millan (1988) the creation of new enterprise is sufficiently constitute an entrepreneurship, but in most common sense understanding of entrepreneurship – there is an element of creativity. As in Drucker's (1985) way of seeing it “.... endowing existing resources with new wealth producing capacity.” From the marketing point of view growth may mean expansion following any sort of strategy or mix of strategies that would help a firm to maximize wealth in its preferred direction - that is the essence of strategic entrepreneurship. (Michael A. Hitt et al, 2002) expressed “strategic entrepreneurship - the integration of entrepreneurial (i.e. opportunity seeking actions and strategic, (that is advantage seeking actions) perspectives to design and implement entrepreneurial strategies that create wealth.” (Michael A. Hitt et al., 2002). Making profit and maximizing wealth may be interdependent in some aspect, but obviously they are not the same. Empirical evidences across the board, time and again, showed that, the most pressing challenge for SMEs are survival and sustainable growth, the

failure statistics along with the feeling of deeper uncertainties even for firms' in growth trajectory are some of indications of the aforementioned key challenges. Looking into key success and failure factors provide a more vivid picture of SMEs growth management challenges.

### **2.3 Key Success and Failure Factors**

They are not the same everywhere, not expected to be exactly the same either. However, many studies from different part of the world presents some commonalities on the SMEs challenges, success and failure factors. Despite the fact that the degree in which those factors positively or negatively affects them, despite the political, socio-economic, historical and cultural contexts, some success and failure factors are persistently surfacing more often than not.

SMEs are the results of entrepreneurship. Organizations are born from the bold actions of an entrepreneur/s. Perspectives. For the purpose of this research writer decides on taking the action oriented view as a working definition.

The reader, the action oriented view that is taken as a working definition, views entrepreneurship as the “capacity and willingness to undertake conception, organization and management of a productive venture with all attendant risks, while seeking profit as a reward.” (Jason Bohoney,2011). Here one can observe key set of interrelated attributes: capacity, willingness, conception, organization and the management of a productive venture, each word represents other set of attributes that make an enterprises world complex and challenging at the same time, therefore, growing entail doing above the average on all the resources (Barney, 1991) referring to the SWOT framework of a firm, described resources, as being valuable when they help in seizing an opportunity in the firm's environment or when they help in neutralizing some threat in

that environment, or at least in shielding the firm against the threat. (Nicolai J.Foss, 2005).

A study conducted by the Asian Development Bank (2015) identified two main factors for SMEs success in global value chains: the first is enterprise competitiveness, the second is enterprise connectivity. The enterprises covered on the study where asked to rank “the most critical factors” to achieve what they achieve or aspire to achieve, most enterprises felt, quality of their product or service is top, seconded by skilled labour, the third factor was strength of customer relation, the fourth factor was ambition of the owner/ entrepreneur (the attitude of opportunity seeking and the will to succeed) the fifth factor was education, experience, and international exposure of the owner (entrepreneurs with global ambition).

Constraints that limit the maximum exploitation of those success factors were: access to finance, availability of skilled labour, weak institutional support (government facilitation) and the most critical constraint was defined as “disadvantage of the business (SME) sector.” This “disadvantage” denotes the competitiveness of an industry as a whole might have been affecting individual firms. (Elaine Mosakowski, 1998) asked few important questions on overcoming resource disadvantage of smaller firms against the resource rich big firms, small firms, will always be at a competitive disadvantage? and said, the answer is twofold: a firms resource base is insufficient for predicting its ultimate success or failure, (opportunities it identifies, the business models and strategies must be considered.) and secondly, the resource rich firm is not always at a comparative advantage. It may experience disadvantage attributable to: core rigidities, reduced experimentation, reduced incentive and increased transparency of strategy and business models employed. (Ibid, 1998).

As the Asian Development Bank report (2015) cited earlier indicates firms have to deal with lots of factors to succeed. They should know how to turn factors to their advantage that surfaces in their broader environment (Michael A.Hitt et al.,2002). As environment is an “aggregate effect” (Ardishvli et al., 1998) Understanding an environment is about understanding conditions, events and influences that surround and affects firm (Ibid,2015).

The degree of success in each firm is determined by the management of the factors and the environment of a firm. (Edith T. Penrose, 1959) in her view firms are collections of productive resources.... firms as they proceed with their productive operations management will acquire increased knowledge through the process. The results of such learning processes are: the expansion of firms ‘productive opportunity set’ the releases of excess managerial resource that can be put to use in other, related business areas. Flexibility, organizational learning as an evolutionary discovery process, the vision of management team, entrepreneurship all affects a firms successes. She asserted “firm differences (performance) being traceable to the efficiency with which resources are applied rather than to resources themselves.” (Ibid, 1959).

Reverse reading to the success factors in most cases also give us the failure factors. But the correlation and causality relations of factors are different in different context, however, more than the contextual differences in failure, what grabs attention most is the staggering statistics of failure that is not unique to any qualification of nations (developed or developing) the reports are full of mysteries of failures, it would be unwise not to mention those most recurring failure factors.

The average age (life cycle) of many SMEs is in the region of five years or less, Noel Jones (Ph.D) observed, “...small businesses die after an average of 18 months... about 80% of startups are expected to fail...”

Ibid, (Olawale Fatoki, 2014) citing Maas and Herrington (2006) concluded the same, while defining “a new SME as an SME that has being in existence for less than 42 months”... if it stays more than that it becomes an established firm and pointed out, the failure rate of SMEs in South Africa is between 70% and 80%, quoting AdCrop (2012) around 440,000 SMEs have closed in the last 5 years.

Noel Jones attributed poor management and shortage of funds as the main causes for start-up deaths globally. Generally business fail due to internal and external factors. Internal reasons like that of lack of management experience, lack of functional skills (like the customary management functions), staff training, poor customers attitudes are among the issues discussed here and there. External factors, largely uncontrollable by the firm are but not limited to, high cost of distribution, competition, raising cost of doing business, lack of finance.(Ibid,2012) beneath what seem obvious one question lingers- what is failure in the first place?

(Peacock, 2004) discussed “failure” as it applies to the SME. He explained, in terms of the economic perspective, a firm which earned a rate of return on investment which was insufficient to cover its opportunity cost and because of the unavailability of data to calculate profitability of small firms, the easiest way to understand “failure” is legal failure... expressed through some ‘surrogate’ measures: discontinuance of business (for any reason) and formal bankruptcy proceedings. (Honjo, 2000) as quoted in peacock further noted, a number of firms continue to trade while earning low rates of return. Viewed from this scenario, a firm is said to be “failed” if it meets the following criteria:

- i. **Earning criterion:-** A firm is considered as failed if its return on capital is significantly and consistently lower than that is obtainable on similar investments

- ii. **Solvency criterion:-** A firm has failed if the owner, to avoid bankruptcy or loss to creditors... voluntary withdrawal, leaving unpaid obligations
- iii. **Bankruptcy criterion:-** A firm has failed if deemed to be legally bankrupt (bankrupting is normally accompanied by insolvency and/or liquidation)
- iv. **Loss cutting Criterion:-** A firm has failed if the owner disposes of the firm or its assets with losses , in order to avoid further losses.

(Jemtime and Pansiri, 2004) add few factor and reconfirm some of the factors that are already mentioned. They find that factors related to marketing, such as, lack of market research, ineffective demand forecasting and analysis, bad customer service, lack of training for the sales staffs are among the most significant factors leading to failure. Beside the marketing resulted failure, investment analysis and working capital management problem rated second customer relation and managerial actions come third and fourth respectively.

### **2.3.1 Organizational Life Cycle and the Challenges of Managing Growth**

As in the popular product life cycle, there are few perspectives which show an organization with somehow similar analogy. One of the earliest writers on company life cycle growth was (Greiner 1972), provided the foundational work on the theory of companies development.

Briefly summarized, the five phases and crises that Greiner identified are:



- i. Growth through creativity, followed by a crisis of leadership.
- ii. Growth through direction, followed by a crisis of autonomy.
- iii. Growth through delegation, followed by a crisis of control.
- iv. Growth through coordination, followed by a crisis of red tape.
- v. Growth through collaboration, followed by psychological saturation among employees.

In all his phases, growth comes with accompanying challenge of institutionalizing it, even institutionalized, it create an inevitable crisis. (Quinn and Cameron, 1983) developed their version of a company life cycle after synthesizing different models. According to their model companies go through four different but related cycles:

- **An entrepreneurial stage:-** characterized by innovation and creativity on the part of the founder followed by;
- **A collective stage:-** Characterized by high cohesion, commitment; then
- **A formalization and control stage:-** marked by stability and institutionalization; and at last,
- Structure elaboration and adoption stage.

Building on Greener's conceptions of An organization life cycle as a process of evolution and evolution Different scholars tried their hand on modifying or elaborating the concept. One such example is the contribution made by Churchill and Lewis 1983 who adopted their own modified version.

**Existence> survival> success> take off> resource maturely.**

Steps Model of Enterprise Growth (Churchill and Lewis, 1983)

Another notable contribution to the field is Adize's(1979) who argues in the firms Journey through the cycle attitude and style of the managers has an ample influence on the life and effectiveness of an enterprise. He has also affirmed that the reinforcement skills, self commitment, risk taking capacity, vision and administrative mastery are required in the first few stages of an enterprise development.

According to these perspectives failing indefinitely in one of the phases may force a firm to go down. (Churchill and Lewis, 1983) Firms in the initial stage of their development, when they are witnessing a robust growth, their direction, the strategic decisions) are highly shaped by the owner-founder (Adizes, 1979). Strategic decision implies the essence of having a strategy that an organization is guided by (Henry Mintzberg 1978) defined "strategy as a deliberate, conscious set of guidelines that determines decisions into the future" quoting Chandler and he argued further most of the strategy definitions as embodied in Chandler's widely used axiom "strategy is a plan" which treats strategy as explicit, consciously developed and made in advance decision is flawed in one significant sense- restricting strategy to explicit, a priori guidelines...." He argued strongly, the "deliberate" view of strategy could be referred as "intended strategy" the part that are realized should be defined as a pattern in streams of decision, following a consistent pattern overtime, one can take the pattern as a strategy. The other insight he gave to the body of knowledge in strategy is, his construct of "emergent strategies" never intended strategies, but realized is said to be "emerged" (Ibid, 1978).

### **2.3.2 Government Support as Growth Determinant**

It is a simple fact that governments cannot provide all the jobs that a growing number of job seekers are looking for. Economies everywhere are not doing on par with the demands for jobs, especially in Africa where the job seekers are increasing by leaps and bounds, the problem is alarming (African Business, 2015). The magazine argued for SMEs support by stating the magnitude of the problem, saying to mitigate the problem supporting SMEs development is about “finding jobs for the 350 million Africans who will hit the job market over the next three decades.”

