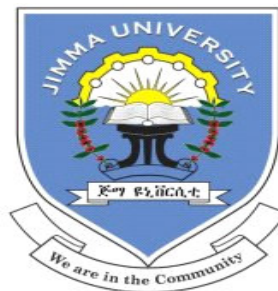


***FACTORS AFFECTING THE GROWTH OF MICRO  
AND SMALL ENTERPRISES IN JIMMA TOWN***

***A Thesis Submitted to School of Graduate Studies of Jimma University in  
Partial Fulfillment of the Requirements for the Award of the Degree of  
Master of  
Business Administration (MBA)***

**BY:  
ABDULHAKIM MULU A/WARI**



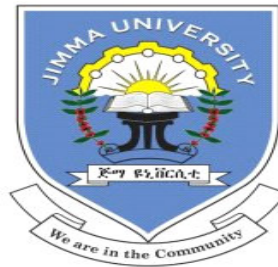
**JIMMA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
MBA PROGRAMME**

**MAY 30, 2016  
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Under the Guidance of  
Dr. A. Rama  
And  
Mr. Kadir Abraham



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*Factors Affecting the Growth of Micro and Small Enterprises in  
Jimma Town*

**BY**  
**ABDULHAKIM MULU A/WARI**

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School of Graduate Studies	Signature	Date

**JUNE, 2016**  
**JIMMA, ETHIOPIA**

## CERTIFICATE

This is to certify that the thesis entitles “Factors Affecting the Growth of Micro and Small Enterprises in Jimma town” submitted to Jimma University for the award of the Degree of Master of Business Administration (MBA) and is a record of bonafide research work carried out by Mr. Abdulhakim Mulu A/Wari, under our guidance and supervision.

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## DECLARATION

I, hereby declare that this thesis entitled “Factors Affecting the Growth of Micro and Small Enterprises in Jimma town” has been carried out by me under the guidance and supervision of Dr. A. Rama and Mr. Kadir Abraham.

The thesis is original and has not been submitted for the award of any degree or diploma to any university or institutions.

Researcher’s Name

Date

Signature

Abdulahkim Mulu A/Wari

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## ***Abstract***

*Micro and Small Enterprises (MSEs) play an important economic role in many countries and recognized as an important vehicles of economic diversification, employment creation, income generation and distribution, and poverty alleviation. MSE occupy a prominent position in the development agenda of many developing countries like Ethiopia. The purpose of this study is to assess the constraining factors related to marketing, management, finance and government supports hindering the growth of MSEs in Jimma town. The study has employed descriptive design in which proportional stratified random sampling method was used to collect data from MSEs owners/ managers of five selected sectors according to the objective of the study with a total population of 571 and 230 samples. The samples were selected randomly from each stratum using proportionate allocation after stratification of the sectors. Questionnaires and interviews tools of data collection were used in the study. The data was analyzed using descriptive statistics and presented through figures, tables and percentages. Finally, the result of binary logistic regression analysis that was used to identify the severity of the constraint factors in growth of MSE was presented. It is generally recognized that MSEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. The findings indicate that the most common factors affecting the growth of MSEs in Jimma town are: inefficient utilization of business resources and lack of suitable management style, lack of providing training and skill upgrading for MSE staffs, inadequate government's effort in change public attitude, and inadequate availability of infrastructure, lack of providing convincing business plan to get loan and unfamiliarity with financial information, lack of network with other businesses and scanty marketing information. Actions are recommended for owners, and other stakeholders to improve the performances of MSEs in Jimma town; MSEs owners/managers should improve internal operations through upgrading their skills, the government also expected to organize/make MSEs in identified industrial areas/parks in suitable location. Besides, in order to facilitate access to credit for MSEs, MFIs and banks need to allocate a certain portion of their loanable funds exclusively for MSE entrepreneurs. Replication of this study using larger samples and a broader geographic base, longitudinal data collection and using more statistical tests is suggested for cross-validation purposes for future researches to identify the factors affecting the growth of MSEs.*

Key Words: MSEs, Growth

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## ACRONYMS

BDS- Business Development Service

CI- Confidence Interval

CSA- Central Statistics Authority

FeMSEDA- Federal Micro and Small Enterprise Development Agency

GTP-Growth and Transformation Plan

ILO -International Labor Organization

MFI -Micro finance Institution

MoLSA - Ministry of Labour and Social Affairs

MSE -Micro and Small Enterprise

NGO- Non-Governmental Organization

OCSCO- Oromia Credit and Saving Corporation

TVET -Technical and Vocational Education and Training

UNIDO- United Nation Industrial Development Organization

ReMSEDA -Regional Micro and Small Enterprise Development Agency

# **CHAPTER ONE**

## **INTRODUCTION**

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

With rapid growth in population, African countries have been experiencing the problem of large size of unemployment through its economic history since indeterminate time in the past (Behrman J. R., and Deolalikar .A. B, 1989; Khan and Manopichetwattana, 1989). Because of this fact, the problems of unemployment and poverty have been the prime challenges that many governments have tried their best to alleviate these challenges at all levels (Chrisman and Leslie, 1989; Hyvarinen Churchill and Lewis, 1990; Riding and Santos Swift, 1990).

Since Ethiopia is not exception of these countries, the Federal Micro and Small Enterprises Development Package of 2005 and EEA Conference in 2008 revealed that Ethiopia is facing high unemployment problem. In view of this, the role of MSEs in generating significant number of employment opportunities for both skilled and unskilled human power is well recognized by government and perceived as prime solution to overcome this challenge.

Currently, MSEs in both developed and developing countries are seen as the most important alternative sector in fostering socio-economic developments. Particularly, they make undoubtedly a huge contribution to employment in many developing countries where there is a challenge of high unemployment and poverty exists. Several studies reveal that MSEs in these countries are considered as crucial in employment creation and generally contribute to economic growth as an engine of development and vehicle towards fulfilling the Sustainable development goals. Chief among these goals is the reduction of poverty through creating employment, wealth and improvement of living standards, because poverty and unemployment rate are considerably higher in these countries than developed countries, (Robinson and Pharr, 1991; Hailey, 1991). On the other hand, MSEs play a great role in bringing innovative products, techniques and new markets, dynamism and flexibility which is another virtue of smallness with possibility of meeting that they believe behaviorally to respond to customers' changing demand so as not to lose them and to win new ones by supplying better products and services. Practically, they invest relatively small amount in technology, equipments, human resource etc. when compared with

larger ones which invest large amount on expensive single purposed machines, hold large 2 inventory and use costly technologies and tools. This allows them to change what they have been doing with far less difficulty (David and Nyong, 1992; Manningo and Mashengo, 1993; Liedholm and Mead, 1993; World Bank, 1993; Sawney, 1993; Hambrick, 1993; Michael Bowen, Samuel Mureithi, 2009; Adam Isaac, 1996; Andu-Alem T., 1997; Bandura, 1997).

Although contributions of MSEs were acknowledged, many programs and policies were developed to support them, their journey in many instances is short-lived, with high rate of failure mostly in Africa due to several factors (Michael and Jeffrey, 2009; Lussier, 1996; Honjo, Y., 2000; Mohamed Amiri, 2000; ILO, 2000; Wiboonchutikula, 2001; Céline Kauffmann, 2005; Finnegan, G. (1999b; Alicia Robb and John Wolken, 2002). According to Mambula, (2002), Zewde & Associates, (2002), Wiboonchutikula, P., (2002), there are many obstacles hindering their growth like competitions, lack of access to credit, cheap imports, insecurity, debt collection, marketing problems, lack of enough working space, identical products in the same market, change in demand and absence of market linkages, lack of raw material accessibilities. In addition, findings by Lois Stevenson and Annette St-Onge (2005), also indicates managerial skills, level of education and technical skills, ability to convert profit back into investment are other factors instilling or inhibiting the growth of MSEs.

When we come to MSEs in Ethiopia according to Yordanos, (2006), Gebrehiwot and Wolday, (2006), CSA, (1995/2003), more than 11, 000 MSEs were surveyed and about 65 percent of them admitted having main constraints like lack of working space for production and marketing, shortage of credit and finance, regulatory problems (licensing, organizing, illegal business), poor production techniques, input access constraints, lack of information, inadequate management and business skill, absence of appropriate strategy, lack of skilled man power, low level of awareness of MSE's as job area, low level of provision and interest for trainings and workshops. These constraints confirm with other developing countries' especially experiences of Sub-Saharan countries in which the major common constraints of MSEs are lack of financial support, poor management, corruption, lack of training and experience, poor infrastructural availability, insufficient profits and low demand for product and services (Arinaitwe, 2006; OECD, 2006; Indarti, 2006; Thiam, 2007; ILO, 2007; Hailay, 2007; Dildar and Zafar Yaqub, 2010; Gurmeet and Rakesh, 2007).

Even though in the past decades the focus of Ethiopian government was mainly on large organizations, the recent wave of private sector development initiatives however shifted the policy efforts to MSEs. This new orientation has been possible because of poor performance in most state owned companies and the tension introduced by globalization and the increased need for competitiveness (Zewde& Associates, 2002; Rahel and Issac, 2010; JiningSong,Junjie Wu,2008; Hamilton & Fox, 1998; Desta, 2010).

Currently, Ethiopian government has given priority and planned to work aggressively on MSEs to complement with the objective of the last 5 years GTP I and the newly announced GTP II that is focused on industrial development in the country. The sector is expected to plays a significant role as an instrumental in curbing the challenges of unemployment, poverty and to accelerate economic growth.

Although there are many contributions expected from these sectors for economic growth, they face difficulties constraining their survival, growth and indirectly limit for the contributions they are expected. For the purpose of this study, particularly, according to the discussions made among MSEs actors and heard from Oromia Mass Medias, many of MSEs in Jimma Town are not successful and stopping their operation in facing challenges making them not to continue their operation. In addition to information from Mass Medias, the researcher has conducted preliminary assessment before starting the actual study and there was 44.4 percent of MSEs were stopped their operation because of different reasons ( Jimma town MSE office report,2011-2015). Availability of these and other pressing issues motivated the researcher to conduct actual study on MSEs in Jimma town.

## **1.2. Statement of the Problem**

The importance of MSEs as an instrument of poverty alleviation through employment creation and supply of affordable products has been implicitly and explicitly accepted by many countries and international development organizations. Industrial growth is a central focus area in strategy of many owners/ entrepreneurs, government and organizations. Growth of MSEs has a special importance in the economy that it is responsible for the major contribution to net new jobs. MSE growth is often closely associated with firm's overall success and survival because it has been used as a simple measure of success in businesses and the most appropriate indicator of the performance for survival of small firms. Moreover, growth is an important precondition for the achievement of other financial goals of business. In literature, firm growth has been defined in



many ways and different measures have been used. The most frequently used measure for growth has been changed in the firm's economic performance and number of employees and it has been found that these measures in the MSE context are strongly inter-correlated.

Research has shown that in order to achieve the contributions made by MSEs and ensures them to grow; it is required to overcome series challenges such as financial constraints, marketing constraints, managerial constraints, infrastructural constraints and others because they are the common and major factors in making businesses to fail or succeed (Okpara, 2011). As Ishengoma and Kappel (2008) reveals, the factors hindering the potential growth of MSEs in sub-Saharan countries are limited access to credit and market, business services like marketing information, networking, short-term training and these challenges account for the reasons why many MSEs fail/cannot survive and grow.

In Ethiopia, support to MSEs has been considered as a tool to employment creation and foundation to long-term development objectives. Even though some countries believed to be successful in fully utilizing the potentials in MSEs to achieve better economic development, the voyage of MSEs in Ethiopia has not been an easy ride and still it is behind in exploiting these huge potentials to meet its development objectives. In Ethiopia specifically, MSEs have been confronted in the past by many of these problems as little existing researches shows (Gebrehiwot and Wolday, 2006).

The existing literature shows (Yordanos, 2006) that to date, very little research has been conducted on the factors constraining the growth of small businesses in Ethiopia in general, and particularly in Jimma and none on this topic. Thus, gaps exist with respect to understanding the problems facing MSEs in Jimma town. Therefore, the intent of this study is to identify the factors constraining the growth of MSEs to marketing, management, finance and government support aspects. Given the significance of MSEs to a nation's development in different ways, the researcher, therefore, postulate that recognizing the constraining factors of MSEs' growth in Jimma is a critical in managing and avoiding the failure of micro and small businesses in this town.

### **1.3. The key research questions:**

- What are the internal factors related to marketing and management constraints hindering the growth of MSEs in Jimma town?
- What are external factors related to finance and government support constraining the growth of these sectors?
- What are the factors hindering the growth of MSEs along with the way they are emerged (progress) and grown in the study area?

### **1.4. Objectives of the Study**

#### **1.4.1. General objective of the study**

The general objective of this study is to assess the factors constraining the growth of MSEs in Jimma Town.

#### **1.4.2. Specific objectives of the study**

- To assess the internal factors related to marketing and management practices that constraints the growth of MSEs.
- To identify external aspects related to finance and governmental support
- To identify the factors hindering the growth of MSEs along with the way they are emerged (progress) and grown in the study area?

### **1.5. Scope of the Study**

The scope of the study was limited to a manageable size for the sake of time and resource constraints. For this reason, the population of the study was limited to MSEs registered in Jimma town administration. The major variable that was addressed by this research was factor that constrains the growth of MSEs in the town. Conceptually it was delimited on assessing internal factors related to marketing and management practices that constraints the growth of MSEs. Besides, identify external factors related to finance and governmental support. The study was focus on selected MSEs in Jimma town and assessed using descriptive research design through questionnaire and interviews.

## **1.6. Significance of the Study**

Understanding the factors hindering the growth of MSEs in this town helps policy makers – governments (federal, regional and zone), NGOs, and other stakeholders – to design targeted policies and programs that will actively stimulate innovation, as well as helping those policy makers to support, encourage, and promote MSEs for unemployment and poverty alleviation through minimizing the constraints hindering the growth of the enterprises. For MSEs, this study offers alternative actions to counteract against to the problems identified.

## **1.7 Limitations**

In addition to difficulty during data collections, the findings of this study can't necessarily represent for other MSEs sectors & similar to these businesses in the country, because the sample is not a representation of the entire MSEs in the country. Therefore, the results cannot be taken as uniform to generalize for MSEs those were not part of this study. The instruments were developed by the researcher based on the literature & limited to descriptive statistical which needs more statistical tests in order to establish a more robust validity and reliability. Thus, the instruments could be further refined to more closely capture each of the problem areas identified in the literature

# **CHAPTER TWO**

## **REVIEW OF RELATED LITERATURE**

### **2.1. Concepts of the study**

In many developing countries, including Ethiopia, MSE development programs are viewed as a key policy strategy to embrace the growth of MSE sector (Belay, 2012). Individuals in a community have many and different interests, needs and wants in their lives. It is the role of establishing and enterprising them to identify and satisfy these interests, needs and wants (David and Nyong, 1992; Lussier, 1996; Adam Isaac, 1996). All enterprises provide satisfying rewards for individuals who successfully establish them. Depending on the above idea, enterprise is a business venture or undertaking that brings profit or an idea that is translated into a planned and implemented activity (Gardenne, 1998; Hamilton, et, al. 1998; Kinyanjui, 2000).

There are different terms and classifications of enterprises, in which they succeed, irrespective of their nature, come up with irresistible and valued approaches that contribute to providing solutions to problems, as well as satisfying the desired needs and wants. The key difference between all types of enterprise lies in the rewards they provide. Business ventures provide profits as rewards, while non-business ventures provide other types of rewards which could be either physical or psychological rewards. Enterprising men and women will therefore engage in enterprises depending on what kind of rewards they expect from them (Thiongo, 2005).

Depending on this general overview and to meet the objectives of the study, since most of the time small and micro enterprises share common characteristics, therefore, the small business literature can provide a speculative frame work to guide the investigation.

### **2.2. Definition of micro and small enterprises**

Although the boundaries between micro, small, medium and large enterprises are at best arbitrary, categorizing business enterprises by scale of operation is important for functional and promotional purposes to achieve the desired goals of development (Andu-Alem T. 1997; Kaibori, S., 2001; Solomon, 2005). It is for this reason that different countries adopt different working definitions for different scale levels of enterprises (Amyx, C., 2005; Amenu B., 2005). Although many countries around the world seem to be using common factors in their definitions, the degree of emphasis and measures used differ quite considerably. These factors include

number of employees, volume of sales, and the capital value of the business. The European Commission defines MSEs using a combination of employee numbers, annual turnover or balance sheet total and ownership (Hillary, 2000).

Generally, there is no universally agreed up on the definition of MSEs (Amenu, 2005). Due to this, the meaning of MSE is necessary arbitrary because peoples, countries and organizations adopt different standards for different purposes according to their own working definition. These individuals and organizations have been defining them in a variety of ways using different factors according to their country and organization perspectives. In recent times, there has been some degree of convergence in MSEs definitions particularly in Europe. The European Commission defines MSEs using a combination of employee numbers, annual turnover or balance sheet total and ownership Amyx, C. (2005).

Regardless of country and economic development, there are two approaches to define MSEs i.e. quantitative and qualitative approach. In most cases number of employees, sales turn over and asset size are widely used as yardstick criteria to define MSEs (Beck, 2005; Arinaitwe, 2006; Ayokunle, 2007). However, the convergence does not in any way suggest a common agreement of the specific numbers in terms of these variables. Different governments and writers considerably differ in defining MSEs because of the following two factors (ILO, 2007; Jining, 2008).

The first factor is population and stage of a country's economic development. A definition of MSE in the developed world would differ from how MSEs are defined in developing countries. For example MSEs in USA and Europe if defined according to the number of employees and annual turnover of developing countries, it would be a definition adopted for medium or large enterprise. So, the acceptable figures of number of employees & annual sales turnover differ from country to country, depending on their economic development (Ali & Sims, 2001).

The second factor is industry within which the MSE is competing. The definition of MSEs as perceived above does not take into account the fact that the MSEs sector is diverse. As ILO,(2007) argues, while the convergence in MSEs definitions is certainly a welcome move for the standardization of data collection on enterprises (a major reason for defining MSEs), it does little to help us understand the diversity of the sector. In fact, harmonizing definitions may obscure characteristics that more varied definitions try to draw out. A definition of MSE, even

using the abovementioned variables should necessarily take into consideration the industry within which the firm is participating.

In Ethiopian, the MSE development strategy defines MSEs according to the number of employees and capital (FeMSEDA, 2010). Micro Enterprise under the industry sector (manufacturing, construction and mining) is an enterprise operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000. Under service sector (retailer, transport, hotel and Tourism, Information Communication Technology (ICT) and maintenance service) Micro enterprise are an enterprise operating with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000. Small Enterprises in the industrial sectors are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million. Similarly, in the service sector, small enterprises are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 50,000 and not exceeding Birr 500,000 (FMSEDA,2012).

**Table 2.1:** MSE definition in Ethiopian context

Enterprise	Sector	No of Employee	Amount of Capital
Micro-enterprise	Industry	<5	<ETB 100,000
	Service	<5	<ETB 50,000
Small-enterprise Industry	Industry	6-30	< ETB 1,500,000
	Service	6-30	< ETB 500,000

Source: FeMSEDA, 2010

### 2.3. Evolution and characteristics of the MSE sector

Various theoretical models have been developed which describe the growth of small businesses. One class of theoretical models focus on the learning process, either active or passive, and the other models refer to the stochastic and deterministic approaches. In the passive learning model, a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract or to exit their business (Kefale & Chinnan, 2012).

In developing countries like Ethiopia, the MSE sector contributes the lion's share in employing the urban labour force, thereby serving as a source of income. In Ethiopia for example, about 50.6 percent of the total urban labour force is employed in the MSE sector. (Belay, 2012). However a recent study by the World Bank reveals several trends related to firm dynamism in Ethiopia. While the entry size of firms in Addis Ababa has increased over the last decade, the ability of these firms to absorb shock is limited. For example, the exit rate for firms established in early 2000s is higher than that of firms established in 1990s. Furthermore the new generation of firms is primarily concentrated in risk-averse industries where competition is not a major challenge and marginal profits to investment ratios are high (World Bank, 2014).

There is great variation in productivity among Ethiopian manufacturing MSEs, which is coupled with high firm turnover. For instance 60 percent of firms exit within the first three years of entry (Mulu, 2006). According to Tilman Altenburg (2010), this reflects two phenomena. First, there is a large group of "necessity entrepreneurs" who start own-account activities for lack of employment alternatives and without any clear business idea. It is among these necessity entrepreneurs, that productivity tends to fall far below the level of well-established medium sized firms. Furthermore, failure rates are high, and it is not uncommon for owners to shift to other activities. Second, some firms are particularly more constrained in their access to credit, land, and product markets than others (Altenburg, 2010).

#### **2.4. Role of the MSE sector**

Worldwide MSEs have been recognized as engines of growth and development throughout the world (Munyori&Ngugi, 2014). The MSE operations worldwide plays a pivotal role by adding value to the economy by creating jobs, enhancing income, lowering costs and adding business convenience (Fatoki, 2012; Katua, 2014). MSEs are now widely recognized as a major component in the growth and development of emerging economies. They are found to be one of the most reliable economic development and livelihood strategy, especially during economic turbulence (Kamoyo, Muranda, &Mavhim, 2014). The importance of MSEs in general and new businesses in particular makes a significant contributions in addressing socio economic problems such as unemployment, poverty, income inequalities, political stability and economic growth among others (Musara&Gwaindepi, 2014). MSEs are now widely recognized as a major cog in the development of emerging economies. They are found to be one of the most reliable economic development and livelihood strategy, especially during economic turbulence (Kamoyo, Muranda,

&Mavhim, 2014). The importance of MSEs in general and new businesses in particular is well documented the world over as it makes significant contributions in addressing socio economic problems such as unemployment, poverty, income inequalities, political stability and economic growth among others (Musara&Gwaindepi, 2014).

