



**SAINT MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**FACTORS AFFECTING THE GROWTH OF MICRO AND  
SMALL ENTERPRISES: EVIDENCES FROM MICRO  
AND SMALL ENTERPRISES IN KIRKOS SUB CITY,  
ADDIS ABABA**

**BY  
GIRMA HURGESSA**

**FEBRUARY 2022  
ADDIS ABABA, ETHIOPIA**

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**GIRMA HURGESSA**

**A THESIS SUBMITTED TO SAINT MARY'S UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS  
ADMINISTRATION (MBA)**

**FEBRUARY 2022  
ADDIS ABABA, ETHIOPIA**

**ST. MARY UNIVERSITY**  
**SCHOOL OF GRAUDATE STUDIES**  
**MASTER OF ARTS IN BUSINESS ADMINISTRATION**

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## **DECLARATION**

I, Girma Hurgessa, the undersigned person declare that the thesis entitled “Factors Affecting the Growth of Micro and Small Enterprises: Evidences from Micro and Small Enterprises in Kirkos Sub City, Addis Ababa” is my original work and submitted for the award of Master Degree in Business Administration, St. Mary University at Addis Ababa and it hasn’t been presented for the award of any other degree. Under this study, fellowship of other similar titles of any other university or institution of all sources of material utilized for the study has been suitably recognized and noted.

**Girma Hurgessa**

Candidate

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Signature

**St. Mary’s University, Addis Ababa**

**February 2022**

## **ENDORSEMENT**

This is to certify that Mr. Girma Hurgessa has properly completed his research work entitled “Factors Affecting the Growth of Micro and Small Enterprises: Evidences from Micro and Small Enterprises in Kirkos Sub City, Addis Ababa” with my guidance through the time. In my suggestion, his task is appropriate to be submitted as a partial fulfillment requirement for the award of Degree in Master of Business Administration.

**Muluadam Alemu (PhD)**

Research Advisor

**St. Mary’s University, Addis Ababa**

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Signature

**February 2022**

## **ACKNOWLEDGEMENTS**

I would like to express my gratitude to all whom in one way or another made the accomplishment of this piece of work possible. First, to the Almighty God for the health, open mind, agape love and a gift of life. Then I would like to thank Muluadam Alemu (PhD) for giving me the wonderful opportunity to complete my MA thesis under his supervision, it is truthfully an honor. Thank you for all the advice, ideas, moral support and patience in guiding me through this project. Thank you for your enthusiasm for the study of business administration particularly in small and micro enterprises and their role. I feel privileged for being advised by him. Subsequent, I would like to thank my family for their limitless support all the way through my life and successful accomplishment. I would like to extend heartfelt appreciation and special thanks to my beloved friends and classmates for their unlimited encouragement and moral support they have render to me.

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## LIST OF ACRONYMS

BDS	Business Development Service
CSA	Central Statistics Authority
FeMSEDA	Federal Micro and Small Enterprise Development Agency
GTP	Growth and Transformation Plan
ILO	International Labour Organization
MFI	Micro Finance Institution
MoE	Ministry of Education
MoLSA	Ministry of Labour and Social Affairs
MOTI	Ministry of Trade and Industry
MSE	Micro and Small Enterprise
MSEs	Micro and Small Enterprises
NGO	Non-Governmental Organization
ReMSEDA	Regional Micro and Small Enterprise Development Agency
SPSS	Statically Package for Social Science
TITBs	Trade, Industry and Tourism Bureaus
UNIDO	United Nation Industrial Development Organization

## ABSTRACT

*Micro and Small-sized Enterprises (MSEs) are considered the engines of growth in developing countries. In developed countries, MSEs have historically played a vital role in creating jobs, spurring innovations, and creating new products, and thus contributed to economic vitality and growth. This study aimed to investigate the key factors affecting the growth of MSEs in Kirkos sub city in Addis Ababa. In this study, mixed research methods were used followed by concurrent triangulation strategy. It also used descriptive study and explanatory research. A total of 242 micro and small sized enterprises owners and managers were sampled from the study sub city. Stratified simple random sampling was used to select proportional number of samples from the study area. This comprised of manufacturing, trade, service, agri-business and others. Both primary and secondary source of data were used. To obtain the primary data, questionnaires (based on Likert Scales) were distributed to assess the growth status of sampled respondents and also to examine factors affecting their growth. A pilot study was undertaken with MSEs owners to test the reliability of the questionnaire. Using multiple regressions, this study found that entrepreneur characteristics, management and marketing skills, technology, and access to external financing and human resources capacities have a statistically significant contribution to MSEs growth. However, legal and regulatory frameworks have a statistically insignificant and negative contribution to MSEs growth. Thus, MSEs need finance technology, management and marketing skills, human resource, and entrepreneurial characteristics to enhance their business growth. However, this study concluded that many MSEs have been fed up with complicated and extensive legal procedures. Thus, this study suggests Micro and small institutions, government and other non-governmental organizations need to take note of access financing will enhance MSEs business growth. Thus, stakeholders may provide funds to adopt current technologies, access for finance, and training on management and marketing skills, human resource, and entrepreneurial characteristics. The Government on the other hand should come up with easy procedures in registration process and licensing of the MSEs.*

**Key Words: Growth, Micro and Small Enterprises, Performance**

# **CHAPTER ONE**

## **INTRODUCTION**

This chapter presents the background of the study, which is basically on growth of micro and small enterprises. It also presents statement of the problem, research questions and objectives of the study with significant, scope and limitation of the study. Further, it includes definitions of terms and organization of the study.

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

Small and medium enterprises are an indispensable part of the economic structure in developed and developing countries, and play a significant role in bringing the innovation, economic growth and prosperity; unfortunately, SME access to capital to fund their growth and expansion is very limited and for most of SMEs in developing countries represents a major obstacle. It is likely that SMEs do not have access to loans issued by banks, or face extremely unfavorable conditions of loans. On the other hand, banks in developing countries have difficulties in lending activity as a result of imperfect or complete lack of information. As a result, there is shortage of a genuine capital market for SMEs (Nichter & Goldmark, 2009). In successful developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services that are of adequate quality and are reasonably priced to many people particularly in rural areas, and by effectively using the skills and talents of many people without requiring high-level training, large sums of capital or sophisticated technology (Endalkachew, 2008). Despite their potential to improve economic growth, micro and small enterprises (MSEs) in developing countries lack serious attention. They produce largely for the low-income group and employ lower levels of techniques. Many of them are self-employed type with a low transformation rate into higher size categories and their innovative activities are limited (Mulu, 2009).