Then the question is can entrepreneurship and SME development can be promoted as a response. Two views are prevailing: the first view focus on establishing an appropriate institutional framework which is business friendly environment in promoting property right, contract enforcement etc. practical reports and policy recommendations in countries which favours this views encourage government support in the directions of firms competitiveness. This means, enhancing efficiency and effectiveness in resource use, encouraging the ability and willingness to relate profitability to growth capacity, and supporting the ability to innovate are considered key to SMEs support. (OECD, 2004) Another outlook argued for a more active government involvement. For instance, the African Transformation report discussed the alarming job situation in the continent. (ACET, 2014) argued;

Many people classified as employed are engaged in low-productivity agricultural or services and all severely underemployed, barely eking out a living. Informal employment (in the informal sector or in the formal sector but without a contract and social protection) makes up more than 80% of employment.

The argument for a more robust government support is supported by various practical reports, one such source is (AFDB, 2014) which reported in sub-Saharan Africa, 45% of firms cite access to finance as a major constraint to growth. An estimated 84% of investments in SMEs in Africa are financed through internal funds. (Ibid, 2014) And forwarded a call to governments to follow a move with two key proposals which have worked in many other countries: SME support bureau and credit guarantee schemes. The proposals attributed with reducing the burdens of “traditional expensive task of creating modern and transparent accounting practices, a necessary leap towards convincing a banker to part with his cash....” a government can also help many SMEs with other elements like market research, linking SMEs with potential clients.” (

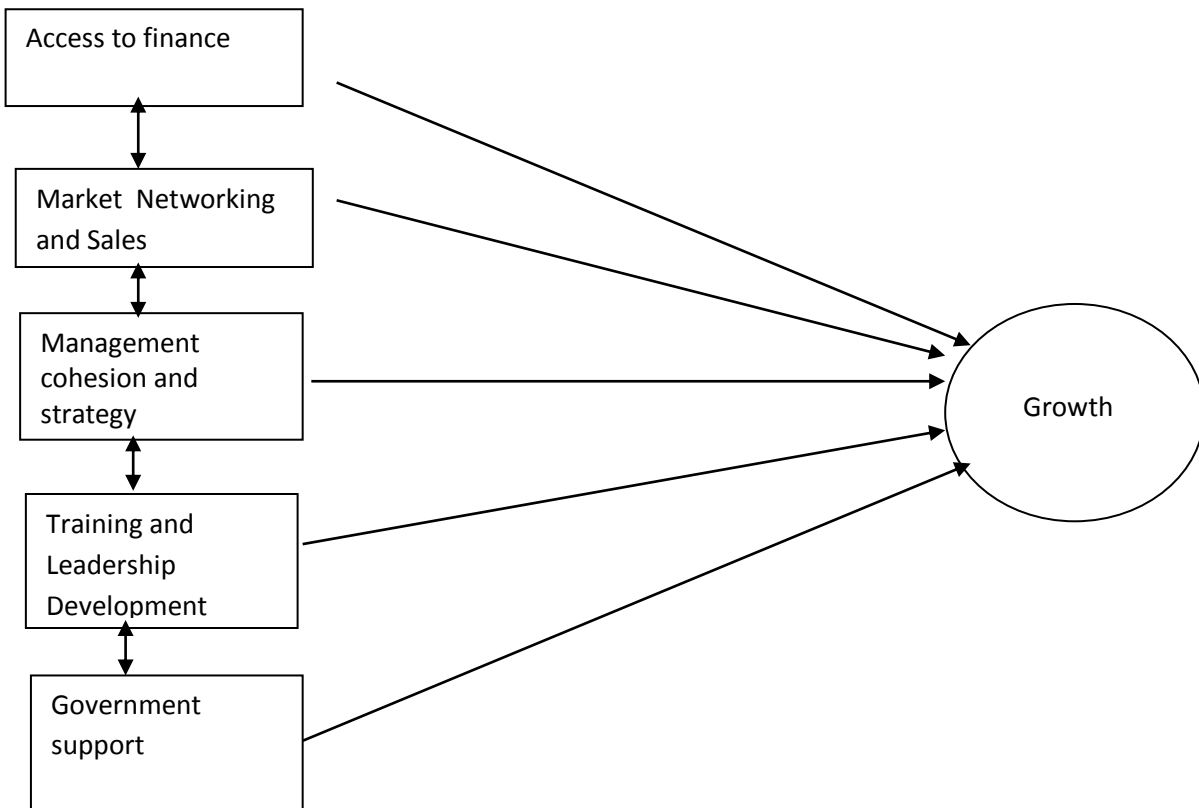
Some specific cases also shares the same insight. South Africa’s Integrated Business Development Strategy for 2005-14 states the policy and institutional support framework for SMEs. (Takalani Ramukumba, 2016). The framework has three pillars, which are: increasing the supply of financial and non-financial support, creating demand for SME product/Services, and reducing regulatory constraints.

The OECD report discussed earlier also provides some historical records on the dynamic nature of SME support policies. The report recounts that in 1980’s and most of the 90’s enterprise policy in European countries where focused on employment creation and in initiatives supporting new business creation. Then changed to achieving international competitiveness and programs encouraging business growth support to exporting and technology based business and creation of an enterprise culture within the society.

An SME development is a cross cutting issue which needs a deeper integration of all actors and a functioning economy at micro and macro level that is conducive to SMEs growth. As Raghuran G. Rajan and Luigi

Zingales (2014) hinting the need to have a business friendly environment with a balanced government role, they state “a truly competitive market occupies a very delicate middle ground between the absence of rules and the presence of suffocating rules.” If this “delicate balance” is missed a capitalism environment in which SMEs are hoped to thrive will be “very unstable” and “easily degenerates”

### **CONCEPTUAL FRAMEWORK**



Source:- own Conceptualization

### **2.3.3 Review of Related Empirical Literature**

Review of empirical researches that are relevant to the case in consideration were done to further build the foundation of the study from the practical insights of those literatures. The concise summary of some of the researches presented in this part of the chapter.

SMEs account for over 95% of enterprises, 60% of employment and over 50% of value added in non-government private sector. (Bank For International Settlement, 2014). The bank's monetary and economic department working paper examines the impact of financial constraints on profitability across the age distribution of SMEs.

The study finds out startups profitability is reduced by the lack of it and it also reports that they do not find similar relationships for older SMEs. The study which was done by the European commission survey, using the world Bank, World Business Environment survey standard (WBES). The study underscored the benefits of firm levels surveys as timelier than business a register data, as they provide more data beyond employment to include information on profitability.

Another research which use extensive data were conducted in Canada, a small and medium sized enterprises growth study. (Danial L. Seens, 2013). The study covered the summary of financial report on approximately 850,000 Canadian SMEs over ten years (2000-10) to produce information of firm profitability, asset turn over, leverage, return on equity, retention rates and dividend payouts. The study used the Higgins sustainable growth model, the study finds Canadian SMEs had the financial infrastructure in place and had the normal earning capacity to support an average growth rate in sales. These two studies find finance is a good enough factor in affecting growth but not extremely critical across the SME divides (no same effect were found for small and

medium enterprises in the first study, and firms sustain an average sales growth without external inflow of finance in the second study.

Another study conducted in Ghana which aimed to find out determinants of SME growth (Moses Ahomkayeboah, 2015). The study attempts to find out the consequences of entrepreneur and firm characteristics on SME growth. The study covered 121 SMEs using descriptive statistics and used cramer's V statistical test and concludes educational qualification of the entrepreneurs and the firm size had the most significant influence on SMEs growth.

A study done in Tanzanian furniture industry was also reviewed. The study attempted to measure SMEs growth and its relationship with demographic characteristics of entrepreneur's (age, education, experience, family background) and personality traits (need for achievement, locus of control, risk taking propensity, tolerance for ambiguity and self-efficacy) and cognitive characteristics (alertness attitude toward entrepreneurship, cognitive styles and motivation.) It was done on 300 SMEs (representing four different regions of the nation) variance analysis, linear regression and structural equation modeling were used to analyzing the data. The finding states all factors studied and firm performance are related.

Another research were also reviewed that attempted to find out strategic entrepreneurship and small firm growth in Ghana (Bernard AcquahObenget al, 2014). The study develops hypothesis that relate firm growth to investment in research and development, human capital, social capital, innovation and operations using data driven from 441 entrepreneurs, ordinary least square regression model put to use to test the hypothesis. Finally the result had found out several positive relationships between firm growth, and the characteristics of the

entrepreneurship, firm resource and firm strategy but employment growth is significantly associated with firm size.

A study which explores Kenya's SME and the effects of entrepreneurial finance on growth (Gladys N. Wekasn Bunyasi et al, 2014) using Cranbach's coefficient alpha, analysis of variance on the effect independent factors on growth. Finds out access to finance has a positive influence on SMEs growth.

Zindiye et al (2008). Study factors affecting manufacturing sector of Harare. The factors measured were skilled man power, management skills, economic factors, economic initiatives. Questionnaires, Analysis of variance, regression analysis were employed, result, all variables have significant bearing on firm performance.

Mohd et al (2010). Examine the moderating effect of government policy on entrepreneurship and growth performance of SMEs in Cambodia. Factors considered entrepreneurial value, firm financing, management skill, market practice, government policy. Methods used; survey (on 220 SME owners) managers in phnom penh, regression was used to analyze the data. Result- Government policy is essential to growth performance of firms.

Chittihawan et al(2011).Study the factors that affect business success of SMEs in retail business. Factors considered management know-how, customer and market, SMEs characteristics (ways and cooperation), product and services, finance, external environment.The analysis was done using ordinary least square method. Result, factors have positive and significant effect on businesses success.

Demol (2013) studied the influence of training and training transfer factor on organizational learning and performance in Slovenia. Factors considered, volume and quantity of training supervisors support, peer



support acquisition and interpretation of information, organization incentives, cognitive and behavioral changes. Samples taken (247 service companies) method of analysis used was structural equation modeling. The result were supervisor support and organizational incentives have positive relations. Acquisition and interpretation indirectly related with performance; the volume and quality of training correlated with information acquisition and interpretation with no direct correlaton with performance.

Yahya et al (2012) investigates the impact of training on SMEs in Malaysia. Method used was survey, method of analysis, regression analysis resulted in positive and significant impact.

Mohammed and Nzellbe (2013) assesses performance of SMEs as a generators of employment and wealth creators in Nigeria. Factors considered: financing, perceived political environment, lack of management skills. 150 enterprises covered using questionnaire, regression analysis employed in interpreting the data. Result, there are other major obstacles other than financing. Perceived political environment and performance has an association, and lack of management skill affects performance.

Abraham Osei et al (2016) conducted a study to assess the impact of institutional support in SMEs marketing of retail businesses in Ghana. The study use firm database sources (reports) assessed the firms performances and concluded SMEs had severe challenges in marketing, resulted from unqualified marketing staffs, and inadequate marketing budget to undertake market research which results in low growth.

Janet, M and Ngugi, K(2014). Studied the influence of entrepreneurial marketing on growth of SMEs in Kenya. The research adopted a descriptive approach, survey method were followed to gather data; regression analysis was done. The finding shows pricing, promotion and distribution strategies are key factors in entrepreneurial marketing and recommended product development as a sound growth strategy.

