

**FACTORS AFFECTING THE GROWTH OF MICRO AND
SMALL ENTERPRISES (MSE'S): THE CASE OF MSE'S IN
JIMMA CITY**

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

BY:

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JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

MBA PROGRAM

NOVEMBER, 2018

JIMMA ETHIOPIA

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CERTIFICATE

This is to certify that the thesis entitles “Factors affecting the growth of micro and small enterprises in the case of Jimma city”, Submitted to Jimma University for the award of the Degree of Business Administration (MBA) and is a record of bonafide research work carried out by Mr. Alemayehu Kinfu Zeleke, under our guidance and supervision.

Therefore, we hereby declare that no part of this thesis has been submitted to any other University or institutions for the award of any degree or diploma.

Main Adviser’s Name

Date

Signature

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Date

Signature

DECLARATION

I hereby declare that this thesis entitled “Factors affecting the growth of micro and small enterprises in the case of Jimma city” has been carried out by me under the guidance and supervision of Dr. Arega Seyoum and Mr. Hayelom Nega.

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

Researcher’s Name

Date

Signature

ABSTRACT

The micro and small enterprises (MSEs) sector faces numerous challenges regardless of its wide contribution to the socio-economic development through creating employment opportunity, generating income for the poor and poverty reduction. The literature shows that a very small fraction of MSEs are successful, and still there is a gap to minimize this challenge. Hence, the primary aim of this study was to identify the factors affecting the growth of MSEs in Jimma city engaged in five sectors of business activities in all part of the city. From the total of 7,640 MSE's registered as of September 2015 in Jimma city 317 respondents was selected through stratified sampling method were focus of the study. For the achievements of the objectives of this study, data were obtained from both primary and secondary sources. Primary data were collected through questionnaires and interviews and secondary data were obtained via review of related documents from offices, internet and library sources. To analyze the collected data through statistical analysis such as, descriptive analysis (central tendency and dispersion) and inferential analysis (correlation and binary logistic regression model) were applied. From the analysis, the researcher find out that, the three predictor variables namely; financial, infrastructural and market related factors significantly affected the growth of MSEs in Jimma city. Finally, the researcher recommends that the micro and small enterprises (MSEs) development agency of Jimma city should radically solve the problems posed by these factors by working hard with the respective governmental offices and non-governmental organizations with MSEs in the city in which all these parties contribute their parts and make them responsible to ensure the development of MSEs in Jimma city.

Key word: - Micro and Small Enterprises, Growth, Factors, Jimma City,

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CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

There is no clear and universally acceptable definition of Micro and Small Enterprises (MSE) hence, MSE has no standard definition (Asma, Shang, Diabate and Othman, 2015). They noted that MSE have been identified differently by various individuals and organizations, such that an enterprise that is considered Micro and small in one country is viewed differently in another country. Some common indicators employed in the various definitions include total assets, size of the labor force employed, annual turnover and capital investments. The number of employees engaged by the enterprises is the more commonly used unit of measurement of the growth of a business than the turnover, the degree of formality, or legitimacy of the enterprise; capital investment; and degree of skills per worker (GoK, 2015). This paper by the researcher adopted MSE definition used during the 1999 National Micro and Small Enterprise Baseline survey of which MSE were defined as enterprises in both formal and informal sectors employing 1-50 workers.

Over the last two decades MSE growth has received considerable attention from researchers and policy makers around the world. Economic experts, scholars, practitioners, and policy makers have showed interest in MSE as they are considered to be the backbone of any economy and the engine for economic and employment growth (Li and Rama, 2015; Love and Roper, 2015; Zucchella and Siano, 2014). Micro and Small enterprises are the key engines of employment, alleviating poverty and improving equality (Gomez, 2012). MSE by number, dominate the world business stage. More than 95% of enterprises across the world are MSEs, accounting for approximately 60% of private sector employment (BIS, 2012).

In developing country, Micro and Small Enterprises provide one of the most prolific sources of employment, not to mention the breeding ground for medium and large industries, which are critical for industrialization (GoK, 2015). This Seasonal paper underscores MSE as businesses in both formal sectors and is classified into farm and non-farm categories employing 1 to 50 workers. These enterprises cut across all sectors of the Ethiopian economy and provide one of the most prolific sources of employment creation, income generation and poverty reduction. Further, the paper indicates that employment within the MSE sector

account for 74.2% of the total persons engaged in employment. The sector contributes up to significant share of the country's Gross Domestic Product (GDP).

The MSE sector is therefore, not only a provider of goods and services, but also a driver in promoting competition and innovation while enhancing the enterprise culture which is necessary for private sector development and industrialization. However, the MSEs are characterized by high failure rates (GoK, 2015). GOK (2015) identified their growth and value addition by the MSE as the starting point for export-led industrialization. However, in Ethiopia, despite the different sector being a key vehicle for economic growth, having the potential to provide employment opportunities to the locals and having the capacity to contribute to Gross Domestic Product (GPD) as well as poverty reduction, the sector is still dogged by non-growth of its micro and small enterprises. James, Susan, Magdaline, Joash and Jane (2013) observed that instead of these enterprises growing in size they have been growing numerically. There is a great danger of remaining small. According to Asma *et al* (2015), enterprises size and failure are inversely related, with smaller enterprises facing higher risks of failure than larger ones.

Micro and Small Enterprises growth and performance need to be increased if it is to effectively respond to the challenges of creating productive and sustainable employment opportunities, promoting economic growth, and poverty reduction in the country (GoK, 2015). However, several problems particularly related to MSE growth and successes are there. Other than their high failure rates, the majority of the MSE are also not growth prone as most start small and remain small. Further, according to Pearce and Robinson (2011), small enterprise operations are still predominantly local or a regional market rather than a national or international market, and they tend to have a very limited share of a given market. In its effort to promote MSE, government of Ethiopia has been encouraging MSE in the Agribusiness sector. This study will examine those factors that affect growth MSE in the Jimma city. The major factor being lack of infrastructure, access to finance, access to market, technological impact, lack of skilled labor, managerial skill and low effect of legal/administrative. The study will help the policy makers and other stakeholders in propelling MSE growth agenda for a better economic growth.

1.2. Research Rationale

The rationale for selecting this study is based on an appreciation that the findings of a study which aims to create meaningful results on the economic development by minimizing unemployment and help to reduce poverty. Micro and small enterprises in Ethiopia provide goods and services in promoting innovation and enhancing the enterprise culture, which is necessary for creation of employment in large and private sectors development and industrialization. Hence, this study can provide the result that can be important for the MSE's owner, manager and other stakeholders to predict the success or failure of the business in this sector, and choose what would best outfit for their practices.

1.3. Statement of the Problem

Firm growth is regarded as the most important, reliable and easily accessible measure of a firm's performance (Delmar, 1997) given that badly managed growth may lead to bankruptcy. Even though growth is a complex and multidimensional phenomenon, it goes without saying that a purely internal approach, limited to the impact of the resources and in particular to the determinant factors linked to the manager, neglects the effect of potential variables linked to firm, strategy, environment and interactions between these variables (Janssen, 2002).

Firms that grow in their employment size are few and most others unable to grow and struggling to survive. To analyze the factors that make this difference a lot of studies were carried out (Cheng, 2006; Hasnu & Amjam, 2007; McPherson, 1996; Mead & Liedholm, 1998; Parker, 1995; Rahel, W.& Paul, 2010) but no theory has been developed specifically to measure the MSEs growth in developing countries. Nevertheless, it is important to review the existing theories on firm growth in order to guide the analysis and to point-out the way in which more complete and appropriate theories can be developed.

As stated in Admasu (2012), Micro and small enterprise in Ethiopia are, however, confronted with several factors that affect the performance of MSE. The major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises, etc. Besides, environmental factors those affect the business which includes social, economic, cultural, political, legal and technological factors. In addition there are also personal attitudes or internal factors that affect the growth of MSE, which are related to the person's individual attitude, training and technical know-how (Werotew, 2010:226-37).

Generally, there are external (contextual) and internal factors which are still affecting the very growth of MSE's. Hence, more research is needed to develop data based on factors that influence growth of micro and small enterprise in Jimma. A better understanding of enterprises and entrepreneurs can make a major contribution to the development of improved approaches for promotion of efficient and equitable growth of micro and small enterprises. From policy perspective, in the long run, effective policies and program to support the development of small scale enterprises depend critically on adequate knowledge of characteristics and constraints of small scale business operators. Such an understanding of the prerequisites for Jimma MSEs entrepreneurs to succeed in their businesses is of critical importance, especially in today's competitive environment.

Therefore, this paper assesses determinants of firm growth in terms of employment level and a limitation that happens among micro and small enterprises and contributes to the so far little empirical literature. On the area of this topic many studies were undertaken in different time and places in our country Ethiopia and in other countries. Some report regard to MSE's growth focuses on the number of established MSEs, rather than the change they made to their contribution to the socio-economic development of the country. The practice of follow up, support and evaluating their level of achievement as a primary objective of the government for the development of MSE's sector is not applicable. Most of MSEs possibly established in cooperative form and they do not start the business activities as they expected due to numerous challenges face them.

Generally, there is a gap of research in this sector that needs in depth investigation on the detail of business environment of MSEs and their setting in Jimma city. There are many cases related to the growth of MSEs in Jimma city should needs a study for remedial actions. From this perspective, this study was undertaken many variables at the same time on MSEs in Jimma city in all part of the city engaged in all business activities. Then, the major purpose of the survey is to gather reliable information, from micro and small enterprises (MSEs) with the aim of identifying factors affecting their overall growth and characteristics in the economy, specifically in Jimma city.

1.4. Objective of the study

1.4.1. General Objective

The overall objective of the study was to identify the factors that affect the growth of micro and small enterprises in Jimma city in all sub-cities engaged in service, industry, trade, construction and urban agriculture sectors.

1.4.2. Specific objectives

The study has the following objectives specifically:

1. Assess the impact of infrastructure on the growth of MSEs;
2. Assess the effect of access to finance on the growth of MSEs;
3. Examine the effect of access to market on the growth of MSEs;
4. Assess the technological impact on the growth of MSEs;
5. Assess the effect of interpersonal skills on the growth of MSEs;
6. Assess the effect of managerial skills on the growth of MSEs;
7. Assess the effect of legal/ administrative on the growth of MSEs;

1.5. Research Hypotheses

Based on the theoretical and empirical literature gathered, this study tried to test the following hypotheses if all factors may not affect the growth of MSEs or some of them affect the growth of MSEs or all of them affect the growth of MSEs in Jimma city.

Ho1=The interpersonal factors do not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities.

Ho2=The managerial skill factors do not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities.

Ho3=The market related factors do not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities.

Ho4=The infrastructural factors do not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities.

Ho5=The technological factors do not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities.

Ho6=The financial factors do not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities.

Ho7=The legal/administrative factors do not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities.

1.6. Significance of the Study

It is well known that MSEs are the major issue in the current socio economic environment of our country in general and Jimma city in particular. Hence, the study is believed to have a number of significances. It contributes to the efforts being made towards improving the involvements of MSEs in the city's economy and employment creation. Thus, the study is expected to provide some insights for more informed interventions as feasibly designed in the sectors development strategies. Furthermore, it would pave ways for further studies in the same sector as well as other business undertakings in a more equipped manner to use existing resources and opportunities effectively and efficient entrepreneurial skill, income generations, as well as socioeconomic development. As a result, the study will be very significant to readers, entrepreneurs and the concerned bodies as a whole.

1.7. Delimitation and Limitation of the Study

Scope of a given study and surveys is usually looked at from various perspectives—which could be in terms of areas of coverage as related to the subject matter and viewpoints of geographical reach within a given time and budget limit allocated for the assignment. There are some limitations may encounter on the process of undertaking the research and the researcher have to solve them to meet the required objectives.

1.7.1. Delimitation of the study

Accordingly, the study covers only Jimma city administration with MSEs registered up to September 2015 in all sub cities. Thus, the scope of the assignment includes identification of sample units and filling of the questionnaires with the maximum quality standard on micro and

small enterprises (MSEs). The scope of the work extends further to processing these questionnaires with necessary diligences and includes the task of an in-depth analysis of both quantitative and qualitative data in view of the objectives mentioned above.

1.7.2. Limitations of the Study

The study, like any other studies, has its own limitations. One of the critical limitations in this regard has been the absences of reliable data on the location, number and members. Such limitations may be found to exist in all urban centers of the entire regions. As a result, it was not possible to gate all registered and listed MSEs and respected government agencies willingness to respond freely. In order to solve these problems the researcher convinces the respondents and other concerned bodies regarding the primary data to provide reliable data within the time frame of the researcher.

1.8. Organization of the Study

This report was organized into the following five major chapters. The first chapter introduces the study-it gives a startup concept and definitions given to the topic. In this part the major questions of the study have got answered, objectives of the study as well as scope of the study were listed. Limitations which occurred during the actual study and importance of the study are also included under introduction part of the study. Chapter two examines existing literature on the role of MSEs and attempts to draw theoretical as well as empirical evidences and country experiences for the current study. Chapter three explores the method of selection of study population and sampling design, techniques of data collection and processes of field work, procedures of data cleaning, encoding and analyses. Chapter four discusses the main purpose of the study—which is data presentation and analyses. Finally, chapter five concludes the major thoughts advanced in the preceding chapter of the study and winds up with some possible recommendations for further interventions and sustainable development in the MSE's sector.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Theoretical Literature

2.1.1. Overview of MSEs

In any angle, there is no doubt that MSEs have already become major features of the economic landscapes in most developing countries. As a result, researchers, practitioners and policy makers are increasingly interested in MSEs as incubators of labor intensive technologies and as sources of jobs and incomes for the urban poor (Thorbeche, 2000; Eric Ronge, et al, 2002). This voluminous literature in this area could be grouped into various categories for analytical purposes. For instance, some write about MSEs from the view of economic growth (e.g., see Thorbeche, 2000; Eric Ronge, et al., 2002), while others from institutional aspects (Doglous North , 1990) and technological point of views (Moyi, E and Njiriani, 2005), and many more views from which MSEs involvement in the economies are being analyzed.

The term MSE covers a wide range of definitions and measures, varying from country to country and varying between the sources reporting MSE statistics. Some of the commonly used criteria are the number of employees, total net assets, sales and investment level. However, the most common basis for definition is employment, and here again, there is variation in defining the upper and lower size limit of an MSE. (MeghanaAyyagari, Thorsten Beck and AsliDemirgüç-Kunt, 2005).