From the standpoint of developing countries, MSE have several rewards that make them attractive in hastening economic development. Firstly, because MSE are labor intensive, employment opportunities generated with a relatively low capital cost, a factor with limited

supply in many developing nations. Then, they apply raw materials and labor-intensive technology that are locally available. Thirdly, policies and programs can put in place to encourage the development of these industries in different parts of the country thereby reducing concentration of enterprises in certain areas and promoting balanced economic growth. Finally, manageable production capacity and their flexibility make them suitable to respond to current national demand and the limited size of the market in many developing nations (Fasika & Daniel 1997). Even though in the past two decades the focus of Ethiopian government was mainly on large enterprises, the recent wave of private sector development initiatives however shifted the policy efforts to MSEs. This new orientation has been possible because of poor performance in most state-owned companies and the tension introduced by globalization and the increased need for competitiveness (Zewde, 2002).

The Micro and Small Enterprises sector is identified as a tool in bringing about economic transition by efficiently using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology, (Wolde & Geta, 2015). The sector is also described as the national home of entrepreneurship, they are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations, (Katua, 2014). It is natural to say that every small business owner starts with high hopes of success, but it is a usual phenomenon that each year firms go out of businesses. Although failure is not the sole reason for enterprises to leave the business, many enterprises do fail each year. Thus, the odds of forming a profitable venture are a critical issue for those weighing the risk of starting a business (Dennis and Fernald, 2001), and understanding of why firms succeed is crucial to the stability and health of the economy (Pompe and Bilderbeek, 2005).

Assessment of studies in the area verify that the role of MSEs in this regard have long been recognized all over the globe (Liedholm, 2002; ILO, 2003). Micro and small enterprises are the main source of job creation and base to income generation for poor people in a country. Similarly, microfinance institutions are key instrument in the growth of firm's and thus business effectiveness and economic growth. The same to that it is a kind of sector that provides product and services, which is help to the MSEs improving the growth and performance as well as to poor people who are not contributed by formal financial organizations (NISER, 2004). The

purpose of the study was to examine factors affecting the growth of SMEs at sub city level particularly in in Kirkos sub city in Addis Ababa.

## **1.2 Statement of the Problem**

Tiruneh (2011) stated that the Micro and Small Enterprises Sectors contribute to economic development of nations by creating employment opportunities, production of goods and services and other value, added activities. The existence of a strong small business sector is necessary for boosting the economy particularly in developing countries like Ethiopia. Ethiopia is a developing country considered by a minimally diversified economic structure. The country's economic activity suffers from a dominant agricultural sector and high unemployment among the country's youth (approximately 29% per World Bank, 2019). The agriculture sector generates more than 55% of the country's budgetary revenue and approximately 45% of the country's GDP and more than 90% of the country's export. Ethiopian economic attention began to turn to the private sector, particularly on SMEs due to their major role in economic development and their ability to provide jobs. Since the opening of the Ethiopian economy and the progressive adoption of a market economy in the early 1990s, the SME sector has realized a net augmentation in numbers. Wolde and Geta (2015) indicate that the SME sector has ensured its increasingly important role in the national economic structure.

Since 1991, there has been significant improvement in the incentive system and the macroeconomic environment with positive implications for manufacturing activities. A public sector reform programme has also been introduced and one of its main objectives to privatize SMEs that were nationalized in the 1970s. All these reforms have immensely improved the domestic policy environment for SMEs. Gradually, the government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development for MSMEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country (Assegedech, 2004). By the end of 2019, Ethiopian registered small- and medium-size enterprises exceeded 1,748,000, comprising 85% of the country's total enterprises.

Despite the vital role of SMEs in building a competitive private sector and contributing significantly to economic growth and job creation, SMEs are facing more challenges around the



world in general and in developing countries. Likewise, Ethiopian SMEs face numerous and serious challenges to their growth: the cumbersome legal and regulatory constraints, lack of access to external financing, low human resources capacities, lack of management skills and training, corruption, political interfere, and low technological capacities (Wolde & Geta, 2015). Even if it seems this sector is characterized by rapid growth, an aggressive drive to achieve scale and a broad geographic coverage, this sector is highly dominated by government backed Microfinance Institutions (MFIs), an emphasis on rural households and urban, lack of credit and savings products, less focus on sustainability and by the fact that the sector is Ethiopian owned and driven (Deribie, *et al.*, 2013).

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

In Ethiopia specifically, MSEs have been confronted in the past two decades by many of these problems. This research needed to fill full the research gap that was created by previous works; these studies ignored the growth of MSEs at sub city level and focused on country level entrepreneurs issues like Wolde & Geta (2015) and Fasika and Daniel (2012) and others interested in policy impact and regulatory challenges of MSEs by Gebrehiwot and Wolday (2005) and women entrepreneurship in Micro, Small and Medium Enterprises (Eshetu and Zeleke (2008) and managerial performance measurement in small-scale industries (Gebrehiwot, 2006). Other ignored the growth of MSEs in sub-city level and focused on regional and country level like Seyoum (2015) assessed the challenges and prospects of small enterprises in Ethiopia and Siyoum (2012) interested in business constraints and growth evidence from Holeta Town. Thus, gaps exist with respect to understanding the problems facing MSEs in recent year. Therefore, the intent of this study is to identify the most binding constraints on MESSs' operations

in Ethiopia and compares them with the constraints faced by other surveyed firms located in the Africa and in other regions in the country.

### **1.3 Research Questions**

- What are the major internal factors that micro and small-scale enterprise face in their growth?
- What are the main external factors that micro and small-scale enterprise face in their growth?

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

#### **1.4.1 General Objective**

- To investigate factors affecting the growth of MSEs in Kirkos sub city in Addis Ababa

#### **1.4.2 Specific objective**

Under this general objective other specific objectives of the study are:

- To examine the major internal factors that micro and small-scale enterprise face in their growth
- To investigate the main external factors that micro and small-scale enterprise face in their growth

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

The significance of this study firstly involved in its theoretical connotation to the Theory of the Growth of the Firm that governs the growth of firms and the rate at which firms can grow successfully. This is because firms are a bundle of internal and external resources that help a firm to grow and to realize a competitive advantage. Thus, this study is more related to MSEs leaders who do not think factors affecting business growth with opportunities for meaningful work can cause dissolved organizations and business practices. With this research, the researcher attempted to narrow the literature gap on the combined effects of internal and external factors affecting MSEs growth by reporting the lived experiences of small and micro business at sub city level. Also, there was minimal research regarding internal and external factors affecting small

business industries particularly at sub city level, the researcher's intent will be to understand the MSEs staff perceptions of involvement from the viewpoint of working in complicated and competitive business world. In addition, the study will contribute to positive social change by helping MSEs in developing countries to increase their performance and productivity in the workplace. This is due to the fact that small firm growth, regardless of its industry sector, has been a hot research topic for decades concerning strategy, organizations, and entrepreneurship.