## **CHAPTER THREE**

### **3. Research Methods Data Gathering and Analysis**

#### **3.1 The Research Design**

Research is an enlighten search, using scientific methods.(Deribsa, 2017).Despite having various ways of defining what research is, at the wealth of most of the definitions its scientific nature is not missed. For example. Bernard Ostle and Richard W.Mensing,2005) defined research as “an inquiry into the nature of, the reason for, and the consequences of any particular set of circumstances...”

The research method and methodology gives research its scientific nature. Research method constitute all the method, techniques employed in a given research (C.R Kothari, 2004). While research methodology considered as a wider concept than what research method entails. It refers “the science of studying how research is done systematically (Ibid, 2004). What is implied here is when we talk about methodology we are not talking about research methods perse, rather the logic of the chosen method is inferred. Having this sense in mind this research undertaking chosen to approach the medium enterprises growth and the factors that determine their growth using the explanatory research approach (Kothari, 2004) explain explanatory research comparing it with the descriptive approach, saying “Descriptive research studies concerned with characteristics of a particular individual, or of a group, where as diagnostic studies determine the frequency with which something occurs or its association with something else. Catharine Dawson (PhD) 2002) stating the same remarking explanatory research approach is sometimes referred as diagnostic approach and defines it as an approach which attempts to explain the cause and effect relation of a data or action of a particular subject. Thus this study has set out to explain

the factors depicted in the conceptual framework of this study in the earlier chapter, outlined their relation with the singular phenomenon of growth.

### **3.2 Methods of Data Collection**

The study use both primary and secondary data collection techniques. In collecting the primary data questionnaires, unstructured interviews (especially with government officials and experts assigned to follow enterprises) are used. Not a rigidly planned site observation was also employed. Survey questionnaires are the most popular tools in research (Deribsa Abate, PhD, 2017) . He said they are popular because they are effective for obtaining a lot of information. But not without demerits, questionnaires are inflexible, and generally may lack depth. (Ibid, 2017). To offset the demerits, on some instances, it is good to do observation when the researcher finds it necessary to observe individuals or groups to gather firsthand information on behaviors, programs, processes being studied. (Punch as quoted by Dribsa, 2017). So a non – participant type of observation were used to gain further insight. As semi – structured interviews employed to acquire information on the firms growth situation and their relation with the government, post questionnaire unstructured interviews were done, and immediately after the sessions notes were taken on the managers opinion reflections, anecdotes about the factors under discussion. As the semi structured interviews avoids the rigidity of the structured interviews, and the possible inconsistency of unstructured interview (Rubin, H; and Rubin, I, 1995). This study preferred to manage the data collection from officials using semi –structured interviews whereas the unstructured type is used in the post questionnaire sessions with the prime subjects of the study (the enterprise managers and management members) as the technique is believed to encourage respondents to tell their perceptions in a way they understands

them, which helps the research to have a more detailed data. (Ibid, 1995).

The study has also used secondary data. As discussed earlier primary data collection techniques are not without particular limitations. Using different techniques at ones in a bid to offset unwanted results the secondary data is believed to add depth and accuracy. (Chatrine Dawson, 2002). Accuracy, is the concern of all researches (Ibid, 2002). However it is not possible to achieve accuracy without triangulation(Ibid, 2002). She reiterate triangulation is a process of applying several techniques which includes the wise use of secondary sources. Therefore this study benefited from the use of relevant books, scholarly articles, news paper features, government reports, popular magazines, unpublished reports, digital sources and the like to build the case in lights of credible theoretical and empirical grounds.

### **3.3 Sample size and sampling technique**

Sample size and sampling technique follows the sample and statistical design intended to be followed. (Chatrine Dawson, 2002). Sampling design as methods of selecting the items to be observed when conducting research taking the entire population is not possible.(Deribsa, 2017). He also mentioned the need to bear in mind the best alternative statistical design which pave the direction on how to set the number of item and the technique we employ to analyze the data and information.

In these vein this study put to use stratified sampling technique. The total sample size were 830 (The specified number of enterprises have passed through the government procedures and labeled medium enterprises in four separate phases.) in the past six years.

The sampling unit is the enterprise. The government put through the enterprises into the graduation process as discussed elsewhere in this study using asset level measured by financial threshold, expecting a candidate enterprise to have reached 1.5 million birr worth of capital, job creation is also a criteria which made an enterprise eligible to be considered in the graduation process. The government has a policy priority for certain sectors as key for the overall economic development. The priority sectors are manufacturing, construction, Leather, Garment and Textile and urban Agriculture.

This study is conducted using stratified sampling technique. Stratified sampling is a suitable sampling technique if the population from which a sample is to be taken is not homogeneous. (Kothari, 2004). In this technique the population is stratified into a number of non overlapping sub-population or a strata, and sample items are selected from each stratum based on simple random sampling procedure. (Deribsa, 2017). He further noted that each stratum is more homogeneous than the total population, it is possible to get a more precise estimates (Ibid, 2017). Hence this study adopted stratified random sampling to this effect. The 830 enterprises may have some homogeneity simply by being in the medium status, and being at this status following the government procedures in place. However, stratifying them using this similarity as a sufficient condition to build homogeneity may render the whole operation superficial. Therefore the study approaches stratifying the enterprises using two parameters, firstly, using the government priority (which follows all sorts of incentive allocation and support systems) secondly, stratifying the firms under the same sub-sector (industry) and then accordingly using random selection among them to have a proportional representation of their respective sample size. Of the total population close to 160 enterprises excluded from the study for two reasons, one, most of the excluded firms were in their first year as medium enterprises

(do not have coherent experience in their new status) second, some of them are out of the priority sectors .Apart from this their number was also insignificant to affect the result as they were found out in the preliminary study to have the weakest link with the government support. Further the population is narrowed down using the availability of proper data .This way the sample size had been dropped to close to 500. In which the number of leather, garment and textile as well as enterprises engaged in urban agriculture were not more than 40 in total. Therefore, to make the sampling proportional 139 enterprises following their natural stratification randomly sampled.

## **CHAPTER FOUR**

### **4. Data Analysis, Result and Discussion**

The data is gathered in the manner discussed in chapter three of this study .The result is presented as follows.

The research subjects are selected out of 830 enterprises that made it into the medium enterprises according to the governmentcriteria of graduating firms. The enterprises status in the city spread over 10 sub cities. The enterprises, legal identity, shows a combination of all sorts. In this study 139 enterprises were covered, the questionnaire was administered cautiously by the researcher and four other experienced assistants in data collection. The 100% response rate proved the effectiveness of the method followed. As observed in the following table, the ownership structure of the enterprises is contrary to the widely held perception that all the graduating firms are originally organized with the help and procedures of thegovernment. The bureau that organize enterprisesconfirmed the case while interviewed for this study through its expert .To support the observation with a data to shows case the observation the researcher went through the fourth phase graduating firms and found out, of the total 77 enterprises 25% of the firms were private companies.



**Table 3: Legal Personalities of the Organizations**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
Private limited company	48	34.5	34.5	34.5
Partnership	60	43.2	43.2	77.7
Family owned	26	18.7	18.7	96.4
Cooperative	5	3.6	3.6	100.0
Total	139	100.0	100.0	

Source:- own survey (February, 2017)

The enterprises are engaged in various sectors but all of them are within the government's manifested priorities. Though specific categories may have a range more than what is stipulated here; all the 830 enterprises follow the same pattern of concentration in sequential rank as they are presented in the following manner. Manufacturing enterprises dominates the category followed by the Construction enterprises, then Leather related firms, Garment and textile finally Urban Agriculture. The following table presents the summary of the respondent by the sector they represented.

**Table 4: Types of Organizations**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
Construction	42	28.2	28.2	28.2
Manufacturing	70	40.4	40.4	40.4
Leather	17	12.1	12.1	12.1
Garment &Textile	16	11.5	11.5	11.5
Urban Agriculture	11	7.9	7.9	7.9
Total	139	100.0	100.0	100

**Source:- own survey (February, 2017)**

As it was pointed out in the second chapter of this paper and repeatedly cited more often than not companies fail in their early years. (Jones,) The staggering failure rates from elsewhere demonstrates surviving in a position to thrive is a luxury to most; start up enterprises do not last their 42 months (Peacock, 2004).

The medium enterprises in Addis Ababa's case and the concept of transitioning according to an expert on enterprise development, who worked in all the years that are covered in this research, in Addis Ababa's pertinent office affirmed failures happens too frequently though not consciously followed and recorded. The data provided on the enterprises up on graduation is not frequently updated due to budget and human resource capacity (the number and the skill too) according to the expert opinion interviewed for this study. As pointed out already years of experience the firms have in most case is taken as a success

story in its own right taking the failure rates of start – ups into consideration.

All the firms are below 5 years in operation in the status they are now 25% of them, which means 35 enterprises being operating for less than three years in operation as medium enterprise 43.2%(60 enterprises) more than 3-4 years 31.7, (44) enterprises serving in their sector for 4 years . The implication of it points to observe the critical stage they are in, the way they manage their growth will determine their future. This is not limited to being profitable in the short term, rather it requires them to meet their owners and stockholders expectation of wealth maximization and the societal expectation of them as a ground for the creation of more jobs.

**Table 5: Employment Created by the Companies**

<b>3.1 Full Time Employees</b>				
	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
Less Than Five	5	3.6	3.6	3.6
5-10	24	17.3	17.3	20.9
11-15	22	15.8	15.8	36.7
16-20	32	23.0	23.0	59.7
21-30	25	18.0	18.0	77.7
31-40	12	8.6	8.6	86.3
41-50	6	4.3	4.3	90.6
More than 50	13	9.4	9.4	100.0
<b>Total</b>	<b>139</b>	<b>100.0</b>	<b>100.0</b>	

**Source:- own survey (February, 2017)**

**Table 6: Temporary Employees**

<b>3.2 Temporary Employees</b>				
	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
Less Than Five	22	15.8	15.8	15.8
5-10	47	33.6	33.6	49.6
11-15	23	16.5	16.5	66.2
16-20	14	10.1	10.1	76.3
21-30	18	12.9	12.9	89.2
31-40	11	7.9	7.9	97.1
41-50	3	2.2	2.2	99.3
More than 50	1	.7	.7	100.0
<b>Total</b>	<b>139</b>	<b>100.0</b>	<b>100.0</b>	

Source:- Own Survey (February, 2017)

