Factors affecting performance of micro and small enterprises in Addis Ababa: The case of Bole sub city administration

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DECLARATION

I, the undersigned, declare that the research report entitled "Factors affecting performance of micro and small enterprises in Addis Ababa: The case of Bole sub city administration." submitted to research and postgraduate studies' office of business and economics college is original and it has not been submitted previously in part or full to any university. I have undertaken the research work independently with the guidance and support of the research advisor and all sources of materials used for the thesis have been duly acknowledged.

Name: Yetnayet Tilahun

August, 2020

CERTIFICATE

We certify that the Research Report entitled "Factors affecting performance of micro and small enterprises in Addis Ababa: The case of Bole sub city administration." was done by Yetnayet Tilahun for the partial fulfillment of Masters Degree under our Supervision.

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TABLE OF CONTENTS

LIST OF TABLES

ABBREVIATIONS AND ACRONYMS

CSA- Central Statistical Agency of Ethiopia

FMSEA- Federal Micro and Small Enterprises Development Agency

GEM- Global Entrepreneurship Monitor

GFDRE-Government of the Federal Democratic Republic of Ethiopia

ILO- International Labour Organization

MOFED- Ministry of Federal Finance and Economic Development

MSE- Micro and Small Enterprises

OLS- Ordinary Least Square

SME- Small and Medium Enterprises

SWOT- Strength, Weakness, Opportunity and Threat

TQM- Total quality management

ABSTRACT

Micro and Small Enterprise are driving forces for economic growth, job creation and poverty reduction in developing countries. Cognizant of this fact, Ethiopia is one of the countries which have taken measures to enhance the operation of Micro and Small Enterprises (MSEs). However, there are MSE's in the country that have shown deteriorating performance and have been experiencing huge stumbling blocks with no significant graduation from one enterprise level to the next. Therefore, this study aims to identify and examine factors affecting the performance of micro and small enterprises in Addis Ababa, Bole Sub city. Both descriptive and explanatory research designs were used for the study. Mixed research approaches (qualitative and quantitative) were implemented. For primary data structured questionnaire was used and for secondary data books, articles, journals and previous literatures were reviewed. The target population for the study was 1127 MSEs which are registered in Bole Sub City MSE office which are engaged in construction, manufacturing, merchandise and service sector. In this study probability sampling technique and stratified random sampling were applied to sample size of 295 micro and small enterprises in Bole Sub city. And data was analyzed by using descriptive statistics and regression analysis. The empirical study elicited eight major challenges which seem to affect performance of MSEs which include: marketing problems, standardization and quality constraints, product diversification problems, poor management practices, entrepreneurial, education level, firm age and technological problems. The findings further indicate that, there exists linear and positive significant ranging from substantial to strong relationship was found between independent variables and dependent variable. Moreover, the selected independent variables may significantly explain the variations in the dependent variable at 1% level of significance. In line with the findings obtained from this study recommendations to respective governmental bodies and MSE's owners/managers have been forwarded.

Keywords: challenge, factors, micro and small enterprises, performance, success

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In many countries, nowadays there is a varied recognition of the contribution of Micro and Small Enterprises (MSE) to economic development and creation of wider employment opportunity in both developed and developing countries. It has become engines of poverty reduction, employment creation and business development among others in various countries worldwide (Chittithaworn et al., 2011). This sector generates about 48% of the aggregate employment in North Africa, 51% in Latin America, 65% in Asia, 72% in Sub-Saharan Africa, 6.2% in the United States, 22.3% in China, 80% in India, 67% in Japan, and 70% in European countries (Menda, 2015).

In most fast developing countries MSE by virtue of their size, location, capital investment and their capacity to contribute for urban poverty reduction and generate greater employment have proved their powerful effect for rapid economic growth and also identified as a tool in bringing about economic transition by efficiently using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology (Wolde&Geta, 2015). The sector has significance role as the national home of entrepreneurship, they are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations, (Katua, 2014).

Ethiopia is one of the developing countries which have taken measures to enhance the operation of MSEs by considering their contributions. The Ethiopian government issued the National Micro and Small Enterprises (MSE) strategy in 1997 and established the Federal Micro and Small Enterprises Development Agency (FMSEA) to harness the benefit of such strategy and consequently it has emphasized the role of MSEs and provided support to this sector. The overall aim of MSE strategy is to decrease unemployment rate by engaging those unemployed peoples to create job for themselves (Ferede et al., 2015). In Ethiopia, about half of the urban labor force is engaged in this sector and Addis Ababa alone accounts for nearly 40% of the total MSE operators (Menda, 2015).

As the Central Statistical Authority of Ethiopia's (2015) Report on Small Scale Manufacturing Industries Survey indicates, the importance of the sector can help transform the economy from agrarian-based to manufacturing-led, increasing agricultural productivity, reducing urban unemployment, and stimulating trade and construction.

Based on these efforts the Government has tried to promote the development of the sector through workable laws and regulations, facilitation of startup and working capitals, managerial and technical assistance, working premises and infrastructure, market - enterprises linkages. As a result, many MSEs have played their roles to employment creation, poverty alleviation, creation of entrepreneurship and national economic development (MoFED, 2010).

The MSEs, important vehicle of socio-economic development, have been facing enormous problems despite the ongoing public reform programs (MOFED, 2015). It has been long time and common to listen and observe complains of MSEs on the overall sectoral performance and strategic incompatibility both among the unemployed societies and existing MSEs whose severity varies across regions and cities. Therefore, this study attempts to assess whether or not the availability of sufficient training is on entrepreneurship, management, development are factors which impact the performance of MSE firms. And furthermore in opts to determine market related factors, MSE firm characterstics and impact of technology on the performance of MSE firms in Bole sub city.

1.2 Statement of the problem

Micro and small enterprise account for the vast majority of enterprise and contributed major share to employment and economy growth in the European countries, Japan and US (Katua, 2014). Similarly, many of the countries in Sub-Saharan Africa reported to have high number of MSEs in the economy (Tvedten, Wende, Hansen, Jeppesen, 2014).

In Ethiopia, Micro small and enterprises (MSEs) have a tremendous potential to generate employment for the majority of the urban labor force. The government-revised strategy strives to create an enabling environment for MSEs through putting in place a national strategy framework and coordinated programmes at Federal, Regional, and Local levels. The government is also

committed to facilitate cooperative ventures and development of MSE clusters, as well as to promote subcontracting and business linkages between smaller and larger companies (GFDRE, 2011).

MSEs are privately owned and managed by individuals, groups, or associations who usually require a great deal of support from the Government or other external sources. As Aregawi and Tilaye (2014), MUDC (2013), and Habtamu et al (2013) found out the facilitation and adjustment of the startup and working capital sources, working premises, raw material supply, managerial and technical skill training , market enterprise linkage creation and management support for MSE's are shouldered on government officials. Thus, the responsibility requires tremendous efforts and integration between enterprise owners and government officials' at all hierarchical levels.

In spite of having all these contributions, MSEs found in developing nations like Ethiopia, face a wide range of constraints and they are often unable to address the problems they face on their own. There are considerable doubts about the quality of management in this sector with policy-makers suggesting that there are particular weaknesses in innovation, a lack of financial acumen, marketing, entrepreneurial flair, practical knowledge, and human resource management. As a result, many firms do not reach their full potential and fail to grow. (Woldetsadik ,Sisay& Lemma, 2016).

In this regard, Hanna (2010) and MUDC (2013) found out that though their extent varied across regions and cities in Ethiopia, irregular supply of raw materials, lack of working premises, insufficient startup and working capital, lack of access to market and access to land especially in Addis are the major obstacles of the enterprises.

In addition, owners of the enterprises and MSEs' coordinators and experts in Addis Ababa raise critical problems facing in their day-to-day operations related to working premises, raw materials, management and financial adjustments. Furthermore, anecdotal evidences, quarterly and annual reports, and public meetings on MSE found in various sub-cities showed that there are MSEs that have shown deteriorating performance and have been experiencing close to ceasing themselves instead of graduating themselves from one

enterprise level to the next level due to various deterrent factors (Mekonnen & Tilaye, 2013).

Despite the numerous institutions providing training and advisory services in Addis Ababa city, there is still a skill gap in the MSE sector in this perspective. In line with this the MSE sectors still have a gap with marketing strategy and also furthermore, the problems of appropriate technology used by the firms are another factor associated with high technology of equipment and use of new technologies.

Therefore, the very intension of this study to identify the above mentioned factors by adding some additional variables (i.e product diversification, standardization and quality factors) related to the previous studies and to clearly identify the performance level among the four MSE sectors (construction, manufacturing, merchandise and service sector) whether or not the four sectors performance level is same or perform differently. Besides any good policies and strategies need to rely on timely information if they are to promote micro and small scale enterprises with the view to increasing their contribution to poverty reduction and economic growth. Therefore, the purpose of this paper is to examine factors affecting MSE performance in Bole Sub city and to try and suggest ways of controlling or limiting the effect of these factors.

1.3 Research Questions

The following research questions are developed in order to achieve the broad objectives of the study.

- Is there any sufficient training offered on entrepreneurship, management and marketing skill development to boost up the performance of MSEs?
- What is the relation of enterprise age and education level with the performance of MSEs?
- What is the relation of product diversification with the performance of MSEs?
- What is the relation of standardization and quality with the performance of MSEs?
- What is the relation of technology with the performance of MSE?

1.4 Objectives of the study

1.4.1 General Objective

The general objective of this study is to identify and analyze Factors Affecting Performance of Micro and Small Enterprises in Addis Ababa: The case of Bole Sub City Administration.

1.4.2 Specific Objectives

The specific objectives are:

- To assess the overalloperation and implementation of sufficient skill gap trainings offered for MSE in Bole sub city
- To examine the relation of enterprise age and education level with performance of MSE in Bole sun city
- To examine the relation of product diversification with the performance of MSE in Bole sub city
- To examine the relation of standardization and quality with the performance of MSE in Bole sub city
- To examine the relation of technology with the performance of MSE in Bole Sub City

1.5 Significance of the study

As it is obvious that the MSEs have already contributing a lot to the country's economy in terms of employment, innovation, income and poverty reduction, the findings of this study will have significance to:

Academics/Researchers: Findings from this study will assist academicians in broadening of the prospects with respect to this study hence providing a deeper understanding of the critical factors that affect the performance of MSEs and will contribute a basis for further study on factors affecting performance of MSEs and provide a way of controlling the negative effect of these factors on the small enterprises. Furthermore, this type of research works should be continuously advanced to understand the up-to-date growth dynamics of MSEs and to serve as a basis for other researchers to conduct a comprehensive analytic research work on micro and small enterprises performance on the entire city.

Sub city administration: The finding of this study would help Bole sub city administration, within an insight into the benefits of using different factors to be studied in this research to predict the factors that affect the performance of MSEs and to create conducive environment for improving the performance of the enterprises by controlling or limiting the

effects of the factors related with the administration. It will indicate how the performance of small enterprise can be improved by minimizing the effects of the factors.

Micro and Small Enterprises: The finding of this research would add some value to existing knowledge to address the problems uncovered in the development of MSEs towards their success. And it will show the owners different perspective what the real problems are and will provide the possible recommendations for those problems.

Governmental Policy Makers: The government can use the findings of this study to assist in policy formulation and development. And will help the policy makers how to encourage establishing or expanding MSE. It also enables them to know what kind(s) of policies should be framed.

1.6 Scope of the study

This study is concerned to asses and examines factors that affect the performance of micro and small enterprise in Addis Ababa particularly in Bole sub city. The scope of the study includes one dependent variable (performance of MSE) and six independent variables i.e. Entrepreneurship, Management, Marketing, Product Diversification, Standardization and Quality, Technology.

1.7 Limitation of the study

This study is limited only in Bole Sub City among the 10 Sub Cities in Addis Ababa where a number of MSEs are operating due to time and financial constraints.

1.8 Organization of the Study

This research work organized as follows; following the introduction chapter, the second chapter provides the theoretical and empirical related literature on micro and small enterprises. The third chapter discuss about the research design and methodology applied for this research work, followed by the fourth chapter data presentation, analysis, and interpretation. The last and fifth chapter provides conclusion and recommendation.