As stated in international labor organization, there is an emerging consensus on poverty reduction and small enterprises that is comprised of two central elements. The first is that much of the population in poor countries operates or works for micro and small enterprises (MSE) and that even in richer countries, a substantial portion of the population is employed in small and medium enterprises (SMEs). In poor countries, MSEs are where the poor are working – either out of choice or out of necessity. The second element of the consensus is that the general functional areas of how to support private sector development in general and SED in particular, are being established. These have been set out in a recent report of the UNDP's Commission on the Private Sector and Development, *Unleashing Entrepreneurship*, and in a number of similar documents. The general areas include: a policy, regulatory and legal environment that is simple, fast, inexpensive and free from corruption; finance that is accessible at low cost and does not require the poor to provide physical collateral; access to affordable business development services; workers who are trained in appropriate skills; basic health and education that strengthens human

capital; a culture that supports and rewards entrepreneurship; access to domestic and global markets on a fair and equal basis with large enterprises; and solid infrastructure (transport, energy, telecommunications, etc.)(ILO, Working Paper No. 75)

2.1.2. Definition of MSEs

The MSE's sector is highly diversified activity. It is considered as employment opportunity and poverty reduction means, Admasu (2012). This means involves government strategies and support in providing necessary remedies for job seekers and the concerned bodies. However there is no single definition of small and micro enterprises everywhere. It is defined in different ways in different country the entire world. European commission (2005) describes the category of micro and small enterprises (MSEs) is made up of enterprises in which employs are fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. The new small and micro enterprises development strategy in Ethiopia established in 2011 defines MSEs based in their number of employee and paid up capital. Micro enterprises are enterprises which are involved in industry type of business having 5 or fewer workers with paid up capital of 100,000 birr while service rendering enterprises involve 5 or less employees and capital of 50,000 birr. Small enterprises are enterprises having 6 to 30 workers and 1.5m capital for industry and the same number of workers and 500,000birr capital,(Konjit Debela,2013).

2.1.3. Rationale for Small Enterprises Development

Why pay attention to small enterprises? The proposition that small firms offer unique development advantages is as old as the concept of economic development itself (Snodgrass and Biggs, 1996). Proponents of policies and programs to support small firms have long claimed that they are more labor intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically, and nurturing of entrepreneurs. Though small firms are widely recognized as contributing to growth in many developed economies (such as the United States, Italy, Japan, and the "East Asian tigers"), the presence of large numbers of MSEs in developing economies often carries a stigma, especially when the firms are informal and concentrated in markets with low barriers to entry. So, is the presence of a large number of small firms an indicator of economic health or not? Recent data in this case is neutral, showing that a higher contribution by small enterprises is associated with, but not a cause of, higher growth (Beck, Demiurguc-Kunt, and Levine, 2003).

In addition to the perceived economic benefits, MSE development has long been viewed by policymakers as a means to increase incomes of the poor. MSE owners and workers do tend to be disproportionately poor, with the incidence of poverty within MSEs higher than in medium and large firms. However, current thinking on the part of international donors focuses less on the size of enterprises and more on outcomes, seeking patterns of economic growth that are beneficial to the poor, or “pro-poor.” Growth that is broad-based by both region and sector is more likely to be faster and provide greater opportunities for the poor. Similarly, rapid growth in regions where the poor live and sectors of the economy in which they work is likely to result in poverty reduction (OECD, 2004).

In today’s global economy, large multinational firms are increasingly concentrating their efforts on branding and marketing rather than production. These firms prefer to source from flexible networks, rather than setting up large production plants. The result is a new, extended supply chain reaching far into developing countries and providing new opportunities for small firms. Small firms offer a number of potential advantages as partners in value chains, often serving as a flexible and low-cost production resource, offering proximity to markets and access to land and other key resources, providing a “storyline” for companies and consumers interested in social responsibility, and supplying unique products (Goldmark and Barber, 2005). The trend toward outsourcing described above may provide an important ingredient for small firm growth—a set of clear opportunities in the form of “demand pull.” Market opportunities, however, are only one side of the equation. Firms that wish to compete and survive over the long term must demonstrate their capabilities—for example, in meeting certain quality or productivity standards. This paper will explore the factors that determine small firms’ ability to grow, from broad, contextual variables such as the macroeconomic environment and the characteristics of value chains, to specific individual and firm-level characteristics.

2.1.4. Enterprise Growth Theories

The enterprise growth is used to describe a development process of enterprise from small too big and from weak to strong. The meanings of development exceeds the meanings of growth, and it includes not only the growth process of things, but the generation stage growing out of noting before growth and the periodic process of the stage, i.e. the cycle process going round and round. However, the enterprise grows this complex adjustment process which is different to the simple scale extension. It takes the balance adjustments of various relations in the interior and the exterior of the enterprise as the essential character, and it is the process of balanced development from unbalance to balance, and from lower balance to higher balance. Therefore, the meanings of

enterprise growth is the development process that enterprise keeps the tendencies of balanced and stable growth of total performance level (including output, sales volume, profit and asset gross) or keeps realizing the large enhancement of total performance and the stage spanning of development quality and level (Sun, 2004). In the meanings of enterprise growth, following three connotations are contained.

2.1.4.1. The enterprise growth theory based on the scale boundary theory

The international journal of business management, (2009) discusses about the enterprise growth theory as such, the scale boundary theory is very important. The enterprise growth theory includes multiple analysis is angels and concept systems. First, various researches hold different concepts of growth, so the diversification of analyzing growth status scale is generated. Second, there are many opinions to describe the curve and growth rate of the growth status. Third, the opinions about the growth mechanism including the growth drive and reason of enterprise are also different. In addition, most above growth theories review the enterprise growth from the economic view. The enterprise growth theory based on the scale boundary is based on Coase's (1937) transaction cost theory. Coase (1937) thought that the marketable character of enterprise is the substitute of the price mechanism. Coase (1937) utilized the concept of transaction cost to explain the reason of enterprise generation and define the scale. His opinion when discussing the enterprise scale was that when the added transaction was organized by the enterprise, the scale of the enterprise would be extended, and it was organized by another enterprise or the market, the scale of the enterprise didn't be changed, and when the scale of the enterprise is extended, the added transaction cost in the enterprise equaled the cost to accomplish this transaction in the market or the cost of the added transaction organized by another enterprise.

2.1.4.2. The enterprise growth theory based on the lifecycle theory

In the late of 1980s, some foreign monographs begun to review the enterprise growth from the survival and development view of the living enterprise, which regarded the enterprise as a life body to dynamically evaluate the characters and countermeasures in various stages of enterprise growth. The representative books included IchakAdizes's "Enterprise Life Cycle (1988)" and Arie de Gues' "The Living Company (1996)". In the "Enterprise Life Cycle", the enterprise was assimilated to the life body, and the life cycle theory thought that as the life body would go through the life course from born, growth to death, the enterprise would also experience the process from generation, growth, aging and death. As the flexibility of enterprise gradually decreases and the controllability of enterprise gradually increases and decreases, the enterprise growth can be divided into the growth stage, the regeneration and mature stage, and the aging

stage. The growth stage includes gestation stage, infant stage and step-learning stage. The regeneration and mature stage includes youth stage and prime stage. The aging and death stage includes stabilization stage, noble stage, early bureaucracy stage, bureaucracy stage and death. The character changes of various stages in the lifecycle of enterprise essentially reflect the change of enterprise culture, and to keep lively enterprise culture and flexible organization structure is very important in this theory. The book of “The Living Company” put forward to distinguish the “life company” which was managed for the survival and the “economic company” which was managed for the profit.

2.1.4.3. Social Capital and MSE’s Growth

Another relevant theory developed in the 1990s, is the social capital theory. Social capital theory believes the existence of social organizations where members are entitled to have access to resources and benefits based on the rules of the game. Resource allocation among members of a given social cluster and individual decisions are governed by the rules of the game. Social capital theory has been successfully used by micro finance institutions (MFI) in channeling and collecting credit to the poor farm and urban households (Thorbeche, 2000). Studies further show that social capital has been one of the essential inputs for the survival of many small enterprises. It has been indicated that closeness; trust-based relationships, acquaintances among members of small enterprises have been vital to largely reduce transaction costs and increase internal flexibility (Fafchamp, and Minton 1999; Fukuyama, 1995). It has been repeatedly indicated that social capital used to play significant roles in improving firms’ performances by providing access to information and reducing transaction and search costs in situations where markets fail and transaction costs are high (Fafchamp and Minton, 2003).

Putnam, (1995) for instance, views social capital as features of social life, networks, norms, and trust—that enable participants to act together more effectively to pursue shared objectives. Coleman, (1993, 1995) on the other, formulated the concept of social capital as ways to bridge the gap between the sociologists’ explanation of human behavior as determined by social factors, norms and social obligations, and the economists’ assumption of rational self-interest. The concept of social capital can be viewed along three scopes or levels. The first is at the micro level such as network of individuals or households. The second is at the average level, incorporating the vertical as well as horizontal associations and behavior within and among other entities such as micro, small, medium and large firms. The third and most encompassing view of social capital, at the macro level, is incorporating the contribution of institutions and the broader

political environment that shapes social structure and enables norms to develop (World Bank, 2002).

2.2. MSEs and Economic Growth

This group of writers argue reducing unemployment and hence enabling citizens to enjoy better standard of living has remained one of the top agendas of governments, politicians, donors, lending institutions, and researchers over the last four or five decades. Equally, with the emergence of the idea of economic dualism in 1960s, economic theories and practices started to pop up with an objective of reducing unemployment and boosting citizen income for economies characterized by such dual behavior. With this theoretical explanation, policies and strategies like industrialization through import substitution and few decades later export promotion strategies and regional integration (south- south) were commonly acknowledged and implemented. These theories and associated policies and strategies have worked in some countries, but in some other countries replication of these theories were found to be recurrently fruitless. More specific to the topic under consideration, tackling issues of unemployment through the support and promotion of large scale manufacturing industries has repeatedly failed. Large scale enterprises are characterized by larger demand for heavy machineries with relatively advanced technologies, high investment and working capital, and more skilled manpower, which are all in limited supply in developing countries (World Bank, 2002).

Large industrial establishments are relatively advantageous in successfully reducing unit cost of production. Such establishments enjoy the benefits of economies of scale; and better labor productivity. However, it is disadvantageous as it became difficult to absorb the less skilled unemployed labor in the economy and the inherent capacity of most developing economies to have large number of large and heavy manufacturing industries is also limited. Most healthy economies exhibit an industrial pyramid where few heavier industries exist at the top followed by a larger number of medium scale enterprises (which is gravely missing in developing economies, commonly known as “the missing link”) and very large numbers of small and micro enterprises exist and even very larger number of informal engagement exists (Thorbeche, 2000: 13).

Therefore, promotion and support of large scale enterprises (equivalent to discouraging smaller and micro enterprises) is not a wise policy decision for less developing countries overwhelmed by quite large number of unemployed youth. As a matter of fact, in the 1970s, problems of unemployment and resultant poverty and income inequality have gained wider attention in the academics and policy circles and GNP as a main and all rounded objective indicator of

development were started to be questioned. The notion that aggregate growth is equal to economic and social development was brought under critical scrutiny and started to be questioned in many academic and policy circles. The launching of the World Employment Program by the ILO in 1969 redirected the primary objective of development to be raising the standard of living of the poor through increased employment opportunities. In increasing the living standard of the poor, creating income generating and productive opportunities were considered a basic policy instrument (Thorbeche, 2000: 13).

2.3. MSEs and the Business Environment

Documenting the contribution of MSEs and the informal sector to employment and GDP provides us with an important first illustration of the importance of these two sectors. At the same time, however, these are static illustrations that do not allow an assessment of the underlying dynamics that drive the development of formal small and medium enterprises. This section therefore relates the variation in the size of the MSEs sector across countries to differences in the business environment in which firms operate. While the business environment indicators refer to firms of all sizes, previous research has shown that financial and institutional underdevelopment constrains small and micro size firms significantly more in their operation and growth than large firms (Beck, Demircuc-Kunt and Maksimovic, 2005).

2.4. MSEs Strategy in Ethiopia

Examinations of attempts institutional involvement to support MSE's development in Ethiopia came late after 1950s. Teshome (1994) points that the focus of government policy was to lay foundation of basic administrative and institutional infrastructure of the state during the 1940's and 1950's, in order to consolidate the gains of reforms to accelerate the process of industrialization. As a result, several reforms related to the development of MSEs were made during this period. The Business Enterprise Registration Proclamation No.184/1961 required business enterprises to register under the Ministry of Commerce and Industry. By the Industrial Regulation Legal Notice No.292/1971 manufacturing enterprises were required to acquire a temporary license of six month validity and a permanent license, if fully formed (Teshome, 1994).

The new regime led by the Ethiopian People Revolutionary Democratic Front (EPRDF), immediately proclaimed the Emergency Recovery and Reconstruction Program (ERRP) and started a program of private sector development. In 1991, the ERRP, with the support of the World Bank and the international community to bring about economic stabilization, launched

public sector reform and private and market economy development. Several other supporting proclamations were also issued:

- The new labor law (Proclamation No. 42/1993 and its amendments),
- The Encouragement, Expansion and Coordination of Investment Proclamation No.15/1992,
- Administrative Reform Proclamation No.31/1992, and its amendment, Proclamation No.15/1992 (Regional State Governments were empowered to establish their respective regional investment offices to receive review and decide on investment applications).

Proclamation No.41/1993: Definition of Powers and Duties of the Central and Regional Executive Organs of the Transitional Government of Ethiopia provided for the establishments of Industry and Handicrafts Bureaus in the Regional Governments has replaced the HASIDA proclamation (Proclamation No.124/1977). Nonetheless, the change doesn't seem to have a lasting impact on the status of MSE's development in the country. The issue of temporary licenses proceeded without restraint and at a nominal charge and resulted in an oversell of such licenses. Individuals obtained the temporary licenses to take advantage of the access to land; public utilities and credits that such license were expected to give them. However, these temporary licensees failed to graduate to permanent license holding and were unable to get the access to land, utilities and credits as they expected. The result had been lack of growth of investment in MSEs development and the in formalization of the few investments that obtained license in the process. As a consequence, most temporary license holders withdrew their licenses and most of the few that reached the stage of production (permanent license holding) withdrew from the process and started working underground (Teshome, 1994: p.37).

One of the measures taken to enhance the operation of MSEs is the issuance of the licensing and supervision of micro financing institutions proclamation in 1996 (Proclamation No. 40/1996). The principal aim of this proclamation is to enable MSEs have access to credit facilities, counseling services and income generating projects through micro-finance institutions. By building the capacity of MSEs, this legislation provides opportunities and security for the informal sector operators through enhancing legality and formalization.