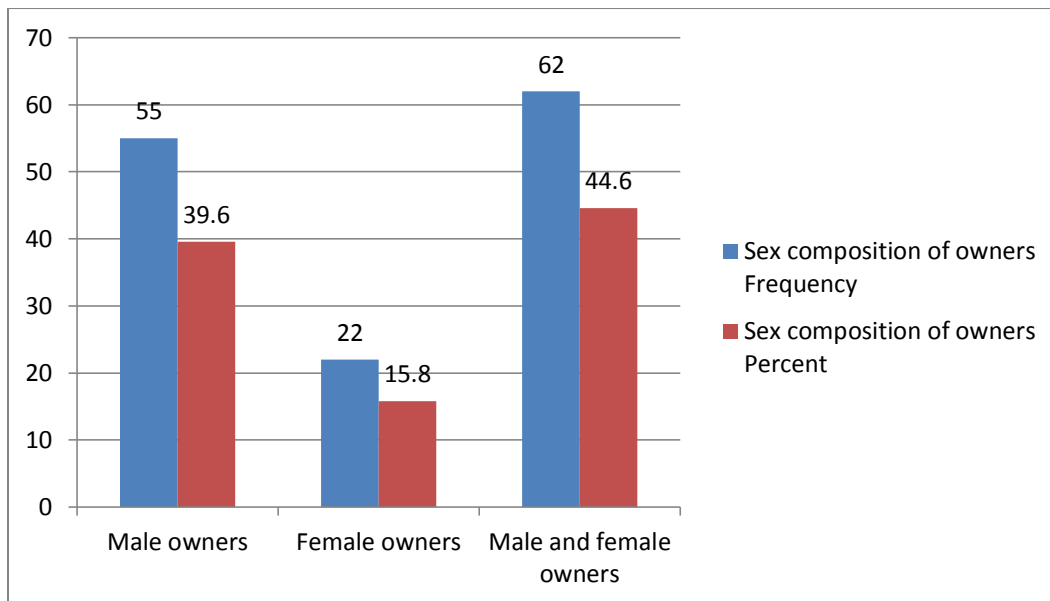
The government document that discuss the criteria's that should be met by a given medium enterprise apart from the asset- liability threshold that was pointed out in chapter one of this study Asset base (nate asset and liability for manufacturing enterprise, 1.5 million, to a service enterprise more than 500,000 birr (The Federal Democratic Republic Of Ethiopia Micro and Small Enterprise Agency ). Another document reiterate the same and adds, an enterprise in addition to its owner/s must employ more than 30 permanent employees.(Urban Development and Construction Ministry,2012). The document further stated enterprises both in manufacturing and business should have

hired 20-30 temporary jobs annually in their years as medium enterprises and when they were selected to join the rank, at least before joining the medium enterprises rank they should have such a record for a year or two. Putting the criteria's and expectations in the context, it is very plain to observe the enterprises are not doing quite satisfactorily. (From the point of view of permanent jobs as stipulated in the document that dictate numbers including owners, members. So the data may not show the accurate number of jobs created for non-owner/s or members. But the figure obtained about the number of temporary jobs provide an aggregate picture because the owners managers of the study responded to the question based on their current condition at the time of answering. Even in the case of permanent jobs, the response obtained for the question of ownership implied the job creation is still unsatisfactory as 34% of the enterprises are privately owned and not expected to follow the dictates routinely. As the discussions after the questionnaire revealed many of the created Jobs for 5-10 persons and them cooperatives created even few jobs for non members.

The government expected a given medium enterprise. The tables show slightly above 22% of the firms have created more than 30 jobs. 8.6% of the firms employed 31-40 employees, 4.3% of them employed 41-50, 9.4% of them said they have employed more than 50. Trying to look into this information from a different angle still show the same thing in a different pattern, the study samples response about the temporary job they have created, shows 15.8% of them said they have created less than 5, 33.8% of them 16-20 respectively. This simply shows 66.1% of the respondents are employing below the expected level. Those who employ more than 30 are 7.9%. (Note that employing more than 30 is doing above the average (Urban Development And Construction Ministry, 2012). 2.2% of them employed 41-50, and only 0.7% of them are employing more than 50 employees in terms of frequency. Only 1

enterprise out of 139 firms employed more than 50 temporary employees not only in the research year but also in any given year of their existence. Generally, this piece of information showed that the medium enterprises are not doing in satisfactory manner in generating jobs.

**Figure 1: Percentage and frequency distribution of the respondents by sex**



**Source: own survey (February, 2017)**

Apart from the ownership issue then owners sex composition were asked to have an insight on the gender profiles in the enterprises. The ownership general profile provides multi – dimensional insight on how SMEs are organized. At least it show in part one facet of the manner in which SMEs are organized to benefit from the government procedure and incentives pattern thereof. Generally, as practical standard government bodies responsible in organizing enterprises demands applicants to be at least ten persons or more. What follow from this is getting organized using convenience in social set ups that includes sex based convenience as an organizing mechanism by founders. Experts from Addis Ababa

cityadministration bureau of Micro and Small Enterprises Development and many of the respondents confirmed the case. The expert put it as an advantage and many firms equally put it as a risk for it lacks skill, knowledgerelatedfactors in the equation. The owners reflect their view saying more often at conception level they we use to have faith in one or two of the founders for the success, the rest joined taking chances not to lose the opportunity to organize as the bureau and other offices demanded the number of the founders.

As it was discussed in this study various scholars have pointed out growth is a complex process either viewed in stages model. (Grienier, 1972), (Churchill and Lewis, 1983) or viewed as idiosyncratic phenomena growth is unique and non – repeatable (Edith T. Penrose, 1959). Nonetheless, whichever way it is viewed it needs a sound understanding to manage it effectively . Those who discussed firm level growth including the deterministic approach proponents that is adopted by this study as an organizing theoretical framework identified factors that have strong influence in firms’ growth, though the fact remains valid that a single factor may not have exactly the same effect as Penrose observed. Among the factors selected to be studied in this study is the role education level plays in firm growth. As provided in the summary of the empirical reviews it is cited quality of human capital has a positive relation with growth (IrajHashi and Besnik A. Kransriqi, 2011). Training and education are indicators of humancapital quality, where training is viewed as an alternative mechanism in enhancing employees’ and managers skills and their impact on their firms growth. (Ibid. 2011)

**Table 7: Qualification of Management Members**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
High school level	8	5.8	5.8	5.8
TVET level	55	39.6	39.6	45.3
Diploma	37	26.6	23.6	71.9
First Degree	30	21.6	21.6	93.5
Others	9	6.5	6.5	100.0
Total	139	100.0	100.0	

Source:- Own survey, (February 2017)

The table shows 72% of the firms are lead by a management team at most with a diploma level qualification and below, 39.6% of these 72% are TVET levels which are not equivalent to diploma. These figures may not tell something conclusive on their own. The responses the respondents provided when asked if they have academically qualified business professionals in their management team 88% of them said yes. In the follow up questions the researcher understood a good number of enterprises have TVET trained semi-professionals in some of the business fields of studies (mostly accounting) and same level purchasing and sales personnel's. From this one may conclude either there is a widely observed complacency or low level understanding of the academic knowledge it takes to lead a medium enterprise with a growing complexity and aspiring to be a big player by getting even bigger than their current position in their respective industry.



Making the transition to medium enterprises entails many things on how company growth is perceived in Addis Ababa's context. In a document issued by the a document dubbed, a The Medium Enterprise Support Delivery And Implementation Manual (2012) states the governments expectation of the enterprises development. It says of all enterprises that are on the market, at least 1% of them are expected to made it to the medium enterprises level.

To be considered eligible to join MSEs apart from the asset threshold firms' the fundamentals should have acquiring the skills of keeping financial records, having operational business plans and the like. At the medium stage they are expected to have advanced level planning skills like that of strategic thinking and strategy development. Acquiring these know-hows and skills is about making the firm's direction right, it is about getting the significant, deliberate choice and decision right (Chandler as quoted in Mintzberg, 1978). The impact of the big decisions manifested on the rest of the factors. Having this in mind to have some insight on this dimension the respondent were asked if they have a written strategic plan. The response was extremely positive; 87.8% of them said yes. The researcher had a look at some of the strategies of some enterprises who volunteered, and asked the bureau experts on the subject. The insight exchanged hinted many of the documents are done to fulfill government demands.

Enterprises put rosy future in their document but languishing in the process and crying loud about the scarcity of basic resources to maintain the daily operation smooth. The response for other key questions that points to market connectivity, financial access e.t.c reveal the uncontextual "strategies" firms have,(giving the benefits of doubt that firms might have some pattern of strategy as discussed in Mintzberg's emergent strategy, they were asked about some of their key decisions to

find a kind of consistency that might give a clue to a certain pattern. The responses were not as such encouraging. As mentioned earlier apart from the rosy nature of the strategy, no small number of them are confusing strategy document with annual business (operational) plan.

For instance many of them stated in their document that they aspire to own their own building and key resources like heavy machineries that would expand their market. However, contrary to their good intension, when asked if they ever applied for bank loan, 74.8 % of them said, No; as the rule dictates when they made the transition their asset base must be more than 1.5 million birr (net wealth plus liability) excluding building. It simply mean, if they plan to build their own building they have to locate financial sources, in these sense, their strategies are mostly done without closer knowledge to the financial sector and its demands. The researcher has also noted the UDCM directive explicitly states a medium enterprise must reinvest 30% of its profit in its growth endeavor. Firms were reluctant to responded to this question. The experts of the Addis Ababa Bureau of SME development admitted no consistent follow up, is made to this effect. They also said even if the follow up were there no mechanism is in place to enforce it. Sales volume and profitability are hard to get information but are among the reliable indicators of a given enterprises performance. The enterprises were asked about their average monthly turnover, the response is summarized in the following table.

**Table 8: Monthly Turnover of the Enterprises**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
Less than 20,000 birr	22	15.8	15.8	15.8
From 20,000-50,000birr	41	29.5	29.5	45.3
From 50,000-100,000birr	23	16.5	16.5	61.9
More than 100,000	53	38.1	38.1	100.0
Total	139	100.0	100.0	

**Source:-** Own survey ( February, 2017)

As one can observe from the table 15.8% of the enterprises are earning an average turnover of less than 20,000, 29.5% of them get 20,000-50,000 birr, 16.5% of them said they have an average turnover of 50,000 – 100,000- 38.1% said they do more than 100,000. In the cite observation and close discussion with some of the management members of the enterprises calculating return on investment is not practically followed. Most of them tried to calculate profit as a function of sales and they put some explicit costs of fixed nature like salary and rent. Most of them have then focus on accounting profit. Economic profit that takes opportunity cost into consideration while taking an investment decisions, and other implicit costs as discussed on the literature review (Michael etal, 2002) is the last thing on their list for them to be concerned about. The bureau experts complained it is hard to find a good accounting standard practiced and the report thereof. On another vein those who do the standard accounting and auditing left most of the conclusions as

remote subjects as they are too technical and should be left to the financial (accounting) people.

Even though it is beyond the scope of this study the obscure understanding most management members have about the relationship among sales, profit, return on asset, return on equity, return on investment, retained earning and other key financial concepts is observed to play a role in low motivation level and a noticeable dissatisfaction in the promotion they do to a medium status. They seem to believe dividend, salary, and other perks are too low to motivate them, and the graduation further complicate it by forcing them to calculate what was not their concern. The response they have given to another dimension of the question says a lot about the measurement problem. When they were asked the status of profit over the last few years, 84.9% of the respondents say it show an increasing trajectory, 2.2% say it is decreasing and 12.9% reported it has not changed at all. These affirmation that profit is growing at least for the overwhelming majority of them and the dissatisfaction observed may imply growing but not growing in a meaningful way that would help to change the owners life as per their expectation.