1.9 Operational Definitions

Enterprise: an undertaking engaged in production and/or distribution of goods and services for commercial benefits, beyond household consumption at the household level.

Factors: is a contributory aspect such as, marketing strategy, management, entrepreneurial influences and technologies that affect performance of micro and small enterprises.

Micro Enterprise: is an enterprise operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000 under industry and the values of total asset is not exceeding Birr 50,000 for service sector.

Small Scale Enterprise: Small enterprise is those enterprises hired 6 up to 30 employee or total asset amount birr 100,000 up to 1.5 million birr for industry sector and 50,000 up to 500,000 for services sector.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Theoretical Literature

2.1.1 Definition of Micro and Small Enterprises (MSEs)

The concept of MSEs has been defined and used differently in different countries. This reveals the absence of one universally accepted definition of MSE. In most cases, MSEs are defined based on the number of people employed in the enterprises, investment outlay, annual sales turnover , paid up capital or a combination of these measures (Stephen &Wasiu, 2013; GFDRE, 2011). In a similar manner, the definitions of MSEs given by majority of African countries are used more or less same criteria. Concerning this, Olabisi et al.(2013) defined Small scale enterprises in Nigeria as an industry whose total project cost excluding cost of land including working capital does not exceed N5m (i.e. US$500,000). Besides, MSE's are defined in Ghana that Small-scale enterprise is a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) and with employee less than five workers. However, due to depreciation of currency MSEs are classified in to micro, very small, and small employing six, six to nine, and ten to twenty nine employees, respectively (Daniel, 2012). According to Ethiopian's definition the Federal Micro and Small Enterprises Agency the improved definition of micro enterprises is an enterprise operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000 under industry and the values of total asset is not exceeding Birr 50,000 for service sector. Small enterprise is those enterprises hired 6 up to 30 employee or total asset amount birr 100,000 up to 1.5 million birr for industry sector and 50,000 up to 500,000 for services sector (GFDRE, 2011).

2.1.2 The Role of Micro and Small enterprises

In many countries, there is now a wide recognition of the contribution of micro and small enterprises (MSEs) to economic growth. Micro-enterprises accounts for 92.4% of all enterprises in the European Union countries non-financial business sector. However, the distribution of employment and value added across the three groups of MSEs was more equal, with micro, small and medium enterprises accounting for 43%, 31% and 26% of European union countries MSEs employment, respectively, and 37%, 31% and 32% of value added generated by MSEs in the European Union countries non-financial business sector (Muller,et a.,2014). In a cross-section of both developed and emerging economies, the contribution of the MSE sector to total employment, entrepreneurship and innovation cannot be underestimated. Recent reports released

by ILO and World bank indicated that working in micro, small, and medium enterprises is the most prevalent way to make a living in low- and middle-income countries (ILO, 2015; World Bank, 2013). There is a great role of micro and small enterprises on improving the living standards of the entrepreneurial households enabling them increase basic needs such as food, education and health facilities, as well as production, investment and income suggesting microenterprises to use local products for more profitability and more support including awareness raising and training to be given to sustain the existing ones so that poverty can be reduced through microenterprise development. (Abera, 2012).

Even though most of the firms in developing countries are micro and small enterprises (MSEs) and despite the substantial amount written about the significance of MSEs to developing economy there is limited literature evidence on the contribution of MSEs to economic growth. According to Ethiopian Development Research Institute studies conducted on micro and small enterprises, MSEs sector performance in terms of its contribution to growth domestic product, employment and export and total manufacturing output is mostly unknown (Berihu, Abebaw, &Biruk, 2014).

2.1.3 Concept of Business Performance

Global Entrepreneurship Monitor (GEM) defined Performance as the act of performing; of doing something successfully ; using knowledge as distinguished from merely possessing it (GEM, 2004). Organizational performance comprises the actual output or results of an organization as measured against its intended outputs.

Businesses have an important role in our daily lives and therefore, successful businesses represent a key ingredient for developing nations. Thus, many economists consider organizations and institutions similar to an engine in determining the economic, social and political progress. Continuous performance is the focus of any organization because only through performance organizations are able to grow and progress. Thus, organizational performance is one of the most important variables in the management research and arguably the most important indicator of the organizational performance (Gavera, 2011).

2.1.4 Measures of performance

It can be stipulated that performance may be measured from different perspectives. Some of the core measures of performance are profitability, turnover, growth in the labor force and market share (Matsotso, M. L. & Benedict, 2014) .According to Ebenezer & Collins (2015), MSEs business performances have been measured using various performance indicators. Most scholars however, recommend hybrid performance measures (financial measures and non - financial measures). Financial measures include return on investment, turnover, profitability, and sales volume while non-financial measures include market share, customer satisfaction, product or service quality, employees turnover and delivery time. According to Haghighinasab, Sattari and Ebrahimiand, (2013) performance can be measured based on growth, market share and profitability. The higher the market share the greater the performance of the business and vice versa. Ardjouman and Asma (2015) further defined performance in terms of output such as profitability or quantified objectives. This means that performance of MSEs has to do with both behavior and results. This explanation covers achievements of anticipated levels as well as objective review and setting. When the behavior of management is right, then the anticipated levels of output would be achieved and vice versa for failure.

2.1.5 Factors Influencing MSE Performance

2.1.5.1 Firm Age

An enterprise's age has a significant effect on growth for the reason that older firms have more experience and a superior financial position to execute their business activities than their counterparts relatively (Afande 2015; Leza et al. 2016). Moreover, older firms are more likely to grow faster than younger firms because of the social capital they have gathered over time through experience (Nathan et al. 2015). Therefore, business experience and firm performance have a positive relationship, that is, as the age of an individual firm increases, the firm performance also increases (Fissiha 2016).

2.1.5.2 Education

Education is presumably related to knowledge and skills, motivation, self-confidence, problem solving ability, commitment, and discipline. Higher education is expected to increase the ability

to cope with problems and seize opportunities (Papadaki and Chami 2002). The role of education on performance is explained through its effect on exposure to new information and processing that could have positive impact on production and distribution of goods and services (Leza et al. 2016). In addition, it is believed that operators with higher educational qualification are expected to make better quality decisions to manage a firm in a way that reduces the likelihood of failure (Victoria et al. 2011). Therefore, firms owned and managed by entrepreneurs with higher formal education experience higher performance than their counterparts (Yeboah2015).

2.1.5.3 Factors Related to Training

- **Lack of Entrepreneurship Skill**

Entrepreneurship considered as an approach to management, defined as a process by which individuals either on their own or inside organizations pursue opportunities without regard to the resources they currently control in an innovative, risk-taking and proactive manner and develops an individual's motivation and capacity independently or within an organization to identify an opportunity and to pursue it in order to produce new value or economic success. Entrepreneurs pursue opportunities to grow a business by changing, revolutionizing, transforming or introducing new products or services. The three important themes in this definition are (1) the pursuit of opportunities, (2) innovation, and (3) growth link entrepreneurship to industrialization process (Hansen, 2011). Entrepreneurship is also recognized as an important driver of economic growth, productivity, innovation, and employment. Entrepreneurship is related to the functional role of entrepreneurs and includes coordination, innovation, uncertainty bearing, capital supply, decision-making, ownership, and resource allocation in their organization (Munyori&Ngugi, 2014). Therefore, Entrepreneurship training has been found to be a major determinant in the growth of enterprises. This has been blamed on the entrepreneurs lacking the entrepreneurship skills to steer their business to growth.

- **Lack of Managerial Skill**

Small business are owned by one person or small group of people and managed by their owners, who with all management usually with the other little help. Several studies have considered the management capacities of the top management team as key factors for small business growth. According to Olawale and Garwe (2010), management capacities are sets of knowledge, skills,

and competencies that can make the small firm more efficient. Aylin et al. (2013) state that management skills are a crucial factor for the growth of MSEs and that the lack of management skills is a barrier to growth and is one of the factors that can lead to failure.

In our country most of micro and small enterprises launched without a feasibility report. Moreover, wherever such reports were prepared, the purpose was to use them as advice to obtain institutional finance than to serve as a plan to make the unit a success (Mohammed Getahun, 2016). The problems of MSE's management arises from the limited knowledge and ability of the owner or shortage of competent staff to advice the owner on management policies (Stephen & Wasiu, 2013). Decision-making skills, sound management and accounting practices are very low for MSE operators in developing countries .In addition, lack of managerial skills leads to problems in production due to lack of coordination of production process, and inability to troubleshoot failures on machinery and/or equipment's and they cannot afford to employ specialists in the fields of planning, finance and administration (Aremu&Adeyemi, 2011). Therefore, training for small business owners and managers allows them to develop the substantial skills to ensure the survival and success of their firms.

- **Lack of Marketing Skill**

Marketing strategy has become an important tool globally for any organization to remain in competitive market environment and wax stronger. Marketing strategy is a vital prerequisite of industry's ability to strengthen its market share and minimize the impact of the competition and as way of providing quality product that satisfies customer needs, offering affordable price and engaging in wider distribution and back it up with effective promotion strategy (Adewale, Adesola, &Oyewale, 2013). Marketing skills has been considered as one of the most effective factor to firm survival and growth. 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 survival in the future (Kaleleoul Fantaye, 2016). According to VanScheers (2012) the lack of marketing skills has a negative impact on the success of small businesses. Pandya, V. (2012) noted that marketing limitations of an MSE resemble other limited resources such as financial and human resources.

Marketing problem has been widely acknowledged as being the most important of all activities and critical for the survival and growth of MSE. However, 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. Most of the prevalent areas in which MSE faces a problem are sales or marketing, human resource management, and general marketing research and training. Specifically, MSEs frequently encountered problems in promotion and marketing research. These problems include the selection of promotional media, low purchasing power of customers, advertising, content design and format of the promotional materials, market size, location and addresses of potential customers (Kefale&Chinnan, 2012).

2.1.5.4 Product Diversification

Product diversification is a strategic choice that occurs when a business owner offers a new product in their existing market (related diversification), or they attempt to enter a new product market (unrelated diversification) (Barbero, Casillas, & Feldman, 2011; Su & Tsang, 2015). Kim and Rasheed (2014) defined a diversification strategy as the result of a business' decision to pursue opportunities in related or unrelated industries by exploiting the financial, physical, and intangible resources that the firm possesses. Product diversification strategies can differ in nature, depending on market and resource factors. Su and Tsang (2015) described related diversification as diversifying within an industry, while unrelated diversification involved cross-industry diversification. Small businesses implement competitive strategies to grow and to remain sustainable. SMEs result to diversification as a growth strategy in order to competitive in this turbulent environment. It is an important strategy for businesses that want to grow, create a competitive advantage, or to survive in the competition (Kang, 2013). In addition, expanding operations in other businesses brings a financing advantage to firms (Jang, 2012). Therefore, corporate diversification is regarded as a strategic tool for organizations to sustain growth and profitability.

2.1.5.5 Standardization and Quality

Product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. A quality product means different things to each consumer. It is a challenge for all firms is to set their quality level and ensure that it meets the

expectations of their target market due to the major financial constraints. In general quality is made up of tangible features (features that can be seen) e.g. performance, appearance, strength and intangible features such as reputation and exclusivity. Product influences have a significant impact on business performance (Adewale et al, 2013). However, in all circumstances a product's quality should be consistent with other elements of the marketing mix. For example a premium based pricing strategy will require a quality product to support the price tag (Learn marketing, 2015). Again, total quality management could serve as a marketing strategy which impacts on business performance. Total quality management (TQM) is perhaps the leading management approach that companies employ to improve their product and service quality with the aim of improving typical measures of business performance (e.g. increased profits, increased market share, reduced costs). They further noted that consumer perception of quality not only results from an evaluation of the intrinsic quality attributes of the product (e.g. performance, reliability, durability) but is also affected by the marketing mix (e.g. price, advertising, warranties) adopted by the company selling the product (Musran Munizu, 2013).