On other hand, the study findings are expected to assist policy makers in coming up with appropriate measures that will address the growth challenges faced by MSEs in sub city level. The government can also use the conclusions of this study to assist in policy formulation and development for a framework for critical access to credit, legal and regulatory, access to market, and adoption of technology as the determinants that affect the growth of MSEs in Ethiopia as well as in Africa. Additionally, the study findings also provide information for suggesting improvement in service delivery of the respective sectors that facilitates growth of MSEs in Ethiopia. The private sector together with the Non-Governmental Organizational (NGOs) can also use the findings to develop various strategies and programs that aim to enhance the growth of MSEs and address the challenges they face in the operations and management of MSEs. The results of this study also give feedback to the existing financial intermediaries that are supporting MSEs on the effects of their services to MSEs in relation to accessibility of credit. The findings of this study will help MSEs in the country, into the benefits of using different factors studied in this research to predict the factors that affect the growth of their businesses. Findings from this study will assist academicians in broadening of the prospectus with respect to this study therefore providing a deeper understanding of the critical factors that affect the growth of MSEs.

## **1.6 Scope of the Study**

The scope of the study had the following major points including thematic scope, geographic scope, methodology scope and time scope. Regarding, time and geographic scope, the time scope was cross sectional conducted in Kirkos sub city in Addis Ababa, from April to June 2021. Out of eleven sub cities found in Addis Ababa, this study was conducted in Kirkos sub city in Addis Ababa where narrowed to small geographical area due to financial and time constraints. Due to

this, the study addressed the MSEs business growth experiences and factors affecting business growth in Kirkos sub city in Addis Ababa.

The scope of study is narrowed to examine the factors affecting the growth of MSEs in Kirkos sub city in Addis Ababa. Practically, the study was narrowed to examine the major internal factors such as entrepreneur characteristics (innovative entrepreneurship), management capacities, marketing skills, and technological capacities that micro and small-scale enterprise and external factors such as legal and regulatory framework, access to external financing, and human resources capacities that micro and small-scale enterprise face in their growth. In addition, this study was delimited to MSEs owner's perceptions and their business particularly in Addis Ababa city and examine the practices of small business growth in emerging economy in Ethiopia. The study was conducted because there was an opportunity to add research exploring business success factors from the viewpoint of MSEs owners and their small business practices in internal and external growth perspectives.

The study addressed the relationship or comparison of internal and external factors (independent) and MSES employee (growth) (dependent) variables with owners of MSEs s (participants) at Kirkos sub city in Addis Ababa according to the research questions. In addition, qualitative interviews were used to problem significant MSES business growth (results) by exploring aspects of the small businesses (central phenomenon) with MSEs supporters, government officials and experts (not more than ten participants) at Kirkos sub city in Addis Ababa. The scope of this study was narrow and focused on 242 owners of MSEs as Kirkos sub city. A delimitation of the study was that larger business owners that would be transferred from MSEs business were not included in the sample population because the research was based on the perceptions of the MSES in Kirkos sub city. Also, the participants that have multiple businesses such as having more than one business licences and government affiliated individuals and owners of MSEs are excluded from this study. Besides, the interviews were restricted to participants who agreed to participate in telephone conversation instead of face-to-face interaction due to Covid 19. In addition, there were not any specific requirements, such as salary category or working a minimum of years in MSEs but only full-time businessperson working a

maximum of six month was included in the study. Further, the reason for selecting MSEs other than business firms is because there is no research conducted in this particular from MSEs.

## **1.7 Limitations of the Study**

The researcher experienced several challenges during the period in which the study was undertaken. One of the challenges was a locating owner of MSEs and they may be busy during business times. Due to the nature of MSEs business, a few MSEs in Addis Ababa may be shut down their operations and others relocated their elsewhere or transferred to other business. MSEs may not be permanently located at a particular place where they could be found all the time. For example, some MSEs engaged in construction may be travelled for far distances (like Akaki) as a way of reaching out to potential businesses and others' marketing situation and place may be difficult to interview them like fruit and vegetable sellers. However, questionnaires were administered to those who were highly mobile for them to fill them up at their own convenient time. Some respondents were also uncooperative and failed to fill up the entire questionnaire or failed to present it back completely. Travel and other logistics were also a big challenge due to limited financial capacity. Thus, the study had its own research plan to conduct the study on weekend days and additional data enumerators will be hired to support the study.

## **1.8 Definition of Terms**

- **Access to Capital:** Access to capital means the supply of credit to finance businesses when demanded (Ackah & Vulvor, 2011).
- **Access to Credit:** Access to credit refers to the possibility that individuals or enterprises can access financial services (Peter (2018)).
- **Access to Market:** Market access is the freedom to enter a market and sell goods and services (Nteere, 2012).
- **Business License:** A business license is defined as the certificate of use intended to ensure that businesses operate in accordance with the law (Peter,2018).
- **Collateral:** Collateral is defined as pledged security for repayment of a loan, to be forfeited in the event of a default (Asini, 2016).

- **Contracting:** Contracting is a voluntary agreement between two or more parties (Asini, 2016)
- **Cost of Capital:** Cost of capital refers to the minimum rate of return a firm must earn on its investments (Asini, 2016).
- **Development:** Development is the process of economic and social transformation that is based on complex cultural and environmental factors and their interactions (Straub, 2009).
- **Enterprise Growth:** Enterprise growth is the development process of enterprise from small to big and from weak to strong (Mao, 2009).
- **Innovative Entrepreneurship:** is the practices of establishing creating new business ideas to intending to generate profit and accomplish company goal ( John, 2011).
- **Legal and Regulatory:** Legal and regulatory constitutes the many foreign and domestic laws governing how businesses must operate (Asini, 2016).
- **Level of Technology Capacity:** Technology capacity refers to the change or innovation through technological means (Oliveira & Martins,2011)
- **Sales Turn over:** Sales turnover is the total amount of money that a company receives from the sale of products or services in a particular period of time (Oliveira & Martins,2011).
- **Technology Adaption:** Technology adoption can be defined as the acceptance of an innovation or invention by at least one user (Straub, 2009).

## 1.9 Organization of the Study

This research work is organized as follows; following the introduction chapter; the second chapter provides an overview of related literatures on the role of micro and small enterprises in employment creation and poverty alleviation. The third chapter dedicates on the research design and methodology applied for this research work, followed by the fourth chapter data presentation, analysis, and interpretation. The last and fifth chapter provides conclusion and policy recommendation.

## **CHAPTER TWO REVIEW OF LITERATURE**

### **2.1 Introduction**

In this part of the review of related literature, the first part begins by defining what micro and small enterprises (MSEs) are in general and in Ethiopian context. In addition, it discusses the criteria used to differentiate them from other business activities. Then the literature review focuses on defining what are the factor mean and how it is measured. These factors that will be discussed in the sections here after are independent variables of the study, which is assumed to have relation and contribution to the performance of enterprises. Then the literature ends with on reviewing those studies that relate the independent variables and dependent variable of the study.