In most economies, MSEs occupy the greatest proportion of enterprises. The MSEs constitute over 90 percent of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In the European Union, MSEs comprise approximately 99 percent of all firms and employ between them about 65 million people. In China MSEs provide 75 per cent of urban employment and as such they play an important role in releasing the employment pressure and maintaining social stability. Also 97percent of all businesses in Nigeria are MSEs. The MSE sector provides, on average, 50 percent of Nigeria's employment, and 50 percent of its industrial output (Katua, 2014).

In Ethiopia, the MSE has prioritized for economic growth, employment generation and building an industrial economy. The MSE sector serves as vehicle of development and broadens employment opportunities at urban center. The elements of the sector are taken as the major productive forces in the manufacturing sector and serve as incubation hubs for developmental investors. MSEs play great role in utilizing local resources and are labor intensive (FMSEDA., 2012). According to the Central Statistic Authority (2003), almost 50 percent jobs created in Ethiopia are attributable to MSE of which 974,676 micro and 31,863 are small enterprises, which accounts for 99.40 percent and 0.46 percent respectively. In addition, micro enterprises and small enterprises provide employment opportunities to 89.75 percent and 0.91 percent respectively.

## **2.5. The mandate of federal micro and small enterprises development agency (FEMSEDA)**

The Federal Micro and Small Enterprises Development Agency (FeMSEDA) was established in 1998 - by the council of ministers of Ethiopia, regulation No. 33/1998 issued on April 3/1998 - replacing the former Development Agency for Small Industries and Handicrafts (DASIH). It is the nodal Agency for formulation of policies and their implementation and related coordination, to supplement the efforts of the State for promotion and development of MSE and cluster development initiatives. It is led by a board of management constituted from government organizations, educational institutions & the private sector. It is directly accountable to the



Ministry of Trade and Industry of Ethiopia. The major objective of FeMSEDA is to encourage, coordinate and assist institutions engaged in service provision to the development and expansion of MSEs in the country at large. In order to promote MSEs, the agency is responsible for establishing a coordinated working relationship with regional government organs, regional agencies responsible for MSE development, NGOs and the private sector. The Agency is established to focus on training of trainers, dissemination of developed prototypes, information and consultancy, facilitation, marketing, technology database to be used by regional agencies or designated organs and other concerned institutions.

## **2.6. The objectives of regional micro and small enterprises development agency (REMSEDA) or designated organs**

The regional agencies are established to provide extensions services to MSEs at regional, sub city and kebele level. The extension service packages to be provided by these agencies include, but not limited to, human resource development, information and consultancy, facilitation, technical and marketing services. Additional mandate of these regional agencies or designated organs is to work in close cooperation with the regional bureaus delegated to promote MSEs within the regions. They will be financed by the regional governments in addition to the modest incomes they generate from the services rendered will be made to clients. Each regional agency is managed by a board of management consisting of bureaus, private organizations, other organized institutions and prominent personalities involved in MSE activities.

## **2.7. MSE support service centre at local level (sub-city and kebele level)**

These are small business support service centers established under the respective regional agencies or the designated organs at sub-city and kebele level in order to provide promotional support services for MSEs at grassroots levels. They are responsible for providing information and advisory services to MSEs at their vicinity

## **2.8. Constraints facing micro and small enterprises (MSEs)**

### **2.8.1 General perspective of factors constraining micro and small enterprises**

In most developing countries small businesses face a wider range of constraints and they are unable to address the problems they face on their own, even in effectively functioning in market economies. Several prior studies' theoretical framework for this type of study was based on classifying the types of decisions needed to start and maintain a successful business and

analyzing common problems faced by small business owners. Although (MSEs) are recognized as a major source of innovation, flexibility and growth in the country, on the other hand different surveys and reports indicates there are many challenges facing them and result in hindering their growth (CSA,2005;Michael Decker, 2006 RascaLavinia, 2007; Zuzana Brixiova1, 2009, Okpara(2011).

Most of the time the common constraints indicated by different researchers are: attitude of the society towards the enterprises, financial support constraints and lack of access to loans, skills problem to run the business and meet the objectives, lack of smooth supply and availability of raw materials, lack of less working premises, unavailability of markets, unfamiliarity with technology, risk of being vulnerable than big companies and threatened by scarce resources, fierce and increased competition from different dimensions are the major bottlenecks holding back the growth of MSEs

### **2.8.2 Marketing constraints**

Today it is widely accepted that small businesses are not just “little big” businesses. Rather it is acknowledged that they have their own peculiar characteristics, which affect the way they operate and largely determine their preoccupation and concerns. For MSEs, marketing is that an intuitive approach exists among them and found largely on traditional practices and experiences, where it entirely dependent on the depth of experience and knowledge of owners/managers. Often, planning of marketing activities is limited to planning for “selling” within a narrow industry perspective (Honjo, 2000).

Due to lack of resources and expertise, many small firms do not conduct marketing research, keep customer records, make follow up on their customers and study customers’ characteristics and preferences. The first few years of small firms require aggressive marketing of products and services. But, lack of understanding the strategic importance of marketing in achieving competitive advantage, start up firms does not sufficiently market their products and services (Bergin and seers, 2000).

Even though marketing has been widely accredited as one of the most important of all activities and critical for the survival and growth of MSEs), many studies found owner/managers of MSEs as having a very limited understanding of the marketing concept generally to be little more than advertising and public relations and lacking adequate marketing skills. Specifically, problems inpromotion and marketing research were frequently encountered by MSEs. These problems

include the selection of promotional media, difficulty in getting customers to pay, low purchasing power of customers, advertising, content design and format of the promotional materials, market size, location and addresses of potential customers as Trovato and Becchetti, (2002).

Studies show the problems of MSEs on marketing side with lack of linkage between MSE operators, information in the market, available technologies, existing opportunities, etc. Due to lack of market related knowledge MSEs face serious problems because of they are unable to meet the visible growth due to lack of information where the best market areas are located, inability to analyze their respective market, lack of skills to set competitive prices, inability to effectively promote products (Etsegenet, 2000; Mambula, 2002; Carpenter and Petersen, 2002). They have limitations in using marketing strategy which helps to develop good marketing mix to sell the products through which selected target client/market, studying the client with respect to his/her buying motive and behavior, segmentation of the market using relevant bases, evaluating each of the segments, reaching the target market (Kaibori, S. 2001; Bergin-seers, et.al., 2001; Wiboonchutikula, 2002).

Since the business line of MSE activities in Ethiopia is relatively similar, a lack of product diversity, however, is prevalent and as a result similar products are over-crowding the market. Furthermore, certain MSEs lack the skill to modify their products and its designs. Most products that are made available by MSEs can also be obtained from medium-sized enterprises that mostly have market advantages in terms of their size and economy of scale (Assegedech, 2004; Lois and Onge, 2005; Longenecker, 2006).

The other most important problem of MSE is in relation to price. This is due to lack of basic costing knowledge; overhead costs are mostly not calculated as expenses; the fact that salaries or wages of family members involved in production or sales are overlooked as cost product. Not knowing the exact earnings from sales separately during and at the end of the day, family members spend the money earned from sales without recording, manufacturers do not correctly know how much raw material and accessories are required to make one unit of a product. Consequently, some of them sell at break-even or even below cost and do not know whether they actually making profit or not. They express their success only by accentuating the changes they make. While other MSEs tend to overprice their products, with some under-pricing due to lack of costing skills as well as competition, some instances MSEs are forced to sell at any lower price,

due to the existence of larger enterprises, which sell similar products with reduced prices(Allan Mulengani et al., 2009, Olalekan Asikhia 2010).

In most cases, MSEs have limited means in obtaining effective and relevant data as well as information on market availability that can be obtained from Chambers of Commerce, MSE Development Agencies, associations as well as Trade, Industry and Tourism Bureaux. Nevertheless, MSEs have difficulties in getting their hands on adequate data and information, one of the reasons for this deficit is that many of the centers are not within the reach of most MSEs (MSEDS, 2005; Rahel, Isaac, 2010).

Problems related to the promotion of many MSE are plan on their products. However, their budget is mostly tight and they refrain from undertaking such promotional activities to use the money for other urgent matters even though some enterprises understand that issuing flyers, posters and business cards have promotional values,

The other marketing problem of MSEs is concerning competition between themselves and from middle and large companies , which implies that some larger companies in relation to MSEs have advantages due to selling at reduced price without reducing product quality using economies of scale, customer targeting capacity, proper and intensified product/service advertising capacity, good personal contacts and networks, sound industry reputation, sufficient information regarding existing market and capacity to exploit more market opportunities. The place or MSEs’ business location and channel of distribution most of the time face difficult to reach the market and the chosen potential customers.

**Table 2.2:** Marketing Constraints

Lack of marketing research	Poor location/business site
Little knowledge of customers	Poor customer relationship
Characteristics	Lack of marketing expertise
Lack of keeping customer records	Money to buy advertising space and time
Lack of follow up on customers	Misperception of marketing benefits
Lack of market segmentation	Lack of knowledge of sources of marketing
Lack of product/service marketing	Information
Lack of clear pricing policy and Strategy	Poorly trained sales staff
Lack of demand forecasting	Inability to extend credits to customers
Lack of knowledge of low-cost marketing	Lack of knowledge of market

Strategies	
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*Sources: MSE Development Strategy (1997,) John O. Okpara (2011) RahelWasihun, Issac Paul (2010)*

### **2.8.3 Management constraints**

These problems are usually labeled as critical success/failure factors as they are internal to the organization and within its control. These problems need immediate managerial actions and include human resources management, business planning, organizing, and directing. The future of small firms depends on the development and maintenance of human resources in which few highly competent people dedicated to the task, driven by it, working full time and very hard are the successful once. For many firms, the attraction, development and maintenance of successful individuals are a critical success factor even though recruiting new employee is one of the biggest challenges facing small firms, and a key component of organizational success(Chrisman,1989 Hyvarinen ,1990;Hailey,1991; Donckels and Fröhlich 1991;David and Nyong,1992 ;Lussier, et.al.,,1996 ;Yusuf and Attahir, 1995).

Most owners/ managers lack sufficient trainings, they do not have proper management procedures and their concern has remained on daily routine and to keep the business going and all decision making is concentrated in the hands of owner-manager, innovation activities in the enterprises mostly monopolized by them and gives less motivation for others workers to reveal their potential talents ( Riding and Santos, 1990; Nuno Santos, 2003; Hausman 2005).

Various empirical studies have tested the effect of human capital and demographic factors on innovation concerning firms which are led by more educated executives or owners to innovate (Christopher, et.al., 2006; Okpara, 2007; ILO, 2008; Rupasingha and Sergio, 2010) .Robson etal. (2008) found that education of owners, experience, level of skill and knowledge are important factors and has been found to affect innovation activities (Hausman 2005). Mahemba and de Brujn (2003) have also shown that training of workers is associated with higher innovation. As Liedholm and Mead, (1993), McPherson, (19960, Nuno Santos, (2003), Kibas , (2006), IbrahimaThiam,(2007 ), the ability of managers to perform activities has very important bearings on the performance of the business.

However, the sources of many of managerial problems in SMEs are lack of education and professional training. Today, owners/managers of small firms must be familiar with many aspects of management such as finance, personnel, sales, production, and so forth. Many studies

indicated that entrepreneurs perform poorly in many areas of management such as bookkeeping, marketing, costing, warehousing, stock control, production scheduling, and quality control. The owner/managers in some cases either do not understand financial statements or do not use them for planning purposes cannot not differentiate between personal expenditure and business expenses, and have no accurate perception of their production costs (such as unit cost of labor; cost per unit of capital; marketing cost per unit of product etc.).

It is obvious that inability to evaluate results on continuous basis may result in not recognizing problems at an early stage when changes can be made at reasonable costs. SMEs seldom evaluate organizational progress against plans. This can serve as early warning system by providing clues for further study. Hence, lack of creativity, innovativeness and responsiveness hampers MSEs (Indarti and Langenberg, 2005; Michael B., Samuel M., 2009; Mohammad et, al., 2011). Management skills, lack of occupational experience in related businesses for many MSEs entrepreneurs has been indicated as a constraint to growth (Gurmeet Singh and Rakesh Belwal,2008; Sugato.et,al,2009; Mshenga and Owuor,2009; Okpara,2011). There is a general lack of an entrepreneurial culture in Ethiopia and, more particularly, for potential and operating owner/managers of MSEs (Woretaw B, 2010).

**Table 2.3:** management constraints

Lack of formal recruitment and hiring	Dependence on family& relatives for labor
High employee turnover procedures	Lack of well trained employees in the market
Lack of open communication b/n owner/ manager and employee	Lack of clear division of activities and duties
Negligence in developing & empowering employees	Personal problems (health, social etc) of owner/manager
Lack of experienced employees in the market	Lack of experience in running a business
Lack of proper organizational structure	Lack of vision and growth orientation
Centralized one man decision/making	Lack of competitive benchmarking
Low level of standardization of products and services	Lack of evaluating results against plans on continuous basis
Inaccessible/unavailability of training facilities	Overemphasis on short term profit ability
Lack of general managerial, experience skills and training	Rigid decision making patterns/ inflexibility
	Inability to compete with large companies

Lack of strategic business planning Fear of failure, bankruptcy and risk taking High family commitment and responsibility	Lack of interest in non-financial reward
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*Sources: Njanja and Pelissier and Martin Ogutu (2010), John O. Okpara (2011).*

#### **2.8.4. Financial constraints**

Financing is one of the crucial elements that determine the development of (MSEs) and necessary to help them to set up and expand their operations, develop new products, and invest in new staff or production facilities. But if they are successful, there comes a time for all developing MSEs when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, or other financial institutions. Lack of finance was cited as the most pressing need of the MSE sector operators (Nuno Santos, 2003 Nurul and Langenberg, 2005). The survey further indicated that working capital (necessary for the business growth) was the most needed followed by investment capital (for starting up new business). This is due to most banks do not operate a MSE financing window and low capability of borrower to prepare and present applications that meets bank's requirements. It is too expensive to hire professional services for doing this job for MSE. This is reflection of the lack of information or the perceived high cost of collecting such information on MSE. MSEs have also inability to fulfill the acceptable collateral requirements like fixed assets such as residential houses and vehicles. Thus, rather than focusing their attention on evaluating income streams flowing from an investment project they may focus more on the value of collateral available in the event of financial distress. This creates a problem for small firms in that they often do not have significant fixed assets to secure on in their early years of establishment (Arinaitwe,2006;Suwastika Naidu, Anand Chand ,2006; IbrahimaThiam ,2007).

As a result of these and inability of small entrepreneurs to secure collateral requirements, the banking institutions became reluctant to provide them loans. Coupled with absence of other sources of finance other than traditional ones and informal sources, creation of new enterprises and the growth and survival of existing ones will be impeded. Particularly in developing countries like Ethiopia, where the financial market is weakly efficient, there is high information asymmetry between financial institutions and Micro and Small Enterprises (MSEs). As a result, financial institutions face severe problems of adverse selection. That is why access to formal

finance is usually difficult for MSEs (Jining, 2008 Eshetu and Zeleke , 2008, RakeshBelwal, 2008 Ayokunle ,2007 ILO,2008). If SMEs cannot find the financing they need, brilliant ideas may fall by the wayside and this represents a loss in potential growth for the economy. Lack of financial availability and accessibility is cited in many studies as being one of the major barriers and constraints to growth. A loan approved for the applicant by the OCSSC, failed to materialize because land title deeds as collateral. Owning title deeds as collateral to finance expansion is still a hurdle for most entrepreneurs, given that property is not usually registered in their names (MuluGebreeyesus (2009). Bowen ,Mureithi ,2009;Gebregziabher HaileselasieGebru, 2009,Dildar and Zafar,2010;Anil and Contreras,2010).

**Table 2.4:** Financial Constraints

Inadequate credit facilities and sources	Poor receivables and payables management
Inadequately estimated capital requirement	High investment in fixed assets during start-up
Poor cash flow analysis and management	Unplanned withdrawal of cash for personal use
Failure to analyze financial statements	Misperception of turnover as profit
Lack of record keeping and documentation	Underutilization of company assets (space, machines etc)
Poor management of loans and grants	High interest rates on loans
Poor management of inventory	High collateral requirement by lenders
Poor management of cash	Lack/inaccessibility of growth financing sources
Mismatching the sources and uses of funds	

### 2.8.5. Other external environmental factors

The environment is defined as the relevant physical and social factors outside the boundary of an organization that are taken into consideration during organizational decision-making. There are several studies on environmental scanning and strategic planning (Riding and Santos, 1990).

The environment as having several sectors that exist in two-layers- the task and general environment. The task environment involves environmental elements that are commonly defined to include competitors, suppliers, customers and technological factors. The general environment refers to sectors that affect organizations indirectly and include economic, political,



demographic, cultural, regulatory and social sectors. These sectors are expected to influence the performance of small firms because they differ in uncertainty. Thus, it is critical that small firms be aware of the nature of the environment that they currently face and anticipate facing, and the need to incorporate changes in their strategy formulation and implementation.

Environmental scanning is the means through which managers perceive external factors, events and trends. As managers in small firms have limited cognitive capacity to comprehensively understand the environment (Robinson and Pharr, 1991), they must find scanning mechanisms that yield adequate information displays of external events. While a number of studies (Gray and Lutabingwa, 1997; Hamilton, 1998; Honjo, 2000) have explored the fit between organization and environment, there is less knowledge, particularly in small firms, about how impressions of the environment are formed among owner/managers who are responsible for responding with new strategies and approaches.

Although it is beyond the control of small firms to change the supply base, the economic trends, the direction of competition, the purchasing power of buyers, technological changes, inflation, market size, culture, trade union, labor legislation etc... they must be able to proactively respond to all changes. But, most SMEs are reactive to changes in their external environment. Moreover, there are many socio-cultural factors in Ethiopia impacting negatively on the upbringing of MSEs ( Etsegenet, 2000; Esther and Ishengoma Kappel,2008; Mutuku et al., 2006).

#### **2.8.6. Lack of support and societal attitude towards mses**

Institutional environment has strong contribution for the success or frailer of the business. It emphasize on the role that legal, regulatory and institutional frameworks play on microenterprise operators. These institutional environments influence business either by adding benefits or through increasing costs of operation. As such, firms decide to join the mainstream economy by adding into their equation the benefits and costs imposed from enabling business environments. This perspective takes the legalist school of thought that is based on the notion that micro entrepreneurs choose to operate informally in order to avoid the costs of operating in the mainstream economy. According to this school of thought, firms will continue to operate informally as long as government procedures are cumbersome and costly (Djankov, Lieberman, Mukherjee, &Nenova, 2002).

The MSE support has three critical elements: first the strategy espouses to create and implement an enabling legal framework. Second, it envisages establishing user friendly business

environment, for example, by simplifying and standardizing of documents, processes and services. Finally, the government offers direct policy support by devising targeted and specific support programs such as access to finance, access to appropriate training and technology, marketing linkage, provision of physical infrastructures and access to working and selling spaces and other handholding supports as deemed appropriate (Assefa, Zerfu, & Tekle, 2014).

Attitudinal problems of the private sector towards MSEs are reflected more importantly in the way that MSEs are crowding out the private investors. This is more visible in the construction sector. MSEs undertake 30-50 percent of the construction works in the state sponsored housing development project. Massive government infrastructure development projects have targeted creating opportunities for MSEs. This has created the sense that MSEs are favored by the government leaving the private investors as bystanders. The various governmental support packages that prioritize MSEs have left the private investors to be more antagonistic towards MSEs. This hampers the development of market linkages that would have been created between MSEs and private investors and leads to failure of MSEs (Assefa, Zerfu, & Tekle, 2014).

## **2.9. Some sub-saharan countries experiences on constraining factors of mses from empirical evidences.**

In Kenya according Allan M. Katwalo and Fredah G. Mwiti (2009), there are various reasons for the failure of MSEs like: lack of supportive policies for MSE development, intense competition with replication of micro-businesses, unavailability of funding, manager characteristics including lack of skills and experience, marketing techniques used including quality of service and markets served. The cases also demonstrated that MSEs experienced most of the difficulties cited such as limited skills in business management and even more limited funding, facing intense competition in the niche market served. It was also made clearer that MSEs used social networks to access some funding and to retain their customer's loyalty.

However, where the policies to support micro businesses remain largely rhetorical, the question of survival and development for micro and MSEs remains a question of individual ingenuity. In Nigeria according John O. Okpara (2011), the most common constraints hindering small business growth and survival in Nigeria are lack of financial support, poor management corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for product and services.

As NurulIndarti and MarjaLangenberg(2009) reveals , factors affecting MSEs in Malawi are marketing problems, unfamiliarity with technology, no information access, lack of entrepreneurial readiness ,social network ,legality, capital access, lack of government support, lack of knowledge in preparing business plan.

In Uganda as Esther K. Ishengoma and Robert Kappel(2008) findings show limited access to credit and market, business services like marketing information, networking, short-term training are the major factors inhibiting MSEs in the country.

According to ILO (2003) Women in MSEs of Tanzania faced difficulties in obtaining appropriate amounts of funding to finance their growth plans because of collateral requires needed, lack of awareness in joining associations, lack of marketing, information and advisory services, bureaucracy, unfair competition, harassment and corruption by licensing and tax officials, perceived unfair tax levels and tax enforcement procedures.