The majority of prior studies show several ongoing trends suggesting that standardization remain an important, positive antecedent to firm performance. And Managers in MSE's may need to position their firms by producing relatively high quality products and undertaking joint marketing strategies in order to penetrate differentiated market segments.

2.1.5.6 Technological Factors

Technology has revolutionized the way companies conduct business by enabling small businesses to level the playing field with larger organizations. Small businesses use an array of tech – everything from servers to mobile devices – to develop competitive advantages in the economic marketplace. Small business owners should consider implementing technology in their planning process for streamlined integration and to make room for future expansion. This allows owners to create operations using the most effective technology available. Business owners can also use technology to create secure environments for maintaining sensitive business or consumer information. Many types of business technology or software programs are user-friendly and allow business owners with only minor backgrounds in information technology to make the most of their tools and features. Business technology helps small businesses improve their communication processes. Emails, texting, websites and apps, for example, facilitate

improved communication with consumers. Using several types of information technology communication methods enable companies to saturate the economic market with their message. Companies may also receive more consumer feedback through these electronic communication methods. Furthermore technology can increase employees' productivity and allows companies to outsource business functions to other businesses in the national and international business environment. Outsourcing can help companies' lower costs and focus on completing the business function they do best. Technical support and customer service are two common function companies outsource. (Osmond Vitez, 2019).

For small enterprises, the introduction and use of new technology can help streamline processes and increase worker productivity if managed properly. The ability to keep up and use technology to the business advantage requires the ability to identify possible uses for each technological advance. Some technological advances may prove cost prohibitive for some small business. This evaluation should shine some light on the possible benefits it will provide to both employees and the company. (Nicole Long. demand media, 2016).

Among the major challenges facing the development of MSEs in Ethiopia is the huge lack of technological capabilities, which is the key to developing the competency of MSE owners and managers. Among the entrepreneurs studied by the CSA in Ethiopia, 29% reported machinery failure as the major reason for their inability to be operational (CSA 2003: 2–13). Therefore it is important to note that small enterprises have difficulties in accessing appropriate technologies and information. By improving their technological capabilities, MSEs can largely improve their production abilities and profitability: the latter can be improved in several ways, such as through research and development spending, technology and knowhow agreements with domestic and foreign firms.

2.2 Empirical Review

Based on the reviewed of past studies conducted on factors affecting the performance of MSEs, some of empirical studies are discussed as follows:

According to Stephen and Wasiu (2013) the transformation of traditional industries is one of the contributions of small scale industries to the growth and development of the country. The

modern sector has evolved through structural transformation and modernization of the traditional type-cottage or artisan industry. Small scale industry can be a means of achieving a smooth transition from tradition to modern industrial sector. EjazGhani, William and Stephen (2011) in their working paper have analyzed the spatial determinants of entrepreneurship in India in the manufacturing and services sectors. Among general district traits, quality of physical infrastructure and workforce education were the strongest predictors of entry, with labor laws and household banking quality also playing important roles. Looking at the district-industry level, they found extensive evidence of agglomeration economies among manufacturing industries.

A study by Nuwagaba and Nzewi (2013) analyzed factors affecting the performance of MSEs in Uganda and, Nigeria using descriptive research design based on a sample of 60 MSEs. The study concluded that environmental constraints such as high taxes, limited access to market, costly and erratic electricity supply and lack of skilled and competent human resources hinder performance of MSE's. The other key factors are access to market is an important factor for MSE's to perform better. Managers in MSE's may need to position their firms by producing relatively high quality products and undertaking joint marketing strategies in order to penetrate differentiated market segments. Hove and Tarisai (2013) also analyzed internal factors affecting the successful growth and survival of small and Micro Agri-business firms in Alice communal Area of South Africa using quantitative and qualitative research design based on a sample of 80 MSEs. The study concluded that: business plan, marketing strategy, mission/vision, SWOT analysis and finance are the most significant internal factors that affect the growth and survival of small and micro agribusiness firms in Alice communal area. The study recommended strategies and policies to small and micro agribusiness firms in Alice communal area to positively improve their growth and survival.

According to a study by Sarwoko, Armanu, Hadiwidjojo (2013) analyzed the influence of entrepreneurial characteristics and competencies on business performance in small and medium enterprises (SMEs) in Malang regency East Java Indonesia using Structural Equation Modeling based on a sample of 147 SMEs owners. The results of the study indicate that the entrepreneurial characteristics have a significant influence on business performance. Kinyua (2014) also analyzed the factors affecting the performance of MSEs in in the Jua Kali sector in Nakuru town

of Kenya using descriptive and explanatory research design based on a sample of 262 MSEs. The study concluded that factors such as access of finance, marketing, entrepreneurial skills, corruption and infrastructure affect the performance of MSEs sectors.

Other studies like by Kamunge, Njeru, and Tirimba (2014) analyzed the factors affecting the performance of small and micro enterprises in Limuru town of Kenya using descriptive research design based on a sample of 274 MSEs. The study concluded that access to finance and availability of management experience are the key socio-economic factors affecting the performance of businesses. The other key factors that affect the performance are access to business information, access to infrastructure and government policy and regulations. The study recommended that the government should start offering basic business and financial management skills as this will enable entrepreneurs to make informed investment decisions as well as enhance their entrepreneurial skills that enable them to recognize and exploit the available business opportunities.

2.2.1. Previous Studies on Ethiopian Micro and Small Enterprises

Mulugeta (2011) has identified and categorized the critical problems of micro and small enterprises 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; micro and small enterprise-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the micro and small enterprises and finally society-related problems such as its distorted attitude about the operators themselves and their products.

According to AdmasuAbera (2012), the main internal factors identified were management factors which include poor selection of associates in business, lack of strategic business planning, and costly and inaccessible training facilities. The marketing factors include inadequacy of market, difficulty of searching new market, lack of demand forecasting,

lack of market information and absence of relationship with an organization/association that conduct marketing research . Antenane Abeiy (2017), has identified on his research work, the data result indicates that most of the enterprises are not entrepreneurial oriented. 81% of MSEs confirmed that, their product has no unique difference from others similar competent enterprises; 78% of MSEs did not have niche market target for their product compared to other competitors. 76% of the respondent confirmed that MSE lack skill and knowledge to apply new technology to produce products and about 66% does not believe that their product has higher quality. This research also revealed that the majority of MSE operators did not receive business development services and majorities could not reach. To support MSE operators MSE development office organized different business development training but failed to reach the majority. Finally, the statistical test also shows that existence of favorable MSE policy, access to finance, and access to working premises in support of appropriate business development service, managerial and technical skill will enhance MSE enterprise growth.

According to a study by Hailay, Aregawi, and Assmamaw (2014) analyzed the factors affecting the growth of MSEs in Feresmay town using descriptive statistics and econometric model based on a sample of 274 MSEs. The study concluded that growth of MSEs measured in terms of employment change affected by factors including owners/operators age, education level, prior experience, family size, MSE's age, MSE's distance from raw materials, inadequacy of market, difficulty of searching new market, financial constraints, infrastructure and market. The study recommended that government, non-government organizations and MSEs development agencies should motivate, help and advise the owners of MSEs on their overall business activities; give training on business issues, arrange forum and exhibitions for experience sharing; and solve the credit, infrastructure, supply and market access problems in collaboration with micro finance institution, banks, Ethiopian Electric Power Corporation, suppliers and other organizations.

2.2.2 Conceptual Frame work

Based on the literature the independent variables for this study are: Lack of Entrepreneurship skill, Lack of Managerial skill, Lack of marketing skill, Product Diversification, Standardization and Quality, Technology while the dependent variable is Performance of micro and small enterprises. Based on the review of related literature discussed above the conceptual framework of this study is presented in Figure 2.1.

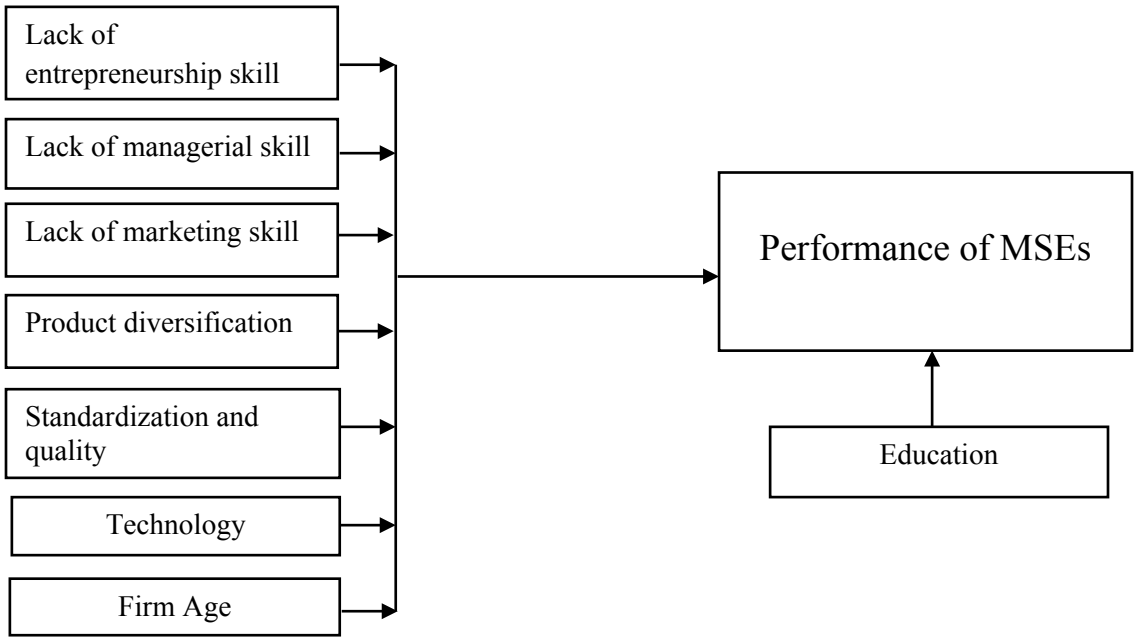

Figure 2.1 Conceptual framework of the proposed study

Source: Adopted from Admasu, 2012 and Own Synthesis from literature, 2019

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter presents research design and methodology for study which contains four points. First it describes about the research design, second it talks about sources of data and data

collection techniques, third it presents the target population and sampling methods and lastly it describes about the method of data analysis and presentation used.

3.1 Background of the study area

Historically, Addis Ababa was founded in 1887 by Emperor Menilik II. It is the largest as well as the dominant political, economic, cultural, and historical capital city of the country. Addis Ababa is the diplomatic capital of Africa. More than 92 embassies and consular representatives cluster in the city where the Organization of African Union and the United Nations Economic Commission for Africa have their headquarters. Geographically, the city is located in the heart of the country between 8°55' and 9°05' north latitude and between 38° 40' and 38°50' east longitude and covers about 540 Km^2 of which 18.2 Km^2 are rural. Topographically, Addis Ababa lies between 2,200 and 2,500 meters above sea level. The city lies at the foot of the 3,000 meters high Entoto Mountains.

The city is divided in to ten sub-cities, which are the second administrative units next to city administration. In terms of area coverage, Bole is the largest sub-city followed by Akaki- Kality and Yeka. Addis ketema is the smallest and followed by Lideta and Arada Sub-cities. The sub-cities are also divided into weredas, which are the smallest administrative unit in the city. The number of weredas varies based on their size of the Sub city.

Bole sub city is one of the 10 sub-cities located in Addis Ababa, Ethiopia. The district is located in the southeastern suburb of the city. It borders with the districts of Yeka, Kirkos, Nifas Silk-Lafto and AkakyKaliti. The total area covers 122.08sq.km with a total population of 328,900 (Male: 154,542, Female: 174,358) and the population density per sq. m is 2,694.1. Currently, the Sub City has 15 Weredas (Addis Ababa City Government, 2013).

Figure 3.1: Map of Addis Ababa

3.2 Research Design

Research design is the conceptual structure within which the research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. As such the design can be defined as a plan, structure and strategy of a research to find out alternative tools to solve the problems and to minimize the variances (Kothari, 2004). Moreover research design is a frame work or a plan to be followed for study and is used as a guideline for collecting and analyzing data.