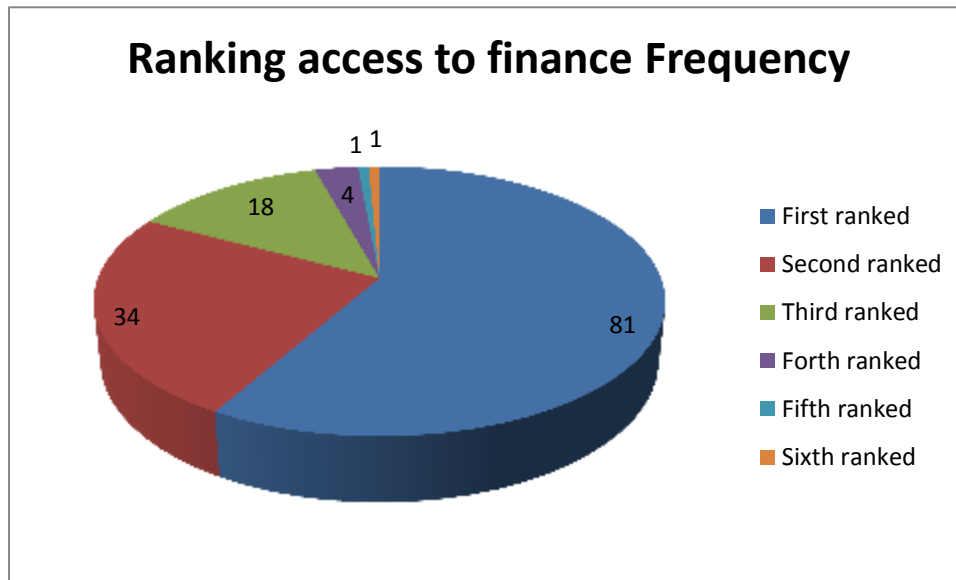
The response about their sales status over the last few years shows sales and profit have direct relationship. 84.2% of the enterprises said their sales is increasing, 3.6% of them said decreasing, and 12.2% of them observed no change in their sales which means it is mostly static.

These enterprises work to grow and that growth is possible if only there is a positive relation among sales, revenue, profit and investment. The regulatory bodies direction states one ground rule about investment. The UDCM document which has been referred to earlier states an enterprise is expected to put more than 30% of its profit on capital investment. Most of the enterprises are not clear about what percentage of their profit

they are expected to reinvest and the expert interviewed also confirmed that no regular pattern is observed in these aspects and admitted they are not pushing either to this effect. Investment decisions have no commonly attributable pattern. Sales is growing, revenue is good, but the strategic myopia is evident as their formal strategy document, at least for most of them is a standard procedure to be complied rather than followed.

The literatures covered and some of the empirical researches that are reviewed in this research show many factors may determine the success of enterprises, Especially, those who are growing fast and essentially small find it hard to handle most of the pressures experienced from lack of one or combination of the following factors that are being discussed, these factors are: access to finance, market networking management cohesion & strategy leadership development and training and finally government support. To see how their interplay affects the growth of medium enterprises in Addis Ababa's context, the approach followed in the questionnaire is letting the respondents rate these factors as they perceive them (rating them according to the degree of difficulty they pose) given their organizational realities. The following figures and the discussion followed showed the relative importance of the factors to the enterprises.

**Figure 2: Percentage and frequency distribution of the respondents by the rank they given to access to finance**



**Source: own survey (April, 2017)**

In conformance with most of the findings in most of the empirical researches in the area, financial constraint proved by far the number one challenge that the enterprises are facing currently, of all the 139 enterprises 81 of them (58.3%) said finance and the lack of it is detrimental to sustain their growth as they wish or planned. It was ranked the second top constraint by 34 enterprises (24.5%). By 18 enterprises (12.9%) it was ranked the third challenging problem that is hindering their growth. Not having enough customer was perceived by 10.1% of the enterprises as the first problem they are facing now 10.8%, and 19.4% of them ranked it as the second and third challenge that they need to have some way out.

**Table 9: Credit and Bank Relation By Enterprises**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
Yes	32	24.5	24.5	23.4
No	104	75.5	75.5	99.3
3	1	.7	.7	100.0
Total	139	100	100.0	
Total	139	100	100	100

**Source:- Own survey (February, 2017)**

#### 10.1 The Purpose Of Loan

	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
Start up capital	56	40.3	40.3	40.3
Working capital	56	40.3	40.3	80.6
Financing expansion	27	19.4	19.4	100.0
Total	139	100.0	100.0	

**Source:- Own survey (February, 2017)**

<b>10.2 Problem In Repaying Debt (bank)</b>				
	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
Yes	112	80.6	80.6	80.6
No	27	19.4	19.4	100.0
Total	139	100.0	100.0	

**Source:- Own survey (February, 2017)**

<b>10.3 If yes what caused the problem</b>				
	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
High monthly repayment amount	41	29.5	35.7	35.7
High interest rate	44	31.7	38.3	73.9
Shorter duration	26	18.7	22.6	96.5
Others	4	2.9	3.5	100.0
Total	115	82.7	100.0	
Total	139	100.0		

**Source:- Own survey (February, 2017)**

As shown in the table, 38.8% of them experienced loan to start up their business, 40.2% taken a loan as a working capital, the remaining 21% to finance prospects in progress like product development. The low attention given to product or service development were confirmed by the response acquired for the question whether they have or not, a new product or /and service in the past 12 months 31.1% said yes, 69.9% of



them said no. Taking the low level of competition and the growing struggle of keeping the organization grow into consideration new investment in product or service development is not at odd with their current reality but it seems very key in determining their near and far future in staying competitive.

It is not only the low level of investment in product/ service development that is alarming, when asked if they have faced debt repayment problem, 80.6% of them said yes. Generally, shallow calculation of profit, low level of investment in capital goods in those who are in the manufacturing sector, taken together with the low investment and awareness of the risk of not having a new product and service is making the uncertainty deep.

**Table 10: Percentage and frequency distribution of the respondents by the rank they given to networking and sales: Not having enough customer&Competition**

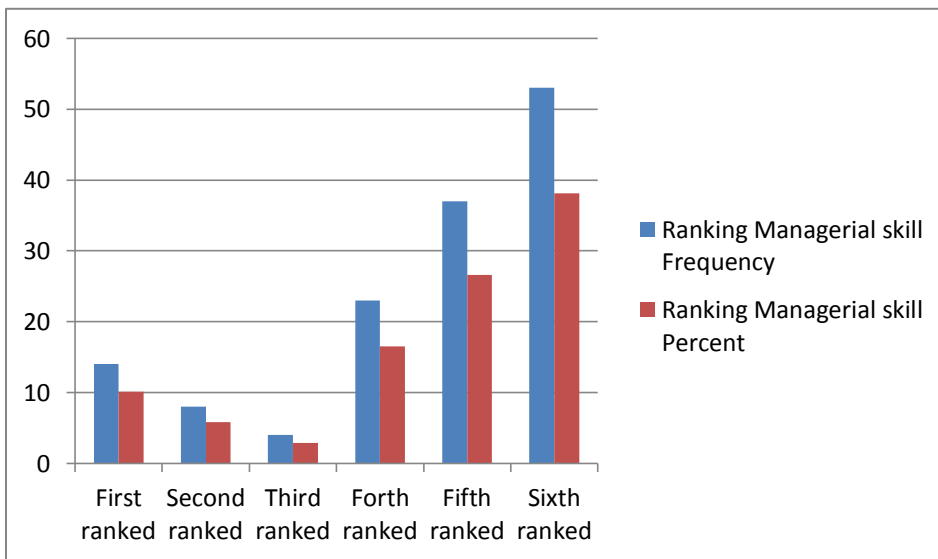
Ranking market networking and sales								
	Not having enough customer				Competition			
	Frequency	Percent	Valid Percent	Cumulative Percent	Frequency	Percent	Valid Percent	Cumulative Percent
First ranked	14	10.10	10.10	10.10	10	7.20	7.20	7.20
second ranked	15	10.80	10.80	20.90	39	28.10	28.10	35.30
Third ranked	27	19.40	19.40	40.30	34	24.50	24.50	59.70
Fourth ranked	28	20.10	20.10	60.40	27	19.40	19.40	79.10
Fifth ranked	28	20.10	20.10	80.60	21	15.10	15.10	94.20
Sixth ranked	27	19.40	19.40	100.00	8	5.80	5.80	100.00
<b>Total</b>	<b>139</b>				<b>139</b>			

Source: own survey (April, 2017)

Competition as a mark of market connectivity is only perceived by 7.2% of the respondents as number one challenge but 28.1% and 24.5% of them ranked its the second and third top challenge. Still significant number of respondents ranked it fourth and fifth, with 17.4% and 15.1%

respectively. Market connectivity attracts the attention of most of the respondents while there was a chance to have an informal discussion. And almost without exception they view it as a government assignment and in short supply. However when the question is posed in a different manner their measure of things related to customer and completion the responses were different compared with finance and customer competition is not as such a very key challenge which is against the impression most of the management members the researcher has talked to would like to project. Perception and projection wise only the financial constraint is consistent with the widely held view by both the enterprise managements and the government bodies that supervise them.

**Figure 3: Percentage and frequency distribution of the respondents by the rank they given to training and leadership development: managerial skill**



Source: own

survey (February 2017)

The issue of having a skilled man power and the lack of it is among the most popular topic in the enterprises growth management. In an open discussion after what usually followed the questionnaire is administered, it is also in the leg of the most pressing challenge but the questionnaire

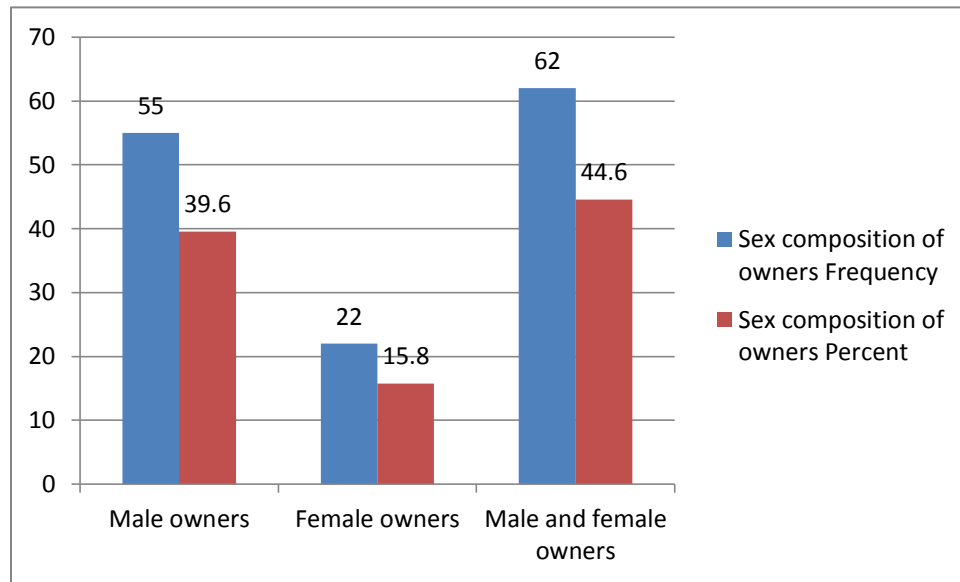
summary projected otherwise. Only 3.6% of the respondents believe it is a top problem, 25.9% and 23% of them ranked it second and third respectively. Competition is not stiff, having customer is not as accurate as most of them would like to believe, therefore, lack of skilled man power is probably a latent problem that would manifest itself when the competition is picked up.