### **2.2 Theoretical Literature Review**

#### **2.2.1 Definitions, Concepts and Role of MSEs**

There is a consensus among policy makers, economists, and business experts that MSEs are drivers of economic growth. A healthy MSE sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. As Gebre eyesus (2009) cited from Dababneh and Tukan (2007), the characteristic of MSEs not only reflects the economic patterns of a country but also the social and cultural dimensions. These differing patterns are noticeably reflected within different definitions and criteria of MSEs adopted by different countries: whereas some refer to the number of employees as their distinctive criteria for MSEs, others use invested capital, and some other use a combination of the number of employees, invested capital, sales and industry type.

Rigorously defining small business has always been difficult, even controversial. The term covers a variety of firms, and most writers use it rather loosely based on their purpose of study. As Gebre eyesus (2009) adopted the definition of small business from Peterson, Albaum, and Kozmetskys (1986) ‘a small business is one which is independently owned and operated. This is not dominant in its field of operation’. Researchers and other interested parties have used specific criteria to operationalize the small business as a construct: value added, value of assets,

annual sales, and number of employees. The latter two criteria are most often used to delimit the category.

A study done by, Commission on Legal Empowerment of the Poor (2006), conducted in Addis Ababa reported that; size of employment, capital investment or turnover is used as criteria to categorize enterprises along scales of operation and define micro, small, medium and large enterprises. This categorization is important for functional and promotional purposes to achieve the desired levels of development. In the case of Ethiopia, there is lack of uniform definition at the national level to have a common understanding of the MSE sector. While the definition by Ministry of Trade and Industry (MoTI) uses capital investment, the Central Statistical Authority (CSA) uses employment and favors capital-intensive technologies as a yardstick. The definition used by MoTI, which uses capital investment as a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997. According to MoTI:

Micro enterprises are those businesses enterprises, in the formal and informal sector, with a paid-up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high-tech establishments. Small enterprises are those business enterprises with a paid-up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high-tech establishments. On the other hand, CSA categorizes enterprises into different scales of operation on the size of Employment and the nature of equipment. According to CSA: Establishments employing less than ten persons and using motor operated equipment are considered as small-scale manufacturing enterprises.

Enterprises in the micro enterprise category are subdivided into informal sector operations and cottage industries: Cottage and handicraft industries are those establishments performing their activities by hand and using non-power-driven machines. The informal sector is defined as household type establishments or activities, which are non-registered companies and cooperatives operating with less than 10 persons. All enterprises employing ten or more workers are grossly considered as medium and large enterprises. Considering the above definitions and taking into consideration the Ethiopian situation, micro and small enterprises (MSEs) may be defined in the following way: Micro enterprises are business activities that are independently owned and operated, have small share of the market, are managed by the owner and employing five or less employees.



Small businesses are those enterprises that employ 6 to 49 employees. They share the same characteristics with micro enterprises in other aspects. Medium scale enterprises are those enterprises, which have a relatively higher share of the market, are independently or jointly owned or managed by the owner or by appointed executives and employ 50 to 99 persons. Those enterprises that employ more than 100 persons could be considered as large enterprises. Nevertheless, there is lack of clarity, inconsistency, lack of organized information and consistent historical data is lacking in Ethiopia.

The features that distinguish MSEs from larger scale enterprises include greater owner influence, dominance of one person, more subjective decision due to centralization of decision making, close contact of the top management with employees at lower levels and greater concern with financial matters due to difficulty of attributable funds etc. (Gebreysus, 2009). Clusters under the umbrella of MSEs are numerous activities – street vendors, shop keepers, construction, wood and metal work, food processing, textile and garments, urban farm, municipality service, bars, shops, groceries, hairdressers, wholesale and retail traders, export import traders and small scale industries etc. Most of these enterprises in the country are largely confined to trade and services and to small-scale manufacturing and handicrafts, which constitute an important subset of small-scale enterprises.

The definition of small-scale industries adopted by the Federal Micro and Small Enterprises Development Agency (FeMSEDA) in proclamation 124/77 included: a small scale manufacturing activity and engineering service establishment is a manufacturing establishment - except handicrafts- which has a fixed location within urban center; uses either manually operated machinery and equipment move power driven machinery and equipment and engaged in the mechanical-chemical transformation of substances into new products and in the fabrication, assembly, reconstruction, alteration and repair activity; employs at least one person other than the owner/owners, unpaid family workers and/or apprentices; and has fixed assets of value not exceeding Birr 200,000 excluding investments made on land and buildings.

In most fast developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high level of

training, much capital and sophisticated technology. The micro and small enterprise sector is also described as the national home of entrepreneurship. It has the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (Etsegenet, 2000). In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to: generate employment and more equitable income distribution; activate competition; exploit niche markets; enhance productivity and technical change and through the combination of all these measures, to stimulate economic development (Zewde & Associates, 2002; Nuno & Santos; 2003).

For Ethiopia, while the importance of large industrial and other enterprises for the growth of the economy cannot be denied, there is ample evidence that the labor absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation activities is vital for many of the challenges facing the country (Ishengoma & Kappel, 2008; Amenu, 2005; Gebrehiwot & Wolday, 2005). The rationale behind such an approach is that small industries provide substantial scope for increasing employment as they are labor-intensive, and they require comparatively less capital. They have lesser gestation period and can easily be set up in rural areas or in backward areas. They need relatively smaller markets to be economical and hence they have advantage in being set up as ancillary units. They stimulate growth of entrepreneurship and promote a more decentralized pattern of ownership and location (Gebrehiwot & Wolday, 2006).

The most significant aspect of small industry development is that this sector has stimulated economic activity of a far-reaching magnitude and has created a sense of confidence among a huge number of small entrepreneurs about their strength and vitality (Bhatia & Batra, 2003). According to Beck, (2005) the small industries have been growing during the last three decades on account of their significant role in attaining the major objectives as under: removal of economic backwardness, attainment of self-reliance, reduction of regional imbalance, reduction in disparities in income, wealth and consumption standards facilitate mobilization of resources, capital and skills and their optimum utilization, create greater employment opportunities and raise levels of output, income and standard of living; and meet substantial part of the economy's requirement of consumer goods and simple producer goods.

## **2.2.2 Theoretical Perspective on Factors Affecting the Growth of Small Firms**

### **2.2.2.1 Law of Proportionate Effect**

Mao (2009) mentioned Gibrat (1931) who developed a theoretical model to measure the relationship between firm growth and its initial size. Gibrat's Law, or the "Law of Proportionate Effect," states that firm growth is independent on initial size. Whereas the results of some studies concur with Gibrat's Law, the results of other studies do not, even support a negative relationship between growth and size and confirm that smaller and younger firms grow faster than larger firms. This study will be benefited from the law of proportionate effect which asserts that the profitability of an enterprise growing at a given rate during any specific period of time is independent of the initial size of the enterprise. For example, prices of raw materials sensitize other products. The price of raw materials has a direct proportionate effect on the price of the product. In this case, prices of chemicals, packing material have a direct effect on the rice of the fish ready for sale.