According to Iddi Adam Mwatima M. (2006), Small businesses in Ghana face many factors inhibiting their growth like lack of demand of products because disability to qualify orders in meeting customers in terms of quality, consistent quantity and on time delivery and therefore a lack of demand, lack of establishing personal contacts and good networks, and having a good location for the operation, limited access to finance, limited access to fixed capital and working capital as major constraints to start and expand the businesses, limited access to raw materials , high and unfair competition, lack of water and reliable and cost-efficient energy, transportation problem, limited access to markets, lack of appropriate machinery/technology and storage difficulty with packaging

## **2.10. Growth Factors**

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

### **2.10.1.1. Prior Management Experience**

Management experience may provide entrepreneurs with prior knowledge of markets, ways to serve markets, and of customer problems (Tiruneh Abebe. 2011). Zeleke (2009) conducts a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises.

Successful businesses are significantly associated with the ability to generate profit on a sustainable basis. Profitability has enabled successful businesses to achieve their next level of growth as well as the potential to stay competitive in business.

#### **2.10.1.2. Marketing Skill of Business Owners**

Marketing skills, such as identifying new prospects, showing effective corporate positioning, customer handling, finding ways to efficiently advertise, and the ability to come up with new ideas are very important factors that micro and small business enterprises should possess to be successful long term survival in the future (Tiruneh Abebe. 2011).

### **2.11. Business Related Factors**

#### **2.11.1. Planning and Performance in Small Enterprises**

A business often begins with an idea that is acted upon. However, to get from the idea stage to the actual business start-up generally involves considerable Planning. In many cases, the amount of actual Planning done is dependent on the willingness of the entrepreneur to do it. Some entrepreneurs prepare business plans as a means to attain financing for their businesses while others use a plan to get all their ideas down on paper to assess whether their business idea is sound and viable(Tiruneh Abebe. 2011). Ahmed, Shahbaz and Mubarak (2008) and cited in Tiruneh Abebe. 2011), suggested that no one should start a business in today's economy without a business plan. They argued that success for small businesses is achieved through planning, commitment, and time, nurturing, financing, and positioning to seize opportunities. Many of these activities must be done on a continual basis as the environment in which businesses operate is continuously evolving.

#### **2.11.2. Record Keeping and Financial Control**

Poor record keeping can also lead to strained relationships with vendors which may result in difficulty in obtaining and receiving merchandise. Inadequate working capital decisions and accounting information have been referenced consistently as causes of small business failure (Tiruneh Abebe. 2011). The study of Lusseir (1995) cited in Tiruneh Abebe. 2011), supports this fact. In his study, he reported that 'businesses that do not keep updated and accurate records and do not use adequate financial controls have a greater chance of failure than firms that do.

### **2.11.3. Form of Ownership**

The other study report of Lafuente and Rabetino (2011 cited in Tiruneh Abebe. 2011) indicates the relationship between enterprises performance and forms of ownership. They reported that rather than those firms with a single-tier leadership structure (entrepreneur-manager), the presence of entrepreneurial teams increases firm's resources and capabilities, a fact that enhances employment growth indicating that the presence of entrepreneurial teams improve internal decision making processes leading to higher growth rates. Similarly the study of Lusseir (1995) supports the fact that enterprises which are owned by more than one owner have a higher chance of success than those enterprises owned and managed by a single owner.

### **2.12. Empirical Analysis**

According to (Enock Nkonoki. 2010) the main factors/problems limiting small firm's growth into two groups; first is the factors that originate from within the firm (in other words they are internal to the firm) and the second group is factors that originate from outside the firm (these are external to the firm). The Internal factors limiting small firm growth are the characteristics and attitude of the entrepreneur(s) and the firm as a whole. These factors can be impacted by the decisions made in the firm either by the entrepreneur(s) or the staff in the firm. These factors are ,Lack of motivation and drive , Lack of background and experience in the business , Capital constraint ,Lack of a proper business plan/vision , Theft/cheating and lack of trust in doing business , Poor management , Running informal/unregistered businesses , Lack of proper record keeping , Inadequate education and training ,People factor/lack of needed talent and Improper professional advice and consultation. The External factors limiting small firm growth are the factors have to do with decisions, rules and policies that affect a small firm directly, and in response the firm has not really control over the decisions made but an influence to a change of their existence is possible. These factors originate from outside the firm, these are, Corruption, Competition, Government policy, Technological barrier, in access to finances/funding, Bureaucratic processes and Unfavorable economic factors. According to Commission on Legal Empowerment of the Poor (2006), most MSEs in Ethiopia faces critical constraints both at the operation and start up level. Some of these constraints include lack of access to finance, access to premise, infrastructure, training in entrepreneurial and management skills, information on business opportunities, and social and cultural factors particularly related to deficient entrepreneurial culture and excessive corruption. Lack of adequate capital, sufficient loan, and

inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector. Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new enterprises and the growth and survival of existing ones will be impeded (Commission on Legal Empowerment of the Poor. 2006). According To Wolday and Gebrehiwot (2006), more than 93 percent of MSEs replied that they did not apply for bank loans for the reasons they considered themselves as discouraged potential borrowers, need credit but are discouraged from applying by the perceived or real high collateral requirement, high cost of borrowing, difficulty of processes, ineligibility, or concern about their repayment ability and uninformed (i.e. not aware of the facility, or where and how to apply, etc.). The study done by Admasu.Abera (2012), the main sources of startup and expansion finance or funds for most MSEs are personal savings followed by iqub/idir, family and friends/relatives. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases this problems may be the inability of many operators to meet formal financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from informal sources.

According to Minster of Urban Development and Construction, (2013), the study also identified a number of challenges and constraints hindering the growth of MSEs in Selected Major Cities of Ethiopia. These challenges were manifested in terms of capital, technology and employment growth trends. Enterprises from the regional cites indicated that shortage of finance (42 percent) to expand their business was their principal challenge, followed by lack of working premise (28.3 percent); and lack of access to market or absence of linkage to market. The study also showed that lack of access to land has been one of the most crucial bottlenecks (26.4 percent) in Addis Ababa, problem of finance (25.6 percent) and access to market (25.1 percent) were among the strong factors inhibiting the growth of these enterprises in the capital. The findings of Mulu

(2007) also indicate that banks and MFIs do not seem to support MSEs expansion. Due to this 85 percent of the respondents have never received credit from these formal sources. The availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks appear more appealing for MSEs. Hence, firms with better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster.

The other major constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. The causes of market-related problems of MSEs engaged in metal and wood work are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting (FMSEDA. 2006). The product line of MSE activities in Ethiopia is relatively similar (Assegedech Woldelul. 2004 and cited in Admasu.Abera. 2012). Accordingly she states that: lack of product diversity, however, is prevalent and as a result similar products are over-crowding the market. Some micro enterprises shift from one product to another, and in doing so, capture better market opportunities. Nevertheless, as soon as the market has established itself, a multitude of further micro enterprises start off in the same business and this causes the selling price to fall immediately. According to Mulugeta (2011 and cited in Admasu.Abera. 2012 ) has identified and categorized the critical problems of MSEs in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products.

In reality, literature on MSEs in Ethiopia especially in Jimma town is very little and most of the available studies were not conducted in line with growth and socio-economic contribution aspects of micro enterprises. However, this research tried to assess factors affecting the growth

of MSEs in a holistic way by targeting and deeply investigating those operators are engaged in manufacturing, construction, services, trade and urban agriculture activities in Jimma town.

### **2.13. Conceptual framework**

In the developing countries large number of population are live with absolute poverty. They strive to generate enough income in each counties but their living standard is still hand to mouth. The low economic growth of these countries was perceived to be cause of lack of capital resources, low production and saving capacity, therefore lack of capital resources and the like factors caused permanent poverty .In order to overcome their state of poverty and low employment rate in developing countries, micro and small enterprises are the alternative to all poor countries which provides considerable social protection and income and employment opportunities to their societies(Abebe Tiruneh. 2006). The research was addressed various types of business constraints such as conducive business environment, inadequate access to finance, lack of infrastructure, access to productive resources, marketing and management related factors. The theoretical consideration on the link between business constraints and the growth potential or performance of MSEs can be viewed from different angles. Business constraints may, on the one hand, limit physical capital accumulation. On the other hand, they may constrain a firm's ability to undertake its daily operations since they may reduce its internal financing and its capacity to make proper business decisions. Moreover, they may interrupt a firm's business operations and therefore impede its performance (Weldegbriel Mezgebe. 2012).

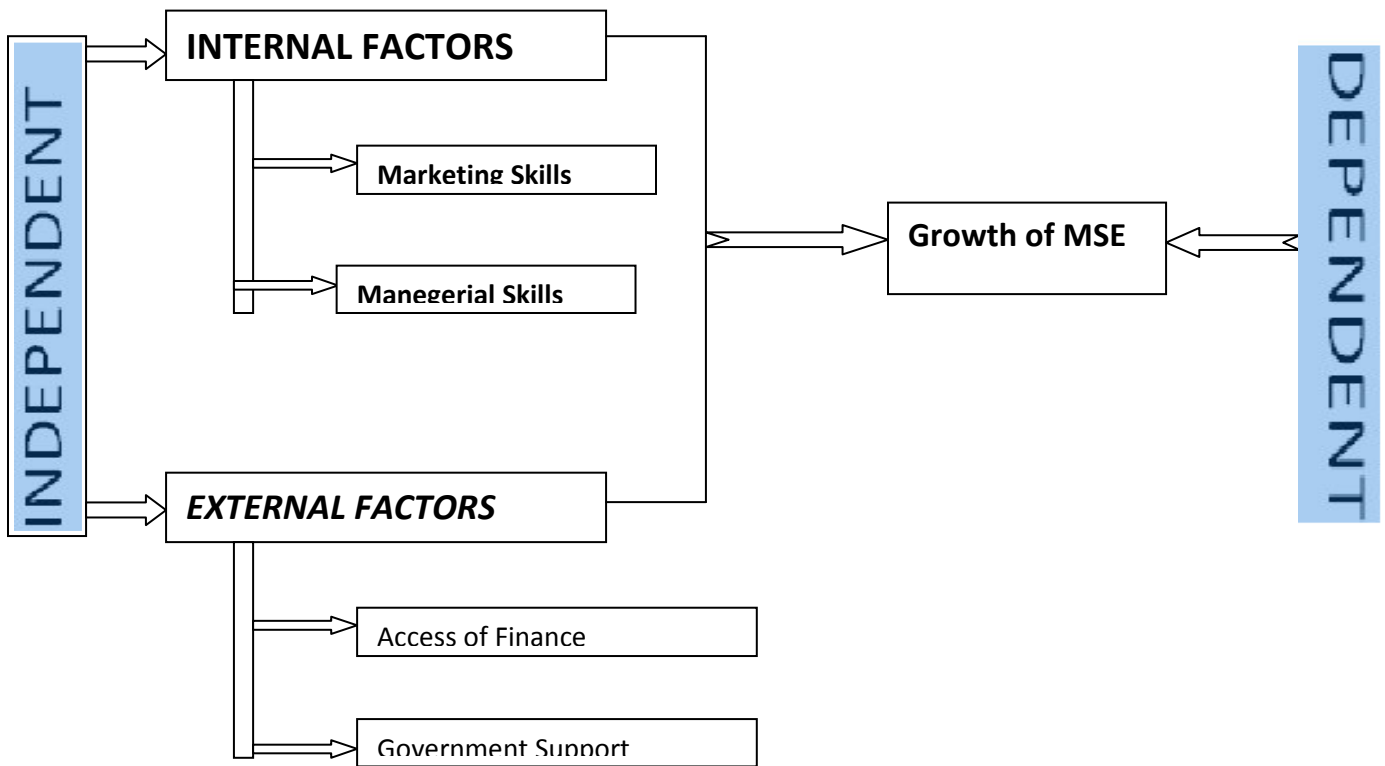
The constraints are assessing by specific indicators such as increase or decrease in performance of the business enterprises. Majority of MSEs have limited access to external financing. As a result, they depend mainly on their internal resources to finance investment. High tax rates reduce firms' internal sources of finance. In some developing countries, it also discourages MSEs from expanding their operations and becoming visible to governmental officials, since being visible or operating formally is likely to increase the cost of operating. When MSEs have limited access to relatively differentiated markets, they are forced to operate in low income market segments. This limits their levels of sales and profits since most of them compete for the same customers (Weldegbriel Mezgebe. 2012). Besides the above stated obstacles, other factors which may cause MSEs to fail or to upgrade their performance are lack of infrastructure and weak institutional quality. Absence of infrastructure increases cost of production and results in



lack of on time production and delivery. Due to poor quality of institutions that are established to support MSEs, rules and regulations will not be enforced and the enterprises will not get the intended support.

This study has both independent and dependent variables. Dependent variable is success of the business enterprises. On the other hand the independent variables are lack of experiences, management and know-how, Infrastructural facilities, Limited access to working place and land, resources and finance, customers and market information and external environment. Therefore, the finding depends on the relationship and outputs of the independent and dependent variables. Therefore, the model shows the relationship between independent and dependent variables.

**Figure 2.1:** Conceptual frame work of the study



Source: Own compilation based on Literature

## **2.14. Operational Definitions**

### **2.14.1. Growth Factors and Performance of MSEs**

Micro and small enterprises considered as a vital component of the socio-economic development of both developed and developing countries, usually some of these enterprises collapse within the first few years of their start-up. Of those operating, some grow rapidly, while others grow slowly. So, it is important to identify the cause factors of success because it helps new entrants of the sector to consider the factors and use for their future in the business (Alasadi and Abdelrahim. 2007). These factors could vary from one country to another due to the economic, geographical and cultural differences. This kind of investigation of the success factor is very important for developing countries like Ethiopia because the research conclusion could be useful for the economic development planners as well as to individual entrepreneurs and business owners in the countries concerned.

The growth of a firm is motivated by external opportunities, such as promising demand prospects for the firm's product, and/or internal inducements, such as a shift to a more efficient utilization of existing resources of the firm. On the other hand, external and internal factors may also function as obstacles to growth and success. As far as external growth determinants are concerned, demand for the firm's products is the major factor. Second, the market actions of competitors, the supply of production factors and the features of the local business environment are typically external to a small firm. Internal growth determinants include the features of the firm itself and the attributes of the business owners of the enterprises (Tiruneh Abebe. 2011).

### **2.14.2. Defining Growth**

Growth is often viewed in terms of profitability or success, but this becomes more complicated when trying to determine the factors that lead towards it. It is important to recognize that while a common measure of growth in business is still to be defined, there are some general factors found to influence the growth potential of businesses (Beaver. 2002).

### **2.14.3. Measures of Growth**

Business growth is usually measured in terms of economic performance. As Walker and Brown (2004), small business growth can be measured by financial and non-financial criteria although the former has been given most attention in the literature. Traditional measures of business growth have been based on either employee numbers or financial performance, such as profit, turnover or return on investment. Implicit in these measures is an assumption of growth that presupposes all small business owners want or need to grow their businesses. For businesses to be deemed successful these financial measurements require increases in profit or turnover and/or increased numbers of employees. As Walker and Brown (2004) cited from the study of Hall and Fulshaw. (1993), 'the most obvious measures of growth are profitability and success'. In economic terms this is seen as profit maximization. Economic measures of performance have generally been popular due to the ease with which they can be administered and applied since they are very much hard measures.

Furthermore Walker and Brown (2004) suggested, 'all businesses must be financially viable on some level in order to continue to exist'. However, given that some businesses have no interest in growth, thereby implying that financial gain is not their primary or only motivation, then there must therefore be other non-financial criteria that these small business owners use to measure their business success. Non-financial measures of growth used by business owners, such as autonomy, job satisfaction or the ability to balance work and family responsibilities (Walker and Brown, 2004 Mohan-Neill 2009) are subjective and personally defined and are consequently more difficult to quantify. The selection of performance measures that reflect the true situation of small businesses with some degree of certainty and reliability is indeed a crucial process. The lack of universally accepted standard performance measures left the door open to business organizations to decide and choose its own performance measure that might not truly reflect its performance (Alasadi and Abdelrahim. 2007)

Overall, from the above literature reviews it is possible to generalize some of important points. Even though the definition of micro, and small enterprises varies between multilateral institutions and countries there is working definition that can be applied to all countries and regions of the world for several reasons. SMEs have been called the backbone of the global economy, with some definitions showing SMEs accounting for 95 percent of the world's GDP. Developing countries are often economically defined by a "missing middle" or a lack of small and medium business to provide jobs, innovation, and wealth. MSMEs are defined as any business activity/enterprise engaged in industry, agri-business/services, whether single proprietorship, cooperative, partnership, or corporation. Micro and small enterprises considered as a vital component of the socio-economic development of both developed and developing countries, usually some of these enterprises collapse within the first few years of their start-up. Of those operating, some grow rapidly, while others grow slowly. Growth is often viewed in terms of profitability or economic performance. So, it is important to identify the cause factors of growth because it helps new entrants of the sector to consider the factors and use for their future in the business (Alasadi and Abdelrahim. 2007). There can be various factors like socio-economic, political and motivational factors that affect the growth of small business in general and MSEs in particular. The main factors/problems limiting small firm's success/growth into two groups; first is the factors that originate from within the firm (in other words they are internal to the firm) and the second group is factors that originate from outside the firm (these are external to the firm). The Internal factors limiting small firm growth are the characteristics and attitude of the entrepreneur(s), management capacity, marketing skills and the firm as a whole. The External factors limiting micro and small firm growth are access to finance, government support like rules and policies that affect a small firm directly, and in response the firm has not really control over the decisions made. The theoretical framework for this study was mainly developed in seeing the four basic business activities in micro and small enterprise under marketing constraints, management constrains as internal factors and financial constraints and government support related constraints external factors.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1. Description of the study area**

Jimma is the largest town in south western Ethiopia, located in the oromia region , it is commercial center for coffee production region. The population of the town was 172,822 until 2006. According to the current used master plan, Jimma town has the total area of 100.2km<sup>2</sup>The name of today's Jimma was derived from *Mecha-Oromo* clan called *JimmaWayu*. These people had started to live in the main quarters of the town namely *Jiren, Hirmata and Mendra*. In the 18 century the kingdom of Jimma which was one of the five Gibe States (Shanan Gibe) next to Gera, Guma, LimmuInariya and omma was established by Abba Jifar I.

##### **3.1.1. Socio-Economic and Infrastructure of Jimma Town**

Population dynamics is the result of fertility, mortality and migration. Those demographic processes are complex phenomenon affected by social, cultural, economic, political and psychological factors. The total population of city is male 86,757 female 86,065. Jimma is a commercial center for coffee production region. . It would be impossible to conceive of socio-economic developments and political integration in the absence of adequate transport, communication infrastructure and services. Transport and communications do used as a pivot for the developments of other sectors of the economy. Jimma city has surface road transport network. The total lengths of all weather roads in town until the end of 2007 E.C were 346.79 kms. with regard to the different types.

##### **3.1.2. Administrative Structure of Jimma Town**

Jimma town administration is located in the south western part of Oromia National Regional State it is 356 kms from capital city of the country. It is bordered by KersaWereda in the east; with Manna Wereda in north, and Manna & Seka Chekorsa in west, Dedo in south direction. Currently the town undertakes its administrative duties and responsibility with municipality with three sub city, and 13 town kebeles & 4 rural kebeles .

### 3.2. Research design

To achieve the aforementioned objectives, the study was employed through descriptive design in which both quantitative and qualitative data analysis were used to produce richer and more complete information.

### 3.3. Target population and sample size

The targets populations of the study was 571 MSEs which are operating in manufacturing, services, trade, construction, & agriculture sector in the town (Jimma Town MSE office report, 2015). To keep the representativeness and enhance the reliability of the findings of the sample size the researcher used Kothari (2004) formula which determines the sample size by specifying margins of error. Hence, by considering the level of acceptable error of 5%, the sample size required for this research was determined using the following formula:

If  $N \geq 10,000$ , then Sample size  $n = Z^2 * p * q / d^2$   
If  $N < 10,000$ , then sample size  $f(n) = n / (1 + n/N)$

Where,  $n$  = the desired sample size,

$Z$  = standard normal variable at 95% confidence level, which is 1.96,

$P$  = the proportion or estimated characteristics of the target population by giving equal chance for male and female household heads and also for each enterprises with respect to proportion to sample size (0.5),

$q$  = the difference of total percentage of population with estimated characteristics of target population =  $1 - p = 1 - 0.5 = 0.5$ , and

$d$  = level of statistical significance sets (5%) margin of error (0.05)

The sample size for the population greater than 10,000 would be 384:

Therefore,  $n = 384$  for  $N \geq 10,000$ . Since, the sample population is 571 this is less than 10,000. So the researcher planned to use the following formula to determine the sample size of enterprises in the selected town.

$$f(n) = n / (1 + n/N) ; \text{ where } n = 384, \text{ and } N = 571.$$

$$= 384 / (1 + 384/571.)$$

$$= 384 / (1 + 0.6725)$$

$$= 384 / 1.6725$$

$$\text{So, } f(n) = 230.$$

### 3.4. Sampling Method

The research employed Proportional stratified random sampling method. For the study, 230 MSEs were taken from the total 571 MSEs as a sample size and proportionally distributed among five sectors of the MSE. The strata's used was MSE sectors (i.e. construction, manufacturing, urban agriculture, trade activities, and services) in which the MSEs are organized. Within the selected MSE, purposive sampling method was used for the selection of one respondent that reports on behalf of the selected MSE based on the position and the duration that respondent stayed in the enterprises so as to get adequate and complete information about the MSEs. One respondent was taken from one MSE at a time for increase the involvement of the number of MSEs in the study. MSEs involved in the sample has minimum of one year experience in which they are operating.