There are three types of research design, namely exploratory (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables) and explanatory (concerned with determining the cause and effect relationships). (John A.H. et al., 2007).

The main purpose of descriptive research is to describe the state of affairs, as it exists at present time and is helpful in obtaining pertinent and precise information as well as to draw valid conclusion about the target population (Bryman, 2004). According to Kothari (2004), explanatory research design examines the cause and effect relationships between dependent and

independent variables. It also enables a researcher to identify the extent and nature of cause-and-effect relationships.

In order to achieve the research objectives both descriptive and explanatory research designs were used for the study. Therefore, this research study described and assessed factors that affect the performance of micro and small enterprise in Bole sub city and also determined the cause and effect relationships of those factors on the dependent variable or performance.

3.2.1 Research approach and Method

According to Creswell (2014), there are three research approaches namely qualitative, quantitative, and mixed methods. Qualitative research is an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem . The process of research involves emerging questions and procedures, data typically collected in the participant's setting , data analysis inductively building from particulars to general themes, and the researcher making interpretations of the meaning of the data. The final written report has a flexible structure. Those who engage in this form of in query support a way of look in g at research that honors an inductive style, a focus on individual meaning , and the importance of rendering the complexity of a situation .

Quantitative research is an approach for testing objective theories by examining the relationship among variables. These variables, in turn , can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures. The final written report has a set structure consisting of introduction , literature and theory , methods, results, and discussion . Like qualitative researchers, those who engage in this form of inquiry have assumptions about testing theories deductively , building in protections against bias, controlling for alternative explanations, and being able to generalize and replicate the fin dings.

According to Mark et al. (2009:101) mixing qualitative and quantitative approaches gives the potential to cover each method's weaknesses with strengths from the other method. In this study, a combination of qualitative and quantitative approaches were employed, which has been practiced, as recommended by Creswell (2009:203-216).

3.3 Target Population & Sampling Methods

According to Diamantopoulos (2006), a population is a group of items that a sample will be drawn from. Target population is the specific population about which information is desired. The target populations for this study were 1127 MSEs which registered in Bole Sub City MSE Office and engaged in construction, manufacturing, merchandise and service sectors (Bole Sub city Administration Office, 2018).

3.3.1 Sampling procedure and technique

Sampling is the procedure a researcher uses to gather people, places or things to study. It is the process of selecting a number of individuals or objects from the population such that the selected group contains elements representative of the characteristics found in the entire group (Orodho & Kombo, 2002).

According to M. H. Alvi (2016) sampling techniques are broadly categorized into two major types namely probability sampling methods and non-probability sampling methods. In the case of probability sampling, which is also called as random sampling or representative sampling, every member of the population has a known (non zero) probability of being included in the sample. These techniques need population to be very precisely defined. This technique reduces the chance of systematic errors and sampling biases. Enables to produce a better representative sample, besides, inferences drawn from sample are generalizable to the population, though, a lot of efforts and time is consumed under this technique.

In the case of non-probability sampling, which is also called judgment or non-random sampling every unit of population does not get an equal chance of participation in the investigation for no random selection will be made. The selection of the sample is made on the basis of subjective judgment of the investigator. These techniques do not require a population to be very precisely defined. This sampling technique is prone to encounter with systematic errors and sampling biases and the sample cannot be claimed to be a good representative of the population for inferences drawn from sample are not generalizable to the population.

In this study, the very intention is to obtain representative data, which really invites the use of probability sampling technique. To select sample of enterprise from the total population of MSEs a stratified random sampling was applied. According to Janet (2006), Stratified sampling is a sample that focuses on characteristics of particular subgroups of interest and

facilitates comparisons. This technique is preferred because it is used to assist in minimizing bias when dealing with the population and with this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. This step increases the probability that the final sample will be in terms of the stratified groups. Therefore for this study the business type was taken as criteria to create strata. And the strata's were sectors of MSEs including construction, manufacturing, merchandise and service sectors, which are commonly available in all sub cities of Addis Ababa. From each stratum's simple random sampling method was applied.

3.3.2 Sample size determination

A sample is drawn as a result of constraints that make it difficult to cover the entire research population (Leedy and Ormord, 2005). The sample size is the number of units in a population to be studied and determined by three factors: the level of certainty that the characteristics of the data collected represent the population, the margin of error that can be tolerated, and the type of analyses to be performed.

In this study to select sample size a list of the population formally registered by Bole sub city was used. A target population of 1127 micro and small enterprises which include different business group i.e. construction (407), manufacturing (343), merchandize (210), service sector (167).

To estimate the sample representative Yamane's formula (Glenn D. Israel, IFAS, 2012); with an error 5% and with a confidence coefficient of 95% was applied based on the following formula:-

$$n = \frac{N}{(1+ Ne^2)}$$

Where e^2– Margin of errors/error margin 5%

N – Total Population size

n – Sample size

Therefore, $n = \frac{1127}{1+1127(0.0025)} = \mathbf{295}$

From this total sample size, for each strata sample sizes were produced taking the following ratio.

Proportion sampling strata = single strata population /Sampling frame * sample size.

Table 3.1 Proportional sampling for each stratus

No	Category (Strata)	Sample Size
1	Construction	(407/1127)*295 = **106**
2	Manufacturing	(343/1127)*295 = **90**
3	Merchandise	(210/1127)*295 = **55**
4	Service sector	(167/1127)*295 = **44**

3.4 Sources of Data & Data Collection Techniques

3.4.1 Types and method of data collection

In this study in order to get appropriate input, the data collection was conducted mainly through a primary source of data which includes both qualitative and quantitative nature to be collected through structured questionnaires and interviews on a cross sectional basis. Through interviews, clarification of issues was easily achievable leading to accuracy of data from the managers (operators) and MSE experts. In addition to this the researcher reviewed previous literatures, books, articles and journals in order to develop research questions and concepts.

3.5 Description of Variables

Performance of Micro and Small Enterprises: Performance of MSEs is defined as the enterprises owner/operator subjective measure of their business performance. For this study profitability will be used as measurement of performance. In this study profitability will be used to measure performance of MSE. This is mainly because profit has been widely adopted by most researchers and practitioners in business performance models. Therefore,

$$\text{Performance} = \frac{\text{Total Profits}}{\text{No. of years}}$$

The following are the independent variables used in this study:

The independent variables are firm age, education, entrepreneurship skill, managerial skill, marketing skill, product diversification, standardization and quality, technology.

Table 3.2 operational definition of the independent variables

Variable	Description	Expected effect on performance of MSEs (-/+)
Age	Number of years of existence	+/-
Education	Level of schooling	+
Entrepreneurship skill	Firms with skilled employee are productive and innovative. The researcher considers the level of employee education, or the number schooling years they did.	+
Managerial skill	Business owners with prior management experience are thought to be likely to form faster growing businesses than those established by individuals without that experience.	+
Marketing Skill	Ability of MSEs owners and workers finding new customers to create a continual stream of business	+
Product Diversification	Strategic choice of business owner to increase market share.	+/-
Standardization and Quality	Setting MSE's quality level and ensure that it meets the expectations of their target market consistently by the greatest possibilities for exploiting economies of scale	+
Technology	The availability of technology in the MSEs and the ability to use them to the businesses advantage	+

3.6 Method of Data Analysis & Presentation

3.6.1 Method of data analysis

A descriptive and inferential data analysis method was used to analyze the data collected through a structured questionnaire with Statistical Packages for Social Science version 21. The descriptive statistics were presented using tables in the form of frequency, percentage, mean, standard deviation. The Pearson's correlation coefficient was used to determine statistically significant correlation between variables (age, education, entrepreneurship skill, managerial skill, marketing skill, product diversification, standardization and quality, technology with MSE performance). In addition OLS multiple regression and t- statistics were conducted to test the relationship between dependent and independent variable and moreover the researcher used multiple regressions in order to identify the most influential factors of performance. To test the

hypothesis based on the estimated coefficient by using OLS the model should fulfill assumption of CLRM (classical linear regression model).

From those assumptions multicolinearity test and auto correlation test were conducted in this study. According to Chris Brooks (2008) multicolinearity means it is a problem that occurs when there is correlation between explanatory variable and it leads the individual variable to be insignificant. Besides it makes difficult to draw inferences from the model. In this research correlation matrixes, were formed to check the possible degree of multicollinearity. Shapiro-Wilk test was used to test the normality distribution of error term with null hypothesis that residuals are normally distributed. And Ramsey RESET test was performed for model specification with null hypothesis that the model has no omitted variables. According to Brooks (2014) if the model is not correctly specified, the problem of model specification error or model specification bias will be encountered. Thus, model specification with regard to omission of variables can be formally tested using Ramsey's RESET test, which is a general test for misspecification of functional form. In addition, Breusch-Pagan/Cook-Weisberg test for heteroscedasticity was used with null hypothesis that variance of error is constant.

Finally for the proposed empirical model a regression analysis was evaluated. And coefficients were determined for each variable. And a relation between dependent and independent variables was realized with the help of the model. P-test was used to describe the relation between growth and determinants.

Model Specification

In the current study, the following general multiple linear regression model was specified consistent with that of Adem et al. (2014); Leza et al.(2016); Tarfasa et al. (2016); and Fissiha (2016) since enterprises' performance is considered as a continuous variable.

The regression equation: $Y_i = \beta + \alpha X_i + \varepsilon_i$

Where Y, is the dependent variable for firm i, β is the constant term, *a* is the vector of coefficient of the independent variables of interest that the study want to estimate, X_i is the vector of the independent variable for firm i and ε_i, the normal error term. The estimated regression model used in this study is as follows:

$Yi = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3\ X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \beta 6X7 + \beta 6X8 + e$

Where: - Y is the dependent variable- performance

X1= age, X2= education, X3= entrepreneurial skills, X4= management skills, X5= marketing skills, X6= product diversification, X7= standardization and quality, X8= technology are the independent variables.

e= Error term

i =1, 2, 3…. n, where n is the number of firms

ß= Multiple regression coefficients to be estimates

3.7 Ethical Consideration

The researcher has undertaken to protect the rights of the respondents by ensuring that none of the respondents was named during the study and respondents were assured any information gathered through data collection instruments that will be used only for the academic purpose. More over the researcher make sure that the respondents were selected to participate without compulsion and consent was sought from the management of the selected company before the commencement of this research initiative.

3.8 Validity and Reliability

3.8.1 Validity

The validity of research instrument can be considered how accurate the instrument measures what is supposed to measure (Joubert & Ehrlich 2005). The face validity and content validity of the instrument were assessed by the experts in the field and during pretest of the questionnaire. To increase the validity of this thesis the researcher follows the following techniques. First testing the instrument. Second the questioner were refined based on the respondent comment and finally the proper detection obtain from advisor were taken. Furthermore statistical inferences were used to test the relationship of variable and to give inference for the dependent variable.

3.8.1 Reliability

Reliability is the degree to which the measure of a construct is consistent or dependable Bhattacherjee (2012). This research has administered the most commonly used internal consistency reliability measure of Cronbach's alpha which was originally designed by Lee Cronbach in 1951. According to Sekaran (2003), reliabilities less than 0.6 are considered poor, 0.7 ranges to be acceptable and over 0.8 are good. The reliability coefficient closer to 1 is better therefore the value alpha was found 0.716 which is greater than 0.7 so it is acceptable for reliability.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter presents data processing in the first section, analysis of data in the second part and lastly interpretation of the analysis is included.

4.1 Data Presentation and Analysis

This section presents analysis and interpretation of findings from data that were gathered from the MSEs found within Bole sub city. The data has been collected, processed and analyzed in accordance with the approved research proposal outline research plan. The data processing implies editing, coding, classification and tabulation of collected data to make it amenable for analysis. To facilitate ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the inferential analysis.

Two hundred ninety five structured questionnaires were developed and distributed to the MSE operators. Out of these 266 questionnaires were correctly filled and returned. The rest 29 were found to be incomplete. Data collected through questionnaires and interviews were analyzed concurrently. The following table shows the response rate.