### **2.2.2.2 Theory of the Growth of the Firm**

Asma, Diabate and Othman (2015) cited Edith Penrose (1959) who established The Theory of the Growth of the Firm that offered some strong principles governing the growth of firms and the rate at which firms can grow successfully. She requested that firms are a bundle of internal and external resources that help a firm to grow and to realize a competitive advantage. Firm size is incidental to the growth process, whereas the effective and innovative managerial resources within the firm determine firm growth. It is further explained that the availability of top managerial and technical talent serves as an engine to a firm's growth. This theory is essential for this study, as it has also suggested that ignorance of these factors results in failure and loss of competitive advantage.

### **2.2.2.3 Market Orientation Theory**

Peter (2018) mentioned Kotler (1999) and explained that market orientation theory holds that the key to achieving organizational goals is being more effective than competitors in integrating marketing activities to determine the needs of target markets, (Firms with better understanding of their customers, competitors and environment have a competitive edge. Enterprises ought to thus strive to understand customer needs, which should then be translated into products or services. In

order to realize this, enterprises need market information to effectively market its products. Another close link to market orientation theory is the evolutionary systems change theory, which explains that the ability of a firm to survive and succeed depends upon its ability to search for and respond to the needs of the market niches.

Nevertheless, market systems are dynamic, changing in response to evolving needs and the behaviour of competitors, making the market system to be in a continuous shift towards disequilibrium. Thus, this theory is meaningful for this study as it explains about how firms adapt to the new environment and find a competitive edge through improvements, maintaining high quality, selecting strategic market sites, promoting products and services, identifying niche markets and access other markets outside their localities. Relationship marketing theory posits that customers are increasingly looking for suppliers who provide value not only in terms of acceptable prices and an attractive range, but also in terms of relationship value. This method leads to the need for relationship marketing which is defined as establishing, developing and maintaining successful relational exchanges.

#### **2.2.2.4 Adoption Theory**

Straub (2011) notes it is a multifaceted, characteristically social, developmental process that individuals construct unique but malleable perceptions of technology that influence the adoption process. He states that effectively enabling a technology adoption needs to address cognitive, emotional, and contextual concerns. Straub (2011) also cited Rogers (1995) who asserts that potential adopters of a technology progress over time through five stages in the diffusion process. He notes that first, they must learn about the innovation knowledge, second, they must be persuaded of the value of the innovation, and they then must decide to adopt it (decision). He further notes that the innovation must then be implemented, and finally, the decision must be reaffirmed or rejected.

On other hand, Oliveira and Martins (2011) clearly indicates about diffusion of innovation theory (DOI) that is related to how and why, and at what rate new ideas and technology are spread through cultures, operating at the individual and firm level. Though, the theory does not unambiguously emphasize at specific business types in addressing issues of technology adoption. DOI theory evaluates innovations as a process that is communicated through certain channels

over a period of time and within a particular system in the society. The theory also argues that business owners must be in possession of different capabilities and the willingness to adopt innovations, and thus it is normally observed that the percentage of the population adopting an innovation is approximately normally distributed over time.

According to the DOI theory at the organizational level innovativeness is related independent variables i.e., organizational leader characteristics, internal organizational structural and external factors of the organization. They also argue that individual characteristics are able to describe the leader's attitude toward embracing change in an organization (Straub, 2011). They further note that internal characteristics of the organizational structure include observations through centralization whereby power and control in a system are concentrated in the hands of a few individuals. The theory further states that complexity issues relate to the degree in which organization's members are able to acquire a relatively high level of knowledge and expertise in relation to the technology adoption. Formalization is the extent to which an organization encourages its members with a view of embracing changes that are brought along by embracing new technology. The theory recognizes the significance of organizations ability to avail uncommitted resources that are available to an organization to enhance its capacity of handling and affording new technology (Oliveira & Martins, 2011).

#### **2.2.2.5 Psychological Entrepreneurship Theory**

It explains the personal characteristics that are used to define entrepreneurship. The theory notes that personality traits need for achievement and locus of control are seen and empirical evidence presented for three other new characteristics that have been identified as closely associated with entrepreneurial inclination. These include risk taking, innovativeness, and tolerance for ambiguity (Peter, 2018). Recent finding on risk taking strengthens earlier empirical studies which had indicated that aversion to risk declines as wealth raises, that is, one's net assets and value of future income. He further contends that that success in entrepreneurship, by increasing wealth, can reduce the entrepreneur's degree of risk aversion, and encourage more venturing. In his view, entrepreneurship is hence being a self-perpetuating process. Further study confirmation also proposes that some entrepreneurs exhibit mildly risk-loving behaviour. These individuals prefer risks and challenges of venturing to the security of stable income.

Innovative entrepreneurs have also been found to be optimistic, emotionally resilient and have mental energy, they are hard workers, show intense commitment and perseverance, thrive on competitive desire to excel and win, tend to be dissatisfied with the status quo and desire improvement. Innovative entrepreneurs are also transformational in nature that are lifelong learners and use failure as a tool and springboard (Oliveira & Martins, 2011).

The theory further elucidates that an entrepreneurial characteristic gives an understanding of these traits or inborn potentials. It is also important to note that some of the characteristics or behaviours associated with entrepreneurs are that they tend to be more opportunity driven demonstrates high level of creativity and innovation and show high level of management skills and business know how. Entrepreneurs have also been found to be optimistic, they are able to see the cup as half full than as half empty, they are emotionally resilient and have mental energy, they are hard workers, show intense commitment and perseverance, thrive on competitive desire to excel and win and desire improvement. Entrepreneurs are also transformational in nature, people who are lifelong learners and use failure as a tool and springboard.

### **2.2.3 Factors Affecting growth of MSE**

There are various approaches to identify the factors affecting the growth of small firms; however, there is considerable variation in the results of previous research. Asma, *et al.* (2015) stated that the growth of small firms is a particularly erratic phenomenon. Entry rates of new firms are high; however, a large number of these entrants can be anticipated to go bankrupt within a few years. They also indicated that the post-entry performance of new firms in seven OECD countries, they results reveal that about 20-40 percent of entering firms fail within the first two years, while only about 40-50 percent survive beyond the seventh year. One of the reasons they do not survive is that they face several obstacles over time. This study used their approach that used to study factors affecting the growth of MSEs that are divided into two groups: internal factors of the firm and external factors that are beyond the MSEs' control.