**Table 3.1:** List of active MSE sector used in sample size determination

No	Name	Number of MSEs	Sample Size
1	Agriculture	54	22
2	Industry	47	19
3	Construction	147	59
4	Trade	184	74
5	Service	139	56
	Total	571	230

Source: Jimma Town MSE office, 2015

### 3.5 Sources of Data

The type of information the researcher used both primary and secondary sources of data. Primary data is the data at which the researcher collects for a specific purpose of investigating the research problem at hand (Dr.sue Greener. (2008). Whereas secondary data is a data one that have not been collected for the immediate study at hand but for purposes other than the problem at hand. The primary data collected from micro and small enterprise operators and offices employees and the Secondary data gathered from the published and unpublished materials.



Primary data was collected from MSEs owners/manger and managers of Jimma MSE office, TVET office and OCSCO using questionnaire and interview.

### 3.6. Methods of Data Collection

Secondary data was collected through reviewing important literatures and Oromia Regional Government MSEs Development Package manuals, FeMSEDA manuals of different years, depending on the topic. Beside secondary sources of data, the researcher used primary sources of data. Questionnaire and interview are the tools through which the data were collected from participants. Questionnaires were used mostly with close-ended and open-ended as the main instruments in assessing constraining factors. In this study mostly the questionnaires were used because of its convenient to reach wide participants and appropriate to get relatively uniform data regarding the research problem and with the given resources. Also concerning the design of the study where the sources are varied and widely scattered, it was selected as major instrument for data gathering. Data collections through questionnaires were selected due to there are different strata's in the population and to identify different confronting situations influencing the enterprises' operation of these strata. The questionnaires include different variables expected to identify the challenges. The questionnaire were prepared in Likert scale format and selected due to it enables respondents to understand and answer the questions easily.

The other data collection method is interview in which key informants were selected purposively and interviewed to provide insights to the problem of MSEs from each sectors especially MSEs office, TVET office and Oromia Saving and Credit Share Company were interviewed.

### 3.7 Model Specification

The severity and specificity of growth determining independent variables over dependent variable in the study area are explained using the following regression model or equation.

$$\text{Growth MSE} = \beta_0 + \beta_1 \text{sfinan} + \beta_2 \text{educa} - \beta_3 \text{mskil} - \beta_4 \text{govspo} + \beta_5 \text{salvol}$$

**Where;**

**Growth** is a dependent variable in terms of profitability of MSE business and the independent variables in the regression analysis are:

**sfinan** is the source of finance for the business of MSE;

**educa** is an educational achievement of the respondent from the selected MSEs;

*mskill* is the managerial skill of the respondent of the MSEs possess;

*mrkskill* is the marketing skill that the respondent of the MSEs posses;

*salvol* is sales volume of MSEs

*govspo* is government support to MSEs

$\beta_0$  is the intercept,  $\beta$  's are vector of coefficient

### **3.8. Method of data analysis**

Before analysis of the data collected from primary sources (especially through closed –ended questionnaires), they were checked for accuracy, utility and completeness, compatibility with the purpose of the study and the interviews & open-ended questionnaire responses were also organized in away to complement/supporting the quantitative analyzes after they were arranged depending on the intended objective and responses accepted.

For the purpose of reducing chance of confusion of questionnaires and ensuring those for validity and correctness some pilot tests were taken by distributing the questionnaires and some irrelevant and redundant questions were reduced before actual distribution of the questionnaires.

The data gathered through closed- ended questionnaires were analyzed and presented using descriptive statistics, through figures, graphs, tables and percentages. And the data collected through open-ended questionnaires and interview also analyzed qualitatively by supporting the quantitative analysis.

### **3.9. Reliability and validity of the instrument**

Bless & Higson-Smith (1995) highlight that reliability is “concerned with the consistency of measures”, thus, the level of an instrument’s reliability is dependent on its ability to produce the same score when used repeatedly. For the reliability of the questionnaire experienced academics were used to review the questions and categories listed in the original questionnaire and interview. The reliability of a standardized test is usually expressed as a correlation coefficient, which measures the strength of association between variables. Such coefficients vary between - 1.00 and +1.00 with the former showing that there is a perfect negative reliability and the latter shows that there is perfect positive reliability (Admasu Abera. 2012). Validity on the other hand refers to whether an instrument actually measures what it supposed to measure, given the context in which it is Applied (Bless & Higson-Smith. 1995) while, the instruments were developed based on research questions and objectives; it is possible to collect necessary data from respondents. Then, instruments are consistent with the objectives of the study. Validity defined

as the accuracy and meaningfulness of the inferences which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represents the phenomena under the study (Admasu Abera. 2012).

A pilot study conducted to refine the methodology and test instrument such as a questionnaire before administering the final phase. The Questionnaires tested on potential respondents to make the data collecting instruments objective, relevant, suitable to the problem and reliable as recommended by John Adams et al. (2007. cited in Admasu Abera. 2012). Besides, the advisor had taken proper correction to ensure validity of the instruments. Moreover, to have valid conclusion, logistic regression model used to test the relationship between the variables.

## CHAPTER FOUR

### RESULT AND DISCUSSION

This chapter deals with presentations, discussions and interpretations of the data collected through questionnaire and interview. The main objective of the study is assessing the factors affecting the growth of Micro and Small Enterprises (MSEs) in Jimma. Questionnaires and interviews were the tools selected and used throughout the analysis of the data using SPSS. There were 230 MSEs covered in this analysis; these enterprises are engaged in different developmental oriented sectors which include Manufacturing, construction, Trade Service and Agriculture, Out of 230 questionnaires circulated 217 sample MSEs or 95% were returned and filled appropriately. In addition to questionnaires, interviews were conducted with some selected MSE office managers, Oromia credit and saving share company managers (OCSSC), Technical and vocational education office managers in Jimma town.

The data collected from 217 MSE operators operating in the five sub-cities of Jimma town administration was presented, analyzed, and interpreted. The data was analyzed using descriptive statistics with figures and tables using frequency, percentage, mean and standard deviation. All expected factors for the activity of business were asked negatively (lack of these factors are exist in the business) using likert scale through which respondent shown their level of agreement. The identified factors were expected that their limitation can affect the normal operation of small business and growth. Factors with high mean values in the tables indicate foremost obstacles facing MSEs and also its effect too.

Generally, this chapter discusses how the MSEs in the study area emerged; followed by examination of MSE policy framework and involvement of supportive agencies; the demographic, business and financial characteristics of the sample respondents, internal and external factors and other critical factors that constraining the growth of MSEs in Jimma. Finally, the result of binary logistic regression analysis that was used to identify the severity of the constraint factors in growth of MSE was presented.

#### **4.1 How MSEs in the study area emerged & progressed**

In many developing countries, including Ethiopia, the MSE development programs are viewed as a key policy strategy to embrace the MSE sector (Belay, 2012). The major objectives of the establishment of MSE development agency is to encourage, coordinate and assist institution that

provide support to the development of MSEs in the country at large. In order to achieve this objective, it focuses on providing supportive services such as provision of training for trainer's, prototype development and dissemination, information and consultancy services, facilitation of marketing and technological database to stakeholders which in turn provide similar activities to the targeted MSEs (FeMSEDA, 2011)

Accordingly, Jimma town MSE development office has got a legal jurisdiction of organizing, providing license, facilitation of startup capital for MSEs, consolidating data of unemployment in the town, monitoring and evaluation of ongoing activities of organized MSEs, awareness creation and provision of training for MSE. In line with this, JimmaMSE development office has been organized 1023 MSEs with total number of 6575 members. Out of these 1,023 MSEs, only 571 (55.6 percent) MSEs were started operation with total numbers of 2925 members during the period. This implies that not all of the MSEs which are organized and get licensed are engaged in operational activities.

**Table 4.1:** how MSEs emerged in the study area

No	Year E.C	Organized MSE				MSE started Operation in the same year				
		No MSE	Male	Female	Total	No MSE	Male	Female	Total	%
1	2003	67	149	85	234	46	110	55	165	68
2	2004	101	231	143	374	73	192	105	297	72
3	2005	301	580	272	852	225	440	220	660	74
4	2006	432	809	596	1405	330	711	462	1173	92
5	2007	745	1450	910	2360	571	915	640	1555	76
	Total	<b>1646</b>	<b>3219</b>	<b>2006</b>	<b>5225</b>	<b>1245</b>	<b>2368</b>	<b>1482</b>	<b>3850</b>	<b>75</b>

Source: Annual report of Jimma MSE office from 2003—2007

When we see how the MSEs in the study area emerged from the above, it is found that the number of MSE that were organized and involved in operational activities is increasing from time to time. It also shows that the numbers of MSEs organized were increasing from 67 of 2003 to 745 of 2007 E.C.

The result of this study would probably due to massive social mobilization (awareness creation) conducted on the unique contribution and importance of MSEs in the development of the economy in the country in general and Jimma town administration in particular. This reveals that

the MSE sector plays pivotal roles in bringing about economic transition through creating opportunities in using existing human and natural resources. Particularly, the sector has played crucial role in a quick remedy for the decreasing unemployment problems in the country in general and Jimma town in particular.

## **4.2 MSE policy & involvement of MSE support agencies**

An analyses of enabling environments for enterprise development could be done at micro-level (individual, house hold and enterprise); small-level (support providing institutions and networks); and macro-level (national level) (Belay, 2012). The significance of the enabling environment, especially in terms of the macro-economic context in which MSEs operate is critical for the expansion of productive enterprises.

A legal and regulatory framework that creates conducive environment is crucial for the promotion, growth and development of MSEs in general and entrepreneurs in particular. For instance, after the reform period in 1991, several policies and regulations are promulgated. These frame works relates to the: adoption of market economy; decentralization of power and the formulation of regional states; privatization program ; issuance of proclamation No. 40/96, which regulates the business of microfinance in the country; the issuance of proclamation No. 33/98 to provide for the establishment of the federal MSE development agency; issuance of the national MSE development strategy in 2004 and amendments made in 2011; issuance of proclamation No. 139/2011 article 54/1 to provide support for MSEs development at regional level, and MSE development and promotion regulation of 004/2011 are some of the policy reforms done to create enabling environment for the promotion and development of MSEs in Ethiopia.

The rationale for supporting MSEs as part of public policy intervention is that small enterprises development need is an integral element of overall economic and industrial development. Small enterprises can only prosper within healthy and conducive overall policy framework. This includes an encouragement of entrepreneurship through facilitating the startup of business ventures, transparent and simple regulatory regimes, subsidized loan programs, free consulting services, special procurement policies, market reservation schemes and policies that focus on removing constraints to MSE development were special privileges to be done for MSE (MTI, 2012). In other words, a favorable operating environment for MSEs needs to be ensured.

Accordingly, in 2011 MSE development council is established at federal, regional and town administration level that encompasses nine ministers that is chaired by ministry of urban

development and construction (FeMSEDA, 2011). But, Oromia national regional state has increased the number of support institution at the town level from 9 to 15 by regulation No. 139/2011 of MSE development support regulation. Although, it seems an improvement in increasing the number of members to the MSE council, it is difficult to get and manage these sectors at spot to solve the immediate problems of the MSEs. Moreover, there are some sectors missed form the MSE council and some sectors included whose responsibilities and contributions are not visible for MSE promotion and developments in the town in the number of MSE council at the town administration level.

### **4.3. Demographic characteristics of respondents**

The first part of the questionnaire was designed to gather information about MSE operator's characteristics. Like other country, in Ethiopia both females and males are operating in MSEs at different positions as owners, managers or employees. However the percentage of their involvement in such enterprises is not equal. According to Federal MSEs Development Package, there is difference between males and females participation in MSEs.

Depending on table 4.2, 53.9 percent of total sample are males and the rest 46.1 percent are females. This percentage is relatively consistent with the MSEs business environment in Ethiopia in which 34 percent and 66 percent of Ethiopian MSEs beneficiaries are female and male respectively as current Federal MSEs Development Package.

Different individuals with different age groups can join similar work environment. However, in some activities individuals can have or not equal chance to participate because of their age. Concerning this idea, MSEs are not much far from this truth in which different age group individuals (children's from shoeshine) to higher enterprises can involve in working either individually or cooperatively for the objective of getting bread to survive and to be millionaires instead of sitting and waiting hand others.

As it is presented in table 4.2, the researcher divided respondents' age into four age groups ranging 15-40 years. Accordingly, 107 or 49.3% of the respondents fall between 21-25 years old, whereas, 40.1 percent of respondents' age is between 26-30 years. And 6% or 13 respondents are found between 31 and 35 years old. Whereas, 7 or 3.2 percent are between 15-20 and only 2 or 0.9 percent of them have above 36 years age. This shows the majority of respondents are

between ages of 20 and 30 years in which they are active work force ready to act where there is comfortable situation is prepared for them because of they are in adult age and have many responsibilities in the future. Also they are the age group expected to imitate and flexible according to the environment.

**Table 4.2:** Demographic characteristics of the respondents

<b>Characteristic</b>	<b>Variable</b>	<b>Number (%age)</b>
Sex of the respondent	Male	117 (53.9)
	Female	100 (46.1)
Age of the respondent	15 to 20 years	7 (3.2)
	21-25 years	107 (49.3)
	26-30 years	87 (40.1)
	31-35 years	13 (6.0)
	Above 36-years	2 (.9)
Educational status of the respondents	Below high school	10 (4.6)
	High school complete	18 (8.3)
	TVET graduate	71 (32.7)
	College diploma	74 (34.1)
	First degree	44 (20.3)
Year of experience of respondents	>2	23 (10.6)
	2-4	86 (39.6)
	5-7	98 (45.2)
	8-10	10 (4.6)
	Total	217

Source: Researcher's own Survey, 2016



In Ethiopia, during past times it was believed that individuals working with MSEs are poor and have no chance for education because of their family background. In most cases individuals who migrated from rural to urban area are without educational background and forced to work under the control of many owners to work blamed activities for owners' children.

As table 4.2 indicates regarding to educational qualification, 4.3(10) percent of the respondents' education is elementary, 8.3(18) of them are high school level, 32.7(71) have TVET certificate, 34.1(74) percent had graduated in diploma, 20.3(44) percent are first degree holders. This figure indicates most participants are relatively educated individuals reached TVET certificate and diploma. Mostly, in Ethiopia participants of MSEs are individuals those who do not have job before joining the business and as this figure indicates the level of education of most participants are above high school which implies students taking the National Examination of grade 10 and lost chance to join preparatory school are forced to seek the job. These groups do not have (have limited) business course back grounds since Educational Curriculum Policy of Ethiopia starts business courses in preparatory. Even though educational qualification didn't aimed to be assesses in the study, it implies lack of business knowledge have impact on owners business.

As sex, age and educational qualification of individuals are different; individuals also differ in their work experience durations. Respondents were asked to indicate the experience year they have in business activities and the data collected shows on the following

As table 4.2 indicates, most of the respondents surveyed (23 participants or 10.6 percent) have less than 2 years of experience, 86(39.6 percent) of them have 2-4, 98(45.2 percent) have 5-7 and 10(4.6) have more than 8 years of experience in the enterprises. Even though individuals can learn more from their experience that can help them to predict and flexible according the opportunities in the environment, can learn more from the colleagues in planning and in creating relationship with society/customers consuming their products, most respondents of MSEs have 2-7 years in which their experience of year has impact on their business where many studies indicates there is relation sip between experience and business performance.

#### 4.4. Major Source of Initial Capital of MSEs during Start-up

Finance is one of the critical requirements for start-up, survival and growth of business firms even though different firms most of the times fail to distinguish between long and short term financing needs and to find appropriate sources. Thus, as individuals cannot join businesses with empty mind, they also need have some sources of finance that helps them to start the business. The sources of this finance can differ from one another depending on different factors. From the major possible financial sources of start-up of businesses in Ethiopia, informal sources were the highest in the past for different individuals operating as private. Also currently micro finances are one of the major sources of finance for individuals working in cooperative. Table 4.3 shows the major source of initial capital of these enterprises.

**Table 4.3:** start-up capital of respondents

From where you get initial start up capital				
	Frequency	Percent	Valid Percent	Cumulative Percent
saving	71	32.7	32.7	32.7
friends and family	105	48.4	48.4	81.1
Micro finance	35	16.1	16.1	97.2
NGO	5	2.3	2.3	99.5
bank	1	.5	.5	100.0
Total	217	100.0	100.0	

Source: Researcher's own Survey, 2016

Respondents were asked to identify their foremost source of initial capital during the establishment of the business and concerning this, as shown on Figure 4.5, the main source of initial capital for 105(48.4 percent) MSEs' to start their business is family and friends. For others the key source of finance to start their businesses is personal saving for 71(32.1 percent), micro finance was others source for 35(16.1 percent) respondents. An informal institution such as NGO was another source of initial capital for 5(2.3 percent) individuals and Bank was insignificantly access for 1(0.5 percent) individual.

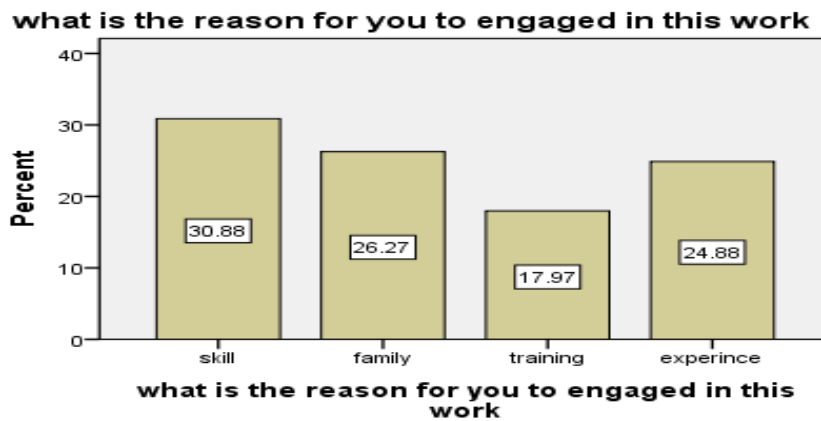
This implies the main source of finance for MSEs in Jimma is family and personal saving. Previous studies by (Etsegenet, 2000; Tegegne & Mulat, 2005; Mulu, 2007) show that informal financial source, especially family, personal saving and loan/assistances from relatives or friends,

are a major source of initial capital for about 75% of their sampled MSE operators. Also this study supports that many of MSEs' chief source of initial capital is family and personal saving and followed by borrowing from financial institution for those can fulfill the requirements.

#### 4.8. Main source of participants' skill

Skills are invaluable and ingredients helping the businesses to win the game of competition through smoothly working to achieve their objectives to be mutually benefited with customers. Individuals can get these skills from different environment either through formal education or informally from the society in which they are dwelling and working with

**Figure 4.1:** motivation or skill of participants



Source: Researcher's own Survey, 2016

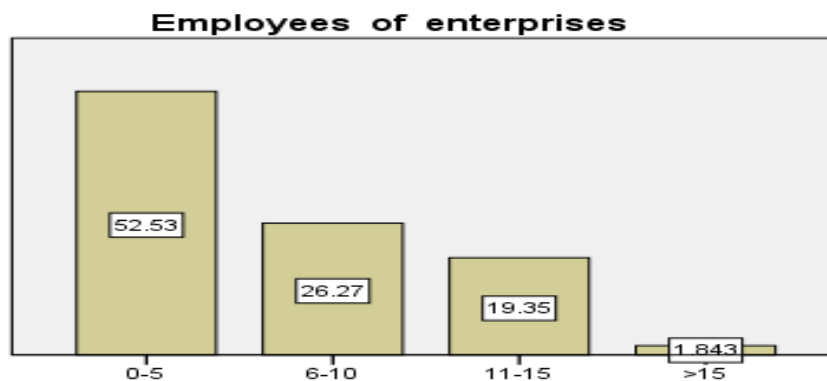
Figure 4.1, indicates self skill is the major source of skill for most participants demonstrating 30.9 percent of other sources. Society's approach to education of young people in terms of taught values, self employment skills, attitudes and forms of learning is a crucial factor for entrepreneurial activity. Skill from family and experience precisely to match market needs. Consistent with this objective, the participants reflected that the training they have attended has positive impact on their business. Particularly those who attended the TVET program have also mentioned the training that they have received was very important for their business. When asked about the specific subjects that helped them to run the business, entrepreneurship, business management and book keeping were mentioned by the majority of the participants in all sessions. Technical skills, business management and book keeping trainings which are very important for MSE entrepreneurs were given for most of those in the cooperative business as part

of MSE promotion program. But they indicated that it was only an introductory training and focuses on theories that can't be applied to practical jobs.

#### 4.9. Employees number in the enterprises

Employee fluctuation is one of the indicators of the growth in which many researchers used in MSEs. Because, most of the time, MSEs do not have accurate records which show their growth like net profit, market share, productivity, sales turn over etc. However, they can easily tell the fluctuation of employees in their enterprises. But it does not mean that employees fluctuation is always the most appropriate indicator of growth because the growth of MSE is a dynamic phenomena and a full of heterogeneous.