Table 4.1: Response rate of questionnaires administered

	Total questionnaire administered	**Correctly filled and returned**	**Not correctly filled**
Number	295	266	29
percentage		90.2%	9.8%

Source: Own survey, 2020

4.2 Demographic characteristics of MSE owners.

The first part of the questionnaire consists of the demographic information of the study participants related to personal profile of respondents. Accordingly, demographic variables were summarized in Table 4.2 as indicated below.

Table 4.2: Profile of the respondent

		Frequency	Percent	Valid	Cumulative

				Percent	Percent
Gender	Male	190	71.4	71.4	71.4
	Female	76	28.6	28.6	100.0
	Total	266	100.0	100.0	
Education level	Read and write	9	3.4	3.4	3.4
	Primary school	69	25.9	25.9	29.3
	Secondary school	93	35.0	35.0	64.3
	College diploma	59	22.2	22.2	86.5
	Degree	36	13.5	13.5	100.0
	Total	266	100.0	100.0	

Source: Own survey, 2020

The gender composition of respondents of the study as indicated above the majority of the respondents were found to be male constituting 71.4% of respondents and the remaining 28.6% were female.

Regarding to the educational background of the respondents (35%) attended secondary school, (25.9%) attended primary school, (22.2%) hold college diploma, (13.5%) hold degree and (9%) the respondents could read and write.

4.3 General Information on business enterprises

The sample firms were operating in four sectors. (35.3%) engage in construction, (30.8%) in manufacturing, (19.2%) in merchandise and (14.7%) in service sectors. This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the performance of MSEs. This is because firms in different sectors of the economy face different types of problems. That means the degree of those critical factors in construction sector may differ from the factors that are critical to manufacturing, merchandise and service sectors.

Most of the respondents' form of ownership constitutes (51.9%) partnership followed by (40.2%) sole proprietorship and the other private limited co and MSE cooperative constitute (7.9%). With

regard to the source of finance micro finance institutions (33.1%) and personal saving (31.2%) are the most frequently used sources, followed by family/friends/ (24.1%), Iqub/Idir/ (10.2%) and banks (1.5%). The business related data summary is presented in the following table.

Table 4.3: Business related data of enterprises

	Frequency	Percent	Valid Percent	Cumulative Percent	Frequency
Business Type	Construction	94	35.3	35.3	35.3
	Merchandise	51	19.2	19.2	54.5
	Manufacturing	82	30.8	30.8	85.3
	Service Sector	39	14.7	14.7	100.0
	Total	266	100.0	100.0	
Form of ownership	Sole proprietorship	107	40.2	40.2	40.2
	Partnership	138	51.9	51.9	92.1
	MSE Cooperative	9	3.4	3.4	95.5
	Private limited co.	12	4.5	4.5	100.0
	Total	266	100.0	100.0	
Source of finance	Personal Saving	83	31.2	31.2	31.2
	Family/ Friends	64	24.1	24.1	55.3
	Banks	4	1.5	1.5	56.8
	Iqub/Idir	27	10.2	10.2	66.9
	Micro finance institutions	88	33.1	33.1	100.0
	Total	266	100.0	100.0	

Source: Own survey, 2020

Regarding to the enterprise age of the respondents (56.39%) have 1-3 years of experience, (28.19%) have 4-6 years of experience, (9.78%) have 7-9 years of experience and (5.64%) have more than 10 years of experience.

Table 4.4: Enterprise age level with sectors

Firm Age	Sector	Total	Percent

	Construction	Merchandise	Manufacturing	Service		
1-3 years	68	27	35	20	150	56.39
4-6 years	13	11	37	14	75	28.19
7-9 years	7	10	4	5	26	9.78
>10 years	6	3	6	0	15	5.64
Total	94	51	82	39	266	100.0

Among the total enterprise operators/managers included in the study only 25.2 % attended training services to boost up their businesses performance.74.8% didn't attend any training services. The training status of the respondents varies among the four sectors. From the total of 67 operators who have attended the training 15 from construction, 25 from merchandise, 15 from manufacturing and 12 from service sectors. The type of trainings taken constitutes of (57.4%) entrepreneurship, (26.7%) followed by management and (15.8%) marketing as depicted in tables 4.5 a & 4.5 b.

Table 4.5a: MSE training status

Training	Sector				Frequency	Percent
	Construction	Merchandise	Manufacturing	Service		
Yes	15	25	15	12	67	25.2
No	79	26	67	27	199	74.8
Total	94	51	82	39	266	100.0

Source: Own survey, 2020

Table 4.5b: Type of training taken

		Responses		Percent of Cases
		N	Percent	
Type of training taken [a]	Entrepreneurship	58	57.4%	86.6%
	Management	27	26.7%	40.3%
	Marketing	16	15.8%	23.9%
Total		101	100.0%	150.7%

a. Dichotomy group tabulated at value 1.

Source: Own survey, 2020

Regarding to the product diversification strategy the majority 77.4% of the operators/ managers didn't apply any strategy as indicated below.

Table 4.6: Product diversification

Product diversification	Sector				Total	%
	Construction	Merchandise	Manufacturing	Service		
Vertical diversification	10	10	10	20	50	18.8 %
Horizontal diversification	10	0	0	0	10	3.8%
Don't have product diversification	74	41	72	19	206	77.4 %
Total	94	51	82	39	266	100

Source: Own survey, 2020

As can be seen from the table below only 17.3% of the operators/managers/ have certified and upgraded the business level and the rest 82.7% didn't have any certified proof that the firm have met with standardization and improve quality level.

Table 4.7: Standardization and Quality

Certified	Sector				Total	Percent
	Construction	Merchandise	Manufacturing	Service		
Yes	18	5	18	5	46	17.3%
No	76	46	64	34	220	82.7%
Total	94	51	82	39	266	100%

Source: Own survey, 2020

With regarding to technology the majority 77.3% used technology for different purposes as shown in the next table 4.7a & b.

Table 4.8a: Technology

Technology	Sector				Total	Percent
	Construction	Merchandise	Manufacturing	Service		
Yes	84	18	74	32	208	77.3%
No	10	33	8	7	58	22.7%
Total	94	51	82	39	266	100%

Source: Own survey, 2020

Table 4.8b: Type of technology

		Responses		Percent of Cases
		N	Percent	
Type of technology used [a]	Machinery equipment	149	43.1%	71.6%
	Electronics and digital	144	41.6%	69.2%
	Internet	53	15.3%	25.5%
Total		346	100.0%	166.3%

a. Dichotomy group tabulated at value 1.

Source: Own survey, 2020

4.4 Descriptive statistics result of factors affecting the performance of MSEs

There are a number of challenges that affect performance of MSEs associated with different factors. This section explains the descriptive statistics calculated on the basis of the six independent variable factors that affect the performance of MSEs. The results for measures of central tendency and dispersion were obtained from the sample of respondents of construction, merchandise, manufacturing and service sectors as shown in the following tables.

Table 4.9 Entrepreneurial factors

Item	**Construction**	**Merchandise**	**Manufacturing**	**Service**	**Total**

Entrepreneurial factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Lack of employees motivation and drive	3.9787	.35857	4.0196	.31561	3.9268	.30552	3.9487	.22346	**3.9662**	**.31739**
Lack of tolerance to work hard together among employees	3.0532	.30645	3.0392	.34414	3.0366	.24571	3.0000	.22942	**3.0376**	**.28566**
Lack of persistence and courage to take responsibility for ones failure	3.0532	.39803	3.0588	.23764	3.0488	.26770	3.0256	.16013	**3.0489**	**.30322**
Absence of initiative to assess ones strengths and weakness	4.0213	.25310	4.0000	.34641	3.9756	.31331	3.8974	.38353	**3.9850**	**.31287**
Lack of sufficient entrepreneurship training	4.9362	.24576	4.8431	.50488	4.9390	.28750	4.8462	.43155	**4.9060**	**.35101**
Lack of information to exploit business opportunities	4.4681	.66724	4.7843	.41539	4.7073	.45779	4.7692	.42683	**4.6466**	**.54524**

Source: Own survey, 2020

Among the entrepreneurial factors the most important findings include: lack of entrepreneurship training with the highest mean scores 4.94, 4.93, 4.85 and 4.84 with standard deviation of .28, .24, .43 and .50 for operators engaged in manufacturing, construction, service and merchandise respectively. The second most important factor that affects the performance of MSEs is lack of information to exploit business opportunities with mean score of 4.78, 4.76, 4.7 and 4.46 and standard deviation of .41,.42, .45 and .66 for operators engaged in merchandise, service, manufacturing and construction respectively. And the third entrepreneurial factors that hinder the success of entrepreneurs employed in all sectors is absence of initiative to assess ones strengths and weakness with mean score 4.02, 4, 3.97 and 3.89 and standard deviation of .25, .34, .31 and .38 for operators engaged in construction, merchandise, manufacturing and service respectively. This shows that the operators of all sectors agreed with that they have faced the problem of assessing their weaknesses and strengths.

According to the respondents lack of entrepreneurial training was featured as a key problem in all sectors. Majority of the respondents felt that enough training in entrepreneurship

would better prepare to perform in their business endeavors. Additionally, with regard to lack of information to exploit business opportunities respondents confirmed that, the operators do not heightened the ability and awareness for recognizing and audaciously exploiting business opportunities. This finding agrees on previous studies made by Admasu Abera (2012) and Mulugeta (2011). According to them, the main internal factors identified were poor selection and exploitation of associates in business cooperation within and among the micro and small enterprises, lack of experience sharing, costly and inaccessible training facilities. Consequently, it hampers the performance of MSEs and the fulfillment of competitive urges in general. Entrepreneurship is also recognized as an important driver of economic growth, productivity, innovation, and employment. Entrepreneurship is related to the functional role of entrepreneurs and includes coordination, innovation, uncertainty bearing, capital supply, decision-making, ownership, and resource allocation in their organization (Munyori & Ngugi, 2014).

Table 4.10 Management factors

Item	**Construction**		**Merchandise**		**Manufacturing**		**Service**		**Total**	
Management factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Lack of clear division of duties and responsibility	4.0000	.00000	4.0000	.00000	4.0732	.34356	4.0000	.00000	**4.0226**	**.19294**
Lack of well trained &experienced employees	4.8298	.37783	4.9412	.23764	4.9512	.21673	4.9231	.26995	**4.9023**	**.29753**
Lack of sufficient managerial skill training	4.9149	.31655	4.9216	.27152	4.9634	.18890	4.9487	.22346	**4.9361**	**.26000**
Lack of low cost and accessible training facilities	4.9043	.29582	4.8627	.34754	4.9756	.15521	4.9231	.26995	**4.9211**	**.27016**
Lack of strategic business planning	3.7021	.50438	3.7843	.41539	3.7073	.45779	3.7949	.40907	**3.7331**	**.45990**
Poor communication	3.0851	.47879	3.2745	.56845	3.1098	.31451	3.2308	.42683	**3.1504**	**.45135**

Source: Own survey, 2020

As shown in the above table 4.9, lack of sufficient managerial skill training is the main problems that hinder the performance of MSEs. It shows a mean score of 4.96, 4.94, 4.92 and 4.91 with a

standard deviation of .18, .22, .27 and .31 for MSEs engaged in manufacturing, service, merchandise and construction respectively. Therefore, the average score of the respondents with regard to lack of sufficient managerial skill training indicates their agreement with little deviations among them. Likewise, in relation to costly and inaccessible training facilities, the table above shows that, the mean score of 4.97, 4.92, 4.9 and 4.8 with standard deviation of .15, .26, .29 and .34 for MSEs engaged in manufacturing, service, construction and merchandise respectively.

The third most important factor is lack of well trained and experienced employees is the problem of operators engaged in manufacturing, merchandise, service and construction with mean score of 4.95, 4.94, 4.92 and 4.8 and with standard deviations of .21, .23, .26 and .37 respectively.