#### **2.2.3.1 External Factors**

As indicated above, there are different approaches to explain the factors affecting the growth of SMEs. First, an approach is that related to or considered environmental and external factors to

have a big impact on the performance and growth of small firms. This study summarizes the external factors affecting the growth of MSEs as follows:

### **2.2.3.1.1 Legal and Regulatory Framework**

The growth of MSEs is affected by its business climate. Rahel and Issac (2010) noted that an unfavourable business climate has negative affect on small firm growth. They identified competition as one of the major hindrances to the growth of small firm. They also noted that an unfavourable tax system, complicated rules and regulations could heavily hamper small firms' growth. Okpara and Wynn (2007) showed that corruption is a major source of the rise in unfair competition. They further highlighted that the cost of complying with regulations and increased tax rates increases small firms' expenses while limiting their growth. Similarly, Nuno (2003) noted that unfair competition from the informal sector, cumbersome regulations, and tax rates are the main obstacles on small business growth. Nichter and Goldmark (2009) stated that the top obstacles to their operations are a poor investment climate, especially red tape, high tax rates, and competition from the informal sector, and inadequate infrastructure, especially an insufficient or unreliable power supply. While informality is a major hindrance of MSEs in middle-income countries, an inadequate power supply is the most important challenge for companies in low-income countries.

### **2.2.3.1.2 Access to Finance**

Financing is one of the crucial elements that determine the development of (MSEs) and necessary to help them to set up and expand their operations, develop new products, and invest in new staff or production facilities. But if they are successful, there comes a time for all developing MSEs when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, or other financial institutions. Lack of finance was cited as the most pressing need of the MSE sector operators (Santos, 2003).

The survey further indicated that working capital (necessary for the business growth) was the most needed followed by investment capital (for starting up new business). This is due to most banks do not operate a MSE financing window and low capability of borrower to prepare and

present applications that meets bank's requirements. It is too expensive to hire professional services for doing this job for MSE. This is reflection of the lack of information or the perceived high cost of collecting such information on MSE. MSEs have also inability to fulfill the acceptable collateral requirements like fixed assets such as residential houses and vehicles. Thus, rather than focusing their attention on evaluating income streams flowing from an investment project they may focus more on the value of collateral available in the event of financial distress. This creates a problem for small firms in that they often do not have significant fixed assets to secure on in their early years of establishment (Arinaitwe, 2006)

### **2.2.3.1.3 Human Resources Capacities**

Human resources capacities form one of the most significant factors for the development of small firms. According to Mohan –Niell (2009), firms with a skilled and well-educated workforce are probably to be more efficient. As noted by Lee (2001), human resource capacities form one of the most significant areas for the success of MSEs. Okpara & Wynn (2007) indicate that human resource capacities have a positive effect on the growth of small firms, which increase employee skills and motivation, and eventually result in improving the productivity and long-term sustainability of small firms. Asma, *et al.* (2015) found that more than 50 percent of the workforce in Algerian MSEs is unskilled, and this ratio is relatively high in large firms as well in other MENA surveyed firms. However, this rate is relatively small in OECD surveyed firms. The World Bank Enterprise Surveys show that between 20 and 40 percent of MSEs in most developing countries identify the lack of appropriate skills as a major constraint to their development. Likewise, in Algeria, more than 30 percent of surveyed firms report that inadequate skills and an uneducated workforce are obstacles to their growth. This issue can be explained by either the long history of state-led industrialization, in which the focus of the education system in Algeria is still oriented toward the preparation of future employees for the public sector, or by the insufficient training offered by the Algerian enterprises.

### **2.2.3.2 Internal Factors Affecting MSEs**

Achievement and failure of MSEs is not only related to business environment aspect. It is correspondingly influenced by on the firm internal factors and many more key strategic factors, which can be précised as follows:



### **2.2.3.2.1 Characteristics of Entrepreneurs (Innovative Entrepreneurship)**

Entrepreneur characteristics or innovative entrepreneurship have been widely and comprehensively studied, with mixed results on his impact on small firm growth. Numerous studies convincingly confirmed that some characteristics have positive and significant relationships with small firm growth while other studies find insignificant relationships (John, 2011). Some authors have approached their studies from the perspective of the mind-set and personality of the entrepreneur (Pompe & Bilderbeek, 2005), while others have looked at it from the perspective of the entrepreneur's education, family background, and capability (Katua, 2014). A third group of scholars has considered the personal role of the entrepreneur and his growth aspirations (Okpara & Wynn, 2007). Gurmeet and Rakesh (2008) distinguished that the entrepreneurs' stable and inherent characters influence how they manage their businesses. In addition, they will tend to conduct their business based on the strengths of their specific characteristics. Many aspects have been examined regarding the characteristics of entrepreneurs, such age, gender, motivation, experience, educational background, risk-taking propensity, and preference for innovation (Pompe & Bilderbeek, 2005). In this study the characteristics of entrepreneur considered as innovative entrepreneurship that is the practices of establishing creating new business ideas intending to generate profit (John, 2011).

### **2.2.3.2.2 Managerial and Marketing Skills**

These problems are usually labeled as critical success/failure factors as they are internal to the organization and within its control. These problems need immediate managerial actions and include human resources management, business planning, organizing, and directing. The future of small firms depends on the development and maintenance of human resources in which few highly competent people dedicated to the task, driven by it, working full time and very hard are the successful ones. For many firms, the attraction, development and maintenance of successful individuals are a critical success factor even though recruiting new employees is one of the biggest challenges facing small firms, and a key component of organizational success (Arinaitwe, 2006)

According to Olawale and Garwe (2010), management capacities are sets of knowledge, skills, and competencies that can make the small firm more efficient. They emphasize that management

skills are necessary for MSs to survive and achieve growth. They also state that management skills are a crucial factor for the growth of MSEs and that the lack of management skills is a barrier to growth and is one of the factors that can lead to failure. Pasanen (2007) suggests that the growth pattern of small firms is associated with their managerial capacities. Okpara and Wynn (2007) state that a shortage of core competence and a skilled top management team is one of the main challenges faced by MSEs. On other hand, marketing skills has been considered as one of the most effective factors to firm survival and growth. The lack of marketing skills has a negative impact on the success of small businesses. Olawale and Garwe (2010) showed that marketing limitations of an MSE resemble other limited resources such as financial and human resources.

### **2.2.3.2.3 Technological Capacities**

Olawale and Garwe (2010) indicated that new technologies improve efficiency, enable greater production, and are a source of profit for SMEs. Technological capabilities benefit SMEs in several ways: they enhance SME efficiency, reduce costs, and broaden market share, both locally and globally. As distinguished by Katua (2014), a small business that adopts greater levels of technological sophistication can be expected to grow more rapidly than a similar firm that does not. Gurmeet and Rakesh (2008) point out that low technological capability hinders and discourage SMEs from fully reaching their potential. Countries with high levels of technological growth tend to have high levels of entrepreneurial growth. From the above literature review, we conclude that the growth of SMEs is dependent on a range of internal and external factors. Though, there is no clear understanding or specific theory as to whether SMEs will sustain, grow, succeed, or fail. Scholars have put forward a number of factors concerning the important elements of the growing firm, such as Olawale and Garwe (2010) identification of three necessary factors for growth: the entrepreneur, the firm, and strategy. Though, there appears to be no unified pattern. Rather, the evidence points towards a complex set of interrelated factors that affect small business growth.