Figure 4.2: number of employees



Source: Researcher's own Survey, 2016

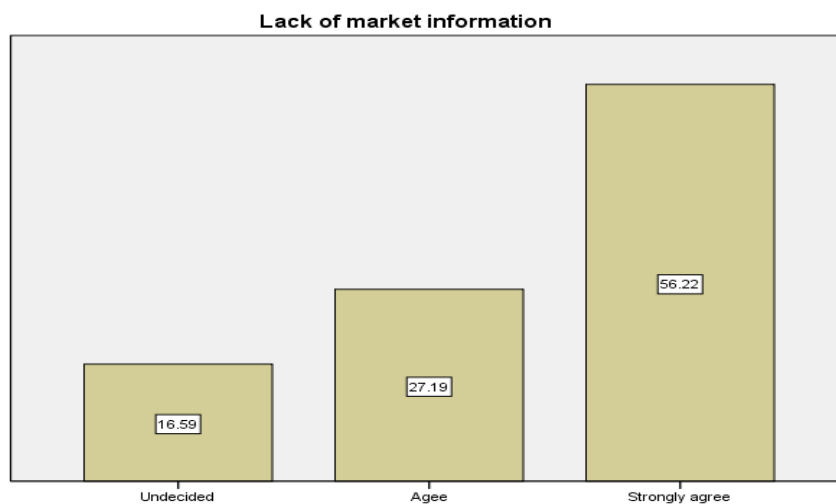
Figure 4.2 indicates the selected samples in which 51.6 percent of participants responded as employees are constant in number and but 44.7 of them replied there is decrease in number of employee in their business. Only 3.7 of them responded the employee's number is increase. This indicates most MSEs growth concerning employees is constant and decrease. Since employment creation is one of the major roles of MSEs and increase of number of employee is one of the indicators of growth, this figure indicates as many MSEs standing at opposite side of this. When the number of employees increases it may be due to the increase of work/ expansion of the business, increase of customers and these employees need salary which shows as firms have ability to compensate them financially that indirectly shows increase size of the firm. This implies most of MSEs are not showing growth.

#### 4.10. Lack of marketing related information

To understand what is happening inside and outside the enterprise, it needs reliable marketing information that helps the enterprise to closely monitor and act according to its environment. Marketing activities are one of the most accredited and imperative factors affecting small business achievement. Availability of marketing related information on the environment and internal realities of MSEs help them to effectively tapping of market opportunities and defense against emerging markets. The firm also can adjust its products and service to the needs and tastes of customers through marketing information. The quality of marketing decisions is decided to a great extent by the quality of market information available to decision makers. Even though it is not simple to provide all aspects of the market information on regular prices, on supply and demand, on buyers requirement, etc can be provided to MSEs if the system is established. When such a system is established, not only regular information but information on future could also be supplied to MSEs (Kaibori, S., 2001; Assegedech Woldelul, 2004; Stevenson and Annette St-Onge, 2005).

Figure 4.3 shows respondents response on lack of market related information since in most cases, MSEs have limited means in obtaining effective and relevant data as well as information on market availability that can be obtained (Okpara, 2011) from different commercial related associations or institutions

**Figure 4.3:** marketing information



Source: Researcher's own Survey, 2016

Depending on Figure 4.7, participants provided their responses in different level of agreements focusing on lack of market related information in their businesses. Accordingly, most of them strongly agree as there is lack information in their enterprises by representing 56.2 percent of the sample and on the same way 27.2 participants agree as there is lack of market information in the business. In contrast, 16.6 percent of respondents response show as their response is undecided.

From the response of the respondents it can be possible to conclude that most MSEs have problems concerning marketing information. In addition to this, the data from interview also support the response of most MSEs responded. As the researcher has informed most sources of marketing information for MSEs are from Chambers of Commerce, MSE Development Agencies, associations as well as Trade, Industry and Tourism Bureau but MSEs do not have integration with them.

Even though marketing activities are one of the most recognized and important factors affecting small business success, it is one of the major problems of all MSEs because most of them have very limited knowledge of the marketing concepts and skills (Thiam, 2007).

Lack of market related knowledge and information is a serious problem that most of MSEs face. For the reason that they have lack of information where the best market areas are located, inability to analyze their respective market, lack of skills to set competitive prices, inability to effectively promote products, they face great challenges. Because, it is not the simple activity to have customer relationship, keeping customers' record, making follow-up on customers behaviors, improving knowledge of their characteristics, understanding the market complexity and having adequately trained staff. Consequently, they unable to meet visible growth and lack power to survive in the market (Bowen and Mureithi, 2009).

The study shows that most of them (more than 56.2 %) of the business owners agreed as MSEs have poor market related information. Many of the MSEs in the town sell their product /services to a limited local market and very few of them sold in Ethiopian regional markets. Since marketing is strategic behavior and prize for the marketing-oriented organization, it serves for survival and profitability, focusing on customer satisfaction. This can be accomplished through marketing strategy that is designed to meet the needs of customers through distributing to different areas that can help them to get opportunity of increasing market share.

The implication is that if there is lack of market information in enterprises, they fail to produce the product that is currently demanded in the market with fair price, required design and quality

to meet the need of customers. If the enterprise and outside environment cannot meet each other through effective market information, the enterprises cannot hope to stay in the market and show growth to higher ladder. From these it is possible to generalize that if there is lack of market information in the enterprises, the enterprises growth and survive can be in doubt to guarantee for future operation.

This is because marketing information is imperative for firms to know what type of products or services would be profitable to introduce in the market and with respect to its existing products in the market, good market information enables a firm to know if it has been able to satisfy customer needs and whether any changes need to be made in the packaging, delivery or the product itself. This enables a company to formulate a viable marketing plan or measure the success of its existing plan. Lack of sufficient market information poses a great challenge to small enterprises since there is vast amount of information and only lack of knowledge to interpret and connect with one another, small enterprises entrepreneurs lacks this. The fact is that any firm can't have a successful company without having the right data about customers, products and the market in general and hence, market information is an essential management tool for a viable business plan enabling any company to survive and thrive in today's fiercely competitive market conditions.

#### **4.11. Product improvement**

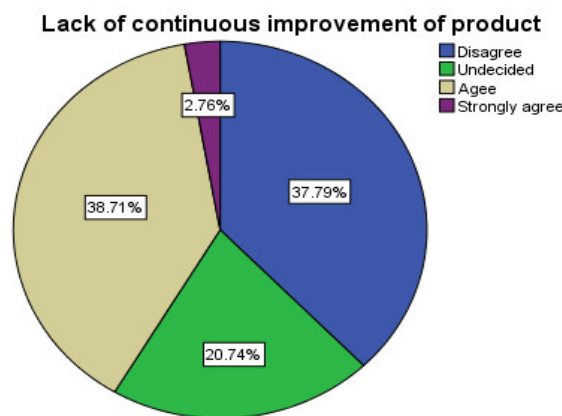
Enterprises in MSE market tend to compete for the same products and customers. The magnitude of this hindrance is higher for those concentrated in one area as they tend to apply a copycat strategy and thus produce similar products. This limits their potential growth and stability which is one of the reasons why MSEs experience a relatively high instance of down fall as findings by Ishengoma and Kappel(2008) indicates. There are many dimensions in which product improvement can be made. Sometimes ideas can come from customers when enterprises allowed themselves to listen to customer complaints. Even though continuous product improvement asks entrepreneurial skill, spending of money to use different mixes, it ensures enterprises to compete and competent in the market and initiating in product improvements helps to meet changing market needs.

Firms can improve their competitiveness through product development and improvements in production techniques or processes. However, this upgrading cannot be implemented easily at

any time when required. Instead it requires access to market information how and why it will be improved, what technology and who is required with it, how much finance is required, must get answers in advance. However, product improvements are integral to sustained competitiveness through enabling firms to meet the market’s constant demand (Hussainand and Yaqub, 2010).

Figure 4.4 shows respondents’ response with reference to enterprises limitation in improving their products. Concerning the response of respondents, 38.7 percent of them agree as they have limitation in improving their goods or service from time to time. Also 2.8 percent of respondents strongly agree as they are not improving their products and 20.7 percent of respondents’ response show undecided. But 37.8 of response was given as there is product improvement in their business respectively.

**Figure 4.4:** product improvement



(Source: Researcher’s Survey)

However, in the free market businesses are not free from competition and one want to be better than the others by improvements made to its product. Thus, in this fierce competition businesses are expected to have some competitive advantage in improving their products from time to time according to the need of customer by innovating new design on existing product to satisfy need of customers and attract more customers those who are outside of the fence. This is because most of the time MSEs are expected to be flexible in improving their products than that of large organizations.

The temptation of MSEs is strong if there are no improvements to their products. Because, successful product is more important than ever before and need to continuously improved as technology is changing rapidly and products are developed, get adopted, and are replaced by



better products at a fast pace. This makes firms to continuously offer new choices for consumers in the marketplace which is essential for them to remain competitive with companies all around them. Although small firms might be successful by offering only one product, it requires them continuous improvement and flexible as the need of customers not to lose them. One of the firms' success or failure is related with their products because it is a main reason why the business established is providing products for customers and getting benefits from it. Products must provide a significant and perceivable benefit to a sizable number of customers and one of the most common reasons a product fails is failure to match with offerings to customer needs due to absence of improvements.

Thus, the flows of customers depend on the products that can satisfy their needs according to market environment and if their loyal producers are laggard in improving products, the customers turn their face to other producer nearer to the town. In addition to this, MSEs are characterized in flexibility to match their products with environment to increase their sales and gradually make profits that represent their growth. In contrast to this, as Figure 4.9 shows, MSEs in Jimma have limitations of improving their products. Even though it requires study why they cannot improve, it can be possible to conclude that lack of improvement in products affects then firms' growth because most respondents' response depicts there is lack of product improvement in their enterprises & not improving the product cause loose of customers.

#### **4.12 .Setting clear and competitive price for products**

The strategy of setting and applying price for products in the market must be based on the study. However, under-pricing or over pricing without studying the market can be a dangerous. Since a small decrease in cost structure leads to high improvement in profit, the best tactic would be to minimize costs. With due consideration to the profit margin, temporary price reduction can be used as a strategy to increase sales or to sell products in high stock. Reduced of fair announcement encourage customer purchasing larger quantities. The pricing strategy has to regard the profit margin. In view of this fact, the volume of sales has an important meaning. Some enterprises focus on unit sales and not too on profit margin, which is risky. The price which is the most common strategic element of marketing is a valuable tool to attract customers as well as to try to sell the product. To attract customers, some enterprises offer some related schemes of reduced prices. However, this should only occur for a given period of time. Price reduction does not have to be as low as throw –away prices.

Table 4.4 depicts, 9.7 percent of respondents responded that they strongly agree with lack of setting clear and competitive price for their products in their enterprises. In the same way, 66.4 percent of them also agree as they lack setting right price and 24.0 percent of respondents gave neutral response.

**Table 4.4:** setting price for products

<b>Lack of setting clear and competitive price for products</b>				
	Frequency	Percent	Valid Percent	Cumulative Percent
Undecided	52	24.0	24.0	24.0
Agee	144	66.4	66.4	90.3
Strongly agree	21	9.7	9.7	100.0
Total	217	100.0	100.0	

Source: Researcher’s own Survey, 2016

It is true that no respondents disagree with lack of setting clear and competitive prices for their products in their enterprises

This finding supports that as many studies conclude, the problem of pricing is prominent among the reasons for MSEs failure. This is because of owners lack th capacity to ascertain best prices and they tend to operate at high prices in relation to medium and large scale enterprises. This tends to away most customers to their competitors who are operating at lower costs. And on the other hand they do not consider different costs related the productions of the product like direct costs and staff salaries, time and other fixed costs like light, phone, furniture and computers those must applied to the cost of products and services. Consequently, there will be mismatch between product’s benefit and priority given to customers.

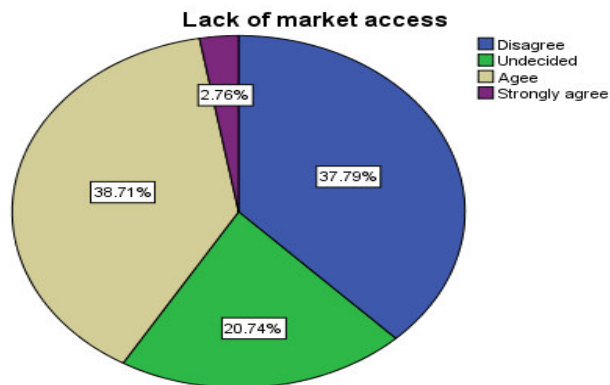
When firms lacks to select a pricing objective and to determine a pricing strategy for their actual products, they cannot fit with changes in marketing strategies, market conditions, and product life cycles. Because only setting the right price is a crucial step toward achieving the profit. When firms are far from marketing information, they lose as numerous pricing strategies are available from which to choose. Certain strategies work well with certain objectives, and differ accordingly in which careful selection of a pricing objective lead to the appropriate strategies.

From this it is possible to conclude that if enterprises are setting price without considering the costs and market condition, it can be a burden /overloaded on the product which minimize attraction of customers to purchase the product or below break-even point that makes the product disable to pay back production costs. If the price is assigned to the product more than required, it makes customers turn –back from buying the product and decreases the sales volume. If the price is below break –even point, it makes the profit negative. These two opposite directions affect the growth of the enterprises directly or indirectly.

### 4.13. Market access

Availability of market is one of the decisive factors for the sustainability of MSEs. If there is no market access, the enterprises cannot have opportunity to sell their products and disable to get the benefit from the product

**Figure 4.5:** market access



Source: Researcher’s own Survey, 2016

From Figure 4.5, it is possible to see that 38.7 percent of respondents agree with lack of market access for their products and 2.8 percent of them also have strongly agreed with the issue. On the other hand, 20.7 percent of response of respondents shows undecided. In contrast, 37.8 percent of respondents disagree and support as there is market access for their product.

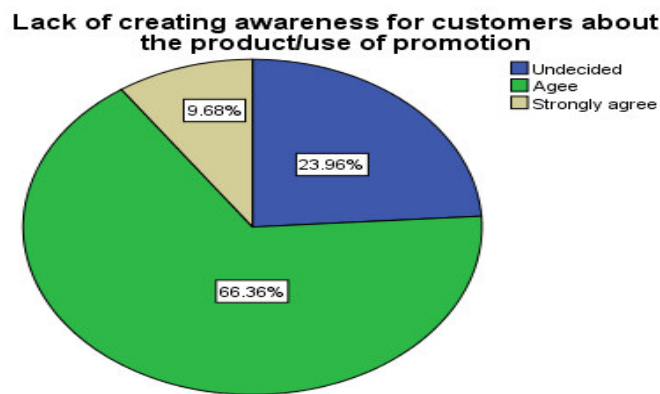
Market access adds value by making goods and services available at convenient times and locations, by creating a pleasant environment in terms of location, allowing multiple distribution size, making them more responsive to customers’ needs. Accordingly, if the customers’ demand for the product and supply of MSEs mismatched or the market cannot be easily accessible for the products, then the products of the producers sit idle tying up the capital.

This implies when there is lack of market access for the product, the movement of the produced product to the market come slow in which the possibility to get working capital for further expansion is contracted and make the business stagnant/stuck rather than actively contributing to growth.

#### 4.14. Creating awareness for the public / promotion

Businesses use different communication activities to inform, persuade and remind the target markets about their business, their products and activities. Advertising, personal selling, sales promotion through participating in exhibitions, trade fairs, and demonstration are promotional mixes that business can use. One of the important ways of expanding market for goods and service for MSEs is participating on exhibitions.

**Figure 4.6:** creating awareness for customers



(Source: Researcher’s Survey)

Figure 4.6, shows most respondents response reveal as they agree with lack of promotion for their products indicating 66.4 percent. Also the data collected through interview supports this responses and many enterprises use informal ways through which individuals around the location of their business know and informally transmit from one to another about the products of many businesses according to their relationship. These respondents response has consistency with prior studies regarding problems of promotion of MSEs especially in Ethiopia (Rahel and Paul, 2010) which concluded even though enterprises plan to promote their products; however, their budget is mostly tight.

Creating awareness/promotion of the product is decisions concerned with the enterprises combined efforts to communicate with its markets. Some enterprises understand that issuing

flyers, posters and business cards have promotional values but, they refrain from undertaking such promotional activities to use the money for other urgent matters. Other MSEs are not correctly informed on how to join their respective Chambers of Commerce, or trade association of their industry to make their product informed to the society through issuing journals, organizing promotional events, organizing trade fairs, advertising MSEs' products.

This implies most MSEs in Jimma are not using promotional mixes as required in their businesses in which they can make the public around them and other local areas have awareness about their products. Since the major objective of promotion is to attract peoples to be the customer of the enterprises, on the other hand its absence limits the advantage that can be achieved from such activity. It is not enough to have good products sold at attractive prices, generate sales and profits in addition the benefits of products have to be communicated to customers. To promotion segmentation enables marketers to communicate effectively with the target market by identifying those criteria that are most relevant for each particular segment (for example, price vs. reliability vs. prestige).

#### **4.15. Network/linkage with external**

Network with external bodies in MSEs helps to create relationships between individuals/ society such as those made up of family and friends, professionals or entrepreneurs with similar profiles or backgrounds, successful businesses, with competitors, even linkage between acquaintances in the broader community or connections across different groups who are associated with mobility and may be especially useful for MSEs trying to overcome regulatory or other obstacles. These networks provide entrepreneurs through enabling people to share resources and work together.

Accordingly, table 4.5 illustrates the respondents' response concerning their networks with external bodies or societies dwelling in the environment in which the business is operating. From the Figure, 70.51 percent of them agree as they have lack of network, 12.4 percent of them also strongly agree concerning limitation of networking with external bodies in their business. And, 17.1 percent of them on the other hand replied as undecided.

**Table 4.5: network with others businesses**

**Lack of network with successful and other businesses**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Undecided	37	17.1	17.1
	Agee	153	70.5	87.6
	Strongly agree	27	12.4	100.0
	Total	217	100.0	

Source: Researcher's own Survey, 2016

Having an extensive social network is a valuable asset, as it can help an entrepreneur obtain access to information (e.g., leads about profitable business opportunities), resources and makes them faster to grow. While social networks can enhance MSE growth in any context, they can be critical to firms' growth prospects in environments with pervasive market failures, such as inordinately low levels of information and competition. It also develops long-term relationships with suppliers through repeat purchases in which this relationships foster trust and cooperative behavior, obviating the continuous need to search for goods, determine their quality, and negotiates prices.

Integration also enhances contract enforcement where limited access to information makes it arduous for entrepreneurs to determine whether customers or suppliers will be trustworthy, and MSEs frequently lack access to formal enforcement mechanisms. These net works are often fluid in nature, providing entrepreneurs with the possibility of expanding their networks, and entrepreneurs often take advantage of opportunities to invest in social networks when there is an apparent payoff in terms of MSE growth.

When Jimma MSEs are compared with this advantage of networks and experience of businesses concerning the contribution of external relationship for growth of the firm, they are not the beneficiary of this network in which their growth cannot be assured only by their scarification.

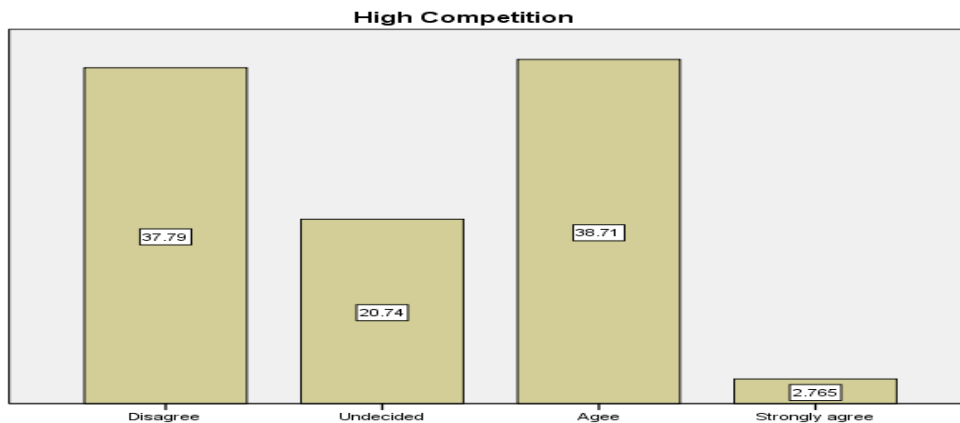
#### **4.16. Competition from MSEs, medium and large firms**

It is obvious that there is competition among operators within the MSE sectors that are engaged in the same line of business and mostly serving the similar market segments with the similar products. Sometimes, MSEs face competition challenges not only from MSEs but also relatively from medium and bigger companies which implies that larger companies in relation to MSEs have advantages due to: selling at reduced price without reducing product quality using

economies of scale, customer targeting capacity, proper and intensified product/service advertising capacity; good personal contacts and networks, sound Industry reputation, sufficient information regarding existing market and capacity to exploit more market opportunities.

Figure 4.7 indicates 38.7 percent of respondents' response shows as they were agreed as there are high competitions. Even though competition is there most of the time, most of the competition among MSEs is based on capacity to keep quality of product/service to acceptable standards or as per the needs of the customers that can be achieved through various means such as using raw material with good quality, using improved and efficient production process/technology, proper finishing, and good storage facilities - both for raw material and finished products and use of skilled labor, setting product/service price at a reasonable amount compared to that of similar suppliers without sacrificing product quality.

**Figure 4.7:** competition from medium and large firms



Source: Researcher's own Survey, 2016

Depending on the response of respondents from questionnaires and interview, even though there are many similar MSEs around each other, their existence is not as much difficult on marketing their products and also large companies are not as much affecting them.