2.4.1. Policies, laws and regulations

Enterprises operate under a variety of policies, laws and regulations (hereafter regulations) which should be supportive but can often be a burden. MSEs are particularly affected because they can least afford the time and money needed to comply. Indeed, small enterprises often operate in the informal economy to avoid costly regulation and tax payments. In doing so, they give up the benefits of the formal economy, including access to credit, to suppliers and to consumers. In

attempting to hide from government officials, they keep their businesses small or sometimes way from customer traffic. A more reasonable regulatory burden and favorable fiscal regime can entice them into the formal economy so that they can gain access to these benefits. Easing their burden can contribute to poverty reduction in three main ways.

One, reducing the level and the number of payments lowers the cost of running a business and increases the income of poor entrepreneurs. Two, more efficient procedures generate a time savings so that micro-entrepreneurs can concentrate on doing business instead of waiting in government offices. Third, a reduced burden of regulation allows markets, both national and international, to work faster. Together, these factors make it easier for enterprises to start and grow, thereby creating employment and raising the income of workers and entrepreneurs. A more detailed exploration of the link between regulatory reform and poverty reduction is made in the recent paper by White (2004), commissioned by the ILO. It is important to remember, however, that small enterprises need to pay their fair share of taxes to ensure adequate funding of public services.

2.5. Effectiveness of MSE's

The small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2001). Small- Scale businesses are driving force for economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved (Harris et al, 2006; Sauser, 2005). Furthermore small scale business has been recognized as a feeder service to large- scale industries (Fabayo, 2009). While the contributions of small businesses to development are generally acknowledged, entrepreneurs in this sector face many obstacles that limit their long term survival and development. Scholars have indicated that starting a business is a risky venture and warn that the chances of small-business owners making it past the five-year mark are very slim (ILO, 2005).

2.6. Theoretical Framework

Researchers, practitioners and policy makers are increasingly interested in MSEs as bases of labor intensive technologies and as sources of jobs and incomes for the urban poor (Thorbeche, 2000; Eric Ronge, et al., 2002). This voluminous literature in this area could be grouped into various categories for analytical purposes. The term SME is defined in different ways from country to country. Some of the commonly used criteria are the number of employees, total net assets, sales and investment level. However, the most common basis for definition is

employment, but still there is variation in defining the upper and lower size limit of an SME. (MeghanaAyyagari, Thorsten Beck and AsliDemirgüç-Kunt, 2005).

The old definition of MSEs in Ethiopia, categorizes micro if it's paid up capital is less than or equal to 20,000 ETB. Similarly, an enterprise is considered small when its paid up capital is less than or equal to 500,000 ETB. This definition, however, doesn't provide information about size and asset base. The new definition as it is stated in SelamawitKahsu (2015), a business is categorized as Micro Enterprise when it less than six human power and have total asset of up to 20,000birr for service or up to 100,000birr for industry. Moreover, a business is categorized as 'Small Enterprise when the engage more than six human power and own total asset for industry 100,001 up to 1.5millionbirr and for service type of business a total asset owned be 50,001 up to 0.5million birr (FDRE, 2011).

As the global economy is changing, small firms are becoming advantageous. Small firms are as a supply chain to reach to developing areas in lower costs. They serve as value chains, flexible networking, offering proximity to markets, and access to different resources. In doing so, they create jobs; contribute to the local and multinational economy. (Goldmark and Barber, 2005).

2.6.1. Factors Affecting growth MSE's

EnockNkonoki (International journal of business, 2010), classifies reasons of failure to MSEs because of three things. They are the starting resources of the entrepreneur(s); the firm; and the strategy. He explains that the three factors are dependent one over the other. Resources of entrepreneurs refer to the characteristics of the individual or individuals who provide the prime managerial resources of the small business. The entrepreneur(s) and their access to resources can be identified prior to the business being established. The firm refers to characteristics in this component reflect decisions made by the entrepreneur upon starting the business such as choice of legal form, location, or the sector in which the business should operate. The strategy refers to deciding for a given the characteristics, the entrepreneur(s) and the firm, and what managerial actions once the firm has started, are likely to be associated with more rapid rates of growth. When we see barriers of growth to MSEs, different literatures assume that a number of small firms wish to grow, but they are prevented from doing so by 'barriers'. In this perspective, a study by Barber, Metcalfe and Porteous, named Barriers to Growth in Small Firms (1989) can be consulted. The study summarized the literature on the topic under three headings: Management and Motivation, the sources, and Market Opportunities and Structure. The idea is the same as presented above by D.J. Storey's factors influencing small business firm growth, only that barrier

to growth looks at the question of small business growth in a negative way. It can also be argued at this point that, even though these studies were done in the U.K. and Europe mostly, they provide a general base on how small firms are constrained from growth. Also considering the fact that small business growth studies in Ethiopia and in developing countries in general are few and those few have not been done to the extent of providing concrete insight to be used as frameworks for further studies such as this. Not all elements in this literature would fit (as factors influencing small business growth) into the developing world context of small firms, but the most important thing is that the degree of relevance and usefulness is checked.

2.6.2. Growth measures

There is a little agreement in the existing literature on how to measure growth thus most previous studies have used a variety of different measures such as total assets, sales, employment size, profit, capital, and others (Berkham et al., 1996; Davidsson & Wiklund, 2000; Holmes & Zimmer, 1994). Moreover, growth has been measured in absolute or relative terms. Perhaps the most common means of firm growth is through relatively objective and measurable characteristics such as growth in sales turnover, total assets and employment size. These measures are relatively uncontroversial, the data tend to be easily available and it increases the scope for cross study comparability (Freel & Robson, 2004). But it is difficult to get reliable time series data on growth of fixed assets/sales (better indicator of growth) and MSEs owners would be unable to report their sales or profits even at the present time expecting that their guesses as to sales of ten years ago would be accurate is folly. Hence, the measurement of growth in terms of changes in the numbers of workers is objective. Interestingly, Evans (1987) reports that estimates using employment size is similar to those that use sales besides growth in sales and growth in the number of workers are highly correlated. Therefore, this study measures the growth of MSEs using employment size. Some empirical study can show below

2.7. Empirical Literature

In this part of literature existing literature towards factors affecting Growth of MSEs are discussed.

Admasu Abera, (2012) studied challenges towards success of MSEs. He used descriptive analysis to reduce the data in to a summary format by tabulation and measure of central tendency (mean and standard deviation). He also choose inferential statistics as it allowed him to infer from the data through analysis the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable. So that listed out eight

major challenges which seem to affect performance of MSEs which include: inadequate finance, lack of working premises, marketing problems, inadequate infrastructures, poor management practices, and technological, entrepreneurial and politico legal problems including bureaucratic blockage systems. Schorling (2006) also studied the same concept through descriptive method and showed that Ethiopia's situation on MSEs are confronted by various problems, which are of structural, institutional and economic in nature. Lack of Capital, market and working premises, marketing problems, shortage of supply of raw materials and lack of qualified human resources are the most critical problems facing MSEs. He further indicated out that although the economic policy of Ethiopia paid due emphasis for entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, imbalance preferential treatment and many others, which therefore need proper attention and improvement. A survey conducted by MSEs Agency, (2013) also reveals that relationship between growth of capital and forms of ownership is strong.

A study made by ILO (2003) explains many factors affecting MSEs that entrepreneurs in MSEs are affected by lack of entrepreneurial, managerial and marketing skills; bureaucracy, lack of accessibility to information and knowledge; difficulties accessing financial resources or lack of capital ;lack of accessibility to investment (technology equipment and know-how) ;non-conformity of standardization, lack of quality awareness and lack of mutual recognition schemes ; product and service range and usage differences ; language barriers and cultural differences ;risks in selling abroad ;competition of indigenous MSEs in foreign markets ;inadequate behaviors of multinational companies against domestic MSEs/Lack of government supply-supporting programs ;complexity of trade documentation including packaging and labeling ;lack of government incentives for internationalization of MSEs ; inadequate intellectual property protection; unfavorable legal and regulatory environments and, in some cases, discriminatory regulatory practices; lack of business premises (at affordable rent); and low access to appropriate technology.

A study made in Malaysia by APEC (1994), shows that the entrepreneurs in MSEs are facing many challenges, which are attributed to lack of comprehensive framework in terms of policies towards MSEs development; many agencies or channels for MSEs without effective coordination (this leads to lack of transparency to the target groups); inadequate data and information on the development of MSEs; inability to be in the mainstream of industrial development. There is also an underutilization of technical assistance, advisory services and other incentives made available

by the government and its agencies. In addition, there is a lack of skilled and talented workers, which affects the quality of production as well as efficiency and productivity. Admasu, (2012) added that among the entrepreneurial factors, lack of persistence and courage to take responsibility for once failure scores the highest mean.

A study made by (Befekadu B. Kereta, 2007) Sound business plan may make a difference between a business that succeeds and a business that fails. He showed the relationship between the variables through co-relation coefficient. He pointed out that approximately 90% of small businesses fail before two years, according to the Small Business Association. And even after that two year mark has been passed, there are no guarantees. This is mainly due to lack of business plan knowledge and the absence of a business plan. Therefore, it may be concluded that bureaucracy in company registration is the main factor that affects the performance of all sectors. This is followed by average score of the respondent's response with regard to unreasonable tax and related issues. The other possible explaining factor for this non responsiveness to the operators can be the fact that the concerned government offices are overburdened with other routine activities of their respective offices, which resulted in abandoning or being irresponsible to the issues of the MSE operators. Furthermore, the politico legal environments were mentioned among the key constraints to enterprises in the field survey, it is recognized that some respondents are classified as the major constraints to enterprises). According to them, this high rent of house is resulted from absence of own premises to run business.

Gemechis (2007) and ILO (2009) stressed that entrepreneurs are surrounded by a number of challenges .This forces entrepreneurs in MSEs not to contribute a lot to the poverty reduction of the town, region and the country as a whole. This study is different from those researchers discussed above in that their focus areas were in all entrepreneurs regardless of their sex. Besides, they did not see the factors with respect to the different personal, organizational, economic, socio-cultural and legal/administrative matters. Similarly, their studies did not address entrepreneurs in MSEs.

Cooper et al. (1992) examined various factors which influence business performance such as: experience, education, occupation of parents, gender, race, age, and entrepreneurial goals. While, Lerner and Hisrich (1997) conducted a study on Israeli women entrepreneurs and categorized the factors that affect their performance into five perspectives, that is, motivations and goals, social learning theory (entrepreneurial socialization), network affiliation (contacts and membership in

organizations); human capital (level of education, skills) and environmental influences (location, sectorial participation, and socio political variables).

A study made by Enock Nkonoki (2010) identified as the reasons as to why small firms in Tanzania fail to grow. The study has discussed these constraints in light of literature concerning factors influencing growth of small firms and barriers to growth in small firms. He pointed out that a few factors emerged stronger in limiting small firms' growth as they were mentioned more times than the others. These constraints include corruption, in access to finances/capital constraint, government policy, unfavorable economic conditions, people factor or lack of needed talent, lack of proper record keeping, lack of or improper professional advice and consultation, theft or cheating and lack of trust in doing business, lack of a proper business plan/vision for the business, and overcome more easily the problems which are experienced as the new business grows. Background and experience in this context implies prior self-employment, prior employment in the same business and prior business failures.

A study made by Dr. Arega Seyoum et al. (2016) try to show the growth of micro and small enterprise in Addis Ababa city administration on selected MSEs in Bole sub city, by testing four different variables on the selected sample of 165 MSE's. They focus on the impact of availability of technical and business management training for owners, the size of initial investment, the output of micro and small enterprises as a product or rendering services and working in cooperatives versus working in without cooperatives on the growth of MSE's. In this study employment level is used to measure the growth of the micro and small enterprises.

Results revealed that Micro and Small Enterprises (MSEs) whose owners attained training, started business with high initial investment, engaged on the service sector, and established in non-cooperative form have better growth than those whose owners/operators did not attend training, who started with low initial investment, those engaged on production sector, and those working in cooperatives respectively. Hence, they recommend that the concerned government officials, nongovernmental organizations and other national economic development players have to work hand in hand in the area of training, availability of finance, formation and business sectors of Micro and Small Enterprises (MSEs) in the country.

The study made by Diriba Shifeaw, (2013) that examined micro and small enterprises economic of peoples in Jimma city. The study used inferential and descriptive design, and was carried out on 82 organized/cooperated MSEs in Jimma city. Samples were randomly selected through stratification in each activity of the sector. Results were analyzed and changed to tables, charts

and bar-graphs, and some of them were tested using Chi square techniques. The findings of the study has shown that there is a socio economic improvement through participating in employment creation, saving and income generation, developing entrepreneur's skills and knowledge, and gender empowering, changing many peoples' social issues and also ways of acquiring businesses and linking different levels of enterprises to facilitate its development. Result indicates that 79.27% of the enterprises responded that the overall socio-economic improvement of the peoples was good.

Even though the MSEs have such great roles in changing peoples' living conditions, the activities of the sector was constrained by many factors like lack of financial capacity, lack of working and production places, rules and regulatory procedures, lack of capacity to compete larger enterprises, and insufficiency of business development services and socio economic infrastructures. Though, there are strategies to combat problems in the city, these challenges also leads to importance to put some suggestions for the improvement of the enterprises activities. In this case enabling environment for MSEs sector development is very crucial, especially, to encourage and promote the sector and there should be an integrated effort of government to lead the support, the need to participate private sector, non-governmental organization in the MSEs development.