## **2.3 Empirical Literature Review**

### **2.3.1 Global Perspective**

Small and medium scale Enterprises (SMEs) play an important role in promoting inclusive growth in the contemporary economy of developing countries. However, the growth and expansion of SMEs are constrained by some unknown factors and those are yet to be revealed. Hence, Asini (2016) aimed to recognize the factors that influence the growth of SMEs in Sri Lanka. The present study was based on a sample of fifteen SMEs which may have positive or negative growth in sales. The stratified sampling technique was used to select an appropriate sample of SMEs. Among the selected sample of SMEs, two SMEs were selected for case studies. A questionnaire and informal interviews were the primary data collection methods used in this study. The correlation analysis and the Chi-square test were used to determine the possible influence of the factors on the growth of SMEs in Sri Lanka. The study revealed that the growth of SMEs is constrained by financial inadequacy, the lack of access to new technology, and some regulations imposed by the government. Moreover, it was revealed that the level of education of the owner of the enterprise has a direct impact on the growth of SMEs.

According to Nichter & Goldmark (2005), MSEs appear to be disproportionately afflicted by the underdeveloped nature of financial institutions in developing countries. For various reasons ranging from a lack of collateral to bias against small firms, MSEs tend to face greater financial constraints than do larger firms. The study is related to financial management of MSEs identified the heavy investment in inventory ties up capital which in the end reduces firm' profitability therefore, there is need for a trade-off between receivables and holding inventory if the firm is to attain the required profits. Marketing activities such as product/service marketing, marketing research and information and promotion impact negatively on the performance of SMEs due to lack of marketing skills by SMEs owners.

### **2.3.2 Evidences from Sub-Saharan Countries**

Asma, *et al.* (2015) presented in this paper analyzes the factors influencing the growth rate of small and medium-sized enterprises (MSEs) in Algeria and explores the extent to which their success or failure depends on the wider business climate. This study also examines different

internal factors that may be responsible for the unstable and limited growth of SMEs. Their research reveals that the growth of SMEs in Algeria is hampered by several interrelated factors, which include business environmental factors that are beyond the SMEs' control and internal factors of the SMEs. The external factors include the legal and regulatory framework, access to external financing, and human resources capacities. The internal factors comprise entrepreneurial characteristics, management capacities, marketing skills, and technological capacities. Similarly, John (2011) outlined that the most common constraints hindering small business growth and survival in Nigeria are lack of financial support, poor management corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for product and services. As NurulIndarti and Marja Langenberg (2009) reveals, factors affecting MSEs in Malawi are marketing problems, unfamiliarity with technology, no information access, lack of entrepreneurial readiness, social network, legality, capital access, lack of government support, lack of knowledge in preparing business plan. In Uganda as Esther and Robert (2008) findings show limited access to credit and market, business services like marketing information, networking, short-term training are the major factors inhibiting MSEs in the country.

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

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

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

According to Commission on Legal Empowerment of the Poor (2006), most MSEs in Ethiopia faces critical constraints both at the operation and start up level. Some of these constraints include lack of access to finance, access to premise, infrastructure, training in entrepreneurial and management skills, information on business opportunities, and social and cultural factors particularly related to deficient entrepreneurial culture and excessive corruption. Lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector. Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. The findings by Arinaitwe (2006) indicate that MSEs in Ivory Coast face the following challenges, like, competition, insecurity, debt collection, lack of working capital and power interruptions were the top five cited challenges facing businesses in addition to lack of access to credit, cheap imports, awareness of markets, technology, policies, regulations limited because businesses fail to receive timely business information.

### **2.3.3 MSEs Studies Conducted in Ethiopian**

Although Ethiopia has a long history of artisan manufacturing activity, the development of modern manufacturing enterprises took place mainly in the post-World War II period. The evolution of the sector falls into three broad phases: the import-substitution period which lasted from the early 1950s to 1974: the centrally planned economic system from 1974/1975 to 1991; and liberalization and market-orientation since 1991. During the second period, private sector

industrial activities, consisting mainly SMEs, were openly discouraged through restrictive policies, including regulations and direct controls that prevented access to credit and imported inputs by private enterprises. During this phase, the number of officially registered small-scale manufacturing enterprises was reduced; (Zewde & Associates, 2002). When the current Ethiopian government came to power in 1991, it inherited a centrally planned economy and faced some challenges similar to transition economies, including private sector development. So far, however, hopes that the economy would transition from being dominated by low-productive jobs in the state sector to more productive ones in the private sector remain unfulfilled. This lack of good (productive and well-paid) jobs discourages workers from acquiring skills, out of fear that such asset would not be utilized (Assegedech, 2004).

The CSA survey revealed that the number of people earning their livelihood from the micro and small-scale manufacturing industries is eight times larger than those engaged in the medium and large-scale industrial establishments (CSA, 2005). There are the policies and strategies developed in the past years to create an enabling environment and targeted support for the development of the private sector in general and the MSE sector. Currently, according to the discussions of Ethiopian New Micro, Small-Enterprises Development Package Design of 2011 national conference held in Addis Ababa, the overall objective of MSEs sub-sector is to play a vital role in national development particularly in the creation of employment opportunities and poverty reduction with complementary of objective of the 5 years GTP. In another way to address the challenges of unemployment in the country by giving special emphasis to widely develop MSEs sector to ensure accelerated industrial development which is serving as foundation for the country's economic growth. As the conference, this will be achieved by providing the comprehensive and accessible support for the enterprises and the government has given priority to the sub-sector in the next five-year industrial development plan with a firm believe that the sector is an instrumental curbing urban unemployment problem. Although it was obvious that as there are various challenges hindering the growth and development of MSEs reported, there were proposed strategic directions to tackle challenges in the sector by providing human, technological and financial resources as well as manufacturing and market access, clustering MSEs and delivering industrial extension services were other strategic directions. In addition to these government is aggressively working on developing the attitude and skill of

entrepreneurs in realizing the sector's objective through enhancing demand oriented human resources development & technological transformation (Ethiopian Herald, 2011)