In this regard, it was confirmed that MSE operators had many management problems which stem from factors such as lack of well trained and experienced employees, insufficient training and lack of relevant qualifications. This finding agree with Admasu Abera (2012), indicating that poor selection of associates in business, lack of strategic business planning, and costly and inaccessible training facilities are major constraints of the management factors. Furthermore, lack of clear division of duties among employees which indicates that most of these enterprises operate without systems in line with good management practice in which the owner /manager/ is the sole decision maker and his/her absence leads to a halt in decision making. And also most of the operators of MSEs have no proper business plans.

In conclusion, all these managerial constraints were confirmed by the respondents in this survey which indicate that the business performance were constrained by poor management practice, lack of low cost and insufficient training, lack of clear division of duties, lack of proper business plan and poor communication among employees. Hence, the above result indicates that service sectors are highly influenced by management constraints followed by merchandise, manufacturing and construction.

Table 4.11Marketing factors

Item	Construction		Merchandise		Manufacturing		Service		Total	
Marketing factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Lack of demand forecasting	4.8936	.30998	4.9216	.27152	4.9390	.24076	4.9487	.22346	**4.9211**	**.27016**
Lack of promotion to attract potential users	4.9149	.28054	4.9216	.27152	4.9390	.24076	4.9231	.26995	**4.9248**	**.26419**
Absence to conduct marketing research	3.7660	.49569	3.7843	.41539	3.7073	.45779	3.7949	.40907	**3.7556**	**.45606**
Poor customer relationship and handling	3.7766	.48977	3.7647	.42840	3.7073	.45779	3.7949	.40907	**3.7556**	**.45606**
Lack of sufficient marketing skill training	4.9043	.29582	4.9608	.19604	4.9756	.15521	4.9744	.16013	**4.9474**	**.22372**
Lack of low cost and accessible training facilities	4.9362	.24576	4.9216	.27152	4.9756	.15521	4.9744	.16013	**4.9511**	**.21601**

Source: Own survey, 2020

As shown in the table above, among the marketing factors 1ack of low cost and accessible training facilities, lack of sufficient marketing skill training, lack of promotion to attract potential users and lack of demand forecasting are critical factors that affect the performance of MSEs engaged in all sectors. The mean scores and standard deviations clearly show respondents agreement on the variables. That is mean scores of costly and inaccessible training facilities are 4.98, 4.97, 4.93 and 4.92 with standard deviations of .15, .16, .24 and .27 for MSEs engaged in manufacturing, service, construction and merchandise respectively. Likewise, in relation to insufficient marketing skill training, the above table shows that, the mean score of 4.98, 4.97, 4.96 and 4.9 with standard deviations of .15, .16, .19 and .29 for MSEs engaged in manufacturing, service, merchandise and construction respectively.

The third main factor that hinders MSE operator is lack of promotion to attract potential users with a mean score of 4.93, 4.923, 4.921 and 4.91 with standard deviations of .24, .26, .27 and .28 for MSEs engaged in manufacturing, service, merchandise and construction respectively. Another marketing factor that mainly affects the performance of MSE operators engaged in

service, manufacturing, merchandise and construction is lack of demand forecasting with mean score of 4.94, 4.93, 4.92 and 4.89 with standard deviations .22, .24, .27 and .31 respectively.

Accordingly, all the above marketing constraints were confirmed by the respondents in this survey which indicate that the business performance were constrained mainly by costly and inaccessible training facilities, insufficient marketing skill training, lack of promotion to attract potential users and lack of demand forecasting. Most of the respondents mentioned that lack of sufficient selling space contributes for the low attraction of potential users. This result agrees with Kefale & Chinnan , 2012 research study which indicated that MSEs frequently encountered problems in promotion and marketing research. These problems include the selection of promotional media, low purchasing power of customers, advertising, content design and format of the promotional materials, market size, location and addresses of potential customers.

Therefore, 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 survival in the future (Kaleleoul Fantaye, 2016).

Table 4.12 Product diversification factors

Item	Construction		Merchandise		Manufacturing		Service		Total	
Product diversification factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Lack of continuous improvement of product	3.7872	.56554	3.7255	.56845	3.6829	.54156	3.7179	.60475	**3.7331**	**.56317**
Inadequate market for new product line	4.9043	.36127	4.9216	.33723	4.9024	.40398	4.9487	.32026	**4.9135**	**.36348**
High competition	4.6915	.65626	4.6471	.84436	4.9146	.32208	4.8205	.50637	**4.7707**	**.60505**
Lack of adaptation to change with new product line	3.7128	.66595	3.7255	.63493	3.7073	.45779	3.8205	.45142	**3.7293**	**.57136**
Low capital to expand	4.9255	.26394	4.9804	.14003	4.9634	.18890	5.0000	.00000	**4.9586**	**.19948**
I don't think it will increase profitability	4.3830	.62401	4.4902	.64413	4.5000	.59317	4.2308	.77668	**4.4173**	**.64627**

Source: Own survey, 2020

In accordance with the above table, the result of the respondents clearly indicated that among the product diversification variables low capital to expand, inadequate market for new product line and high competition are critical factors that affect the performance of MSEs engaged in all sectors. The mean scores for low capital to expand are 5.0, 4.98, 4.96 and 4.92 with standard deviations of .00, .14, .18 and .26 for MSEs engaged in service, merchandise, manufacturing and construction respectively. The second major factor that hinders the performance of MSE operators is inadequate market for new product line with mean score of 4.94, 4.92, 4.904 and 4.902 with standard deviations of .32, .33, .36 and .40 for MSEs engaged in service, merchandise, construction and manufacturing respectively. Similarly, the third major factor that hinders the performance of MSE operators is high competition with mean score of 4.91, 4.82, 4.69 and 4.64 with standard deviations of .32, .50, .65 and .84 for MSEs engaged in manufacturing, service, construction and merchandise respectively.

The above finding agrees with Hailay, Aregawi, and Assmamaw (2014) research study that analyzed inadequacy of market, difficulty of searching new market, financial constraints are the major bottlenecks for firms to grow. Therefore, product diversification is an important strategy

for businesses that want to grow, create a competitive advantage, or to survive in the competition (Kang, 2013). In addition, expanding operations in other businesses brings a financing advantage to firms (Jang, 2012). Therefore, corporate diversification is regarded as a strategic tool for organizations to sustain growth and profitability.

Table 4.13 Standardization and Quality factors

Item	**Construction**		**Merchandise**		**Manufacturing**		**Service**		**Total**	
Standardization and Quality factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Lack to define and implement procedures for quality production	3.6383	.54578	3.7255	.56845	3.7439	.58396	3.8462	.48874	**3.7180**	**.55577**
Lack to handle product quality certification protocols	4.8298	.50029	4.8235	.51791	4.9146	.35836	4.8718	.40907	**4.8609**	**.45080**
Lack to test product quality	3.7340	.53230	3.7647	.55094	3.7073	.50888	3.6923	.56911	**3.7256**	**.53188**
Lack capacity to meet the requirements	4.8404	.39631	4.8627	.34754	4.9146	.28114	4.9487	.22346	**4.8835**	**.33301**
Lack to monitor proper implementation of safety rules	3.0532	.39803	3.0392	.28006	3.0244	.35051	3.0513	.39395	**3.0414**	**.36105**
Lack to check compliance with product standards	3.8723	.33550	3.8039	.56638	3.9390	.32764	3.8974	.44691	**3.8835**	**.40463**
I don't think it will increase profitability	4.4681	.65092	4.3333	.68313	4.6790	.46976	4.6667	.47757	**4.5358**	**.59642**

Source: Own survey, 2020

As it can be seen from the above table, the result of the respondents clearly indicated that among the standardization and quality variables lack capacity to meet the requirements, lack to handle product quality certification protocols and lack to check compliance with product/process/ standards are the major factors that affect the performance of MSEs engaged in all sectors. The mean scores for lack capacity to meet the requirements are 4.94, 4.91, 4.86 and 4.84 with standard deviations of .22, .28, .34 and .26 for MSEs engaged in service, manufacturing, merchandise and construction respectively. The second major factor that hinders the performance of MSE operators is lack to handle product quality certification protocols with mean score of 4.91, 4.87, 4.83 and 4.82 with standard deviations of .35, .41, .5 and .51 for MSEs engaged in

manufacturing, service, construction and merchandise respectively. Similarly, the third major factor that hinders the performance of MSE operators is lack to check compliance with product/process/ standards with mean score of 3.93, 3.89, 3.87 and 3.8 with standard deviations of .32, .44, .33 and .56 for MSEs engaged in manufacturing, service, construction and merchandise respectively.

The above result is supported by (Adewale et al, 2013) study indicating that it is a challenge for MSEs firms to set their quality level and ensure that it meets the expected standardization level of their target market due to the major financial constraints. Managers in MSE's may need to position their firms by producing relatively high quality products and undertaking joint marketing strategies in order to penetrate differentiated market segments (Nuwagaba and Nzewi ,2013).

Table 4.14 Technology factors

Item	**Construction**		**Merchandise**		**Manufacturing**		**Service**		**Total**	
Technology factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Lack of skills and knowledge to handle new technology	4.6809	.70654	4.4902	.85726	4.7927	.53835	4.4872	.94233	**4.6504**	**.73839**
Lack of money to acquire new technology	4.6383	.75990	4.6471	.77003	4.9146	.42167	4.5385	.96916	**4.7105**	**.72349**
Unable to select proper technology	3.9043	.73425	3.8824	.47527	3.7683	.65355	3.7436	.54858	**3.8346**	**.64052**
I don't modern techniques improve performance	4.6596	.61440	4.7451	.56011	4.8171	.44799	4.9487	.22346	**4.7669**	**.51961**

Source: Own survey, 2020

As it can be seen in the table above, most of the respondents of the four sectors agreed on using technology increased their business performance and it is justified by the mean scores of 4.94, 4.81, 4.74 and 4.65 with standard deviations of .22, .44, .56 and .61 for MSEs engaged in service, manufacturing, merchandise and construction respectively.

Among the technology constraints lack of money to acquire new technology is the main problem of MSE. The mean scores are 4.91, 4.64, 4.63 and 4.53 with standard deviations of .42, .77, .75 and .96 for MSEs engaged in manufacturing, merchandise, construction and service respectively.

This is followed by lack of skills and knowledge to handle new technology with mean scores of 4.79, 4.68, 4.49 and 4.48 with standard deviation of .53, .71, .85 and .94 for MSEs engaged in manufacturing, construction, merchandise and service respectively. This finding agrees with Antenane Abeiy (2017), study which indicated that most of MSEs lack skill and knowledge to apply new technology to produce products.

Among the major challenges facing the development of MSEs in Ethiopia is the huge lack of technological capabilities, which is the key to developing the competency of MSE owners and managers. Among the entrepreneurs studied by the CSA in Ethiopia, 29% reported machinery failure as the major reason for their inability to be operational (CSA 2003: 2–13). Therefore it is important to note that small enterprises have difficulties in accessing appropriate technologies and information. By improving their technological capabilities, MSEs can largely improve their production abilities and profitability.

Table 4.15 General factors

Item	**Construction**		**Merchandise**		**Manufacturing**		**Service**		**Total**	
General factors	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***	***MN***	***SD***
Entrepreneurial factors	3.6170	.97392	3.7647	.58611	3.5244	.77341	3.9744	.16013	**3.6692**	**.77918**
Managerial factors	3.4894	1.10468	3.5098	.98737	3.6098	.66213	3.8205	.50637	**3.5789**	**.89198**
Marketing factors	3.8404	.94247	3.7059	.78215	3.5122	.74110	3.8205	.55592	**3.7105**	**.81196**
Product diversification factors	3.6702	1.08150	3.7843	.64230	3.6463	.77574	3.7949	.52212	**3.7030**	**.84572**
Standardization and Quality factors	3.6489	1.08467	3.6275	.79902	3.6463	.94767	3.8205	.55592	**3.6692**	**.92530**
Technology factors	3.7553	.93540	3.6863	.73458	3.5000	.80508	3.4103	.59462	**3.6128**	**.82214**

Source: Own survey, 2020

Although, all the independent variables affect the performance of MSEs, this does not mean that

all factors have equal impact. As it can be seen clearly from the above table, marketing and product diversification factors has the biggest potential to contribute to the performance, followed by standardization and quality, entrepreneurial, technological and management factors.