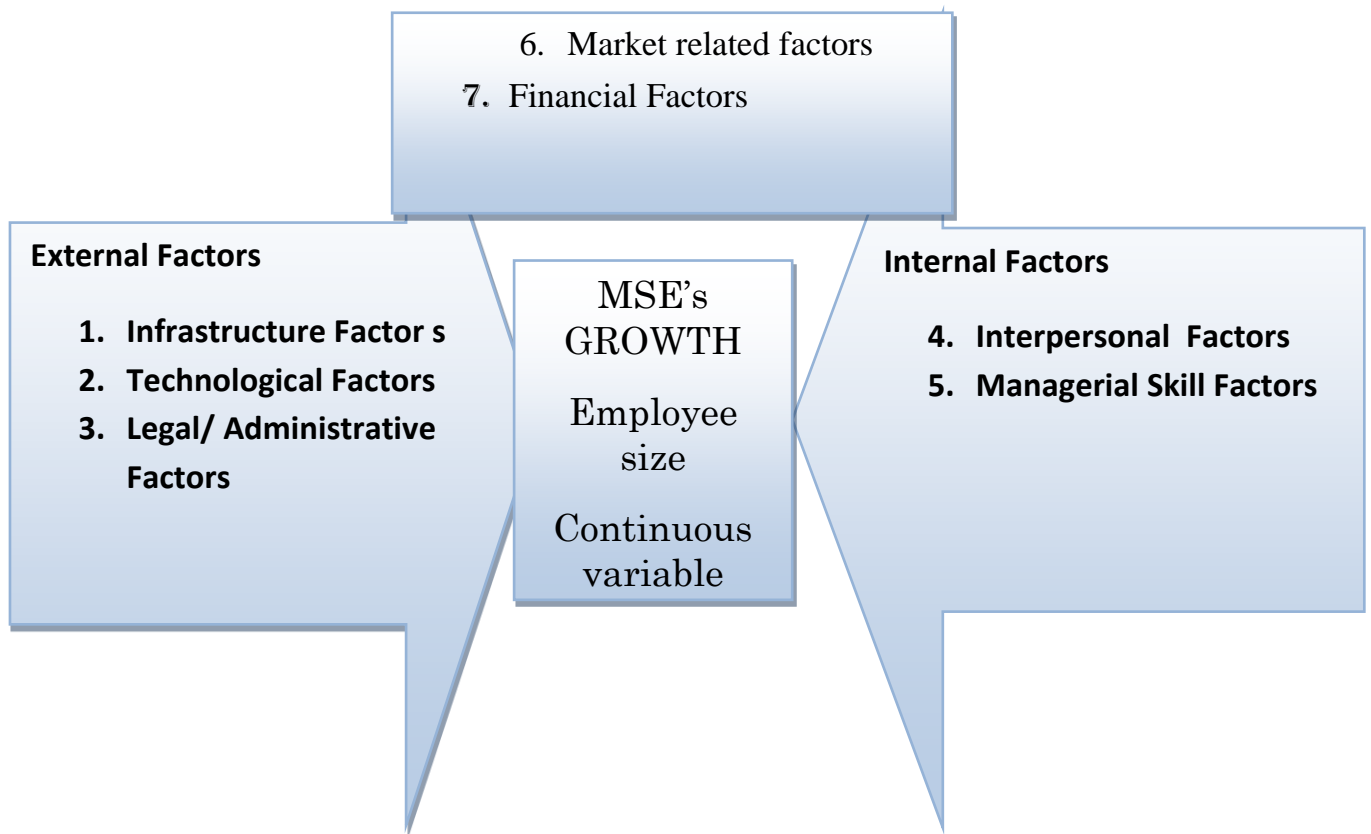
To sum up, the above all empirical literature, investigate in many different type of variables that determine the growth of MSEs in Ethiopia and other countries. With some specification and limited predictor variables. Now the researcher focus his attention on the all contextual factors in which the MSEs engaged and the internal factors related to the firm specific that affect the growth of MSEs engaged in all type of business sectors of Jimma city in all sub-cities.

2.8. Conceptual Framework

The Ethiopian government recognizes the significance of this sector and shows its dedication to promote the MSE's development by the Issuance of National Micro and Small Enterprises Strategy in 1997 and the Establishment of the Federal Micro and Small Enterprises Development Agency. Regardless of this sector enormous contribution the following internal, external and the middle environmental factors affect the growth of MSEs in one or another ways.

Relationship of the major Factors and MSE's Growth

Figure 2.1 Conceptual Framework



Source: Designed by the researcher based on the literature survey.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

In order to analyze the potential impacts of factors affecting the growth of MSEs, this study made use of appropriate research methodology. This chapter provides an overview of the study's research approach which lays within the mixed methods strategies. The chapter discusses procedures and activities undertaken, focusing namely on the research design, questionnaire design, data collection, sampling strategy, data processing and analysis and instrument development. On the other way, the chapter deals with a discussion on the ethical issues and the study area profile.

3.2. Philosophy of research approaches

To address the main objective of this research study, the assessment of factors affecting the growth of micro and small enterprise in Jimma city administration all sub cities was made. Several activities were undertaken starting from proposal development to the final printing of the thesis. These activities include review of related literatures, research design, questionnaire design, data collection, sampling procedure, visit to several offices and Micro and Small Enterprises, selection of participants, data collection and data analysis.

3.2.1. Research design

Research design is the blue print for fulfilling research objectives and answering research questions (John A.H. et al. 2007) cited in Admasu. (2012). In other words, it is a master plan of specifying the method and procedure for collecting and analyzing the required information. It ensures that the study would be relevant to the problem and that it would use economical procedures.

The quantitative versus the qualitative debate has coincided with the rapid development of mixed methods, which combine qualitative and quantitative methods in way that ostensibly bridge their differences in the service and addressing a research question (Campbell and Fiske 2009:31). Johnson and Turner (2003) argue that the fundamental principle of mixed method research is that multiple kinds of data should be collected with different strategies and methods in way that reflect complementary strengths and non-overlapping weaknesses, allowing a mixed methods study to provide insights not possible when only qualitative or quantitative data are collected.

Gracelli and Greene (1997) identified three typical uses of a mixed methods study (1) testing the agreement of findings obtained from different measuring instruments, (2) clarifying and building on the results of one method with another method and (3) demonstrating how the results from one method can impact subsequent methods or inferences drawn from these results.

Generally, qualitative and quantitative research strategies were used as the basis of this research. The qualitative approaches concerned with subjective assessment of attitudes, opinion, and behavior. These approaches to research generate results either in non-quantitative form or in the form which are not subject to rigorous quantitative analysis. The quantitative approaches involve the generation of data in a quantitative form which can be subjected to rigorous quantitative analysis. Hence, the type of research employed under this study was mixed method.

3.2.2. Questionnaire Design

The layout of the questionnaire was kept very simple to encourage meaningful participation by the respondents. The questions were kept as concise as possible with care taken to the actual wording and phrasing of the questions. The reason for the appearance and layout of the questionnaire are of great importance in any survey where the questionnaire is to be completed by the respondent (John A. et al., 2007:128-42). The literature in the study was used as a guideline for the development of the questions in the questionnaire. Besides, some questions in the questionnaire were adopted from other sources (Mulugeta, C.W. (2010:74-79). The questions that were used in the questionnaire are multiple-choice questions and five-point Likert scale type questions. The type of scales used to measure the items on the instrument is continuous scales (strongly agree to strongly disagree). Then dichotomize the collected data through the use of SPSS to simplify the measurement of the dependent variable. For further investigation on selected questions used interview for both the micro and small enterprises and the respective governmental office workers.

3.2.3. Source of data collection

The study were employed both primary and secondary sources of data collection. I. Primary Sources: In order to realize the target, the study used well-designed questionnaire as best instrument. This was completed by the owner managers/or operators of the enterprises with the support of trained collectors for this purpose. Besides, face-to-face interviews with the MSEs operators and the respective governmental officers, who are the representative of the office of MSEs development on the town level and the one center service were undertaken. The interview method of data collection is preferred due to its high response rate. That is it gives the two party

concerned an opportunity to interact and get details on the questions and answers. Through interviews, clarification of issues is easily achievable leading to accuracy of data from the respondents.

II. Secondary Sources Secondary data from files, pamphlets, office manuals, circulars and policy papers were used to provide additional information where appropriate. Besides, variety of books, published and/or unpublished government documents, websites, reports and newsletters were reviewed to make the study fruitful.

3.2.4. Target Population and Sampling Method

Target population was the micro and small enterprises (MSEs) owners/managers and governmental micro and small enterprises agency workers of Jimma city administration. As the researcher made a preplan visit to these offices, he considered that there are agents working in selected sub cities of the city. Therefore, workers of the sub cities which stated in the study area were included in the study. Hence, it is estimated that there are more than 7460 enterprises registered in all sub cities of Jimma city as of September 2015 (JCMSEDA). Based on the nature of their activities MSEs are of different kind, viz., those engage in manufacturing, service, construction, urban-agriculture, etc. Hence by using stratified sampling method 317 functioning enterprises were selected from all stated sub cities and 9 workers were selected using purposive sampling method from the respected office of the sub city for the implementation of micro and small enterprises development on the town level and sub city level. Purposive sampling helps the researcher to choose the right respondents who are directly concerned from the total workers of the offices and contacted directly. The workers were selected purposely because it helps to get important information from the concerned bodies.

The sample size was determined using the following Slovin's sampling formula.

$$n = \frac{N}{1 + Ne^2} \quad \text{hence,} \quad \frac{7460}{1 + 7460 * 0.05^2} = 379$$

Where,

n is the sample size,

N is the population size, and

e is the level of precision.

In this case N is 7460, $\pm 5\%$ Precision Level, where Confidence Level is 95% and P=5

379 total sample of enterprises and 9 from governmental offices. Hence, the sample size of the study was $379 + 9 = 388$ participants.

3.3. Variables and measurements

MSEs are found in every economy; either in developing economy or developed economy. In either case, they play significant role in the sustainability of growth of countries. In most of countries, there are small number of large enterprises, larger number of medium enterprises and very large number of micro enterprises (Tarmidi, 2005). The Government of Ethiopia is focusing on the micro and small enterprises basically because of their contribution in reducing unemployment. The focus stems from the increasing unemployment problem in Ethiopia; and MSEs have significant role in poverty alleviation and job creation in (Solomon, 2004). They are attracting the attention of government, and government is supporting them indifferent ways like business management training, financial support, providing free showing area, free production and operation area, promotion and creating a market link so on.

Hence, the measurement of growth in terms of changes in the numbers of workers is objective. Interestingly, Evans (1987) reports that estimates using employment size is similar to those that use sales besides growth in sales and growth in the number of workers are highly correlated. Therefore, this study measures the growth of MSEs using employment size.

The dependent variable is a dichotomous variable that represent the growth of MSE that is measured in terms of change in employment size. Taking the calculated growth in employment, MSEs are classified in to two categories i.e., growing (if $gr > 0$) and survival (if $gr \leq 0$) following Cheng (2006) growth classification and represented in the model by 1 for the growing and 0 for survival of MSEs. The independent variables that are critically examined in this study are impact of infrastructure factors, access to finance, marketing related factors, impact of technological factors, effect of interpersonal factors, effect of managerial skill factors and effect of legal/administrative factors.

3.4. Data processing and analysis

3.4.1. Data processing

The method of data processing in this study was manual and computerized system. In the data processing procedure editing, coding, classification and tabulation of the collected data were used. Data processing has two phases namely: data clean-up and data reduction. During data clean-up the collected raw data was edited to detect anomalies, errors and omissions in responses and checking that the questions are answered accurately and uniformly. The next process were feeding the data to computer using SPSS program and goes to the relevant analysis procedure and got the required output from the system for further interpretation.

3.4.2. Data analysis

This is the further transformation of the processed data to look for patterns and relationship between and/or among data groups by using descriptive and inferential statistical analysis. The Statistical Package for Social Science (SPSS) version 20 was used to analyze the data obtained from primary sources. Specifically, descriptive statistics (mean, and standard deviation) and inferential statistics (correlation and regression) were taken from this tool.

3.4.2.1 Descriptive analysis

Descriptive analysis was used to reduce the data in to a summary format by tabulation (the data arranged in a table format) and measure of central tendency (mean and standard deviation). The reason for using descriptive statistics was to compare the value of different factors

3.4.2.2 Inferential analysis

3.4.2.2.1 The Pearson Product Moment Correlation Coefficient

According to Phyllis and his associates (2007:18-55), inferences have a very important in management research. This is so because conclusions are normally established on the bases of results. Such generalizations were therefore, be made for the population from the samples. They speculate that the Pearson Product Moment Correlation Coefficient is a widely used statistical method for obtaining an index of the relationships between two variables when the relationships between the variables is linear and when the two variables correlation are continuous. To ascertain whether a statistically significant relationship exists between the impacts of infrastructure factors, access to finance, marketing related factors, impact of technological factors, effect of interpersonal factors, effect of managerial skill factors and effect of legal/administrative factors the Product Moment Correlation Coefficient was used.

According to Duncan C. and Dennis H. (2004:38-41), correlation coefficient can range from -1 to +1. The value of -1 represents a perfect negative correlation while a value of +1 represents a perfect positive correlation. A value of 0 correlations represents no relationship.

3.4.2.2.2. Binary logistic regression

Linear regression is a method of estimating or predicting a value on some dependent variable given the values of one or more independent variables. Like correlations, statistical regression examines the association or relationship between variables. Unlike correlations, however, the primary purpose of regression is prediction (Geoffrey M. et al., 2005:224-225). In this study binary logistic regression was employed. Binary logistic regression analysis takes into account the inter-correlations among all variables involved. This method also takes into account the correlations among the predictor scores analyzed (John Adams, et al., 2007:198).

The equation of regressions on this study is generally built around two sets of variables, namely dependent variable (growth) and independent variables (infrastructure factors, access to finance, marketing related factors, technological factors, interpersonal factors, managerial skill factors and legal/ administrative factors). The basic objective of using regression equation on this study is to make the study more effective at describing, understanding and predicting the stated variables. This is specified as;

$$Y = \begin{cases} 1 & \text{if } y^* > 0 \\ 0 & \text{if } y^* \leq 0 \end{cases}$$

In a qualitative response model, the probability that Y=1 is given by the sign of the latent variable that is the probability that the latent variable becomes positive.

Table 3.1 Predictor variables and their expected co-efficient

No	Independent Variables	Co-efficient	Expected Sign
1.	Interpersonal skills (x ₁)	β ₁	+ve
2.	Managerial skills (x ₂)	β ₂	+ve
3.	Access to the market (x ₃)	β ₃	+ve
4.	Infrastructural factors (x ₄)	β ₄	+ve
5.	Technology factors (x ₅)	β ₅	+ve
6.	Access to finance (x ₆)	β ₆	+ve
7.	Legal/ administrative influence (x ₇)	β ₇	+ve

Source: SPSS Output from Survey Data, 2016

$$Y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \beta_5x_5 + \beta_6x_6 + \beta_7x_7 + \epsilon \quad (\text{Where } \epsilon \text{ is error term, } \beta_0 = \text{constant})$$

The finally employed model becomes:

$$\text{Porb}(Y=1) = \alpha + \beta_1(\text{Ifrfac}) + \beta_2(\text{Accfin}) + \beta_3(\text{Accmkt}) + \beta_4(\text{Tecfac}) + \beta_5(\text{Intfac}) + \beta_6(\text{Mansfac}) + \beta_7(\text{Legadmfac}) + \epsilon$$

3.5. Instrument development

Basically, the instruments were developed based on the objectives of the study and research questions. The principles of questionnaires such as, use of simple and clear languages, statements should not be too long and use of appropriate punctuations is also considered when developing the instrument. In addition, interviews can be taken as an instrument to strength the investigation.

3.5.1 Design of the instruments

The instruments were designed in such ways that can strength the viability of the study. The questionnaires were designed both in English and Amharic languages. The purpose of translating from English to Amharic language is to utilize those who cannot clearly understand English language so that respond easily. The interview questions were designed in English language only, because the discussion was in Amharic while making interviews with operators.