The authorities believe the enterprise are starting to feel the pressure from the established firms which have years of experiences and other resources. Those companies which said to pose pressure are outside the more direct supports of the government as we are discussing in MSEs that are graduating. Results for the questionnaire and the interviews thereafter confirm the competition from the wider market does exist but not as pressing as it is perceived. Following the constraint in finance and thereby in investment the stunted growth that follow, the ranking of skilled man power have got might not be that much a surprise; repeating the past may not need more skill than it use to be.

Marketing connectivity a key challenge in SMEs growth and development. (Asian Development Bank, 2015). Marketing connectivity in turn depends on enterprise competitiveness. Raising connectivity and competitiveness is a matter of building the soft assets other than finance and physical infrastructure. The soft assets helps the enterprise productive opportunity set resulted from flexibility, vision of management team, and entrepreneurship (Edith T Perose, 1959). Managerial skill and broadly the issue of leadership is a widely discussed challenge that determine the short and long term growth of enterprises. This research too verified the recognition it has got as a challenge that deserves an attention, yet still not as key as the rest of the factors discussed so far 10.1% of the enterprises ranked it first , 5.8% stood it second, only 2.9% put it third , 81.2% of the enterprises ranked it 4-6 in combination. It

shows the issue does not command the managements priority. The next figure provides the summery for this issue .

**Figure 4: Percentage and frequency distribution of the respondents by sex**



**Source: own survey (April, 2017)**

The interviews conducted with those responsible in following enterprises performance are not in favor of these perceptions of the enterprises management. They said the management attitude and skill are not in the way they should have been to promote a better growth. Experts from the government side reflected their observation that the enterprises have severe knowledge, skill gaps but not that much open for trainings from the government without direct incentives like perdiam for attendance.

It is remembered that when the respondent were asked if they have a written strategy 87.8% of them said yes, when asked if they had a change in structure, 56.1% of them said no, 43.9% of them yes. The discrepancy observed in having a written strategy by the vast majority but not having gone through change in structure implied the already

noted observation of going through a strategy development process as formality that have to be fulfilled. The graduation concept entails developing new set of arrangements. The idea of having a written strategy is to live up to the new expectation and the desire to pursue a robust growth that would send the organization and its members to a new height. However, the response that we have about structures gives the impression of trying to have a car without an engine.

Those who said that they went through structural change were asked how many times they have done it. 65% of them said one time, 27% of them said two times, the remaining 8% claimed to have that change three times. The discussions with some of the most experienced managers and the government experts about the subject provides additional insight, they share their reflection that one of the key challenge is the tendency to go about everything strategic in a way that made them successful when they were small enterprises. They accept the necessity of having a strategy and structure as a modern practice but most of them utterly lacks the discipline and commitment to implement them.

In most of the success stories of the companies somewhat cohesive, stable and good teams are behind the secrets;two interrelated questions were asked to see how the founders and the managers are working together in taking their companies where it is now. They were asked how many of the founders are still working together. The following table shows the response.

**Table 11: Founders are Still Working together**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
100% of them	45	32.4	32.4	32.4
75% of them	49	35.3	35.3	67.6
More than 50%	37	26.6	26.6	94.2
Less than 50%	8	5.8	5.8	100.0
Total	139	100.0	100.0	

**Source:- Own survey (February, 2017)**

As noted from the table, 32.4% of the respondents said 100% of the founders are still working together, 35.3% of them said 75% of them are still together, 26.6% said more than 50% of the founders are working in the same enterprise, only 5.8% of the respondents said more than 50% of the founders are gone. This data by itself may tell few things that needs a good deal of attention, even more if viewed in combination with the following table about the rate of change in leadership would provide a picture about another important problem in the sector.

**Table 12: Change In a general Manager Since Establishment**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
Yes	54	38.8	38.8	38.8
No	84	60.4	60.4	99.3
3	1	.7	.7	100.0
Total	139	100.0	100.0	

**Source:- Own survey. (February, 2017)**

<b>9.1 How many times</b>				
	Frequency	Percent	Valid percent	Cumulative percent
One times	42	30.2	67.7	67.7
Two times	18	12.9	29.0	96.8
Three or more times	2	1.4	3.2	100.0
Total	62	44.6	100.0	
	77	55.4		
	139	100.0		

**Source:- Own survey. (February, 2017)**

As noted from the table, the respondents when they were asked if there were change in leadership since they moved up to the medium status, 39.6% of them affirmed there were a change, 60.4% of them said there were no change, when asked how many times do they made the change, 67.7% of them said one time, 29% of them, two times and 3.2% of them said 3 or more times. In the observation and the follow up questions, that include interview questions that were directed to government officials, it was found out, the pattern is a worrisome problem in its own.

The discussion (interview) conducted with government official in charge with enterprise development showed that the change in leadership owners and even government experts are among the key problems that are stunting the sub sector's development due to lack of continuity in most of the initiatives that have a long term effect.

The enterprises perceive their own growth from the vantage points of various variables. As it was already noted most of the respondents are positive about their profit. They said sales were also increasing but not

strongly satisfied about their monthly turnover. Most of them lacks the sophistication when it comes to financial management. In the sub-topic that covered the challenges of maintaining growth it was discussed access to finance was not mentioned as the only structural problem in the sector but also the enterprises own problem of recording their financial history in a way that could show their credit worthiness.

This fact has been more openly shown by the over simplified calculation of the return on investment. All of them have an asset base of more than 1.5 million birr but most of them reported the same amount or less than their asset value to qualify for their new situation. Some questions were forwarded to them to establish the pattern in some of their key costs

Workplace rent is one of the burning topic in the sector when they were asked about the rent pattern over the last few year 86.4% of them said it had increased, nearly 8% of them said it had deceased (cited the unfavorable location they are in for the decrease ) the remaining of them are paying constant rate. The cost of skilled labour were also asked and 80.6% of them said it has been increasing 13.7% said, no change, 5.8% of them said it is decreasing. What was observed here managements differ in their perception of skilled labour, some view it from the educational status of the labour they seek and some of them views it as a question of experience for the required vaccancy regardless of territorial level educational background.

Key costs are moving up, of course revenue, sales and profit are also growing but the impression most of them have is the growth on the cost side is not proportional, the question is how do they manage the financial side of it, provided that for the overwhelming majority of the research subjects access to finance is by far the number one challenge. It is also remembered, 74.% of the enterprises never asked for a bank loan, however, all of them have some sort of loan experience from micro-



finance institutions especially from the Addis Loan And Saving Association and from some other personal sources.

From the broader government policy objectives the enterprises are taken as the seeds of industrialization that should be capable in the domestic and export market, which implies building a global standard of product, quality, management and overall competitive organizational excellence

Exporting capability is one of the key capability the enterprises aspire and expected to develop. The government incentive mechanism and support system is also based on this rationale. Business Development Support (BDS), and clustering are the two notable attempts toward export capacity building. In this line higher officials of the city often reiterate the importance of building the enterprises competitiveness to live in the existing global context. Clustering is considered as key policy instrument to this effect. Then, they recommended for enterprises to see the “bigger picture” and collaborate rather than indulging on their own “petty” competition among themselves. They further went on to say, clustering radically improves the value chain, and thereby productivity.

The enterprises were also asked about the composition of their product/ service, the local international composition of their market, the response was as follows;

**Table 13: Market Compositions Of product /Service**

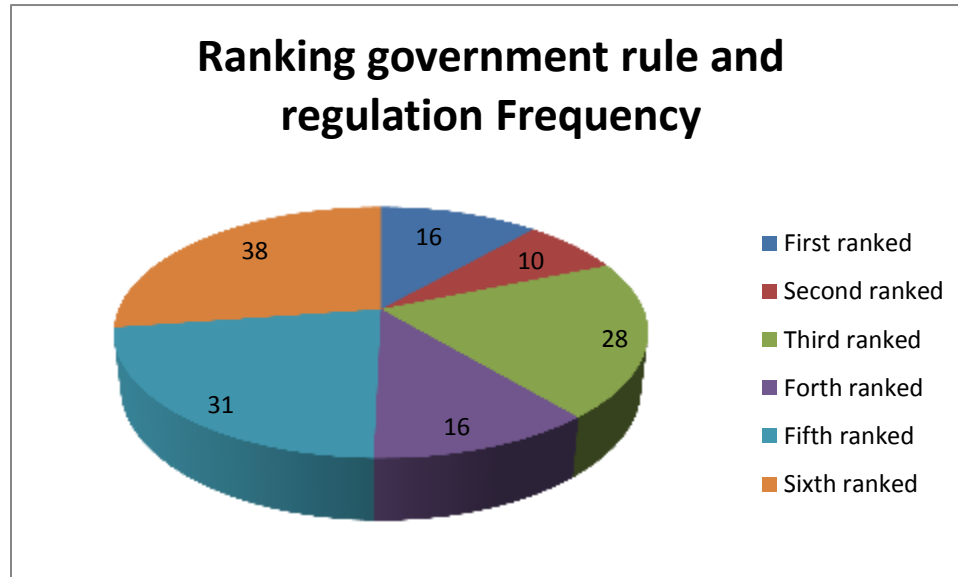
	<b>Frequency</b>	<b>Percent</b>	<b>Valid percent</b>	<b>Cumulative percent</b>
We sell 100% locally	81	58.3	58.3	58.3
We export less than 25%	16	11.5	11.5	69.8
More than 25% export	8	5.8	5.8	75.5
Planning to export	18	12.9	12.9	88.5
No plan for exporting	16	11.5	11.5	100.0
Total	139	100.0	100.0	

**Source:- Own survey (February, 2017)**

As it is noted from the table 58.3% of the respondents sell their all products services to a local market,5.8% of all the firms say they export more than 25% of their product, 11.5% exports less than 25% 12.9% are planning to engage in export, and 11.5% of them do not have any plan to export.