In another words, the result shows that marketing and product diversification factors are the two top most factors that affect the performance of MSE in the selected area.

4.5 Results of Inferential Statistics

This section shows the data analysis result performed with inferential statistics by Pearson's Product Moment Correlation Coefficient and regression analyses for the purpose of assessing the objectives of the study.

4.5.1 Pearson's Product Moment Correlation Coefficient

In this study Pearson's Product Moment Correlation Coefficient was used to determine whether there is significant relationship between age, education, entrepreneurial, management, marketing, product diversification, standardization and quality and technological variable with performance. The table below indicates that the correlation coefficients for the relationships between performance and its independent variables are linear and positive ranging from substantial to strong correlation coefficients.

Table 4.16 the relationship between independent variables and performance

		Performance
Age	Pearson Correlation Sig. (2-tailed) N	.378** .000 266
Education	Pearson Correlation Sig. (2-tailed) N	.497** .000 266
Entrepreneurial factors	Pearson Correlation Sig. (2-tailed) N	.686** .000 266
Managerial factors	Pearson Correlation Sig. (2-tailed) N	.702** .000 266
Marketing factors	Pearson Correlation Sig. (2-tailed) N	.832** .000 266
Product diversification factors	Pearson Correlation Sig. (2-tailed) N	.771** .000 266
Standardization and Quality factors	Pearson Correlation Sig. (2-tailed) N	.782** .000 266
Technology factors	Pearson Correlation Sig. (2-tailed) N	.754** .000 266

Source: Own survey, 2020

As it is clearly indicated in the above table 4.15, a strong positive relationship was found between marketing and performance ($r = .832$, $p < .01$) which is statistically significant at 99% confidence level. This implies that at a 1% level of significance it was discovered that the marketing plays a significant role in determining the performance of MSEs in the selected sub-cities. The above table indicated that there is substantial positive relationship between standardization & quality and performance ($r = .782$, $p < .01$). This would indicate that, the more standardization and quality the better performance of MSEs would be. There is substantial positive relationship between product diversification and performance ($r = .771$, $p < .01$). This would imply that, the more product diversification the better performance of MSEs would be. The result on table above further indicates that, there is a substantial positive correlation

between technological factors and business performance (r = .754), which is statistically significant at 99% confidence level. Implying that the more technology used in the firms the better the performance would be. There exists a substantial positive correlation between management and performance (r = .702, p < 0.01), and entrepreneurial factors and performance (r = 0.686, p < 0.01), which are statistically significant at 99% confidence level. And the above table also indicate positive correlation between education and performance (r = 0.497, p < 0.01) and firm age with performance (r = 0.378, p < 0.01)

In addition, as we are producing multiple correlations and regression model we need to be aware of certain features of the multicollinearity. That means, when two or more independent predictors are highly correlated with each other this is known as multicollinearity. As per statisticians' suggestion cited by Negi (2009), if a correlation coefficient matrix demonstrates the degree of association between variables about 0.75 or higher, there may be multicollinearity and should be rectified before using such variables as predictors in regression analysis. Hence specific to this study, as long as all correlation coefficients are below 0.75, there is no problem of multicollinearity being assumed thus, allow using the data in regression analysis (Appendix C).

4.5.2 Regressions Analysis

For the purposes of determining the extent to which the explanatory variables explain the variance in the explained variable, regression analysis was employed. Since there are eight independent variables, multiple regression models were used as a measure to indicate the prediction.

Diagnostic tests for classical linear regression model assumptions were carried out first before starting discussion on the OLS regression output to explain the influencing factors of enterprise performance. Accordingly, the first assumption required in classical linear regression model that is normality assumption was checked to conduct single or joint hypothesis tests about the model parameters. Indeed, Shapiro-Wilk test was used to test the normality distribution of error term with null hypothesis that residuals are normally distributed. The result of this test shows Prob >z= 0.3011 which is statistically insignificant, indicating that the residuals are normally distributed supporting the null hypothesis.

The other assumption of the classical linear regression model is that the regression model used in the analysis is correctly specified. If the model is not correctly specified, the problem of model

specification error or model specification bias will be encountered. Thus, model specification with regard to omission of variables can be formally tested using Ramsey's RESET test, which is a general test for misspecification of functional form (Brooks 2014). Accordingly, Ramsey RESET test was performed for model specification with null hypothesis that the model has no omitted variables and its result was statistically insignificant supporting the null hypothesis (Prob >F= 0.0861). In addition, Breusch-Pagan/Cook-Weisberg test for heteroscedasticity was used with null hypothesis that variance of error is constant. To this end, the result of the test was statistically significant, indicating existence heteroscedasticity (Prob > χ2= 0.0007). Assuming homoscedastic disturbances when heteroscedasticity is present, however, can lead to biased statistical results. Therefore, to ensure validity of the statistical results, problem of heteroscedasticity was controlled using robust standard error.

Table 4.17 Model Summary

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F	Sig. F Change
	.428[a]	.183	.157	.30001	.183	7.190	.000
a. Predictors: (Constant), Technology factors, Age, Education, Management factors, Entrepreneurship factor, Marketing factors, Product diversification factors, Standardization and Quality factors							

Source: Own survey, 2020

Regression table measures the amount of total variation in dependent variable due to the independent variable. R2 value shows the goodness of fit of the model. In cross sectional data of this type R2 value of 0.183 indeed shows the model specified fits well the data at hand. The value of F must be greater than 5. This value indicates that there is almost 18.3% variation in dependent variable (overall performance) due to a one unit change in independent variables. In this study, the value of F is 7.19 at 0.000** significance level which is greater than 5 indicating that the model is good as its value is less than 0.05.

Table 4.18 Regression analysis with Dependent variable-level of performance

	Model	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig.**

	Variables	B	Robust Std. Error	Beta		
Coefficients	(Constant)	-.919	.1479		-6.213	.000**
	Age	.049	.0233	.006	2.103	.031**
	Education	.021	.0079	.019	2.957	.012**
	Entrepreneurship factor	.108	.0771	.107	1.407	.002**
	Management factors	.126	.0631	.124	1.996	.001**
	Marketing factors	.410	.1343	.315	3.052	.000**
	Product diversification factors	.207	.0936	.157	2.211	.000**
	Standardization and Quality factors	.190	.0869	.145	2.186	.000**
	Technology factors	.099	.1891	.099	5.235	.007**

Source: Own survey, 2020

The above table revealed that, the unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below.

Predicted performance score = -.919 + .049 (age) + .021(education) + .108 (entrepreneurial) + .126 (management) + .410 (marketing) + .207 (product diversification) + .190 (standardization and quality) + .099 (technological) + 0.1479

The above table further indicates that, all the explanatory variables included in this study can significantly explain at 99% confidence level to the variation on the dependent variable. The standardized beta coefficient column shows the contribution that an individual variable makes to the model. The beta weight is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant). As these are standardized we can compare them. Thus, the largest influence on the performance of MSEs is the marketing factor (.315) and the next is product diversification factor (.157) followed by standardization and quality factor

(.145). On the other hand education with the beta value of (.019) and firm age with the beta value of (.006) are the smallest predictor of performance when it is compared with the other explanatory variables under study.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusions from the research outputs based on research questions and based on the findings possible recommendations will be forwarded. Recommendations will be used by the concerned stakeholders to improve the performance of MSE.

5.2 Summary of findings

The most crucial factors the study identified for marketing factors include:

- Costly and inaccessible training facilities,
- Insufficient marketing skill training,
- Lack of promotion to attract potential users
- Lack of demand forecasting.

The findings showed that service sectors are highly influenced by marketing constraints followed by merchandise, manufacturing and construction sectors.

The most crucial factors for product diversification factors include:

- Low capital to expand,
- Inadequate market for new product line
- High competition.

The findings identified that manufacturing sectors are highly influenced by product diversification constraints followed by service, merchandise and construction sectors.

The most crucial standardization and quality factors include:

- Lack of capacity to meet the requirements,
- Lack to handle product quality certification protocols
- Lack to check compliance with product/process/ standards

The findings revealed that service sectors are highly influenced by standardization and quality constraints followed by manufacturing, construction and merchandise.

The most important entrepreneurial factors include:

- Lack of sufficient entrepreneurship training
- Lack of information to exploit business opportunities
- Absence of initiative to assess ones strengths and weakness.

The findings showed that merchandise are highly influenced by entrepreneurial constraints followed by manufacturing, construction and service sectors.

Similarly, the management factors include:

- Costly and inaccessible training facilities
- Lack of well trained and experienced employees
- Lack of clear division of duties among employees.

The findings indicated that service sectors are highly influenced by management constraints followed by merchandise, manufacturing and construction.

The technology constraints include:

- Lack of money to acquire new technology
- Lack of skills and knowledge to handle new technology.

The findings showed that manufacturing are highly influenced by technology constraints followed by construction, merchandise and service sectors.

5.2 Conclusions

The aim of this research was to identify and analyze factors affecting the performance of micro and small enterprises engaged in construction, merchandise, manufacturing and service sectors in Bole sub city of Addis Ababa. Specifically, the proposed four specific objectives of the study were to assess the overall operation and implementation of sufficient skill gap trainings offered, to examine the relation of enterprise age and education with performance of MSE, to examine the relation of product diversification with the performance of MSE, to examine the relation of standardization and quality with the performance of MSE and to examine the relation of technology with the performance of MSE. Based on the objectives the study revealed the following conclusion.

The study identified that of all the total enterprise operators/managers/ included in the study most of the operators didn't attend any training services. Only few attended training services and the result showed that training have positive impact to boost up their businesses performance. The training status of the respondents varies among the four sectors. The result showed that merchandise sector had the highest rate followed by construction, manufacturing and service sectors. The type of trainings taken constitutes of mostly entrepreneurship, followed by management and marketing.

The research findings resulted from the investigation showed that there exists significant positive relationship between independent variables and dependent variable. The highest ranking factor was identified as marketing factors followed by product diversification, standardization and quality, management and entrepreneurship. The least ranking was found out to be technology, education and firm age.

Even though the sector has huge contributions to the community and various governmental bodies designed various programs aimed at developing MSEs sector, most of the programs were not given the appropriate backing and as such MSEs have been confronting many challenges in their operation. Such as, costly and inaccessible training facilities, lack of promotion to attract potential users, low capital to expand, inadequate market for new product line , lack to handle product quality certification protocols , lack of information to exploit business opportunities , lack of well trained and experienced employees and lack of money to acquire new technology have been identified in this study.

Finally, the study has further identified that the different influences in which each of the factors under study have in different categories of the business. The research clearly illustrates that, even if the degree of those critical factors among the four sectors, slightly differ from one another, most of the factors are considerably common for all sectors. Hence, it has been found from the research analysis that marketing, standardization and quality and product diversification factors had very high effects on the performance of MSEs compared to other factors in the study area.

5.3 Recommendations

Looking into the findings of the survey and based on the respondents the following recommendations are forwarded.

Even though there are some trainings offered for the MSEs in Bole sub city, to make MSEs competitive and profitable, increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial since human capital is the prerequisite for innovation, understanding customer orientation, quality production and market research. Therefore:

- It is highly recommended that the government and MSE development office should revaluate and focus on addressing more of these trainings with full capacity for micro and small enterprises to upgrade in their entrepreneurship skills, marketing skills and management skills.

Most problems faced by the studied MSEs are marketing factors. Therefore, it is necessary to solve this major problem. Therefore the government and concerned bodies should:-

- Link MSEs with other private and government sectors to secure market opportunity
- Form network to exchange services for promotion among themselves.
- Provide alternative financing mechanisms for MSE to expand and apply product diversification strategy so that the MSE sectors will grow in full potential.