3.6. Ethical consideration

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and consent was secured before the commencement of distributing questionnaire and asking interview questions. Although all interview sessions has tried to tape-record, it was impossible as the respondents were not voluntary. Regarding the right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential thus collective names like ‘respondents’ were used.

3.7 The study area profile

The study was conducted in Jimma city which is located in Southwest of Ethiopia at distance of 335km from the Capital city Addis Ababa. As the 1986 master plan indicated, the Jimma city has an area of 46.23 km² (4623 hectares) and have a sub- tropical climate with an altitude of 1704-2000m.a.s.l. and a temperature range of 7.3 °C to 31°C. The amount of rainfall ranges from 1450–1800 mm, which of 70% precipitation is in summer (May- September) (JCASP, 2006). In

2005 the population of Jimma city was more than 155,000 and during 2008 estimated to be 220,000 (Jimma city Planning and Program Office, 2008) which consisted of 49.5% male and 50.5% female (BFEDO, 2004).

Majority of the people in the city was engaged in more than 4500 business entities/trade and commerce which created jobs for 20,000 peoples. About 280 people engaged in transportation sector and 7500 employed on agricultural sectors. Whereas the industry sector hold small share, majority of the peoples employed in government and private sectors (JCASP, 2006). The local-rural exchange in Jimma and its surrounding has contributed significant role for city's business activity. However, the formally organized peoples in micro and small enterprises has been involved with maximum share and engaged in all sector with high rate than the other form business formation, their growth level is the effect of different factors. The discussions were in the next section

3.8. Operational Definitions of terms

An enterprise can be defined as an undertaking engaged in production and/or distribution of goods & services for commercial benefits, beyond subsistence (household) consumption at the household level. An enterprise might be owned and operated by a single household, or by several households jointly on a partnership basis or by any institutional body (EFDRE MUDC, 2013). Micro Enterprise are enterprise whose employees including the owner or family are not greater than 5 & total asset is $\leq 100,000$ ETB for industrial sector and $\leq 50,000$ ETB for service sector. (EDRE MUDC, 2013)

Small Enterprise are enterprise with 6-30 employees & total asset 100,001—1,500,000 ETB for industrial sector and 50,001—500,000 ETB for service sector. (EDRE MUDC, 2013)

Formal” enterprises are defined as establishments principally engaged in production of marketed goods and services but formally registered at respective government agencies to undertake the business and hence have licenses to operate (Bigsten, A., et al, 2000; CSA, 2003, Hussmanns, R., 2001, 2002).

Informal enterprises are small scale and operate outside registration and tax and frameworks. They may pay tax when caught by the tax man, otherwise known for evading taxpaying and other required regularities.(EDRE MUDC, 2013)

Partnership is defined as “an enterprise established by more than one person with legal status. The responsibility/liability is equal for all the partners irrespective of their share. Similarly, (EDRE MUDC, 2013)

Share Company is also an enterprise with legal status and has five or more members. A share could be transferred from one person to another.

Cooperative is a society established by individuals on voluntary basis to collectively solve their economic and social problems. It is also an enterprise owned by a group of persons who take full part in the activity of the enterprise by coordinating their knowledge and assets (MoTI, 1986).

Sole proprietorship is defined as the sole trader or simply a proprietorship, which is a type of business enterprise or entity that is owned and run by one individual. In sole proprietorship there is no legal distinction between the owner and the business. The owner receives all profits subject to taxation specific to the business and has unlimited responsibility for all losses and debts. (EDRE MUDC, 2013)

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATIONS

4.1 Introduction

To facilitate ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the inferential analysis. The purpose of this study is to critically identify the factors affecting the growth of MSEs in Jimma city. How far, the owner managers are aware on the challenges of MSE's growth. Data were collected from operators or owner managers of MSEs engaged in all business activities found in all part of Jimma city.

From the total number of 7460 Registered micro and small enterprise trade sector, Industry Sector, service sector, construction sector and Urban agriculture sector had 3789, 1200, 1106, 683 and 682 enter pride respectively.

From the above classification the percentage of each sector calculate on the base of the total registered enterprises trade sector industry sector, service sector, construction sector and urban agriculture sector had 50.79 percent. 16. 09 percent, 14.83 percent 9.16 parent and 9.14 percent respectively.

Therefore three hundred seventy nine questionnaires were distributed across the five sectors in eight sub-cities, such that 192, 61, 56, 35, and 35 questionnaires respectively to randomly selected enterprises, out of which 317 were completed and retrieved successfully, representing 83.64 percent response rate. Out of the total distributed 379 questionnaires, only 317 questionnaires administered 161, 51, 47, 29 and 29 were distributed to trade sector, industry sector, service sector, construction sector and urban agriculture sector collected respectively.

Generally, this section is organized in the following manner: First, the general information about MSEs were presented and analyzed. Second, data collected through questionnaires and interviews were analyzed concurrently. Moreover, the results from the binary logistic regression were analyzed.

4.2. General Demographic Characteristics of the MSEs

4.2.1 Gender age cross analysis

Regarding demographic characteristics of the respondents on table 4.1, 63.7 percent of the respondents were male while 36.3percent were female. According to this survey, male MSE owners are 1.75 times higher than the female owners. This indicates that the difference in gender

is very significant, and it tells us most of the MSEs owners and operators are male. Also, 28.7percent of the MSEs are owned by persons that are from 15 to 22 years old, and 39.4percent of the MSEs are owned and operated by young people from 23 to 30 years old.68.1percent of the respondents are below the age of 31 which means majority of the MSE owners are of the young generation, and of them 28.7 percent are in their very youth. This indicates that MSE are a source of job opportunity for the youth. As indicated on the table 4.1 below, little participation is shown in the elderly age group which is above 46 years old count 3.8 percent from the total sample MSE.

Table 4.1 Gender * Age Cross tabulation								
			Age					Total
			15-22	23-30	31-38	39-46	above 46	
Gender	Male	Count	62	81	38	13	8	202
		% within Age	68.1%	64.8%	59.4%	52.0%	66.7%	63.7%
		% of Total	19.6%	25.6%	12.0%	4.1%	2.5%	63.7%
	Female	Count	29	44	26	12	4	115
		% within Age	31.9%	35.2%	40.6%	48.0%	33.3%	36.3%
		% of Total	9.1%	13.9%	8.2%	3.8%	1.3%	36.3%
Total		Count	91	125	64	25	12	317
		% within Age	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	28.7%	39.4%	20.2%	7.9%	3.8%	100.0%

Source: SPSS Output from Survey Data, 2016

4.2.2 The characteristic of job opportunity

MSEs provide job opportunity to the employees i.e. 29.3percent of the enterprises provide 1 to 3 employment opportunity 24.6 percent for 4-6 employees ; 36.3percent from 7-10 employees and 9.8percent of the firms provide more than 10 employees positions.

Table 4.2 Number of workers

	Number of workers				
	1-3	4-6	7-10	Above 10	Total
Frequency	93	78	115	31	317
Percent	29.3	24.6	36.3	9.8	100.0
Valid Percent	29.3	24.6	36.3	9.8	100.0
Cumulative Percent	29.3	53.9	90.2	100.0	

Source: SPSS Output from Survey Data, 2016

4.2.3 Educational background of respondents

Relating to the educational background of the respondents, 21.8 percent were attend on the primary education and the majority of the respondents, 44.8 percent MSEs owner/manager attend secondary school level. The remaining 23percent and 10.1percent of respondents, college complete and university graduate level respectively. Result on table 4.3 shows that, only 0.3percent the respondents MSE’s operators did not go to school at all. Hence, level of uncertainty about obtaining relevant data from respondents is very low.

Table 4.3 Educational background

	Level of education					Total
	Primary	high school complete	college complete	university graduate	non educated	
Frequency	69	142	73	32	1	317
Percent	21.8	44.8	23.0	10.1	.3	100.0
Cumulative Percent	21.8	66.6	89.6	99.7	100.0	

Source: SPSS Output from Survey Data, 2016

4.2.4 Sector of MSEs engaged and the respective sub-cities

As shown in the table 4.4 below, the sample enterprises were operating in five sectors of the economy. Most of them are engaged in Trade sector 50.8percent followed by Industry 16.10percent Service sector 14.80percent in construction and urban agriculture sector are

engaged 9.15percent of MSEs each of them from the total sample of 317 enterprises. This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the growth 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 one sector may differ from the other or may possible to identify the critical problems face each of them.

Table 4.4.The sector of MSEs engaged and with respective Sub cities

S. no.	Sector of MSE	Sub cities									
		One	two	three	Four	Five	six	Seven	eight	Total	%
1.	Service	5	0	2	4	15	6	11	4	47	14.80
2.	Industry	5	3	7	6	13	5	8	4	51	16.10
3.	Trade	18	13	20	27	33	11	33	6	161	50.80
4.	Construction	2	4	0	6	2	3	8	4	29	9.15
5.	Urban agricu.	9	1	3	5	2	5	2	2	29	9.15
	Total	39	21	32	48	65	30	62	20	317	100
	Percentage	12.3	6.65	10.1	15.14	20.5	9.5	19.6	6.31	100	

Source: SPSS Output from Survey Data, 2016

4.2.5 The Main Source of Start-up and Expansion Finance

Starting own business requires a starting capital rather than mere existence of ideas. To capture information regarding the relative importance of the various sources of finance, enterprises were asked whether they ever received credit from each of a given list of sources of finance. The following figure shows the main sources funds.

The majority of the respondent's source of finance from the sample enterprises 43.5percent of them got from family/friends and the rest of them have been got from saving and credit are 29.3percent and 27.1percent respectively. This revealed that still the main source of MSEs established had got from non-microfinance source (from family/friends).

Besides, the result of interview shows that majority of MSEs in the study area uses informal sources. The formal financial institutions have not been able to meet the credit needs of the MSE's. According to majority interviewee, the reason for emphasizing on informal sector is that the requirement of collateral/guarantor is relatively rare since such sources usually take place

among parties with intimate knowledge and trust of each other. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSE's. To wind up, such constraint of finance for MSE affects their growth directly or indirectly.

Table 4.5 source of finance

	Initial source of finance				
	Saving	from family/friend	Credit	Others	Total
Frequency	94	138	83	2	317
Percent	29.7	43.5	26.2	.6	100.0
Valid Percent	29.7	43.5	26.2	.6	100.0
Cumulative Percent	29.7	73.2	99.4	100.0	

Source: SPSS Output from Survey Data, 2016

4.2.6. The optional source of income and their experience in the field

When we see the experience of the firm in their respective field: out of 34.1percent have less than a year experience only 18.5percent have additional income out of their enterprise activity, and the large number of them count 81.5percent, had not any additional income out of their enterprise activities.

And out of 28.4percent of respondents have related experience from 1 to 3 years only 24.4percent have additional source of income and from 37.5percent of total respondents on related experience above 3 years category only about 24.3percent of them have additional income source out of their enterprise activities. The rest indicates that, they had not any other source of income apart from their enterprise activities and their life is totally depending on the business of MSE's sector. This information shown on the table 4.6 below indicates that, how the MSE have a great role on the socio economic contribution of the society.

Table 4.6: The optional source of income and their experience in the field

Other source of income out of their enterprise		Age/work experience in the field			Total
		>one year	1 to 3 years	<3 three years	
Yes I have	Frequency	20 _a	22 _a	35 _a	77
	% within	18.5%	24.4%	29.4%	24.3%
	% of the Total	6.3%	6.9%	11.0%	24.3%
No I have not	Frequency	88 _a	68 _a	84 _a	240
	% within	81.5%	75.6%	70.6%	75.7%
	% of the Total	27.8%	21.5%	26.5%	75.7%
Total		108	90	119	317
% of the Total		34.1%	28.4%	37.5%	100.0%

Source: SPSS Output from Survey Data, 2016

The information from table 4.7 shows that from the total number of respondents 54.6percent were skilled, and 32.5percent of them trained in the field they engaged. The rest of 12.9 percent of the respondents were either skilled or not trained. This shows that the information gathered is reliable.

Table 4.7: Professional background

	professional background			
	Skilled	Trained	Untrained	Total
Frequency	173	103	41	317
Percent	54.6	32.5	12.9	100.0
Cumulative Percent	54.6	87.1	100.0	

Source: SPSS Output from Survey Data, 2016

4.3. Factors affecting the growth of micro and small enterprises (MSEs)

Respondents were asked different questions regarding the factors affecting the growth of MSEs in Jimma city in all sub cities. Their responses were organized in the following manner.

4.3.1 Results of descriptive statistics

There are a number of challenges that affect growth of MSEs associated with different factors. This part explains the descriptive statistics calculated on the basis of the factors that affect the growth of MSE's. The results for measures of central tendency and dispersion were obtained from the sample of respondents of 317 MSEs engaged in Service sector, industry sector, trade sector, construction sector and urban agriculture sector were shown with the predictor variable namely; interpersonal factors, managerial skill factors, market related factors, infrastructural factors, access to finance factors and legal/administrative factors in the following sections.

Table 4.8 Growth of MSEs and Interpersonal factors

Interpersonal factors	Frequency		Mean	. Deviation	Total
	Disagree	Agree			
Lack of courage to take responsibilities of failure	187 (59%)	130 (41%)	.4101	.49263	130.00
Lack of tolerance to work hard	218(68.8%)	99(31.2%)	.3123	.46417	99.00
Lack of motivation on working cooperative	210(66.2%)	107(33.8%)	.3375	.47362	107.00
Poor relationship between partners	187(59%)	130(41%)	.4101	.49263	130.00
Lack of taking responsibility between the member of enterprises	184(58%)	133(42%)	.4196	.49427	133.00

Source: SPSS Output from Survey Data, 2016

4.3.1.1 Growth of MSE and Interpersonal factors

Table 4.8above shows that, the score of mean and standard deviation result of respondents on interpersonal factor. From the total number of respondents 187(59%) were disagree for the question lack of courage to take responsibility of failure. In order to go throughout difficulties, it needs intrinsic force to start and apply the steted objective. The remaining 130(41%) of the respondents support, they lack courage to take responsibility failure by the mean value of 0.4101 and SD of 0.49263. The next factor was lack of tolerance to work hard for the objectives of changing them to the higher level. Similarly, the majority 218(68.8%) of respondents were not support the existence of this factor and the remaining 99(31.2%) of respondents shows that they

had not been hard worker and lack of tolerance with mean value of 0.3123 and SD of 0.46417. The next question on their motivation of working in cooperatives, shows that 210(66.2%) of the respondents disagree and the rest 107(33.8%) agree as they lack motivation to working cooperative. With the mean value of 0.3375 and SD of 0.47362 score. This shows that, the majority of respondents was lucky and accepts working with other. The other one is the relationship between member of the enterprises; 187(59%) of the respondents disagree and the rest of 130(41%) agree. This shows that the majority of respondents had been good communication and respects each other. If there is a good communication in the enterprise, there will be a better chance of getting success. The last point raised in the interpersonal factors; the problem of taking their responsibilities between the members of the enterprise, almost similar response with the above one. From this table the majority of respondents shows that the effect of Interpersonal factors have not impact on the growth of their enterprise and they respect each other and focus on their primary objective of profit maximization.