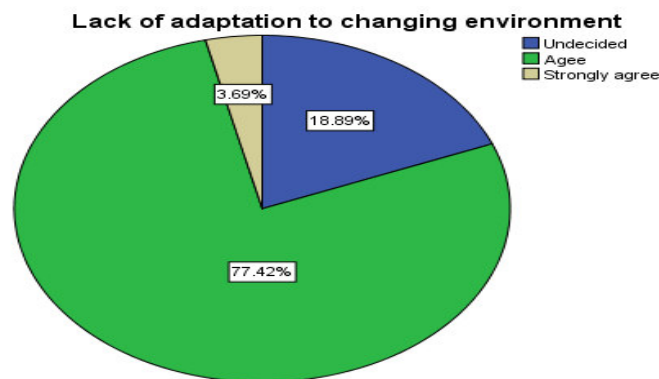
The implication of this issue shows, MSEs' operation is not affected much by competition even though the similar products are in the market from other small businesses since most of them are experiencing the same strength and limitations making them uniform rather than shining the as competitively advantaged over the other.

#### 4.17. Lack of adaptation to changing environment

The firm adjusts its products and service to the needs and tastes of customers through marketing information if needs to growth and survive in dynamic environment. Since it is impossible to get things static forever, it requires enterprises to adapt according to changes made in the environment.

As Figure 4.8 demonstrates 77.4 of respondents response indicates they have lack of environmental adaptation in their operation. But 18.9 of them are neutral and 3.7 percent of respondents agree with lack of adaptation to the environment.

**Figure 4.8:** adaptation to changing environment



Source: Researcher's own Survey, 2016

This is because marketers operate in an interconnected world and they must understand the major environmental forces that surround marketing like of the actors and forces outside marketing that affects marketing of enterprises' ability to build and maintain successful relationships with target customers. Enterprises are expected to satisfy target customers within the constraints of a continuously changing marketing environment either through becoming proactive or reactive in dealing with these indirect and direct influences of the environment on the firms. Successful firms recognize and respond to unmet needs and trends while many of them fail to see changes in the environment as an opportunity. Hence, understanding the importance of continuously monitoring and adapting to the marketing environment helps sectors to grow continuously. Successful firms are primary adapters of product, price, promotion, and distribution in the market and plan to fit the marketplace.

This implies that if firms are too slow in adapting to changing environment, the game place in which they want to play makes them out of the field to produce the product and cannot get



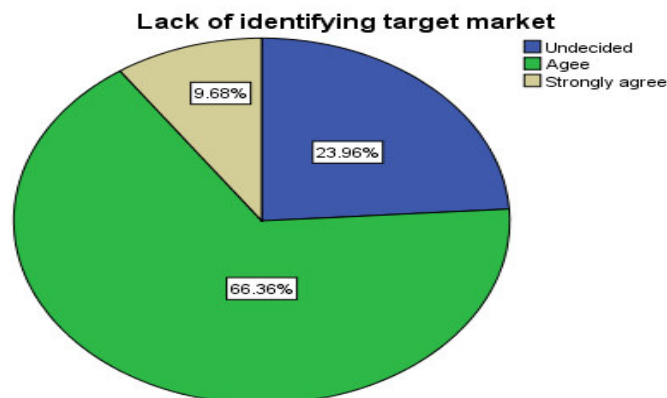
customer for their products in which the growth of their business affected. Adaptation to the environment needs businesses to actively search business information from bodies like professionals/success individuals, customers, competitors, Medias etc to confirm with market information. Since innovative firms not only identify competitive actions and offerings, they also consume competitors' products to meet and hold customers satisfied with their provision.

A key ingredient of the environment adaptation is process of insightful, creative strategies and plans that can guide marketing activities of the firm to match with customers in the environment. This requires a blend of discipline and flexibility. Marketing environments are constantly presenting new opportunities and threats, needs to understand the importance of continuously monitoring and adapting to that environment. Good adaptation to environment is no accident, but a result of careful planning and execution.

#### 4.18. Identifying target market

In large organizations the art and science of choosing target markets, getting, keeping, and growing them through creating, delivering, and communicating superior customer value holds key to achieving organizational goals (Kotler, 2008). Also organization's task is to know the customers and determine the needs, wants, and interests they have and deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and the society's well-being. Thus, understanding the target market is prior to producing the product to satisfy their needs.

**Figure 4.9:** identifying target market



Source: Researcher's own Survey, 2016

As Figure 4.9 depicts most respondents (66.4 percent) of them are responded as their response was agreed and 24.0 percent of them were undecided to lack of identifying with target market. As the data collected from interview most of them only focus on local markets and one time customers.

Even some of them use target market to compete more effectively than others in embracing target marketing and the implication of MSEs problem is not identification target market.

#### 4.19. Perception of public

A motivated person is ready to act. How the motivated person actually acts is influenced by his or her view of the situation by which an individual selects, organizes, and interprets information to create a meaningful picture of the world. In marketing, perceptions are more important than the reality, as it is perceptions that will affect consumers' actual behavior. People can emerge with different perceptions of the same object because of perceptual processes. So the decision that individuals take towards things mostly depend on their perception. In the past the perception of individuals was not good towards MSEs products especially they view their products lacks the needed quality compared with medium or large organizations.

**Table 4.6:** Perception of Public

Negative perception of public				
	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	82	37.8	37.8	37.8
Undecided	45	20.7	20.7	58.5
Valid Agree	84	38.7	38.7	97.2
Strongly agree	6	2.8	2.8	100.0
Total	217	100.0	100.0	

Source: Researcher's own Survey, 2016

#### 4.20. Mean and standard deviation of marketing constraints

As Table 4.6 demonstrates, there are many marketing constraints affecting the micro and small enterprises in which variables are related with growth of the firm were described above using percentages. However, not only the variables relation with growth but also they are interdependent and very often relate to each other. Even though most enterprises have different limitations concerning marketing activities, their mean value indicates as they have differences

in existing and affecting the growth of the firm. Accordingly, the researcher divided the variables effect as low, moderate and high by using the group mean as a bench mark in which each means compared and decided. The variables having lesser mean value than group mean was taken as low effect on business growth, variables having mean value approximate to group mean are moderate needed more support to be taken as having effect from interview and empirical studies and variables with high mean value were the foremost factors affecting the growth of the businesses.

**Table 4.7** Descriptive Statistics of Marketing Constraints

S/N	Variables	N	Mean	Standard deviation
1	Lack of market information	230	3.40	0.757
2	Lack of continuous improvement	230	2.06	0.936
3	Lack of setting clear and competitive pricing strategy	230	2.86	0.563
4	Lack of market access	230	2.06	0.936
5	Lack of creating awareness towards the product	230	2.86	0.563
6	Lack of network	230	2.95	0.542
7	High competition	230	2.06	0.936
8	Lack of quick adaptation to changing environment	230	2.85	0.451
9	Lack of identifying target market	230	2.86	0.563
10	Negative perception of customers	230	2.06	0.936
Group mean 2.602				

Source: Researcher's own Survey, 2016

As mentioned above constraining factors of the growth of the firm were taken using the group mean value as stepping stone and marketing constraint which its mean value is lower than the group mean value was categorized as low effect on the growth, and which its mean value is equal or greater but not far from group mean are categorized moderate. The marketing constraints having mean value of greater than group mean were taken as the major marketing constraints affecting the MSEs. Generally variables with low mean value indicates low effect in constraining the firm's growth, moderate mean value was medium with effects and variables with high mean value have high effect in constraining the firms' growth.

According to the marketing constraints indicated on Table 4.2 negative perception of customers (2.06), lack of market access (2.06), lack of product improvement (2.06), and competition from MSEs, medium and large firms (2.06) are variables with low mean value compared with group mean. The moderate marketing constraint is lack of quick adaptation to changing environment

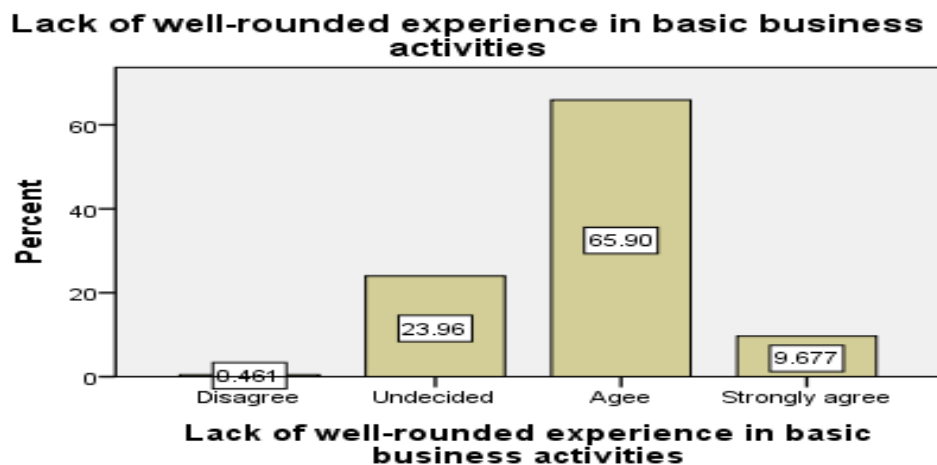
(2.85). The other marketing constraints indicating high mean value are lack of market related information(3.4), lack of network with mean value of (2.95), lack of setting clear and competitive price for products(2.86), lack of target market (2.86) and Lack of creating awareness towards the product (2.86)

In addition to network which is described as moderate mean value because it described as high having high effect from interview and empirical studies ,these marketing constraints having higher mean value than group mean are identified as the strongest in constraining the growth of the enterprises because they also supported with the data collected from interviews.

#### 4.21. Well- rounded experience in basic business activities

A partnership is likely to be operated more efficiently than a proprietorship because two or more persons share in the management and there is a good chance that a partnership will make better decisions. After all, with two or more people contributing their ideas to the solving of problems, superior solutions should be forth coming. This is particularly true if the partners are specials in different areas. For example one might be the individual who thinks up new ideas and services to provide for customers, a second might know a great deal about personal selling, and a third might be an accountant. As a result there can be a host of partners who each contribute to a particular specialized area. Thus, overall decisions are improved, which provide a greater chance of success.

**Figure 4.10:** well-round experience in basic business activities



Source: Researcher’s own Survey, 2016

Figure 4.10 shows respondents response on well-rounded skill and experience in basic business activities. As it is presented on the Figure, most of the respondents (65.9 percent of them) responded as they were agreed on the question concerning lack of well rounded experience concerning basic business activities. But 24 percent of them were neutral as they have lack of well rounded-experience in basic business activities. On the other hand 5 percent of respondents gave their response disagree to the question.

Management skills in accounting and financing, marketing, purchasing, business management are the basic required skills in business activities. Lack of occupational experience in these related business activities for many MSEs entrepreneurs has been indicated as a constraint to growth. It is shown that lack of effective management in well-rounded is a major cause of business failure in MSEs. Some owners tend to manage these businesses themselves as a measure of reducing costs and make independent decisions on the utilization of money generated from their businesses without having such experiences. This lack of management experience led to collapse of many businesses because of the lack of experience and knowledge how such type of business activities performed in effective and efficient way. Many researchers and practitioners claim that one the major cause of small business failure is “poor management in this area”. Whether the causes are labeled as financing, competition, marketing, inventory, or others, they can be safely avoided if good management is available in well-rounded experience that is capable in performing major business activities is in place. Although it has become difficult to explain what constitutes ‘poor management in well rounded-experience’, small business owners/managers need to develop basic managerial skills and knowledge. This implies most of the enterprises are dormant due to the limitations of knowledge in well –rounded in basic business activities.

#### **4.22. Efficient utilization of business resources**

Management is about using resources efficiently in order to meet the objective of the enterprises. In start-up and early years of small firm, the owner/manager will be responsible for all significant decisions regarding resources needed, their sources, the way they will be used and how they are controlled or monitored. This adds up to an almost endless combination of different responsibilities and activities. Specially, resources in management of small business have four main areas as operation, people, marketing and finance (Haily, 2007). Sometimes businesses highly invest on fixed assets means that a huge sum is unnecessarily tied up in fixed assets in

which the return from fixed assets cannot be realized in the near future. As shown on Table 4.7 most respondents replied they have agree response on inefficient utilization of resources in the enterprises and some respondents ( 6.5 percent) disagreed as there is inefficient utilization of resources in the enterprises. In addition to the data collected through interview businesses are not using their resources efficiently. Some MSEs owners take the discarded product which was produced not in quality to be reprocessed or use for other purposes

**Table 4.8: Utilization of Business Resources**  
**Inefficient utilization of business resources**

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	14	6.5	6.5	6.5
Undecided	7	3.2	3.2	9.7
Valid Agee	177	81.6	81.6	91.2
Strongly agree	19	8.8	8.8	100.0
Total	217	100.0	100.0	

Source: Researcher’s own Survey, 2016

Concerning employees working in the enterprises, many times their effectiveness and efficiently utilizing their effort and other resources depends when there is owner or manger around them, of the time it is not as much complex to know them and their out puts because of their number and friendship in the work area. On the other hand the interview show is that most of the individuals/employees and materials used are not integrated in which they are only on work at their required or assigned. If one material in the operation or person is not on work at a time the following activities this come to idle. From this it is possible to conclude that there are not efficient utilization enterprises’ resources in addition to the problem of technologies they are using.

#### **4.23. Multi-skill training to perform multiple tasks**

Many MSEs Owners/ managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex

decisions have to be made. A consequence of poor managerial ability is that MSE owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run MSEs are ordinary lot whose educational background is lacking. Hence they may not well equipped to carry out managerial routines for their enterprises

**Table 4.9** Multi- Skill Training of Employees to Perform Multiple Tasks

		Frequency	Percent	Valid Percent	Cumulative %
Valid	Disagree	1	5	5	5
	Undecided	53	24.4	24.4	24.9
	Agree	140	64.5	64.5	89.4
	Strongly Agree	23	10.6	10.6	100.0
	Total	217	100.0	100.0	

Source: Researcher’s own Survey, 2016

The above table 4.9 shows that the respondents response on multi-skill training given for employees to do multiple tasks in the business. Because managerial and human resource factors can affect performance of MSEs, respondents were asked to agree or disagree on the presence of multi-skill training in the business. Accordingly 140 respondents agree as there is no such type of training in the enterprises and 53 respondents on the other hand replied it difficult to say whether it is available or not.

As the interview shows most of the time employees working in MSEs are forced to do the duty of others because of high employee turnover in such business even though there is no prior trainings. When employees got chance to multi-skill training which can help them to participate in different activities, they can perform activities in efficient way when their duty is idle and others’ is overcrowded or idle due to absence, turnover or other problems happened. When such training is not given but employees are forced to replace others place and there will be difference in quality and amount of output that affect their business performance. Accordingly, it is possible to conclude that the employees working in MSEs mostly have no prior multi –skill trainings even though they are forced to work instead of covering others duty without full range of knowledge and confidence that bring variation on quality of an output.

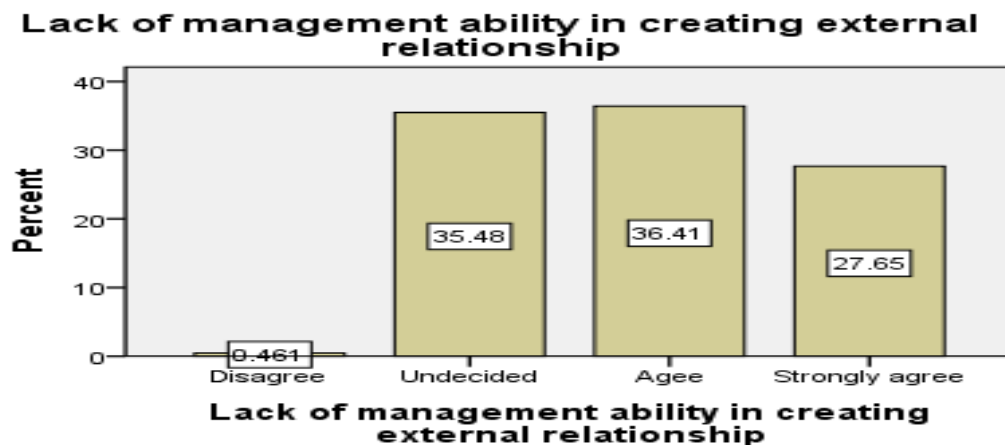
#### **4.24. Management ability in creating external relationship**

The external relationships or linkages in a value chain among firms between input or raw material supply and final market distribution are critical for getting a product from inception to the market, and for transferring learning and embedded financial and business services from one

firm to another along the chain. The efficiency of the transactions between vertical related firms in a value chain affects the entire industry's competitiveness and the horizontal linkages are needed to reduce the transaction costs of working with many small suppliers. These linkages can help enterprises to generate economies by buying in bulk or filling large orders, which can contribute to competitiveness and increase their bargaining power. Concerning managements ability in creating the linkages with external bodies the MSEs owners were asked and their responses summarized as

As figure 4.11 shows respondents response on the questions lack of management's ability in creating external relationship from the total samples most of respondents' response shows as there is lack of linkage of management with external in which the two invaluable actors are not networked with suppliers supplying the products and the buyers of their products. However, even though both of these are the main actors in the business, still they are not solely sufficient and cannot guarantee to make the enterprise to succeed.

**Figure 4.11:** management ability in creating external relationship



Source: Researcher's own Survey, 2016

According to Figure 4.11, 36.4 percent of respondents agree as there is lack of management's ability in creating external relationship /linkage, 35.5 percent responded as undecided, 5 percent of them disagree. On the other hand 27.6 percent of respondents strongly agree and none of the respondents responded strongly disagree.

Where the enterprise is working in wide social areas, it cannot smoothly operate its activities with self sufficient and requires the owner or managers to have external relationship. As it shows



in the marketing plan to know how the enterprise establish and maintain profitable customer relationships, managers are required to create and have both internal and external relationships in shaping their actions. This management external relationship must be integrated with marketing network activities in which it affects how marketing and other internal departments work with one another and collectively have linkage with external bodies to deliver value and satisfy customers in which their growth can be assured. More than this it must know how the company works with suppliers, distributors, and other partners to achieve the objectives and influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large. All these relationships are important to the enterprises' success.

As chart 4.15 shows respondents response on the questions lack of management's ability in creating external relationship from the total samples most of respondents' response shows as there is lack of linkage of management with external in which the two invaluable actors are not networked with suppliers supplying the products and the buyers of their products. However, even though both of these are the main actors in the business, still they are not solely sufficient and cannot guarantee to make the enterprise to succeed.

The implication is that, the truth is many times there are many constraints that limit the growth of MSEs, the most pressing of which is shortage of resources. MSEs individually lack the skills and resources to improve their capabilities. If fragmented rather than integrated within sectors, regions or other localities they will be disadvantage by losing supports available in network in which more effectively jointly address hindering obstacles, take up opportunities and build collective efficiency. In addition to this, inter- sectoral linkage it is crucial for their development if these is not available will be unsolved riddle making the growth of the firm to fall down.

#### **4.25. Suitable management style**

There are a number of managerial challenges that face small firms attempting to grow. The ability of initial founders to manage a larger firm than the one they have initially created is of primary importance. On the one hand, owner-managers may be unwilling to dilute their personal power and control over the organization by adding professional and non-family personnel and financial constraints in hiring and/or training qualified personnel may limit the ability of the entrepreneur to delegate responsibilities.

**Table 4.10: Suitability of Management Style**

Lack of suitable management style					
	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	2	.9	.9	1.4
	Undecided	36	16.6	16.6	18.0
	Agee	124	57.1	57.1	75.1
	Strongly agree	54	24.9	24.9	100.0
	Total	217	100.0	100.0	

Source: Researcher's own Survey, 2016

Table 4.10 Demonstrates respondents response on lack of suitable management style in the enterprises and accordingly 57.1 of them responded by saying agree and 24.9 of them strongly agree to lack of suitable management. Enterprises growth is linked to a company's ability to motivate employees to innovate and moreover, to sustain growth, firms need to constantly respond to their customers' needs in novel and precise ways. From this it is possible to say that the problem of MSEs growth is the management style available in the enterprises.

The above assessed management constraints were summarized as follows using mean value of the mentioned variables. According to table 4.4 shows, the respondents' response summarized in mean value of variables of management constraints and the group mean value is 2.9872 helps as bench mark in categorizing the variables effect in constraining the growth of the firms. For variables whose means is less than 2.9 were taken as variables having less effect , variables around 2.9 or approximate to the group mean value was take as moderate in affecting the growth and those variables whose mean value is greater than the group mean value affect the growth of the firm at higher level.

**Table 4.11: Descriptive Statistics of Management Constraints**

S/N	Variables	N	Mean	St.deviation
1	Lack of well rounded experience	230	2.85	0.577
2	Inefficient utilization of business resources	230	2.93	0.612
3	Lack of multi- skill training to perform multiple tasks	230	2.85	0.609

4	Lack of management ability in creating external relationship	230	2.91	0.803
5	Lack of suitable management style	230	3.05	0.702
	Group Mean 2.918			

Source: Researcher's own Survey, 2016

Accordingly lack of well rounded experience (2.85), Lack of multi- skill training to perform multiple tasks (2.85) has low mean value than group mean and also their effects are considered as low. On the other hand, inefficient utilization of business resources (2.93), lack of management ability in creating external relationship (2.91) moderate mean value and there is with higher power in influencing the growth like lack of suitable management style (3.05).

#### **4.26. Knowledge to Prepare Convincing Business Plan to Get Loan**

It is critical for businesses to have comprehensive business plan encompassing full range of planned activities and detailed expectation for an established enterprise relating to operation, marketing, financial and managerial considerations. This plan launches an entire business's expansion requirements tend to write formal business plans to get external funding. Many small businesses fail because of fundamental shortcomings in their business planning. It needs to be realistic and based on accurate, current information and an educated projection for the future required in its power of convincing by vision, goals, and keys to success, work force needs, potential problems and solutions, financial, capital equipment and supply list, balance sheet, income statement and cash flow analysis, sales and expense forecast, analysis of competition, marketing, promotional activities, budgeting and managing company growth going to be used (Hailay,2007; Assefa,2010) . In addition, most bankers and financial institutions request a business plan if individuals are seeking to secure addition capital for their company.