The other major problem faced by MSE sectors are standardization and quality factors. Hence it is recommended that:

- The government and the concerned bodies should help them to meet the requirement of standardization protocols and produce quality product so that the business sector enhance their competitiveness and strengthen the future survival, profitability and eventual growth of micro and small enterprises.

Furthermore, it is recommended that:

- All the concerned stakeholders and the government should focus on MSE sector by alleviating the technological engagement with the firms by learning and acquirement new technologies in order to grow their business effectively.

Finally this type of researches on factors affecting performance of MSEs should be continuously progressed since it is a large and very diverse area with many unresolved issues. And also it can be as an input to policy makers and concerned stakeholders for further research study in medium and large enterprises.

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APPENDIX A
QUESTIONNAIRE
JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT
MBA PROGRAM, ABH- CAMPUS

SECTION 1: INTRODUCTION

Dear respondent, I am a graduate student in the department of management at Jimma University College of Business and Economics ABH-Campus. Currently, I am undertaking a research entitled ***'Factors Affecting Performance Of Micro And Small Enterprises In Addis Ababa: The Case Of Bole Sub City Administration'***. You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of person responding will not be published or released to anyone. All information will be used for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Sincerely,

Yetnayet Tilahun

Instructions

- No need of writing your name
- ForLikertscaletypestatementsandmultiplechoicequestionsindicateyour answers with a check mark (√) in the appropriate block.

SECTION 2: PROFILE OF OPERATOR

1. Gender**:** Male ☐ Female ☐
2. Education level of the business owner

   A. Read and write ☐ B. Primary School ☐

   C. Secondary School ☐ D. College Diploma ☐

   E. Degree ☐

SECTION 3: GENERAL INFORMATION ON BUSINESS ENTERPRISES

1. What is the main activity of the enterprise?

   A. Construction ☐ C. Manufacturing ☐

   B. Merchandise ☐ D. Service sector ☐
2. What is the age of your business? _____
3. What is the form of ownership in this business?

   A. Sole proprietorship ☐ B. Partnership ☐

   C. MSE s Cooperative ☐ D. Private Limited Co. ☐
4. What was the source of your start-up and expansion capital?

   A. Personal saving ☐ B. Family/Friends ☐

   C. Banks ☐ D. Iqub/Idir ☐

   E. Micro finance institutions ☐
5. What was the amount of total capital invested in Birr to start this business?

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

   .....
7. A. your profit in 2009 E. C _____ Birr

   B. your profit in 2010 E. C. _____Birr

   C. your profit in 2011 E. C. _____Birr
8. How is the profitability of your business?

   A. Profitable ☐ C. Break even ☐

   B. Runs at loss ☐ D. I do not know ☐

9. If your response for question 8 is [I do not know], please explain why?

A. Inadequate loan amount ☐ C. Short time for loan repayment ☐

B. Higher interest rate ☐ D. No institution willing to provide loan for MSE ☐

10. Have you accessed any business related training services?

A. Yes ☐ B. No ☐

11. If your response for question 10 is [Yes], which type of training have you taken? (You can choose more than one answer).

A. Entrepreneurship ☐ D. Marketing ☐

B. Management ☐ E. Other, (please specify) _____

12. If your response for question 10 is [Yes], in what extent does the training increase your firm performance?

A. Strongly Increase ☐ D. Decrease ☐

B. Increase ☐ E. Strongly Decrease ☐

C. stayed the same ☐

13. If your response for question 10 is [No], why do not you have accessed any training services?

A. Not provided from MSE office ☐ C. On-off Nature (Not regular) ☐

B. Not relevant (Not customized) ☐ D. Not informed ☐

E. Other, (please specify) _____

14. Which type of product diversification strategy do you use for the enterprise?

A. Vertical diversification ☐ B. Horizontal diversification ☐

C. Conglomerate diversification ☐

15. In what extent does your firm performance grow by your product diversification strategy?

A. Strongly Increase ☐ D. Decrease ☐

B. Increase ☐ E. Strongly decrease ☐

C. stayed the same ☐

16. Do you think increasing quality and standard of your business have impact on your firm performance?

A. Yes ☐ B. No ☐

17 How do you justify the increase of your business quality and standard?

A. Getting certified by the concerned body ☐

B. With the affirmation of my competence ☐ C. Other, (please specify) _____

18. Have you received proof that your firm performance have increased in standard and quality level?

A. Yes ☐ B. No ☐

19. If your response for question 18 is [Yes], in what extent does your firm performance grow?

A. Strongly Increase ☐ D. Decrease ☐

B. Increase ☐ E. Strongly Decrease ☐

C. stayed the same ☐

20. If your response for question 19 is [No], what is the main reason for not upgrading the standard and quality of your firm level?

A. Difficulty of the requirement ☐ C. Not informed ☐

B. Financial constraint ☐ D. Other, (please specify) _____

21. Have you adopted any technology in your firm?

A. Yes ☐ B. No ☐

22. If your response for question 21 is [Yes], what kind of technology do you use? (You can choose more than one answer).

A. Machinery equipment ☐ C. Internet ☐

B. Electronics and digital device ☐ D. Other, (please specify) _____

23. From question above for what purpose do you use technology? (You can choose more than one answer).

A. Production ☐ C. Marketing ☐

B. Management ☐ D. Other, (please specify) _____

24. If your response for question 21 is [Yes], in what extent does your firm performance grow?

A. Strongly Increase ☐ D. Decrease ☐

B. Increase ☐ E. Strongly Decrease ☐

C. stayed the same ☐

25. What is the new lesson that the firm has been learning since its establishment?

A. use of new machines ☐ C. customer handling ☐

B. new techniques of production ☐ D. Market exploration ☐

E. Other, (please specify) _____

SECTION 4: FACTORS AFFECTING THE PERFORMANCE OF YOUR BUSINESS

Please indicate the degree to which these factors are affecting the performance of your business enterprise. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (√) under the choices below. Where, **5**=Strongly Agree, **4**= Agree, **3** = Neutral, **2**= Disagree and **1**= Strongly Disagree.

1. Please indicate the degree to which you agree with the following statements concerning Entrepreneurship factors about employees.

No	Entrepreneurial Factors	5	4	3	2	1
1.1	Lack of employees motivation and drive					
1.2	Lack of tolerance to work hard together among employees					
1.3	Lack of persistence and courage to take responsibility for ones failure					
1.4	Absence of initiative to assess ones strengths and weakness					
1.5	Lack of sufficient entrepreneurship training					
1.6	Lack of information to exploit business opportunities					
1.7	I don't think entrepreneurial skill will increase profitability					

2. Please indicate the degree to which you agree with the following statements concerning management factors about employees.

No	Management Factors	5	4	3	2	1
2.1	Lack of clear division of duties and responsibility among employees					
2.2	Lack of well trained and experienced employees					
2.3	Lack of sufficient managerial skill training					
2.4	Lack of low cost and accessible training facilities					
2.5	Lack of strategic business planning					
2.6	Poor communication and selection of associates in business					
2.7	I don't think managerial skill will increase profitability					

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

No	Marketing Factors	5	4	3	2	1
3.1	Inadequate market for my product					
3.2	Lack of demand forecasting					
3.3	Lack of promotion to attract potential users					
3.4	Absence of relationship with an organization that conduct marketing research					
3.5	Poor customer relationship and handling					
3.6	Lack of sufficient marketing skill training					
3.7	Lack of low cost and accessible training facilities					
3.8	I don't think managerial skill will increase profitability					

4. Please indicate the degree to which you agree with the following statements concerning Product diversification factors.

No	Product Diversification Factors	5	4	3	2	1
4.1	Lack of continuous improvement of product					
4.2	Lack of network with successful and other businesses					
4.3	High competition					
4.4	Lack of adaptation to change with new product line					
4.5	Low capital to expand					
4.6	Inadequate market for my new product line					
4.7	I don't think product diversification will increase profitability					

5. Please indicate the degree to which you agree with the following statements concerning Standardization and Quality factors.

No	Standardization and Quality Factors	5	4	3	2	1
5.1	Lack to define and implement procedures for quality production (define standards, provide guidelines, etc.)					
5.2	Lack to handle product quality certification protocols					
5.3	Lack to test product quality					
5.4	Lack capacity to meet the requirements					
5.5	Lack to monitor or manage proper implementation of safety rules					
5.6	Lack to check compliance with product or process standards					
5.7	Lack to check the cleanliness of rooms and machinery					
5.8	I don't think standardization and quality will increase profitability					

6. Please indicate the degree to which you agree with the following statements concerning Technology factors.

No	Technology Factors	5	4	3	2	1
6.1	My enterprise applies modern technology					
6.2	Lack of appropriate machinery and equipment					
6.3	Lack of skills and knowledge to handle new technology					
6.4	Lack of money to acquire new technology					
6.5	Unable to select proper technology					
6.6	I don't think that modern techniques improve performance differently					

7. Please indicate how the degree to which you agree with the following factors that have a direct influence on the performance of your business?

No	General Factors	5	4	3	2	1
7.1	Entrepreneurial factors					
7.2	Managerial factors					
7.3	Marketing factors					
7.4	Product diversification factors					
7.5	Standardization and Quality factors					
7.6	Technology factors					

APPENDIX B

INTERVIEW QUESTION

1. Is there any training offered by the relevant body for MSEs to boost up their performance?
2. What kinds of trainings are offered?
3. Do you think the trainings are adequate?
4. What impact does the lack of entrepreneurial skills on MSEs have on the organization performance?
5. What impact does the lack of management skills on MSEs have on the organization performance?
6. What impact does the lack of marketing skills on MSEs have on the organization performance?
7. How do you evaluate the product diversification strategy of MSEs in expanding their existing market potential and business opportunities?
8. What are the main barriers/problems/ to proper implementation of product diversification strategy?
9. How do you evaluate the efforts of MSEs to increase the quality and standard of their products and services?
10. What are the main obstacles of MSEs to increase the quality of their products and services?
11. What is the nature of MSE's adaption of technologies in their use of production and marketing?
12. What are the main problems regarding the use of better new technologies?
13. If you have any opinion and suggestion regarding factors affecting the performance of MSEs?

APPENDIX C

Correlations

		P	AF	EDF	EF	MF	MKF	PDF	SQF	TF
P	Pearson Correlation	1	.378**	.497**	.686**	.702**	.832**	.771**	.782**	.754**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000	.000	.000
	N	266	266	266	266	266	266	266	266	266
AF	Pearson Correlation	.378**	1	.278**	.301**	.285**	.305**	.296**	.323**	.266**
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.000	.000	.000
	N	266	266	266	266	266	266	266	266	266
EDF	Pearson Correlation	.497**	.278**	1	.372**	.392**	.423**	.328**	.398**	.427**
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000	.000	.000
	N	266	266	266	266	266	266	266	266	266
EF	Pearson Correlation	.686**	.301**	.372**	1	.505**	.528**	.641**	.664**	.595**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000	.000	.000
	N	266	266	266	266	266	266	266	266	266
MF	Pearson Correlation	.702**	.285**	.392**	.505**	1	.607**	.579**	.594**	.549**
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.000	.000	.000
	N	266	266	266	266	266	266	266	266	266
MKF	Pearson Correlation	.832**	.305**	.423**	.528**	.607**	1	.633**	.636**	.696**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000	.000	.000
	N	266	266	266	266	266	266	266	266	266
PDF	Pearson Correlation	.771**	.296**	.328**	.641**	.579**	.633**	1	.665**	.659**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000		.000	.000
	N	266	266	266	266	266	266	266	266	266
SQF	Pearson Correlation	.782**	.323**	.398**	.664**	.594**	.636**	.665**	1	.649**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000		.000
	N	266	266	266	266	266	266	266	266	266
TF	Pearson Correlation	.754**	.266**	.427**	.595**	.549**	.696**	.659**	.649**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	
	N	266	266	266	266	266	266	266	266	266

**. Correlation is significant at the 0.01 level (2-tailed).

N.B: look this note for variables P= profit, AF= age factor, EDF= education factor, EF= entrepreneurial factor, MF= management factor, MKF= marketing factor, PDF= product diversification factor, SQF= standardization and quality factor, TF= technology factor