4.3.1.2. Growth of MSE and Managerial skills factors

Result on table 4.9 shows that, the detail of the managerial skills factors and the growth of MSE's. On the question of inability to plan for the future, the majority of the respondents, 181(57.1%) reject the question and the remaining 136(42.9%) of the MSEs operators accept the existing problems related to planning ahead. Planning is one of the main management functions, in which it is the blue print of the activities to achieve the objectives of the enterprise. The next question was lack of managerial skills; the majority of the respondents, 201(63.4%) not support. This support by the result of table 4.9, about 87.1 percent of the respondents had got training or skilled on their respective business activities. The remaining 116 respondents with the mean value of 0.3359 accept the problem of managerial skills faces on their business activities.

On table 4.9, the poor organizational communication of the MSEs in Jimma city the majority of the respondent 195(61.5%) cannot agree and they show how they respect each other and have better flow of information between the member of the enterprise as a professional. The remaining 122(38.5%) of the respondents in the sample MSEs in Jimma city support the question of poor organizational communication in their enterprise member and the owner/manager with the score of 0.385 mean and 0.487 SD. The other indicator on the managerial skill factor is the question related to poor management of financial records. Similarly, the majority of the respondents 204(64.4%) disagree and the remaining 113(35.6%) respondent with score of mean 0.3565 and SD of 0.4797 respond to agree on the poor management of financial records in their enterprise.

These show that the managerial skill factors have not great effect on the growth of MSEs in Jimma city.

managerial skills factors	Frequency		Mean	Std. Deviation	Total
	Disagree	Agree			
Inability to plan for the future	(57.1%)	(42.9%)	.4290	.49572	136.00
Lack of managerial skills	(63.4%)	(36.6%)	.3659	.48245	116.00
Poor organizational communication	(61.5%)	(38.5%)	.3849	.48733	122.00
Poor management of financial records	(64.4%)	(35.6%)	.3565	.47971	113.00

Source: SPSS Output from Survey Data, 2016

4.3.1.3 Growth of MSE and Market related factors

The table 4.10 below is the indication of how market related factors affect the growth of MSEs in Jimma city. The question inability to gate customer for your product/services not accepted by the majority of the respondents 178(56.2). They indicate that we had not lack of customer or demand for our product/services. The remaining 139(43.9%) with the score of 0.4385 mean value and 0.49699 value of SD support that they had not customer for their product/ services. 196(61.8%) of the respondents support the question for the inconvenience of promotional methods for their product/service with the score of mean value of 0.6183 and SD value of 0.4866. This result indicates that if the promotional method available for their respective product/service, they expect that, their selling capacity can increase. The inconveniences of promotional method affect the growth of MSEs in Jimma city. The less part, 121(38.2%) of respondents not support the inconvenience of promotional method. Either their product/service not needs a promotional mix like; advertising or they have enough customers that beyond their capacity or their product/service may not need a promotion.

On the other side, inability to handle the existing customer were respond by the majority 218(68.8%) of respondents by not accepting as a problem for their business activities. This is the indication of serving their customer properly or the respondents that had primarily the shortage of customer for their product/service. The remaining 99(31.2%) of the respondents were support the question of inability to handle the existing customer with a score of 0.3123 mean value and SD of 0.46417. They show the existence of surplus demand for their product/service and they cannot

afford the expansion because of capacity gap like financial or respective skill problem and this hurt them from growth.

Market related factors	Frequency		Mean	Std. Deviation	Total
	Disagree	Agree			
In ability to gate customers for our product	178(56.2%)	139(43.8%)	.4385	.49699	139.00
Inconvenience of promotion methods our products /	121(38.2%)	196(61.8%)	.6183	.48657	196.00
Inability to handle existing customers	218(68.8%)	99(31.2%)	.3123	.46417	99.00
Inability to assess the market needs and wants	184(58%)	133(42%)	.4196	.49427	133.00
Inability to forecast the future market condition	171(53.9%)	146(46.1%)	.4606	.49923	146.00

Source: SPSS Output from Survey Data, 2016

In now days, assessing the market needs and want is the main day to day business activities for all type of business sectors. Inability to assess the market needs and wants not supported by 184(58%) of the respondents of sample survey MSEs in Jimma city. This indicates that they address their customers in the market what the needs and wants they have. The score of 0.4196 mean value and SD of 0.49427 support by 133(42%) of respondents had the problem of assessing the market needs and wants. This result shows that, the absence of identifying their customers, those who have the needs and wants for their product/services. This suffers the MSEs from the production of a product that have not accepted in the market or a product/service that have not demand in the market. The other one is the ability to forecast the future market condition. 173(53.9%) majority of the respondents not support this problem and the rest of 164(46.1%) support with the mean score of 0.4606 and SD of 0.49923, they had the problem on the forecasting of the future market condition. This revealed that, there is inability to ready for the market competitions. Forecasting can enable them to gather the required tools for the market competition.

4.3.1.4. Growth of MSE and infrastructural factors

From the table 4.11 below, the growth of MSEs and the infrastructural factors were presented in this way. The respondents from the total sample down 190(59.9%) of them agree on the lack of road access to the production or working area. They show that the problem of road affecting their regular day to day activities and hinder them from free competition when compared with those open their venture or place of production on the front of main road, who gave response of disagree 127(40.1%) recognized on the table below.

Infrastructural factors	Frequency		Mean	Std. Deviation	Sum
	Disagree	Agree			
Lack of road to the production area or place of work(shop)	127(40.1%)	190(59.9%)	.5994	.49080	190.00
Lack of electric power line or source /power interruption	72(22.7%)	245(77.3%)	.7729	.41964	245.00
Lack of water line in the area or the absence regularly availability	95(30%)	222(70%)	.7003	.45884	222.00
Lack of transportation related to your work area	132(41.6%)	185(58.4%)	.5836	.49374	185.00

Source: SPSS Output from Survey Data, 2016

The question on the lack of electric power line or source/ power interruption and lack of water line in the area or the absence of regularly availability of water, support by the majority 245(77.3%) of respondents with the mean score of 0.37729 and 222(70%) of respondents with the mean score of 0.7003 respectively recognizes how these basic infrastructural problem is hurting to perform their day to day business activities properly. And hinder them to compete in the market when compared to the enterprises, which have in the right position for those mentioned infrastructural problems. Similarly the problem of transportation related to the enterprise activities the majority of respondents 185(58.4%) support the absence of transportation and hurt their business activities with the score of 0.5836 mean value and 0.49374 of SD values. The remaining 132(41.6%) of the respondents disagree with the transportation problem. They indicate that their business did not affect by the absence or adequate transport facilities.

Similarly, the response of the most interview also support the problem of infrastructure as a basic challenge that faces them in their day to day business activities. From this table 4.11, the calculated result on the average mean of 0.6641 shows that, how the infrastructural factors related to road access, electric power source, water line and transportation were affect the growth of MSEs in Jimma city in all sub-cities of the five sectors.

4.3.1.5 Growth of MSE and Technological factors

On the table 4.12 below, the growth of MSEs and technological factors show that, the response of the respondents on the question lack of suitable material and machineries that appropriate for the business activities; the majority of the respondents 199(62.8%) support this question by the score of 0.6278 mean value and SD of 0.48417. The problem of using appropriate technology (materials and machinery) was affect their growth was the result of this table. The remaining

118(37.2%) of the respondents shows that, they had not faces the absence of any machinery or material that required for their business activities.

Technological Factors	Frequency		Mean	Std. Deviation	Total
	Disagree	Agree			
Lack of suitable materials and machineries appropriate for your job	118(37.2%)	199 (62.8%)	.6278	.48417	199.00
Inability to acquire new technologies in terms of finance	107(33.8%)	210(66.2%)	.6625	.47362	210.00
Inability to use existing technologies	182(57.4%)	135(42.6%)	.4259	.49526	135.00
Inability to select the appropriate technologies	176(55.5%)	141(44.5%)	.4448	.49773	141.00

Source: SPSS Output from Survey Data, 2016

The response of 210(66.2%) of respondent on the inability to acquire new technology, in terms of finance were supported with large score of 0.6625 mean value and SD of 0.47362. The problem of initial investment and expansion is required a substantial amount of money that is not returned in the short run. This question were not supported by 107(33.8%) of respondents. They may show that, they had not need new technology because of their business nature. The need for new technology in trade sector may not the same in the industry sector.

The respondents for the use of existing technology and the skill selecting appropriate technology were not supported by 182 (57.4%) and 176 (55.5%) of respondents respectively. They indicate that, they had the profession of using properly the existing technology on hand and selecting of the appropriate material and machinery. The rest of respondents 135(42.6%) and 141 (44.5%) agree on the inability on using existing technology and choosing the appropriate technologies. The result shows that some of the respondents with the mean score of 0.4259 indicate there is the gap of knowledge between our work system and our experience and 141(44.5%) support there were the knowledge gab in the selection of appropriate material and machinery for our work system.

4.3.1.6 Growth MSE and Financial factors

The table below 4.13 indicates that the score of 0.6341 mean and 0.4825 SD values to support the question lack of credit access from banks or micro finance institution in one or another ways. The remaining 116(36.6%) of the respondents not accept the problem of credit access. Those respondents may have the chance of getting money from other source like from family/friends,

saving or some other informal sources. Or they may not accept the source of finance through credit that, have additional calculated interest on the principal for repayment. On this table 182(57.4%) of the respondents indicates that there is inconvenience method of repayment method support by score of mean 0.5741 and SD of 0.4953. the rest of respondents on this question 135(42.6%) says no disagree on the problem of repayment method of credit to the borrower.

The charge of high interest rate was not accepted by a majority of respondents 177(55.8%) and the rest of 140(44.2%) agree with the problem of high interest rate charged by the borrowers support by the mean value of 0.4416 and SD of 0.4974. This indicates that, they were in the middle of the decision. This result may show that, the MSEs culture of financial usage, that influences them to pay calculated interest on the amount of money they borrow from bank or MFIs. The problem of related to the short maturity period for loan repayment were not accepted by 162(51.1%) of the respondents and accepted by the remaining 48.9 percent of the respondents support by the score of mean 0.4890 and SD of 0.5007. The above three points can interrelated with the access of credit from banks or micro finance institutions.

Table 4.13 Growth MSE and Financial factors					
Financial factors	Frequency		Mean	Std. Deviation	Total
	Disagree	Agree			
Lack of credit access from banks or micro finance institutions	116(36.6%)	201(63.4%)	.6341	.48245	201.00
Inconvenient repayment methods	135(42.6%)	182(57.4%)	.5741	.49526	182.00
Charge of High interest rate	177(55.8%)	140(44.2%)	.4416	.49737	140.00
The provide in a Short maturity period	162(51.1%)	155(48.9%)	.4890	.50067	155.00
Limited initial capital on the opening of the enterprise	107(33.5%)	210(66.2%)	.6625	.47362	210.00
Poor cash management skills and record keeping	185(58.4%)	132(41.6%)	.4164	.49374	132.00
Bureaucratic procedures of credit formalities from micro finance	128(40.4%)	189(59.6%)	.5962	.49143	189.00

Source: SPSS Output from Survey Data, 2016

The next main point of this table 4.13 indicates that problem with limited initial capital on the opening of their enterprise. The majority of the respondents 210(66.2%) with the mean of 0.6625

and SD of 0.4736 accept the problem of initial investment. This result shows that the initial amount of investment for these MSEs had not on the appropriate level. The respondents respond agree if they had invested higher than what they invest initially they will grow more than what they have now. On the other hand, the remaining 33.5% of the respondents had not the problem of initial investment or they invest what they want. From this result the problem of initial investment had great impact on the growth of MSEs supported by the mean score of 0.6625 and SD of 0.47362.

The question of poor cash management skill and record keeping the majority of respondents, 58.4percent disagree. They were indicates that, they have the ability to manage their cash and important transaction. The remaining 41.6percentof the respondents agree on their poor cash management skill. The last financial factors question was the bureaucratic procedure of credit facilities, most of the respondents 59.6percentsupport the problem of credit formalities by the score of mean 0.5962 and SD of 0.49143. This result shows that how the situation of credit access affect their enterprise growth. The remaining 40.4 percent of the respondents disagree on bureaucratic procedure of credit formalities and they indicate there is a way of some situation that, they had got credit or it was not that much complicated and easy for them to facilitate credit access. As the researcher indicated on the above results, there may not equal needs of financial sources from banks, as a result of religious or some other personal attitudes. According to the interview, one of the main challenge of MSE respondents that, the respective offices, respect on the timely response on credit facilities, the saving of 20 percent of the expected credit amount of money, before starting the credit process and the needs for collateral as a criterion for credit access in MFI.

In general the average mean of the financial factors affect the growth of MSEs in Jimma city supported by score of average mean of 0.5444 and most of interview response show that the problem of finance they face from the begging of their investment throughout their work age in different ways. Also the government officials, support the challenge of financial access as a general “from the three package namely; training, work space and initial investment” should be afford by different ways from the government through the office of MSE development Agency. They revealed that currently not providing these packages as planned. The communication gap between the stakeholders, those can provide these three packages are in different structural systems were the main causes of these problems. Training related with colleges, work premises with land management agency and finance from banks and mainly micro finance institution (their primary objective was to fulfill the financial gap of the MSEs) Proclamation No.40/1669. So that,

the situation related to the above situation results, therefore the result shows that, the problem of good governance was in the question that leads to the subjectivity of the officials. It's unfavorable for unemployed person to get the financial access from the scratch and start business activities by cooperating and forming MSE license with no money on his hand.

4.3.1.7 Growth of MSEs and legal/administrative factors

From the table 4.14 below the majority of respondents 194(61.2%) agree on the bureaucratic registration and licensing system with the score of mean value of 0.6120 and the SD of 0.4881. They indicate that the difficulty of registration criterion and the process of identifying the person who have job or have not a job. The remaining 38.8 percent of respondents not agree on the bureaucratic registration system of the MSEs in Jimma. Related to these activities undertaken by the government officials, the question lack of relevant support from respective body were also accepted by the majority of respondents 204(65.3%) with the score of 0.6530 mean and SD of 0.47677. This shows that, the support package planned by government for the implementation of supporting those MSE in Jimma city had not taken. The small number of respondents 34.7 percent disagree with this problem and this indicates that there is a gap between the enterprises on the needs of basic facilities and may the governmental officials enable to afford equal support for all MSE in Jimma city. The problem of tax estimation were supported by 189(59.6%) of MSE with score of 0.5962 mean value and 0.49143 of SD value. This indicates that, the way of tax estimation may not standardize for all sectors because, many of MSE in Jimma city have not the culture of using financial records. This tends to deviate from the total respondents 33.4 percent to disagree the problem of tax estimation. The difference between those enterprises pay tax high and pay less can affect the free competition between enterprises. Then it affects the growth of MSE in Jimma city administration in all sub-cities.