As table 4.11 illustrates most of the respondents agree (68.2%) as they have lack of knowledge in preparing and providing convincing business plan when they need external loan from financial institutions. According to the data collected through interview, many of the MSEs haven't such deep information and knowledge to prepare this business plan as requirements in getting loan. Some of them bring the idea to MSEs office to prepare them though they cannot get the required service within required time from the bureau. Also as an interview with OCSCO of Jimma branch, the extension agents, in collaboration with Oromia Credit and Saving S.C (OCSCO)

prepare a business plan for MSEs on identified business opportunities by an interest group. Then a credit request by an interest group is submitted to OCSCO with a group collateral modality.

**Table 4.12:** knowledge to prepare convincing business plan

Lack of providing convincing business plan to get loan				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Undecided	51	23.5	23.5
	Agee	148	68.2	91.7
	Strongly agree	18	8.3	100.0
	Total	217	100.0	100.0

Source: Researcher's own Survey, 2016

Relevant government offices especially town administrator offices act as a collateral guarantees. The challenge is when bringing all these individuals together, it consumes more time which is not expected for this work and gradually the MSEs asking for such support become hopeless as a result of its insignificantly consuming time. Some of them who went to external bodies to help them to prepare this business plan are asked high payments.

One can also add low capacity to develop sound business plan documents as the other barrier to loan finance and it is possible to conclude that MSEs in Jimma have problem of providing convincing business plan and as a result they cannot get the required loan with in right working time and if the loan couldn't be accessed with in required time it pauses the growth of the firm.

#### **4.27. Working capital**

Even though MSEs tend to seek credit more actively, it does appear that small firms are affected more severely by capital constraints. For various reasons ranging from lack of collateral, MSEs tend to face greater financial constraints than do larger firms. From the perspective of MSE owners, insufficient credit is frequently the most obvious and pressing challenge hindering firm growth. MSEs receive formal loans relatively infrequently, and must therefore rely on other types of credit (Carpenter and Petersen, 2002).

Even after the start-up hurdle is overcome, a lack of credit frequently hinders growth during MSEs' earlier years, because younger firms tend find financing even more difficult than older firms (Andy Redfern and Paul Snedker, 2002). Over the life of the firm, growth can also be hindered by credit constraints that curb investment to maintain or improve technology. Financing

was ranked as one of the firms' top three challenges by (Andy Redfern and Paul Snedker, 2002). Thus, Entrepreneurs' own perceptions may not always correspond to actual growth trends. Interestingly, lack of access to capital appears to be widely accepted as a growth constraint, yet few empirical studies explicitly test the link between access to finance and firm growth or success rates.

As table 4.13 shows one of the most problem of MSEs is related with lack of working capital. It is one of the most highly required resources for expansion purpose. When 38.7 percent of respondents are agree and 2.8 percent strongly agree with lack of getting working capital. In addition, data from the interview shows there is restricted credit facility from government budget and a single Micro Financing Institution 'OCSCO' provides the loan for individuals for expansion purpose when fulfilling the criteria required by the institution. According to the response from the institution, the institution by its self has limited capacity to give loan to individuals the required amount.

**Table 4.13:** working capital

<b>Lack of sufficient working capital</b>				
	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	82	37.8	37.8	37.8
Undecided	45	20.7	20.7	58.5
Agee	84	38.7	38.7	97.2
Strongly agree	6	2.8	2.8	100.0
Total	217	100.0	100.0	

Source: Researcher's own Survey, 2016

When most of the newly opened businesses have no much saving that helps them to expand their businesses and on the other hand the OCSCO ask them collateral by limiting the opportunity of access to credit, they face a challenging journey in their business expansion and restrict their growth. This shows, absence of micro-finance institutions that enable them to access finance is the major obstacle for expansion of their business. In spite of the presence of many MSE agencies focused on expansion and survival, collateral that they are asked inhibits them to get credit. As a result of these and inability of small entrepreneurs to secure collateral requirements, the financial institutions became reluctant to provide them loans even though financing is one of

the crucial elements that determine the development of Micro and Small Enterprises (MSEs) and necessary to help them set up and expand their operations, develop new products, and invest in new staff or production facilities. On the other hand, financial institutions focus their attention on evaluating income streams flowing from an investment project that MSEs will have and value the availability of collateral in the event of financial distress but this creates a problem for small firms in that they often do not have significant fixed assets to secure in their early years of establishment.

In this regard, low capabilities to meet conditions of the banks, particularly loan guarantee or collateral were cited as the main barrier to borrow from banks and financial institutions as interview data used for the purpose of this study. Almost all of them cannot supply the required collateral to borrow from the banks and this low ability to provide loan guarantee or collateral was the major factor that inhibited them from seeking bank finance to expand their business or to start new businesses.

The other implication is associated with the risk aversion attitudes of financial institutions as Habtamu and Abrham (2008). The situation reduces the responsiveness of banks to loan requests from smaller enterprises. “CBs, including the CBE, are believed to target mainly big and medium borrowers with relatively bigger investment activities and hence are not considerate when it comes to small borrowers, due to risk aversion attitude.”

The survey implication indicates that the main financial resources for start-up and expansion of MSEs came from personal savings, friends and family support which are short term finance. This situation can be a constraint for MSEs owners wishing to mobilize adequate working capital to expand their businesses. On the other hand, the loans provided by micro financial institutions are small, with a short repayment period. Generally, this resulted in limited growth and survival of MSEs.

#### **4.28. MSEs familiarity with financial information**

In discussing with marketing problems as internal factor the subject of finance should not be overlooked. Shortage of funds discourages the smooth operation and development of MSEs. Even if there are some credits facilities can be fulfilled through providing the requirement, some of the MSEs do not use the money for the intended purpose. They rather divert it for other unintended and non-productive expenditures. Consequently, the enterprises fail to return the money back to the lender on time. This can result in a loss of credibility to get repeated loans

when needed most. It is emphasized that the importance of proper record keeping is that it enables a small business to have accurate information on which to base decisions. Such as projecting sales and purchases or determining the breakeven point and making a wide range of other financial analysis. However, the persistent lack of proper records leads to the closure of many businesses.

**Table 4.14:** unfamiliarity with financial information

Characteristics	Variable	Frequency	Percent
<b>Unfamiliarity with financial Information</b>	Undecided	51	23.5
	Agee	148	68.2
	Strongly agree	18	8.3
	Total	217	100.

Source: Researcher's own Survey, 2016

Table 4.14 shows MSEs' unfamiliarity response with financial information and as it demonstrates 68.2 percent of them agree with this idea. According to the interview it is important to note that the majority of MSEs do not keep books of accounts that would facilitate the estimation of growth rates over a period of time. Loan providers use owner-managers' education levels as an indication of the latter's ability to utilize resources to generate profit and be able to meet their obligations. Thus, firms with relatively more educated owners and can provide evidences of financial information used are likely to have more access to external finance in measuring individual's experience of finance management through book keeping.

Accordingly table 4.15, 23.5 percent of them responded neutral responses and others can prepare are familiar with financial information. However, in businesses, activities should be recorded especially in financial areas to show the trend and direction in which the business is moving in its activities. Financial information are thus plays the synergetic role in providing information that are significant in showing the businesses profitability, cash flow condition and direction, what the company looks like at specified period of time, decide how much working capital are needed and available, where the sources will be found if credit is required are the major activities in the business. This information cannot be maintained if there is no accurate and appropriate record. Concerning this issue as many previous studies shown, poor recording is one of the major

factors causes MSEs to fail. Most business people failed to track of their daily transactions and cannot account for their expenses and their profits at the end of the month. In addition many of the owners violate the business entity concept mixing the property, revenue and expense of the business with their own personal property. Business funds were put to personal use and thus used in settling personal issues. This has a negative impact on profitability and sustainability. Some owners/managers employ family members simply because of kinship relations. In some cases these leads to repaid failure of business.

Thus, it is possible to conclude that the performance of MSEs is affected by lack of financial record keeping and documentations and ability to analyze financial statements, turnover and profit, and utilization of company assets. The finding is in line with Abdullah and Baker's (2000) finding that lack of awareness towards financial information is one of the major factors inhibiting the success of small firms. Many studies have also found that this limitation makes the complex in which direction the firm is moving and can clashes with objective of to be succeed.

According to Table 4.15 the mean value of unfamiliarity with financial information and lack of providing convincing business plan to get loan are the major factors related to finance in which both are equally 2.85 mean values.

**Table 4.15:** Descriptive Statistics of Financial Constraints

S/N	Variables	N	Mean	St. deviation
1	Lack of providing convincing business plan to get loan	217	2.85	0.544
2	Lack of sufficient working capital	217	2.06	0.936
3	Unfamiliarity with financial information	217	2.85	0.544
	Group Mean 2.586			

(Source: Researcher's own Survey, 2016)

When the mean value of a group is 2.7863, the mean value of lack of sufficient working capital indicates less than this group mean value and considered as relatively low in constraining the smooth operation of MSEs. But as it is indicated the mean value of unfamiliarity with financial information and knowledge concerned with business plan preparation to get loan are higher and also taken as one of the most important factors constraining the growth of micro and small



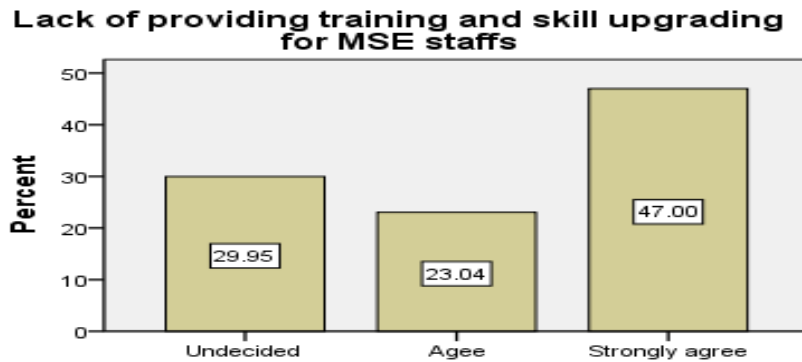
enterprises by integrating this data with interviews. In addition to other resources, financial resources are the most important resources help enterprises to get different technologies and educated effort helping as an engine to move. Improved technologies and qualified work force are not increased due to lack of this finance, this indicates the limitation /absence of finance affects the growth of enterprises.

#### **4.29. Provision of training and skill upgrading for mse by government**

The overall objectives of the Regional/ National MSEs Development Strategy of Ethiopia is to create a competent, motivated, adaptable and innovative work force in Regional State/ Federal Government contributing to poverty reduction and socio and economic development through facilitating demand-driven, high quality technical and vocational education and training, relevant to all sectors of the economy, at all levels and to all people in need of skill development. Creating and further developing a comprehensive, integrated, outcome-based work force is the critical objective of government according to (MSEs Development package of 1997). The other supporting scheme is to create coherent framework for all sectors and stakeholders in the sector through establishing and increasing the necessary capacities to ensure quality of workers and their works.

As interview with two offices, in an effort to support MSEs entrepreneurs development in Jimma, MSEs Development Office and TVET office provides training services on business management, information, book keeping marketing issues how to reduce producing and using counterfeit products. However, this business advisory service is accessible for limited number of businesses only. Although there is information, it is difficult to disseminate through different programs like (bazaars), seminars, workshops and the media did not used before and it is challenging to get them in appropriate way and time.

**Figure 4.12:** Training and skill upgrading for MSEs staffs



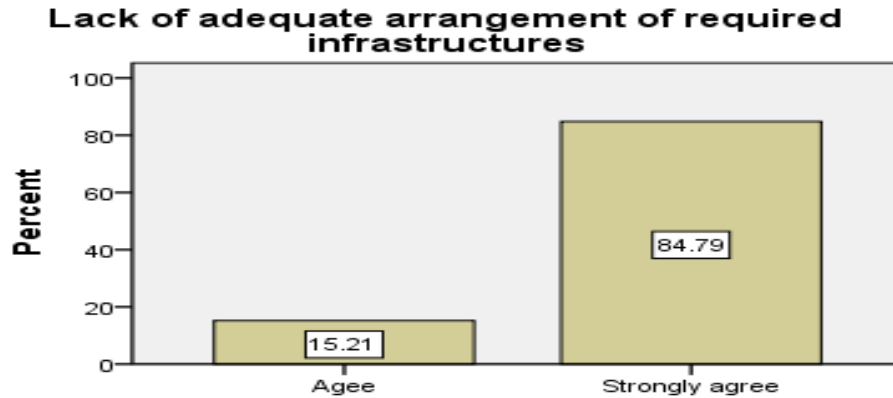
Source: Researcher's own Survey, 2016

Concerning the lack of training and skill upgrading for MSEs, Figure 4.12 depicts, most respondents strongly agreed indicating 47.0 percent. This research confirmed that MSEs owners mainly depend on their own resources and experiences as well as those of their families and friends even though little training is given as formal to motivate them to enter in to the work at beginning. As some selected respondents were interviewed, the prior training during star-up, materials are too complex and sometimes irrelevant for trainees, trainers are not qualified. After MSEs entered in to work they faced absence of technical skills training and upgrading in the sector, lack of ongoing technical assistance and hands on training to upgrade their products, increase productivity, improve packaging and to remain competitive and access markets. From this it is possible to conclude that for growth it is required to upgrade the skill of MSEs through training. But the training which is promised from government and practically available in the enterprises is mismatched.

#### **4.30. Non availability of required business infrastructures**

The availability of infrastructural facilities is essential and ingredients for business growth and expansion. Thinking growth without infrastructure is ideal and looks like a dream that is vanity and striving after wind. For most of MSEs their work is tied with these infrastructures and if it is unavailable even for minutes they forced to stop their production or service deliver. Because, there are no other substitutions of infrastructure to these enterprises to use instead of like electricity, water, telecommunication, road etc.

**Figure 4.13: non availability of Infrastructures**



Source: Researcher's own Survey, 2016

According to Figure 4.13, the respondents' response indicates highest percentage with strongly agreeing as there is lack of infrastructures in the town with (84.8%) and followed by agreeing by 15.2 %. This is obvious that mainly for production and delivery of goods and service it requires different infrastructure. Most of the enterprise use water, power, road and transportation to produce and distribute their products. These infrastructures are required for smooth operation of both industry and service sectors, while their business operation is mostly affected due to this problem. This indicates poor infrastructures pose a major challenge to micro and small enterprises in Jimma. As respondents said in Jimma, the provision of better infrastructures has lagged behind over years like poor roads, inadequate electricity supply, telecommunication problems and unavailability of water and still they stands in need of better infrastructures.

#### **4.31. Government institutions procurement from mses**

Until recent times due to attention was not given to the importance of integrating governmental sectors or organizations with MSEs development, it had unable to facilitate and support through sustainable marketing linkage for products and services of MSE in delivering for public sectors and give priority to MSEs to improve their competitiveness in quality and motivate others to enter and sub-contract with improved products from society to society.

When working together with government institutions, MSEs both of them get mutual benefit in which there is win-win relationship and get benefit one as provider of product and the other as a strategic customer. This can have potential effect on improvement of their industry's competitiveness and continues product delivery to the government institutions in long run. The

integration realizes and gives hopes for MSEs for sustainable and competitive development that has the capacity to generate sustainable employment opportunity and increased income for all participants.

Table 4.16 demonstrates respondents' response on government's procurement of their products and accordingly 94.9 of them agree the government institution is not buying their products and also 2.3 percent respondents' response is undecided. According to (MSEDS, 1997), MSEs can be benefited from integration with government institution like school, hospital and other by sub contracting and delivering their products to these and other institutions.

**Table 4.16** Government Procurement from MSEs

<b>Lack of government institutions procurement from MSEs</b>				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Undecided	5	2.3	2.3
	Agee	206	94.9	97.2
	Strongly agree	6	2.8	100.0
	Total	217	100.0	100.0

Source: Researcher's own Survey, 2016

If the government procurement is tied with these enterprises, they motivated to produce more quality and can get sustainable production. However the absence of government procurement has its own effect on growth of enterprises. According to the response of respondents, most respondents agree as the government is not buying the products of MSEs and threats them by losing the opportunities can be maintained from integration of both.

#### **4.32. Provision of right business location**

Facilitation of working premises enables both the newly upcoming enterprises and the existing one those want to change to preferred location, and in the same token those which attained higher capital and showed growth need such facility for expansion purpose.

**Table 4.18: Provision of Right Business Location**

**Lack of providing right business location**

		Frequency	Percent	Valid Percent	Cumulative Percent
	Agee	127	58.5	58.5	58.5
Valid	Strongly agree	90	41.5	41.5	100.0
	Total	217	100.0	100.0	

Source: Researcher's own Survey, 2016

According to table 4.18 specifies, most respondents' response shows that there is lack of right business location for doing their business. Around 58.5 percent of them stand on the side of agreement concerning the problem of this factor. Location is one of the most important factors that affects the operation of enterprises and as reason the growth of enterprises have direct relationship with location (Sethuraman, 1997). According to the interview conducted with MSEs, one of the desires of most participants is to save costs of rental, for them higher disposable income now is more important than a better quality premises. Owners complained that, expansion of the town has led to increased demand for business premises, which means that some micro and small businesses have been pushed away from the busy area of the market to the periphery. The working place is one of the main components that are needed for a successful and sustainable growth of enterprises because it is essential in creating access to resources and the necessary markets. According to Oromia Regional Government of MSEs Development Package of 2009 and Federal Government of MSE Development Strategy of 2011, the working premises is one of the key problems that MSEs report from time to time.

This has increased costs and resulted in poor sales and negative cash flows, thus minimizing the chance for most businesses to succeed. From this it is possible to conclude that there are other problems directly or indirectly related with site of business and affect the growth of the enterprises like: poor access to infrastructures that have several consequences on income and productivity of MSEs. It also discourages mobility, few units' wants move out of their current location perhaps due to lack of choice. Obviously this means there is little scope for additional investment or improving the business.

**Table 4.18:** Government Support Descriptive Statistics

S/N	Variables	N	Mean	St.Deviation
1	Lack of training and skill upgrading for MSEs staff	217	3.17	0.863
2	Lack of adequate and arrangement of required infrastructure	217	3.85	0.360
3	Lack of government procurement from MSEs	217	3.00	0.226
4	Lack of provision of right location	217	3.41	0.494
	Group Mean 3.357			

(Source: Researcher's own survey, 2016)

Table 4.18 Summarized lack of government support for MSEs doing their activities. Sometimes, even MSEs operate effectively; there are factors that they cannot control by themselves. The support services to MSEs from government cover both financial and non-financial interventions provided to enhance the development and sustainability of the sector. In doing so, it requires government intervention to solve the constraints outside of the control of enterprises. Though there are enormous external factors foster or inhibit the growth of MSEs, the above government support variables are delimited to see their effect on the growth of firms. According to the responses of the respondents, the mean values of the variables listed under government support have the values listed on Table 4.9. As a result, the Group Mean Value of 2.9263 was taken as a benchmark to keep apart the factors having low, moderate and high effect on the enterprises normal operation by matching the lowest value with indicating the lowest negative effect on firms' growth and others follow accordingly. Consequently, lack of training and skill-up grading (3.17) and lack of government procurement (3.00) have lesser mean value and relatively have less effect. In contrast, lack of provision of right location indicates the highest mean value in which it has considered as potential effect on the growth of the enterprises (3.41) and followed by lack of adequate infrastructures indicating (3.85). Even though the mean values of government's procurement and training and skill upgrading have high mean value compared with other variables used in this study, they are relatively lower than the two variables indicated in this government support related constraints. Thus, depending on the data collected through questionnaires and interview and, analyzed accordingly, the growth of the MSEs is constrained

by government related supports like lack of providing working premises and adequate infrastructure. Working premises and infrastructures are central to business operations in decreasing initial and operating costs, but unavailability of such hub things in business makes it lamed leg not to walk properly in competition and directly or indirectly block the grow.

### 4.33. Comparing of factors

It is true, government support, management skill, marketing and financial constraints, factors are factors that affect the growth and success of MSEs, this does not mean that all factors are equally affect the growth and success of the business enterprises. The following table clearly compares the overall impact of all key factors discussed in detail above.

**Table 4.19:** comparing the major factors

S/N	Factors	Grand Mean	Grand Standard deviation	Rank of factors
1	Marketing factors	2.602	0.7183	3rd
2	Management Factors	2.918	0.6606	2nd
3	Financial Factors	2.586	0.6746	4th
4	Government support	3.357	0.4857	1st

(Source: Researcher's own survey, 2016)

As it can be compared the above factors, government support with grand mean 3.357 and management factors 2.918 are the serious factors that affect the growth of MSEs activities at a selected area of study followed by marketing (2.602) and financial constraints (2.586).

As compared with the other factors, lack of providing training and skill upgrading for MSE staffs, inadequate government's effort in changing public attitude, lack of well-rounded experience in basic business activities, lack of suitable management style, inefficient utilization of business resources and lack of providing convincing business plan to get loan are the top most factors that affect the growth MSEs activities at Jimma town.