Export promotion registered limited success. Officials interviewed for the research purpose admitted its limitation. One key official recounted on the results, so far, 3 enterprises engaged in dry food production ( Injera exporting) 2 on handicrafts, 2 on textile,3 on leather production, totally 12 enterprises were assisted to export their products, 8 of these enterprises are covered in this research and said they do export more than 25% of their products. The success level is even further limited in its scope and depth.

**Figure 5: Percentage and frequency distribution of the respondents by the rank they given to government support: government rule and regulation**



Source: own survey (February, 2017)

Government rule and regulations as a challenge to growth is ranked first by 11.5% of the respondents, 7.2 % ranked it second and 20.1% of them make it third. The overwhelming majority, more than 60% of them do not perceive it as a challenge in top three spots. Nonetheless, slightly greater than 38% of them ranked it in the top three spots implied the rules and regulations the government applied are not perceived easy and business friendly. The literature covered in this study and various practical reports that the researcher come in contact with business friendly rules and regulations are critical in the development of enterprises and entrepreneurial spirits are essential to find as many startups as possible from which the medium enterprises could only be born.

The government higher officials and the experts alike pointed out that there are misguided use and perceptions of incentives. Explaining as an example the widely practiced use of shades (using it for reasons stated

contrary to the officially known and transferring it to a third party and collecting rent. They also discussed widely the ever increasing dependency on the incentives that are planned as short and medium term support to enable them to be self-reliant incontinuing their growth indefinitely.

#### **4.1 Average Sales Growth Per Annum**

The government agency followed asset base and employment as commendable measures of growth to promote enterprises to a medium status. The approach held an assumption of profitability, competitiveness are achieved by the enterprises, and therefore growth in asset and employment are taken as explicit manifestation of a healthy growth. The research taken average sales per annum to see things from another angle. So, this study surveyed the annual sales growth per annum as shown below

**Table 14: Percentage and frequency distribution of the respondents by Category of Annual Sales Growth per Annum (%)**

S/N	No and %	Frequency/Percentage	Category of Annual Sales Growth per Annum (%)				
			1-1.42	1.43-2.25	2.26-3.34	3.35-4.24	4.25-5
1	No	139	25	31	29	33	21
	%	100	17.98	22.3	20.86	23.74	15.12

**Source: own survey ( February, 2017)**

Table presents percentage and frequency distribution of the respondents by Category of Annual Sales Growth per Annum (%). Accordingly, out of the total sample, 25 (17.98%), 31 (22.3%), 15.12 (20.86%), 33 (23.74%) and 21 (29%) respondents are with their business of Annual Sales Growth per Annum - 1-1.42%, 1.43-2.25%, 2.26-3.34%, 3.35-4.24 and 4.25-5% respectively.

## 4.2 Determining Factors Affecting Average Sales Growth Per Annum

This study has also gathered the opinion of the respondents to assess their degree of agreement to the determining factors affecting average sales growth per annum as presented below.

**Table 15: Percentage and frequency distribution of the respondents by the degree of agreement**

Statement	No and %	Frequency/Percentage	Degree of agreement: Strongly agree = 5, Agree = 4, 3 = Neither agree nor disagree, 2 = Disagree and 1 = Strongly disagree				
			Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Access to finance is determining factor in affecting average sale growth per annum	No	139	75	62	2	-	-
	%	100	53.95	44.6	1.45	-	-
Market networking and sale is determining factor in affecting average sale growth per annum	No	139	55	64	15	5	-
	%	100	39.56	46.04	10.79	3.61	-
Management cohesion and strategy is determining factor in affecting average sale growth per annum	No	139	35	69	25	10	-
	%	100	25.17	49.64	17.98	7.21	-
Training and leadership development is determining factor in affecting average sale growth per annum	No	139	25	54	45	15	-
	%	100	17.98	38.84	32.37	10.81	-
Government support is determining factor in affecting average sale growth per annum	No	139	15	34	65	25	-
	%	100	10.81	24.45	46.76	17.98	-

Source: own survey (February, 2017)

Table presents percentage and frequency distribution of the respondents by degree of agreement. Accordingly, out of the total sample, 75 (53.95%), 55 (39.56%), 35 (25.17%), 25 (17.98%) and 15 (10.81%) respondents are strongly agreed to Likert Scaling questionnaires-“Access to finance is determining factor in affecting average sale growth per annum” (Q1), “Market networking and sales is determining factor in affecting average sales growth per annum” (Q2),“Management cohesion and strategy is determining factor in affecting average sales growth per annum” (Q3), “Training and leadership development is determining factor in affecting average sales growth per annum” (Q4) and “Government support is determining factor in affecting average sales growth per annum” (Q5) respectively. In addition out of the total sample, 62 (44.6%), 64 (46.04%), 69 (49.64%), 54 (38.84%) and 34 (24.45%) respondents are agreed to Likert Scaling questionnaires – Q1, Q2, Q3, Q4 and Q5 respectively. Moreover out of the total sample, 2 (1.45%), 15 (10.79%), 25 (17.98%), 45 (32.37%) and 65 (46.76%) respondents are neither agreed nor disagreed to Likert Scaling questionnaires – Q1, Q2, Q3, Q4 and Q5 respectively..

#### **4.3 Descriptive statistics of Average Sale Growth Per Annum (DV) and determining factors (IVs)**

This study describes Average Sales Growth per Annum (DVs) and determining factors (IVs) statistically using the aforementioned information as shown below;

**Table 16: Summary of Descriptive Statistics of the Sample and Study Variables**

	AF	MNS	MCS	TLD	GS
N	139	139	139	139	139
Minimum	3	2	2	2	2
Maximum	5	5	5	5	5
Mean	4.56	4.25	4.05	3.89	3.5
StDEV	0.342	0.12	0.63	0.95	0.46

The table above presents 4.56(M), 0.342(StDEV); 4.25(M), 0.12(StDEV); 4.05(M), 0.63(StDEV); 3.89(M), 0.95(StDEV) and 3.5(M), 0.460(StDEV) to AF, MNS, MCS, TLD and GS respectively. These descriptive statistics are used for further investigation of the correlation and the impact of IVs on DV.

#### **4.4 Linear correlation coefficients, r to IVs v. DV**

This study reveals the correlation between IV and DVs as the table presents below;

**Table 17: Linear correlation coefficients**

<b>Correlation</b>			
AF	AF		ASGA
	Pearson correlation	1	0.9134
	Sig.(2-tailed)		0.002
	N	139	139
<b>Correlation</b>			
MNS	MNS		ASGA
	Pearson correlation	1	0.886
	Sig.(2-tailed)		0.003
	N	139	139
<b>Correlation</b>			
MCS	MCS		ASGA
	Pearson correlation	1	0.821
	Sig.(2-tailed)		0.005
	N	139	139
<b>Correlation</b>			
TLD	TLD		ASGA
	Pearson correlation	1	0.721
	Sig.(2-tailed)		0.008
	N	139	139
<b>Correlation</b>			
GS	GS		ASGA
	Pearson correlation	1	0.621
	Sig.(2-tailed)		0.009
	N	139	139

The table above presents  $r=0.9134$ ,  $0.886$ ,  $0.821$ ,  $0.721$  and  $0.621$  to AF (Access to finance) MNS(Market Networking and sales)ASGA(Average sales growth MLS (Annum)Management cohesion and strategy)(Average sales per Annum)TLD( Training and Leadership Development) ASGA (Average sales Growth per Annum)and GA(Governmentsupport). ASGA



respectively. These descriptive statistics are used for further investigation of the correlation and the impact of IVs on DV. It suggests that there is a strong positive linear correlation in case of (Access to finance) (Average sales Growth per Annum.). It means value of  $r$  suggests a strong positive linear correlation, the data points are clustered closely about a positively sloping regression line.

Therefore, ultimately all the factors have an impact on the enterprises growth, despite the fact that the factors affect growth to a varied degree in the context of the Addis Ababa's MSEs and the broader business environment characterized by the interactions discussed so far. The correlation matrix developed has also reinforced the web of relation the factors have to affect enterprise growth.

#### **4.5 Correlation Matrix of Independent Variables and Dependent Variable**

This study diagnose the interaction with in independent variables and dependent variable as presented in tabulated information below.

**Table 18: Correlation matrix**

	<b>AF</b>	<b>MNS</b>	<b>MCS</b>	<b>TLD</b>	<b>GS</b>	<b>ASGA</b>
AF	1	0.765	0.645	0.578	0.432	0.876
MNS	0.765	1	0.499	0.339	0.301	0.798
MCS	0.645	0.499	1	0.298	0.249	0.694
TLD	0.578	0.339	0.298	1	0.198	0.467
GS	0.432	0.301	0.249	0.198	1	0.399
ASGA	0.876	0.798	0.694	0.467	0.399	1

The table above presents Pearson correlation values with 0.765, 0.645, 0.578, 0.432 and 0.876 to AF v. MNS, AF v. MCS, AF v. TLD, AF v. GS and AF v. ASGA respectively. In addition the table above presents Pearson correlation values with 0.499, 0.339, 0.301, 0.798, 0.298, 0.249, 0.694, 0.198, 0.467 and 0.399 to MNS v. MCS, MNS v. TLD, MNS v. GS, MNS v. ASGA, MCS v. TLD, MCS v. GS, MCS v. ASGA, TLD v. ASGA, TLD v. GS and GS v. ASGA respectively.

## **CHAPTER FIVE**

### **5. Conclusion and Recommendation**

#### **5.1 Conclusion**

All the factors have very positive relation with growth. However, the degree the factors affects enterprises growth not in entirely the same way, even though some of the factors especially access to finance is realized by the overwhelming majority as key determining factor. All the rest affects their growth which implies firm level assessment is critical to ensure growth and better result both from the firm perspective and the broader socio – economic development objectives.

SMEs development is pursued by the nation and the city administration alike both as a short and long term solution in the effort to bring about economic development. So far out of 27,000 micro and small enterprises 830 of them transitioned or graduated into medium enterprises. The whole essence of the attention they are enjoying is the policy objective that the government envisioned in them. The small and the medium enterprises are expected to create Jobs, to improve wealth distribution and in the end minimizing the level of poverty.

The general report that is available so far from the state side states their contribution in job creation, wealth distribution and the broader poverty reduction (a concept too complicated to measure) have been modest as official data of the city aggregated in 2016. The nearly 27 thousand small enterprises in total created 642,603 temporary and permanent Jobs. The insight gotten from calculating the feedbacks given by this research respondents show that (job creation capacities of the medium enterprises is well below the expectation that is stipulated in policy documents. Many factors have contributed to this.

One of the concluding observation about the enterprises growth and the management of growth is their own understanding of themselves and the understanding of their key stockholders is shaped by macro level considerations like job creation and poverty reduction. Even in those angles, the fact that the result is below expectation tells volume about some key determinates that shaped the realities on the ground.

Apart from the specific factors that have bearings on their growth and the management of growth, the discussion that this researcher had with experts and government officials in charge with the task of following and supporting the graduated enterprises, there is very little information and knowledge in understanding the day to day lives of the enterprises.