The other main point in this table 4.14, supported by 211(66.6%) of respondents, which were lack of information towards governmental regulations, on the implementation of package that the government primarily set for the development of MSE as a whole. The score of mean 0.6656 and SD of 0.4725 recognize this problem as a factor of affecting the growth of MSE in Jimma city. The remaining 106(33.4%) respondents were not support this as a problem. They indicate their nearness to media and to the governmental officials those provide information for them. The question related to the unnecessary political intervention supported by 52 percent of respondents and disproved by the remaining 48 percent of the respondents. This shows how they are indecision, to decide either the political intervention affect their business activities or not. The

score of mean value 0.5205 and SD of 0.50037 recognize that they are indecision about the unnecessary intervention of political situation in the development program of MSE in Jimma city administration.

The last one was the main question for the existence of MSEs, as the government giveaway to them. The result shows on table 4.14 below, there is no suitable situation for unemployed person to easily register and start her/his new venture. The majority of respondents 199(62.8%) were support the situation for registering and starting new venture is not possible for a person with living without job i.e. with no money. This means a person with no job sense she/he has not money for starting the process of registration, for license and to cover related costs. The score of 0.6278 respondents mean value and SD of 0.48417 were recognizes the existence of unfavorable conditions. The rest of 118 (37.2%) respondents shows that the way they start a new enterprise were with the support of their family or they may had another business before starting business in MSE. As interview shows many of the officials not give response in time, there is discrimination and unstandardized tax systems were the most risen related to the problem of good governance, also revealed on Lerner and Hisrich (1997). Generally the legal/administrative factors affect the growth of MSE in Jimma city support with the average mean score of 0.6125.

Table. 4.14 Growth of MSE and legal/administrative factors

Politico /Legal factors	Frequency		Mean	Std. Deviation	Sum
	Disagree	Agree			
Bureaucratic registration system	123(38.8%)	194(61.2%)	.6120	.48807	94.00
Lack of support from concerned bodies	110(34.7%)	204(65.3%)	.6530	.47677	207.00
Tax estimation problems happen	128(40.4%)	189(59.6%)	.5962	.49143	89.00
Lack of information towards government regulations on the developments of MSEs	106(33.4%)	211(66.6%)	.6656	.47252	211.00
There is unnecessary political intervention	152(47.9%)	165(52.1%)	.5205	.50037	65.00
There is no suitable situation for unemployment to register and start work	118(37.2%)	199(62.8%)	.6278	.48417	99.00

Source: SPSS Output from Survey Data, 2016

4.3.1.8 Comparison of mean value of the descriptive analyses

From the predictor variables selected for our study purpose, the most predictor for the growth of MSE in Jimma city engaged in the service, industry, trade, construction and urban agriculture sectors lay in the external environment; infrastructural factors and Legal/administrative factors are the leading factors by the average mean value of 0.6641 and 0.6125 respectively. The interpersonal and managerial skill factors lay in the internal predictor had the least support when

compared to the other predictive variables undertaken in the study as shows in table 4.15 below. The financial and technological factors, were listed in the average, between the most and the less affecting factors. When compared to the average mean of all predictor variables as shows in the table 4.15.

Table 4.15 the comparison of mean value of the descriptive analyses

Numb	Predictor Variables	Grand mean	Grand SD	Remark max mean
1	Interpersonal Factors (x1)	0.3779	0.4835	7 th
2	Managerial skill factors (x2)	0.3841	0.4863	6 th
3	Market related factors (x3)	0.4499	0.4883	5 th
4	Infrastructural factors (x4)	0.6641	0.4658	1 st
5	Impact of Technological factors	0.5403	0.4877	4 th
6	Access to finance factors (x6)	0.5448	0.4902	3 rd
7	Legal/administrative factors	0.6125	0.4856	2 nd
Average		0.510514	0.483914	

Source: SPSS Output from Survey Data, 2016

One of the measures taken to enhance the operation of MSEs is the issuance of the licensing and supervision of micro financing institutions proclamation in 1996 (Proclamation No. 40/1996). The principal aim of this proclamation is to enable MSEs have access to credit facilities, counseling services and income generating projects through micro-finance institutions. By building the capacity of MSEs, this legislation provides opportunities and security for the informal sector operators through enhancing legality and formalization. Some of Jimma city administration official accept this problem and the way of implementation is still complicated by its nature, such as the structural setting of the authorized party were not included in the rule and regulation that can enforce them to apply the legislation towards the need of MSE's.

4.3.2 Results of Inferential Statistics

In this section, the results of inferential statistics are presented. For the purpose of assessing the objectives of the study, the Pearson's Product Moment Correlation Coefficient and regression analyses were performed. With the aid of these statistical techniques SPSS, conclusions are drawn with regard to the sample and decisions are made with respect to the research hypothesis.

4.3.2.1. Tests for the CLRM assumptions

Various tests were run to make the data ready for analysis and to get reliable output from the research. These tests are intended to check whether the classical linear regression model (CLRM) assumptions, i.e. the OLS assumptions, are fulfilled when the independent variables are regressed against the dependent variables. The implication of the test, decision rules therein, test results and their discussion are discussed in the upcoming sub sections.

4.3.2.2. Test of multicollinearity

Multicollinearity means that there is linear relationship between explanatory variables which may cause the regression model biased (Gujarati, 2004). In order to examine the possible degree of multicollinearity among the explanatory variables, pair-wise correlation matrixes of the selected variables (SPSS output of the multicollinearity) are shown in Table 4.16. Variable Inflation Factor (VIF) technique is also employed to detect the multicollinearity problem and strengthen the analysis.

4.16. Pair-Wise Correlation matrix between explanatory variables

	Lack of interpersonal skills	Lack of managerial skill	Lack of access to market	Infrastructural factors	Technology factors	Access to finance
Lack of interpersonal skills	1.000					
Lack of managerial skill	.572	1.000				
Lack of access to market	.499	.420	1.000			
Infrastructural factors	.539	.316	.377	1.000		
Technology factors	.335	.239	.371	.122	1.000	
Access to finance	.163	.114	.010	.046	.121	1.000

Source: SPSS output

As a rule of thumb, inter-correlation among the independents above 0.80 signals a possible multicollinearity problem (Gujarati, 2004). Accordingly, In Table 4.16 it can be seen that there is no strong pair-wise correlation between the explanatory variables (Lack of interpersonal skills, Lack of managerial skill, Lack of access to market, Infrastructural factors, Technology factors and Access to finance). As concluding analysis, almost all

variables have low correlation power and this implies no multicollinearity problem in the explanatory variables selected to determine factors the growth of MSE in Jimma town.

Multicollinearity can also be identified by the Variance Inflation factor (VIF) technique, which is a statistic calculated for each variable in the model. Theoretically, a VIF greater than 10 may suggest that the concerned variable is multi-collinear with others in the model and may need to be excluded from the model. Hence, the VIF result in Table 4.16, as none of the VIFs is excessively high, suggests that there is no perfect or strong collinearity between the explanatory variables.

4.17 Variance Inflation factor

Model	Collinearity Statistics	
	Tolerance	VIF
Lack of interpersonal skills	.778	1.286
Lack of managerial skill	.682	1.467
Lack of access to market	.825	1.212
Infrastructural factors	.840	1.190
Technology factors	.971	1.030

Source: SPSS output

4.3.2.3. Test of Heteroskedasticity

Heteroskedasticity is a systematic pattern in the errors where the variances of the errors are not constant (Gujarati, 2003 p387). Heteroskedasticity makes ordinary least square estimators not efficient because the estimated variances and covariance of the coefficients (β_i) are biased and inconsistent. Thus, the tests of hypotheses are no longer valid. Heteroskedasticity can also arise as a result of the presence of outliers (Gujarati, 2004 p390). Outliers are extreme values as compared to the rest of the data and are defined by the size of the residual in an OLS regression where all of the observations are used. Outlier detection involves the determination whether the residual value (error = predicted– actual) is an extreme negative or positive value. The OLS estimates are influenced by one or several residuals. In this study, the value of residual value is not extremely negative or positive value and hence the result shows that there is no problem of outliers. Hence, the insignificant result from the Breusch-

Pagan-Godfrey test, i.e. p-value of 11.11 percent indicates that the regression of the residuals on the predicted values reveals insignificant heteroskedasticity at 1%, 5% and 10% levels of significance.

4.3.2.4. Correlation analysis

Correlation and regression analyses are related in the sense that both deal with relationships among variables. The correlation coefficient is a measure of linear association between two variables. Values of the correlation coefficient are always between -1 and +1. A correlation coefficient of +1 indicates that two variables are perfectly related in a positive linear sense; while a correlation coefficient of -1 indicates that two variables are perfectly related in a negative linear sense. A correlation coefficient of 0, on the other hand, indicates that there is no linear relationship between the two variables. For simple linear regression, the sample correlation coefficient is the square root of the coefficient of determination. The correlation coefficient measures only the degree of linear association between two variables.

2.3.2.4.1. Correlation analysis of growth of MSE

The following correlation matrix predicts the likely relationship between the dependent variable growth of MSE and the explanatory variables; Lack of interpersonal skills, Lack of managerial skill, Lack of access to market, Infrastructural factors, Technology factors and Access to finance.

4.18 Correlation Matrix of total debt ratio and dependent variables

	Lack of interpersonal skills	Lack of managerial skill	Lack of access to market	Infrastructural factors	Technology factors	Access to finance
Lack of interpersonal skills	1.000					
Lack of managerial skill	.572	1.000				
Lack of access to market	.499	.420	1.000			
Infrastructural factors	.539	.316	.377	1.000		
Technology factors	.335	.239	.371	.122	1.000	
Access to finance	.163	.114	.010	.046	.121	1.000

Source: SPSS output

The correlation matrix in Table 4.16 shows that growth of MSE (dependent variable) is correlated 0.57 with Lack of interpersonal skills at 5 percent significance level, at 0.49 with Lack of managerial skill at 5 percent significance level, at 0.53 with Lack of access to market at 5 percent significance level, at 0.33 with Infrastructural factors at 5 percent significance level, and at 0.16 with Technology factors at 5 percent significance level. The results also show that all explanatory variables are positively correlated to the growth of MSE.

Factor Analysis

As indicated in the table below the Kaiser-Meyer-Olkin Measure of Sampling Adequacy value above 0.6 indicate that our data is suitable for factor analysis having a value of 0.828 and that the value of Bartlett's Test of Sphericity indicate that the value is significant with 0.000 value which is below 0.05

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.828
Bartlett's Test of Sphericity	Approx. Chi-Square	887.751
	df	28
	Sig.	.000

As indicated on Initial Eigenvalues the values of two variables having 62.005 have been explained by the variables as shown on the table below.

Total Variance Explained							
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings ^a
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	3.695	46.193	46.193	3.695	46.193	46.193	3.376
2	1.265	15.812	62.005	1.265	15.812	62.005	2.442
3	.802	10.023	72.028				
4	.621	7.759	79.787				
5	.498	6.222	86.009				
6	.440	5.501	91.510				
7	.368	4.596	96.106				
8	.312	3.894	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

4.3.2.1 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 interpersonal factors, managerial skills factors, market related factors, infrastructural, technological, access to financial factors and legal/administrative factors with the growth of MSE's. The following section presents the results of Pearson's Product Moment Correlation on the relationship between predictor variables and dependent variable. The table below indicates that the correlation coefficients for the relationships between growth and its independent variables are negative and positive ranging in substantial correlation coefficients.

Table 4.16 Correlations between growth of MSEs and predictor variablesⁱ

Predictor Variables		Growth of MSEs
Interpersonal factors	Pearson Correlation	-.018
	Sig. (2-tailed)	.751
Managerial factor	Pearson Correlation	.047
	Sig. (2-tailed)	.408
Marketing factor	Pearson Correlation	-.144*
	Sig. (2-tailed)	.010
Infrastructure factors	Pearson Correlation	.106
	Sig. (2-tailed)	.059
Technological factors	Pearson Correlation	-.029
	Sig. (2-tailed)	.608
Financial factor	Pearson Correlation	.115*
	Sig. (2-tailed)	.041
Legal/Administrative factors	Pearson Correlation	-.023
	Sig. (2-tailed)	.689
	N	317

*. Correlation is significant at the 0.05 level (2-tailed).

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

4.3.2.2 Binary Logistic Regression

Binary Logistics regression model is the multivariate statistical tools used to analyze the relationship between the dependent variable (growth of MSE) and all independent variables, formerly listed; interpersonal factors, managerial factors, market related factors, technological factors, infrastructural factors, access to finance factors and legal/administrative factors. By the

use of statistical package for social science (SPSS) computer program the following basic outputs of binary logistic regression interpreted accordingly.

4.3.2.2.1 The omnibus Test of Model Coefficient

On the table 4.17 below, the Omnibus Test of Model Coefficient gives us on the overall indication of how well the model performs over and above the result obtain in Block¹ 0 with none of the predictor variables were entered in to the model. This can be referred to as a ‘goodness of fit’ test. For this set of results we want highly on the significance value (the sig. value should be less than 0.05). In our case, the value of sig is 0.000 which is less than 0.05. This value for our model is significance for the predictor variable which we select formerly in this study. The Chi Square value which shows 26.555 with 7 value of degree of freedom.

Table 4.17. Omnibus Tests of Model coefficients

	Chi-square	Degree of freedom	Sig.
Step	26.555	7	.000
Block	26.555	7	.000
Model	26.555	7	.000

Source: SPSS Output from Survey Data, 2016

4.3.2.2.2 Hosmer and Lemeshow Test

The result shown in this table 4.18 Hosmer and Lemeshow Test also support the model as being worthwhile. This test, which SPSS states is the most reliable test of model fit available in SPSS is interpreted oppositely from the Omnibus test discussed above. According to Hosmer and Lemeshow Test the best fit should be represented by a significance value of sig. greater than 0.05 (Julie pallar, 2007). On the above table the Hosmer and Lemeshow Test the value of Chi Square is 11.608 and Significance level of 0.170. This is greater than 0.05 and our model is fit with the predictor variables which has been selected for this study.