### 4.34. The regression analysis and model specification

In this study binary Logistic regression model is used to examine the relationship between the independent variables and dependent variable (MSE growth). The justification for using binary Logistic regression model is its simplicity of calculation and that its probability lies between 0 and 1(two categories). (Gujarati, 2004). Hosmer and Lemeshew (1989) pointed out that the logistic distribution (logit) has got advantage over the others in the analysis of dichotomous outcome variable in that it is extremely flexible and easily used model from mathematical point

of view and results in a meaningful interpretation. Hence, the logistic model has been selected for this study and as the result it specify the magnitude and severity of both internal and external factors that could affect the growth of MSEs in the study area were presented as follow

**Table 4.20:** Logistic regression for Management related variables

(Variables in the Equation)

	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Mgt1			5.512	3	.138			
Mgt1(1)	-21.541	40192.970	.000	1	1.000	.000	.000	.
Mgt1(2)	0.887	1.775	.250	1	.617	2.428	.075	78.809
Mgt1(3)	-1.390	.801	3.011	1	.083	.249	.052	1.197
Mgt2			14.000	2	.001			
Mgt2(2undecided)	2.691	1.528	3.100	1	.078	14.748	.738	294.862
Mgt2(3 Agree)	-1.724	.601	8.230	1	.004	.178	.055	.579
Mgt3			12.095	3	.007			
Mgt3(1)	-4.507	1.580	8.136	1	.004	.011	.000	.244
Mgt3(2)	-0.409	1.348	.092	1	.762	.665	.047	9.329
Mgt3(3)	0.288	.864	.111	1	.739	1.334	.245	7.258
Mgt5			6.021	4	.198			
Mgt5(1)	-19.938	40192.970	.000	1	1.000	.000	.000	.
Mgt5(2)	-21.836	28420.722	.000	1	.999	.000	.000	.
Mgt5(3)	-0.815	.643	1.606	1	.205	.443	.126	1.561
Mgt5(4 strongly agree)	-1.326	.556	5.691	1	.017	.265	.089	.789
Constant	1.562	.774	4.066	1	.044	4.767		

Source: own computation from survey result

According to above table 4.20 the odds of MSE growth implies managerial skill of the entrepreneurs positively affect the growth of MSE business significantly at a 5 percent level of significance in the study area. Odds of MSE growth that were from agree lack of multiple skill training to perform multiple task level were 0.178 or 17 percent times higher than the odds of MSE growth who were from undecided lack of multiple skill training to perform multiple task level. The odds of MSE growth that from inefficient utilization of business resource were 0.11 or 11 percent higher than the odds of MSE growth from inefficient utilization of business



resource and similarly the odds of MSE growth by lack of suitable management style that were from strongly agree level were 0 .265 times higher than the odds of MSE growth who were from the rest of responses' level. This result is consistent with previous studies of (Fikadu Goshu,2013, Abiyu Jiru , 2011)

From the regression results described on table 4.18above, the following regression equation was formulated

$$\text{Log odds (DepVar = 1)} = B_0 + B_1 \times \text{Mgt1 (1)} + B_2 \times \text{Mgt1 (2)} + B_3 \times \text{Mgt1 (3)} + B_4 \times \text{Mgt2 (2)} + B_5 \times \text{Mgt2 (3)} + B_6 \times \text{Mgt3 (1)} + B_7 \times \text{Mgt3 (2)} + B_8 \times \text{Mgt3 (3)} + B_9 \times \text{Mgt5 (1)} + B_{10} \times \text{Mgt5 (2)} + B_{11} \times \text{Mgt5 (3)} + B_{12} \times \text{Mgt5 (4)} \text{-----equation\#}$$

or, with the actual values of the regression coefficients,

$$\text{Log odds (DepVar = 1)} = 1.562 - 21.541 \times \text{Mgt1 (1)} + 0.887 \times \text{Mgt1 (2)} - 1.390 \times \text{Mgt1 (3)} + 2.691 \times \text{Mgt2 (2)} - 1.724 \times \text{Mgt2 (3)} - 4.507 \times \text{Mgt3 (1)} - 0.409 \times \text{Mgt3 (2)} - 0.288 \times \text{Mgt3 (3)} - 19.938 \times \text{Mgt5 (1)} - 21.836 \times \text{Mgt5 (2)} - 0.815 \times \text{Mgt5 (3)} - 1.326 \times \text{Mgt5 (4)} \text{-----equation\#}$$

**Table 4.21:** Logistic regression for finance related variables

(Variables in the Equation)

	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Step 1 <sup>a</sup>								
Finance1			47.037	2	.000			
Finance1(1)	1.879	.796	5.580	1	.018	6.550	1.377	31.153
Finance1(2)	-1.450	.608	5.683	1	.017	.235	.071	.773
Finance2			8.508	3	.037			
Finance2 (1)	-.522	1.071	.237	1	.626	.593	.073	4.846
Finance2(2)	-1.895	1.162	2.658	1	.103	.150	.015	1.467
Finance2(3)	.004	.969	.000	1	.996	1.004	.150	6.714
Constant	.220	.846	.068	1	.795	1.246		

Source own computation from survey result

According to survey result, the variable lack of providing convincing business plan to get loan has a positive and statistically significant effect on MSE growth at the 5 percent level of

significance. With an odds of 65.5% (odd = 0.655 MSEs which have lack of providing convincing business plan to get loan are 0.655 times more likely to affect growth than MSEs which do not lack. This result is consistent with previous studies by (Anthony et al., 2013; Mabhungu et al., 2011; Odit and Gobardhun 2011 and Wu et al., 2008) and is contrary to a study by (Tsehaye, 2013). Similarly, lack of sufficient working capital has also a positive and significant effect on MSE growth with an odd ratio of 15 % than the rest did not.

The logistic regression equation shown above is

$$\text{Log odds (DepVar = 1)} = B_0 + B_1x \text{ Finance1 (1)} + B_2x \text{ Finance1 (2)} + B_3x \text{ Finance2 (1)} + B_4x \text{ Finance2 (2)} + B_5x \text{ Finance2 (3)} \text{ -----equation\#}$$

or, with the actual values of the regression coefficients,

$$\begin{aligned} \text{Log odds (DepVar = 1)} = & 0.220 + 1.879 x \text{ Finance1 (1)} + -1.450 x \text{ Finance1 (2)} \\ & - 0.522 x \text{ Finance2 (1)} - 1.895 x \text{ Finance2 (2)} \\ & + 0.004 x \text{ Finance2 (3)} \text{ -----equation\#} \end{aligned}$$

**Table 4.22:** Logistic regression for government related variables

(Variables in the Equation)

	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
GovtS1			35.837	2	.000			
GovtS1(1)	3.616	.605	35.731	1	.000	37.204	11.366	121.776
GovtS1(2)	.290	.464	.390	1	.532	1.336	.538	3.315
GovtS5			23.268	3	.000			
GovtS5(1)	-2.201	1.027	4.590	1	.032	.111	.015	.829
GovtS5(2)	-4.642	1.165	15.887	1	.000	.010	.001	.094
GovtS5(3)	-1.445	.948	2.325	1	.127	.236	.037	1.510
Constant	.292	.932	.098	1	.754	1.339		

Source Own Computation from survey result

According to above table 4.22 the odds of MSE growth implies government support of the entrepreneurs positively affect the growth of MSE business at 5 percent level of significance in the study area. Thus, lack of providing training and skill upgrading for MSE staff has effect on growth of MSE with an odd of 3.72 higher than undecided response. Meanwhile, the odd of

MSE growth were affected by inadequate government effort in changing public attitude level were 0.111 or 11 percent times higher than the odds of MSE growth who were from undecided inadequate government effort in changing public attitude level. This result is consistent with previous studies of (Fikadu Goshu, 2013, Abiyu Jiru, 2011)

The logistic regression equation above is

$$\text{Log odds (DepVar = 1)} = B_0 + B_1x \text{ GovtS1 (1)} + B_2x \text{ GovtS1 (2)} + B_3x \text{ GovtS5 (1)} + B_4x \text{ GovtS5 (2)} + B_5x \text{ GovtS5 (3)} \text{ -----equation\#}$$

$$\text{Log odds (DepVar = 1)} = 0.292 + 3.616 x \text{ GovtS1 (1)} + 0.290 x \text{ GovtS1 (2)} - 2.201 x \text{ GovtS5 (1)} - 4.642 x \text{ GovtS5 (2)} - 1.445x \text{ GovtS5 (3)} \text{ -----equation\#}$$

**Table 4.23:** Logistic regression for (others variables)

Variables in the Equation

	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Education			20.210	4	.000			
Education(1)	2.726	.989	7.600	1	.006	15.269	2.199	106.031
Education(2)	2.133	.912	5.467	1	.019	8.441	1.412	50.456
Education(3)	2.051	.782	6.874	1	.009	7.772	1.678	35.998
Education(4)	3.072	.776	15.691	1	.000	21.584	4.721	98.685
Sales			12.309	2	.002			
Sales(1)	3.282	1.015	10.467	1	.001	26.636	3.647	194.553
Sales(2)	.650	.336	3.737	1	.053	1.916	.991	3.705
Constant	-3.401	.762	19.909	1	.000	.033		

Source Own Computation from survey result

The above table 4.23, implied that education of operators has statistically significant effect on the growth of MSE taking higher level of education as a reference (TVET/College and above) can see that the odd for secondary education is 15.26. This indicates that compared to MSE operators or managers who have attended TVET/College and above, those with secondary education are 15.26 times less likely to affect growth at the given level of significance. This result is consistent with previous studies of (Omboi and Priscilla, 2011; Coleman, 2007; Charles, 2009) but contrary to (Tsehaye, 2013). Irwin and Scott (2010)

Similarly the sales volume of MSE operators have also statistically significant on MSE growth taking increasing sales volume as reference the odd ratio of constant sales volume is 26.636. This indicates the limited expansion of MSE in the study area. The result was consistent with (Fikadu Goshu,2013 and Berhanu Tereda, 2014).

The logistic regression equation shown above is;

$$\text{Log odds (DepVar = 1)} = B_0 + B_1x \text{ Education(1)} + B_2x \text{ Education(2)} + B_3x \text{ Education(3)} + B_4x \text{ Education(4)} + B_5x \text{ Sales(1)} + B_6x \text{ Sales(2)} \text{ -----equation\#}$$

or, with the actual values of the regression coefficients,

$$\begin{aligned} \text{Log odds (DepVar = 1)} = & -3.401 + 2.726 x \text{ Education (1)} + 2.133 x \text{ Education (2)} + \\ & 2.051 x \text{ Education (3)} + 3.072 x \text{ Education (4)} + \\ & 3.282 x \text{ Sales(1)} + 0.650 x \text{ Sales(2)} \text{ -----equation} \end{aligned}$$

**Table 4.24:** Summary of Empirical regression analysis results of MSE growth

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Mgt2(3 Agree)	-1.724	.601	8.230	1	.004	.178	.055	.579
Mgt3(1)	-4.507	1.580	8.136	1	.004	.011	.000	.244
Mgt5(4strongly agree)	-1.326	.556	5.691	1	.017	.265	.089	.789
Financel(1)	1.879	.796	5.580	1	.018	6.550	1.377	31.153
Financel(2)	-1.450	.608	5.683	1	.017	.235	.071	.773
GovtS1(1)	3.616	.605	35.731	1	.000	37.204	11.366	121.776
GovtS5(1)	-2.201	1.027	4.590	1	.032	.111	.015	.829
GovtS5(2)	-4.642	1.165	15.887	1	.000	.010	.001	.094
Education(4)	3.072	.776	15.691	1	.000	21.584	4.721	98.685
Sales(1)	3.282	1.015	10.467	1	.001	26.636	3.647	194.553
Constant	-3.684	1.964	3.519	1	0.061	.0025		

Source Own Computation from survey result 2016

From the summary regression results described on table 4.25 above, the following regression model was formulated

$$\text{Growth MSE} = \beta_0 + \beta_1 \text{ sfinan} + \beta_2 \text{ educa} - \beta_3 \text{ mskil} - \beta_4 \text{ govspo} + \beta_5 \text{ salvol}$$

$$\text{Growth MSE} = -3.6 + 0.4 \text{ sfinan} + 3.0 \text{ educa} - 7.5 \text{ mskil} - 3.2 \text{ govspo} + 3.2 \text{ salvol}$$

**Where;**

*growth* is a dependent variable which is growth in terms of MSE business and the independent variables in the regression analysis are:

*sfinan* is the source of finance for the business of MSE;

*educa* is an educational achievement of the respondent from the selected MSEs;

*mskil* is the managerial skill of the respondent of the MSEs possess;

*govsup* government support for MSE

*salvol* is the sales volume of MSE

$\beta_1 - \beta_5$  = Coefficients

The result of the regression analysis imply that government support, managerial skills, financial constraints contribute more for the growth of MSE followed by educational level of the operators in the study area.

# CHAPTER FIVE

## CONCLUSIONS AND RECOMMENDATIONS

### 5.1. CONCLUSIONS

Based on the results of this study, different factors were identified as responsible for hindering MSEs growth in Jimma town. Four independent variables were taken in this study to examine their impact on the growth of Micro and Small Enterprises.

Regarding sex of the MSEs operators which are engaging in different sectors, majority of the MSEs operators are male business owners while the participation of female operators are less. The result of the finding shows that, majority of the MSEs operators/owner of the business are lying their age in between 21-30, therefore majority of the owners of the business enterprises are young. Thus, they are the age group expected to imitate and flexible according to the environment.

- The result of the finding shows that, government support related constraints of MSEs include: lack of adequate business infrastructure, lack of providing training and skill and upgrading for MSE staffs affect the growth of MSEs in the study area. Since good infrastructure has the effect of promoting MSEs by lowering the cost of doing business, lack of key and adequate infrastructure related to adequate supply of electrical power, access to roads, and water can directly or indirectly lag the growth of businesses behind.
- The most basic factors which affect the growth of the MSEs related to management practices include: lack of suitable management style; inefficient utilization of business resources, lack management ability in creating external relationship (i.e. networking) and lack of multi- skill training of employees are limiting the growth of the businesses.
- The major sources of finance or funds for most of MSEs operators are by own personal saving, families followed by borrowing money from microfinance institutions , NGOs. But only one of the respondent got money from bank . MSEs forced to rely and use other informal sources like self-financing or borrowing from family and friends which are short term finance. In addition to this, businesses have lack of knowledge in providing convincing business plan to get loan and this blocks their access to credit. Lack of financial information limit the number of preferable alternatives that can be considered and force them to use inappropriate technology & others because it is the only one they can afford. This limited growth and survival of MSEs.

- Marketing constraints affecting MSEs growth from the findings indicate: lack of marketing information, lack of network with successful and other businesses, lack of setting clear and competitive price for products, lack creating awareness for customers about the product or use of promotion and lack of identifying target market are the most factors which hindering the growth of MSEs. Thus, since marketing is one of the most activities required by businesses to growth through satisfying the needs and wants of customers, its constraints on the other hand hinders the growth of firms.
- Also, from the regression equation established, taking all the factors (all independent variables in regression model) constant at zero, the result imply that government support of the entrepreneurs and managerial skills of the operators are positively affect the growth of MSE business at 5 percent level of significance in the study area followed by financial constraints and marketing skills.

## 5.2. Recommendations

Having identified the major constraints which affect the enterprises' growth, the following actions are recommended for owners, and other stakeholders to improve the performances of MSEs in Jimma town. The majority of the problems can be solved by the collaborative effort of support institutions and other stakeholders. However, certain problems may not easily be solved by government and other stakeholders within a short run. This may include the culture, value and perceptions that the community have for MSEs product/services.

- MSEs owners/managers should improve internal operations through upgrading their skills, using effectively the borrowed amount for the intended purposes and able to save money on for future investment and practice ways of gathering customer information for the purpose of satisfying their needs through conducting market research and creating network with other MSEs ,successful businesses and knowledgeable individuals, because the more businesses know about their customers, the better they can meet their needs. The network with external bodies from supply of raw material to distribution is suggested because it keeps them from sudden stoppage of production due to different limitations of resources and customers.
- Locality based approach should be adapted to solve MSEs problems. All factors do not have equal degree of complexities, magnitudes, or impact on the performance of small business. Different problems can be solved in different way at different time depending on the availability of resources and situations in the business operation environments. For example technical skill gap of MSE operators have to be filled by training particularly those which operate in manufacturing and construction sectors in Jimma town.
- Enhancing MSEs capacity through training. Business support institutions while working in coordination with each others, should try to specialize in their specific areas of excellence in business support they provide. This can be: Jimma Poly technique and TVET college, Jimma town MSE office and even Jimma University should support MSEs in the areas of their own core competencies of providing training for the generalists and MSE operators. Above all , sufficient managerial and technical training has to be provided for MSE to change the traditional way of operating business in order to make them competent particularly for those operators found in Jimma town.
- The government should organize/make MSEs in identified industrial areas/parks in suitable location by constructing sheds and other common basic requirements, arranging common



facilities and encourage private investors to engage in these premises constructions by providing attractive incentives for private investors like tax relief and availing of lease-free land. This will help MSEs to use common infrastructural facilities for production, access common market and sales centers, site for promotion, ensure fair competition and buyers can get them around same area of operation.

- The government should arrange to give equipments, machines and other necessary materials through lease in which MSEs can cover the payment during the operations to reduce doubt of getting back payments for the borrowed finance.
- In order to facilitate access to credit for MSEs, MFIs and banks need to allocate a certain portion of their loanable funds exclusively for MSE entrepreneurs. This has to be supported by special lending and repayment arrangements. Thus, in order to address the problem of credits, financial institutions, the Federal and Regional Governments, donors, and NGOs can assist in creating attractive lines of credit and special windows for assisting the MSEs.

## Appendix I

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## Appendix II

### Questionnaire

The purpose of this questionnaire is to collect information on Factors affecting the of Micro and Small Enterprises in Jimma Town. The study is only for academic purpose and cannot affect you in any case. So, your genuine, honest and timely response is vital for accomplishment of this study on time. Therefore, I kindly ask you to give your response to each items/questions carefully.

#### Part One: Profile of Participants

1. Sex: Male      Female
2. Age: 15-20      21-25      26-30      31-35      36-40      above 40
3. Educational Qualification:  
Uneducated      Below high school      High school      College certificate  
Diploma      first degree      second degree and above
4. Year of experience in the enterprise:  
1-3 years      4- 6 years      7-10 years      above 11 years

#### Part Two: Business Information

1. Type of the business/sector \_\_\_\_\_
2. Major Source of your Initial capital:  
Personal saving      Micro finance      friends & relatives      Ekuib      NGO's  
Bank
3. Main Source of your business skill:  
Self      Family and friends      Training      Experience      Education
5. Current number of employees in your enterprise when compared to last year/s:  
Increased      Constant      Decreased
6. Your current sales volume when compared to last year/s:  
Increased      Constant      Decreased

**Part Three: Marketing, Management, Financial and Government Support Related Constraints**

Using the following Rating Scales under the columns, mark ( ) sign only once for the given variables depending on your level of agreement in front of it.

	<b>Variables</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Undecided</b>	<b>Agree</b>	<b>Strongly agree</b>
A	<b>Marketing Related Constraints</b>					
1	Lack of market information					
2	Lack of continuous improvement of product					
3	Lack of setting clear and competitive price for products					
4	Lack of market access					
5	Lack of creating awareness for customers about the product/use of promotion					
6	Lack of network with successful and other businesses					
7	High Competition					
8	Lack of adaptation to changing environment					

9	Lack of identifying target market					
10	Negative perception of public					
<b>B</b>	<b>Management Related Constraints</b>					
1	Lack of well-rounded experience in basic business activities					
2	Lack of multi-skill training to perform multiple tasks					
3	Inefficient utilization of business resources					
4	Lack of management ability in creating external relationship					
5	Lack of suitable management style					
<b>C</b>	<b>Financial Constraints</b>					
1	Lack of providing convincing business plan to get loan					
2	Lack of sufficient working capital					
3	Unfamiliarity with financial Information					



<b>D</b>	<b>Government Support Related Constraints</b>					
1	Lack of providing training and skill upgrading for MSE staffs					
2	Lack of adequate arrangement of required infrastructures					
3	Lack of government institutions procurement from MSEs					
4	Lack of providing right business location					
5	Inadequate government's effort in change public attitude					

Anything you want to add or opinion you may have on constraining factors growth of your business do not mention in the table?

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## **Appendix III**

### **Interview Guiding Questions**

#### **A. Interview guide to key MSE informants**

1. Please if you tell me briefly why and how you start this business.
2. What is the major function of your enterprise?
3. How many employees are there in your enterprise?
4. Do these employees have ability to work in multiple activities? Extents to what such multiple duties are believable to bring quality in the operation.
5. How do you improve the competences and skills of the workers?
6. What are the constraints you faced in accessing and using the finance?
7. How do you see the effort of government support for such enterprises and visible changes come?
8. What are your major competitive advantages over the competitors? How do you know as you are operating better than them?
  - a) Who are your target markets?
  - b) Do you develop new product? What problems do you encountered in this new product development or modifying your existence products?
  - c) What are the problems you faced in pricing strategy?
  - d) Extent to what marketing mixes integrated to reduce cost, increase profit and reach the target market effectively?
  - e) How well a firm did this year compared to last year?
9. What do you think the journey of your business looks like in its operation/ sales volumes?
10. Do you have external linkage/network with other individuals or businesses? Who advices you and extent to what you benefited from it?
11. What are the other problems did not reach in our interview but hindering your business

**B. Interview guide to officials**

What are the major constraints that hinder the enterprises from growth in relation to:

1. Policy that enhance the development of MSEs;

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2. Access to capital and credit;

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3. Work premise and other infrastructures;

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4. Entrepreneurial, managerial and other skills

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5. Linkages/cooperation amongst enterprises;

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6. Rent-seeking behavior of officials in the organization and other support institutions;

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7. Any other factor that constrain the promotion and development of MSEs;

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Thank You!