The enterprises are expected to play a hugely significant role in the industrialization process. They are expected to play an active role in the export and import substitution. This entails an awareness and readiness in playing a global game. The result in this realm is very negative, very few of them have the readiness, the skill, even the willingness to make themselves aware as well as make themselves ready for a global competition that would come sooner or later.

As mentioned in the previous paragraphs the enterprises own understanding is not helpful of prompting comprehensive growth. They view their growth in a narrow way, focusing in one or very few aspects of it. As most of the literature and empirical researches indicated SMEs suffered from or benefited from some key determinants, like the availability or lack of finance, marketingnetwork, leadership, management skills etc. In enterprises covered in this research all these are observed. Enterprises are promoted without the mechanism to support them by availing financial access that would support their growth on par with the expectation, the training they got mostly tailored

based on general common sense, rather than well researched need assessment.

SMEs are more than collection of firms, rather. The discussion that we had on the strategic theory of a firm gives us the scope at which we view firms as they survive in society to serve as a mechanism in resource allocation. The firms covered in this research viewed from this perspective are not serving the policy objective to the expected level. They are too dependent on governments incentive that is meant to be a short term accelerator. Other way put building substantive or distinctive capability that would stand competition is in low standing; most of the firms are competing on price in a very limited marketing network, mostly for government coffers.

The enterprises success is not measured in proper depth. They are viewed in sub-industry, a view or a perspective mostly characterized by generalization. The follow up exercise is deeply affected by a sense of unmet need. Enterprises are disgruntled by what they call unmet promises. They claimed the promised working station (land) financial support, and marketing network are not met. Empirical researches show similar government institution that follow SMEs development elsewhere not only follow the successes but study failures to learn from them. The Addis Ababa office in charge of supporting SMEs do not have any meaningful statistics about companies that failed or failing.

The psychological dispositions or the attitudes showed by most of the enterprises leaders are not at home with their changed status. Most of the management members who have reflected their view with this researcher, showed the medium status is viewed as a disadvantage which is tempting to take away their "benefits". The contribution level they are showing as discussed in their job creation the difference they made is marginal, however they claimed to keep the incentives indefinitely.

Generally, the medium enterprises growth and the management of it, the city wide experience and the learning track record is very limited as understood from the record keeping and the support provision, which is not according to their plan and ambition. The interviews conducted with the administration officials showed, the administration's staffs assigned to this task are limited in number and expertise. The support they provide never been radically different than they use to do when the companies were small, and further more the staff turnover has not been helpful in pursuing lasting tracking and supports.

## **5.2 Recommendations**

Most of the organizations though transitioned to a medium status, they do business as usual. Their management of the factors not supported by knowledge which in turn limits their own growth understanding. Creating as well as managing capability and competitive advantage that emanates from that very capability needs a robust learning and understanding of the business environment. The change they are experiencing to meet with the new expectation, they need to have all rounded technical support from planning, marketing to financial management. Especially, financial management needs the most immediate attention. If access to capital is limited then growing with their own means, entails a path of sustainable growth, A concept which is not possible without prudent financial management

Most of the enterprises from their early start up to their current status they come with the government support which they say insufficient all the way, nonetheless, very dependent on it. Building their capability and attitude so as to make them competitive is critical. Therefore, the long standing support like the provision of subsidies that are meant to help them in their small status should be discontinued. Financial services compatible to their current status ought to be given as promised.

Management of the enterprises should be responsible for their own developments, their growth should sustain beyond the challenges. Institutionalizing best experiences and encouraging learning and responsibility is imperative. Government should put some minimum requirement on their plan and performance on management development

Most of the enterprises discussed the absence or not enough market networking but the salesmanship and the marketing skill within their internal realm is in short supply, trainings in this area is too urgent. Therefore, stakeholder that are active in entrepreneurship and management development should scale up their effort to provide much tailored, need based, as the same time well priced (not expensive) trainings.

Enhancing integration in the supply chain is one policy objective in SMEs development, productivity and quality are in low level, so the perception about small or medium enterprises are suffering from unfavorable perception and hence low confidence. To boost the integration in some sector like in construction, building their productivity or in general, enhancing their substantive capability is crucial. The promotion aspect of the enterprises development need to consider the public relation to make the context favorable along with the product (service) promotion.

The government incentives and interventions lacks engagement from the enterprises part. Much of the government supports are standards, not dynamic. The medium enterprises are getting services that they used to get. Therefore a genuine engagement should be initiated.

As experiences from Africa and Europe show Business Development Services (BDS) are too critical. This is to mean the government body responsible for the enterprise development should have meaningful

technical capacity or should establish strategic partnership with relevant private sector, and should actively seek international support, furthermore it should use properly and exhaustively what is already available.

Policy wise the government should promote a more business friendly environment. Firms, on their side should look into their overall customer service process and performance. Government should enforce contractual and other standard maintenance obligations. Generally, it should promote the spirit of enterprise that epitomize fair competition.

In enterprise formation, the manner in which teams are formed needs much better attention. Most of them teamed up for no apparent business reasons. What is observed is simply taking the social relation as a key guarantee for success. This way a lot of resource is being squandered. To minimize such problems the start up support should be thoroughly examined to help aspirants using all the resources fairly so as to meet their ultimate goal.

Many of the enterprises do not have a strategic plan, still many obviously lacks strategic direction and focus. Government should create some attachment with some of the elite institutions on this area to provide an affordable service tailored to the enterprises need.

The documentation and the reporting system are miserably insufficient. And hence, the level of accountability and transparency. Responsibility to stockholders or partners should be encouraged and observed. Some incentive should also be put in place to promote accountable behaviors.



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**ትጋት መፅሔት፡፡መጋቢትወር2007 ዓ.ም፡፡**

**ትጋት መፅሔት፡ የአ/አአነስተኛና ጥቃቅን ኢንተርፕራይዎች ልማት ኤጀንሲ መፅሔት \_\_\_\_\_ ወር \_\_\_\_\_ ዓ.ም፡፡**

**የፌዴራል ጥቃቅንና አነስተኛ ተቋማት የክትትል እና ድጋፍሰነድ፡፡ 2004 ዓ.ም**

**ይፋ ያልሆነ የአ/አአነስተኛና ጥቃቅን ኢንተርፕራይዎች ልማት ኤጀንሲ የውስጥ ሪፖርት 2008 ዓ.ም፡፡**

## **Dear Respondent**

This is an academic questionnaire which is undertaken to fulfill an MBA thesis, aimed at identifying & collecting data about the challenges faced by medium enterprises that are promoted to their current status in the past 4 years in managing & institutionalizing their growth your kind & objective response will significantly showcase these challenges & contribute to finding pragmatic solutions to the problem.

Your answers to this questionnaire used only for the research purpose & will appear in the final report in aggregate form only.

### **Section 1:- General characteristics of the firm (demographic part)**

1. Nature of organization (Please tick as appropriate)

- i. Private limited company
- ii. Partnership
- iii. Family owned
- iv. Cooperative

2. Nature/kind of organization (please tick as appropriate)

- i. Construction
- ii. Agri business
- iii. Manufacturing
- iv. Urban agriculture
- v. Leather &/Garment/Textile
- vi. Other (specify)....

4. For how long your company been in operations (tick as appropriate)

- i. Less than 2 years
- ii. More than 3 years
- iii. 4 years

5. How many people are employed by your company ....

Full time.....

Part time .....

6.How many owners does have your organization...

7.Sex composition of owners;

Male ..... (How many)

Women ..... (How many)

8.What is the qualification of most of your management team members?

i. High school level

ii. Tevet level

iii. Diploma

iv. First Degree

v. Masters level

vi. Others (specify) .....

**Section 2:- General information on the situation of the firm**

**(Enterprise)**

9.Does your organization have a written business plan (please tick as appropriate)

Yes

No

10.What is the average monthly turnover of your business

i. Less than 20,000

ii. 20,000 – 50,000

iii. 50,000 – 100,000

iv. More than 100,000



11. What is the most challenging problem your organization is facing (please rank them according to your degree of challenge.

- i. Managerial skill
- ii. Not having enough customer
- iii. Access to finance
- iv. Competition
- v. Lack of skilled manpower
- vi. Government rules, regulations
- vii. Other [specify]  
.....

12. Do you have academically qualified business professional/s in your management team (tick as appropriate)

Yes  No

13. Do you get professional advices? If yes? From whom

- i. Friends
- ii. Parents/relatives
- iii. Government offices
- iv. Other [specify]

14. Have you change your organizational structure in your business existence

Yes  No

15. If yes, how many times

- i. One time
- ii. Two time
- iii. Three times
- iv. More than three times

16. How many of the founders are still working together

- i. 100% of them
- ii. 75% of them
- iii. More than 50%
- iv. Less than 50%

17. Is there a change in a general manager since the establishment?

Yes

No

If yes, how many times?

- i. One
- ii. Two
- iii. Three or more times

18. Please tick on the following items (as you find it appropriate) according to the age of your company.

- Profit over the last few years/or over the last months.

Increased

Decreased

Not changing

- Employee over the last few years/or over the last months.

Increased

Decreased

Not changing

- Sales over the last few years/or over the last months.

Increased

Decreased

Not changing

- Work place rent over the last few years/or over the last months.

Increased

Decreased

Not changing

- Cost of skilled labor

Increased

Decreased

Not changing

19. Has your company ever applied for credit from a bank?

20.If No, Why? (Please specify) .....  
 .....

21.What was the purpose of a loan, if you had succeeded in locating one?

- i. Startup capital
- ii. Working capital
- iii. Financing growth expansion
- iv. Other [specify]  
 .....

22.Have you ever had problem in repaying debt (bank)

Yes

No

23 . If yes, what caused the problem?

- i. High monthly repayment amount
- ii. High interest rate
- iii. Low revenue
- iv. Shorter duration
- v. Other [specify]  
 .....

24. Do you have a new product/ service in the past 12 month?

Yes

No

25. Is your product/ service only local or local internal

- i. We sell 100% locally
- ii. We export less than 25%
- iii. More than 25% export
- iv. Planning to export
- v. No plan of exporting

26.

Statement	No and %	Frequency/Percentage	Degree of agreement: Strongly agree = 5, Agree = 4, 3 = Neither agree nor disagree, 2 = Disagree and 1 = Strongly disagree				
			Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Access to finance is determining factor in affecting average sale growth per annum							
Market networking and sale is determining factor in affecting average sale growth per annum							
Management cohesion and strategy is determining factor in affecting average sale growth per annum							
Training and leadership development is determining factor in affecting average sale growth per annum							

Government support is determining factor in affecting average sale growth per annum							

27. Rank the government support and incentives that you might have had.

- i. Extremely good
- ii. Very good
- iii. Good
- iv. Satisfactory
- v. Below satisfactory

28. The support you need most (you may rank them if you wish)

- i. Work station
- ii. Access to finance
- iii. Marketing network
- iv. Training (professional)
- v. Leadership training
- vi. Others [specify]