Table 4.18 Hosmer and Lemeshow Test

Step	Chi-square	Degree of freedom	Sig.
1	11.608	8	0.170

Source: SPSS Output from Survey Data, 2016

The table 4.19 below of Model Summary gives us another piece of information about the usefulness of the model. The Cox & Snell R Square and Nagelkerke R Square value provide an indication of the amount of variation in the dependent variable explained by the model. This should be from minimum of 0 to maximum of approximately 1. These are described as Pseudo R square statistics (Julie pallar, 2007). In the above table output of SPSS these two values are 0.080 and 0.132, suggesting that between 8.0 percent and 13.20 percent of the variability is explained by this set of predictor variables. As the variation between variables increase the predicting value goes to decrease.

Table. 4.19 Model Summary

Step	Log likelihood	x & Snell R Square	Nagelkerke R Square
1	272.127 ^a	0.080	0.132

Source: SPSS Output from Survey Data, 2016

4.3.2.2.3 The Wald test

The table 4.20 below is the variable in the equation table; it gives us information about the contribution or importance of each of our predictive variables. The test that was used was known as the Wald test (Julie pallar, 2007). And we can see the value of the statistics for each predictor in the column labeled sig., looking for a predictor variable that has the value of less than 0.05. On this table the output of SPSS shows that three of the predictor variable had the value of Sig. of less than 0.05. Now the three significance variables with their p values of less than 0.05 are Market related factors P= 0.000, Infrastructural factors P = 0.013 and Access to finance factors P = 0.002.

Table 4.20 Variable in the equation

Predictor Variables	B	S.E.	Wald	Df	Sig.	Exp (B) (OR)	95% C.I. for EXP(B)	
							Lower	Upper
Interpersonal Factors (x1)	-.245	.412	.352	1	.553	.783	.349	1.757
Managerial skill factors (x2)	.603	.410	2.164	1	.141	1.828	.818	4.081
Market related factors (x3)	-1.345	.383	12.354	1	.000**	.261	.123	.552
Infrastructural factors (x4)	.927	.373	6.186	1	.013**	2.527	1.217	5.248
Impact of Technological factors (x5)	-.541	.388	1.952	1	.162	.582	.272	1.244
Access to finance factors (x6)	1.146	.368	9.685	1	.002**	3.146	1.528	6.473
Legal/administrative factors (x7)	-.226	.395	.329	1	.566	.797	.368	1.729
Constant	-1.626	.284	32.770	1	.000	.197		

Source: SPSS Output from Survey Data, 2016

4.4. Findings

Regarding the main objective of identifying the factors that affect the growth of MSE in Jimma city engaged in service, industry, trade, construction and urban agriculture sectors, it was found out that, in all sub-cities, the growth of MSEs were mostly affected by the market related factors, infrastructural factors and access to finance factors. The remaining four variables; namely, interpersonal factors, managerial skill factors, technological factors and legal/administrative factors did not contribute significantly to the model and were reject from further analysis.

The result in table 4.20 above reveal that the value of the three independent variables; namely, market related factors, infrastructural factors and access to finance factors significantly affected the growth of MSE\'. From these selected significant predictor variables, finance factors had the largest influence on the growth of MSE with the odd ratio (OR) of 3.146 followed by the infrastructural factors which had odd ratio of 2.527. The poorest predictor value compared to the above two selected significant predictor variables, market related factors scored the odd ratio of 0.261.

On the other hand, the fact that the responses of enterprises about the effect of access to finance and infrastructural factors on the growth of MSE similarly had a positive B value of 1.146 and 0.927 respectively as shown in table 4.20 above. This shows that if the mentioned cases in the financial factors improve by one level, it is more likely that MSE will grow more than three times of the current level. This means that change in improvement by one level of financial factors, other things remaining constant, will change the growth of MSEs by more than 300 percent. This implies that the financial factors have a great impact on the growth of MSE in Jimma city engaged in service, industry, trade, construction and urban agriculture sectors in all sub-cities. This rejects the null hypothesis number six which says: H_{o6} = The financial factors do not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sectors in all sub-cities.

Table 4.20 similarly reveals that the infrastructural factors do affect the growth of MSEs in Jimma city. The Exp (B) or odd ratio of the infrastructural factors shows that if improvement is made by one level on the primarily mentioned problems related to infrastructural factor, the growth of MSEs is more likely to be growing more than two and half times of the current level. This means that change in improvement by one level of infrastructural factors, other things remaining constant, will change the growth of MSEs by more than 250 percent.

The null hypothesis number four says: H_{o4} = The infrastructural factors do not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities. As a result, this hypothesis is rejected and the result concerning the fact that the financial factors affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities is accepted.

Besides the above result, the market related factors score negative B value of -1.346. This shows a negative prediction of this variable, i.e. if the change improvement made by one level on the market related factors results, it is less likely to result in the growth of MSE by 0.261 times. This means that the change in one level of the market related factors caused by 0.261 times is less likely to result in the growth of MSE's.

This result is different from the above two predictor variables in that it negatively affects the growth of MSE and rejects the null hypothesis number three: H_{o3} = the market related factors do

not affect the business environments of Ethiopia aimed at MSE development on the growth of MSEs in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities. This leads to the acceptance of the result showing that market related factors affect negatively the growth of MSE in Jimma city in service sector, industry sector, trade sector, construction and urban agriculture sector in all sub-cities.

The remaining rejected independent variables do not significantly affect the growth of MSE; namely, interpersonal factors, managerial factors, technological factors and legal/ administrative factors in the applied model. However, it can be hard to conclude that these rejected variables do not affect the growth of MSE in Jimma city at all. The results in the description part revealed that the average mean and the standard deviation of the responses of selected sample of MSE in Jimma city were 0.5105 and 0.48391 respectively as shown in table 4.15. That is, the mean score suggests that several respondents reported that all the predictor variables, including the rejected ones, were causes of the existing problems. Also study made by, DiribaShiferaw, (2013), in Jimma city indicates that even though the MSEs have such great roles in changing peoples' living conditions, the activities of the sector was constrained by many factors like lack of financial capacity, lack of working and production places, rules and regulatory procedures, lack of capacity to compete larger enterprises, and insufficiency of business development services and socio economic infrastructures.

A study made by ILO (2003) explains many factors affecting MSEs that entrepreneurs in MSEs are affected by lack of entrepreneurial, managerial and marketing skills; bureaucracy, lack of accessibility to information and knowledge; difficulties accessing financial resources or lack of capital and study made by (Befekadu B. K. 2007), another possible explaining factor for this non responsiveness to the operators can be the fact that the concerned government offices are overburdened with other routine activities of their respective offices, which resulted in abandoning or being irresponsible to the issues of the MSEs operators.

Furthermore, he suggests that the politico legal environments were mentioned among the key constraints to enterprises in the field survey, it is recognized that some respondents are classified as the major constraints to enterprises. According to them, this high rent of house is resulted from absence of own premises to run business.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

In this chapter, the conclusions and recommendations are discussed. For the purpose of clarity, the conclusions are based on the research objectives of the study. Based on the findings of the study recommendations are made to government bodies and to operators of MSEs.

5.2. Conclusions

The main objective of this study was to identify the factors affecting the growth of micro and small enterprises (MSEs) in Jimma city engaged in service, industry, trade, construction and urban agriculture sectors in all sub-cities. The result shows that, from the total of 317 selected MSE respondents, the average mean value of 0.5105 and score of 0.4839 standard deviation value response agree on the problem discussed in respect to predictor variables. Based on the finding on this study, which focuses on the identification of factors affecting the growth of MSEs, the financial factors, the infrastructural factors and market related factors were selected. The financial factors strongly affect the growth of MSE more likely to grow more than three times of the current level. This finding was also supported by the response of respondents who participated in the interview. These results were also supported by different scholars, who revealed the challenge of financial factors. They indicated that regardless of the enormous importance of the micro and small enterprise sector to the national economy with regard to job creation and the alleviation of abject poverty in Ethiopia, the sector is facing financial challenges which impeded its role in the economy (Gebrehiwot & Welday, 2006, cited by Aregaet, al., (2016).

The findings pertain to the infrastructure factor also revealed following to the financial factors, affects the growth of MSEs more likely to grow more than two and half times of the current level. And, mean score of this factor were 0.6641 revealed that the infrastructure factors: lack of road access to the production/ working area, lack of electric power line and interruption, lack of pure water, lack of transportation facilities and working premises had effects on MSEs growth. Interview also supported this fact. Scholars such as Schorling (2006) and AdmasuA(2012), revealed that MSEs face the challenge of lack of capital, market and working premises, marketing problems, shortage of supply of raw materials and lack of qualified human resources are the most critical problems facing MSE's.

The market related factors were negatively affecting the growth of MSEs in Jimma city in the result obtained. This indicates that, the marketing structure, the needs and wants of the market and the customer handling skill of MSE's operators would like to in-depth investigation and take the corrective action to ensure the growth of MSEs in Jimma city. Although the economic policy of Ethiopia paid due emphasis for entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, market related problems, imbalance preferential treatment and many others (Schorling ,2006).Therefore the MSE sector needs proper attention and improvements.

5.3. Recommendations

Suggestions for corrective and complementary measures to enhance the potential growth of MSEs are essential. Such recommendations demand an in-depth analysis of the influence of different factors regarding the business sector. Based on the findings and conclusions of the study, the following recommendations are forwarded. The Jimma city administration governmental bodies should provide affordable alternative sources of finance for MSE's. The respective MSE's development official needs to shorten the time utilized to financial facilities access to improve the system for MSEs since it is one the package of government on the development of the micro and small enterprises. This should be done so that MSEs can get enough access to finance for their business activities.

The agency of MSE development office is authorized to implement all packages set as a rule and regulation, take the responsibility of these MSE in Jimma and take corrective actions on the ground. This will be done by giving priority to the identified problems related to infrastructure. And communicating with the respective offices and working hard towards achieving the set objectives and solving this problem radically. Then, MSE in Jimma city can grow more than expected. On the strength of good governance, most of the MSE respondents indicated generally that, as the head of all activities, it should be seriously improved.

If the situation of good governance is improved, the officials will take the GTP plan under consideration and do well according to the rule and regulation with no discrimination and no need of incentive from MSE's. So that, the primary objective of the government was need to be positively applied and MSEs can grow to the next level. Therefore, the MSE Development Agency of Jimma city should fully implement the package of ensuring good governance.

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**APPENDIX A
QUESTIONNAIRE**

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

MBA PROGRAM

Questionnaire to be filled by Enterprises Owners/Managers

Dear respondent,

I am a graduate student in the department of management, Jimma University. Currently, I am undertaking a research entitled 'Factors Affecting the Growth of Micro and Small Enterprises in Jimma city in three Sub-Cities '. You are one of the respondents selected to participate to this study. Please assist me in giving correct and complete information to present a representative finding on the current status of the factors affecting the performance of Micro and Small enterprises in three sub cities of Jimma. 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 persons 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,

Alemayehu Kinfu

Instructions

✓No need of writing your name

✓For Likert scale type statements and multiple choice questions indicate your answers with a check mark (✓) in the appropriate block.

Section 1: Basic questions on the establishment of the enterprises

Sector of the enterprises

1. Service Manufacturing Trade Construction Agriculture
2. Educational Background: Elementary High school complete
Collage complete University Graduate
3. Gender: A. Male B. Female
4. Respondent age: 15-22 23-30 31-38 39-46 above 46
5. Marital status A. Single B. Married C. Divorced D. Widowed
6. Professional Background: Skilled trained untrained
7. Source of Finance: Saving From friends/family Credit from other source _____
8. Initial Capital 1,000-5,000 5,000-10,000 11,000- 25,000
26,000-50,000 Above 50,000
9. Initial Number of Employees
1-3 4-6 7-10 above 10
10. Current Number of Employees
1-3 4-6 7-10 above 10
11. Working Experience in the field
Less than one year one to three years more than three years
12. Role of the owner in the Enterprise
Owner/Manager member Worker
13. Place of the enterprise /sub city _____
14. Do you have any source of income out of the enterprise
A. Yes B. No If your answer is “yes” please specify the source _____

Section II. Factors affecting growth of MSEs

Direction: Below are factors affecting growth of micro and small enterprises. Please mark the degree to which you agree or disagree, the factors based on your enterprises' experience by indicating (√) mark in the boxes.

1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree

No.	Interpersonal Factors	5	4	3	2	1
5.1	Lack of courage to take responsibilities of failure					
15.2	Lack of tolerance to work hard					
15.3	Lack of motivation on working cooperatively					
15.4	Poor relationship between member of the enterprise					
15.5	Lack of taking responsibility between the member of enterprise					

No.	Managerial Factors	5	4	3	2	1
16.1	Inability to plan for the future					
16.2	Lack of managerial skills					
16.3	Poor organizational communication					
16.4	Poor management of financial records					

No.	Marketing Factors	5	4	3	2	1
17.1	Inability to gate customers for our product					
17.2	Inconvenience of promotion methods					
17.3	Inability to handle existing customers					
17.4	Inability to assess the market needs					
17.5	Inability to forecast the future					

No.	Infrastructure Factors	5	4	3	2	1
18.1	Lack of road to the production area					
18.2	Lack of electric power/interruption					
18.3	Lack of water in the area					
18.4	Lack of transportation					

No.	Technological Factors	5	4	3	2	1
19.1	Lack of suitable materials and machineries					
19.2	Inability to acquire new technologies in terms of finance					
19.3	Inability to use existing technologies					
19.4	Inability to select the appropriate technologies					

No.	Financial Factors	5	4	3	2	1
20.1	Lack of credit access					
20.2	Inconvenient repayment methods					
20.3	High interest rate					
20.4	Short maturity time					
20.5	Limited initial capital					
20.6	Poor cash management skills					
20.7	Bureaucratic procedures of credit formalities					

No.	Legal/ Administrative Factors	5	4	3	2	1
21.1	Bureaucratic registration system					
21.2	Lack of support from concerned bodies					
21.3	Tax estimation problems happen					
21.4	Lack of information towards government regulations					
21.5	There is unnecessary political intervention					
21.6	There is no suitable situation for unemployment to register and start work					

No.	General Factors	5	4	3	2	1
22.1	Infrastructure Factor s					
22.2	Financial Factors					
22.3	Technological Factors					
22.4	Politico Legal/ Administrative Factors					
22.5	Interpersonal Factors					
22.6	Managerial Factors					
22.7	Market related Factors					

APPENDIX B

Interview Questions to enterprises owners/managers

1. Do you think that your enterprise is growing and you will continue in the operation? Why?

2. Is your enterprise suitable to your skill and the environment? Why?

3. What are other problems you face during the growth of your enterprises?

4. Do you think that the problems you are facing can be solved?
How?_____

Questionnaire for Governmental Agency Workers