## **2.4 Research Gap**

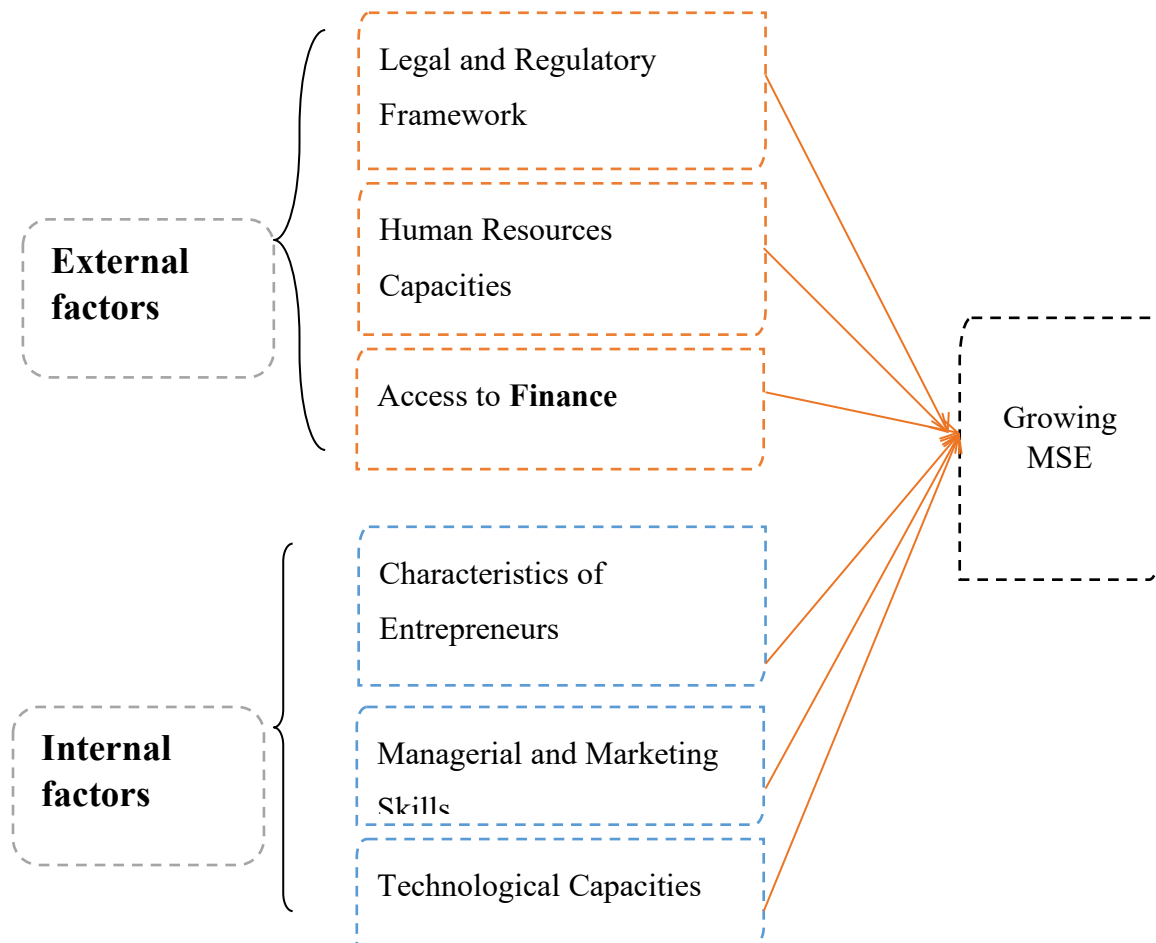
Several research have been carried out locally and internationally reviewing the determinants of growth in MSEs but not in a comprehensive approach. A few studies have been done but majority of them focused on the on the performance other than growth of MSEs. Most of these researches concentrated on women participation, government support, youth participation and performance related to expansion of MSEs. Majority of studies done also explored government policy programmes geared towards the support and funding of youth owned enterprises.

The literature available does not concern itself on internal and external factors affecting MSEs growth that included access for finance, legal and regulatory, access to market, technology adoption and entrepreneurial characteristics in one combination. For example, Nichter and Goldmark, (2005) interested in understanding Micro and Small Enterprises Growth, Peter (2018) focused on determinants of growth in youth owned micro and small enterprises and Straub (2009) involved in understanding technology adoption: theory and future directions for Informal Learning. The study did not investigate the internal and external factors combined inn one study and there did not test the difference among the, have a moderating variable.

Very few studies focusing on legal and regulatory environment and entrepreneurial characteristics determinants on growth of MSEs were available. Thus, the purpose of this section was being stress on the research gap, which from pervious different studies related to this research. Therefore, the gap of pervious were taken from various author argue the current issue of micro finance institutions and micro small and medium enterprises outreach and improving the world economy as well as Ethiopian economy. So, the gaps of various previous studies were shown below. Apart from research done on growth of SME in the global level, there is a clear gap in the case of Ethiopia. The dynamics of SME growth will change with different behavior of growth determinants, for instance the case of marketing access in the sense of local and global market opportunities and how it affects SME growth in Ethiopia created a motive to investigate its characteristics. The influence of infrastructure availability (water, electricity, transport...) is also another interesting determinant, which needs to be understood considering as a gap for this

study. So, the growth behavior of SME in Ethiopia is an interesting area to be studied. In addition, there is also a gap on literatures done in Ethiopia in finding the relation between growth and growth determinants, previous studies done on growth of SME like, Mulu, (2009), addressed innovative and growth aspects of SME in Ethiopia. And other works by Merima, and Jack, (2010) studied the effect of clustering on the performance of SMEs in urban and rural areas considering only SMEs working on the hand loom sector using empirical models.

## 2.5 The Conceptual Framework



**Figure 1 Conceptual Framework**

Adapted from Asma, et al. (2015).



The conceptual framework in a research study is diagrammatical presentation of the different variable being analysis in the research study. The conceptual frame work provides a clear outline of the interrelationship that exists between the dependent and independent variables in the study. The independent variables in the study are access to finance, market, management and working place environment while the dependent variable is the growth of MSEs.

## **2.5.1 Hypotheses**

### **2.5.1.1.1 Legal and Regulatory Framework**

An enabling environment legal and regulatory environment is important for the MSE sector to play effective role as an engine for economic growth, poverty eradication and employment creation. Despite the significant achievement made in reforming the legal and regulatory framework, several existing laws and regulations are still cumbersome and are hostile to the growth of MSE sector (Rahel & Issac (2010). Regulatory constraints also pose serious challenges to MSEs development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on MSEs. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect MSE operations (Nichter & Goldmark, 2009). Regulatory constraints also pose serious challenges to MSEs development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on MSEs. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect MSE operations.

**Hypothesis 1 – H<sub>0</sub>: Legal and regulatory framework has a positive significant effect on MSEs growth**

### **2.5.1.1.2 Access to Finance**

As a result of these and inability of small entrepreneurs to secure collateral requirements, the banking institutions became reluctant to provide them loans. Coupled with absence of other sources of finance other than traditional ones and informal sources, creation of new enterprises and the growth and survival of existing ones will be impeded. Particularly in developing countries like Ethiopia, where the financial market is weakly efficient, there is high information asymmetry between financial institutions and Micro and Small Enterprises (MSEs). As a result, financial institutions face severe problems of adverse selection. That is why access to formal finance is usually difficult for MSEs (Eshetu & Zeleke, 2008). If SMEs cannot find the financing they need, brilliant ideas may fall by the wayside, and this represents a loss in potential growth for the economy. Lack of financial availability and accessibility is cited in many studies as being one of the major barriers and constraints to growth. A loan approved for the applicant by the OCSSC, failed to materialize because land title deeds as collateral. Owning title deeds as collateral to finance expansion is still a hurdle for most entrepreneurs, given that property is not usually registered in their names (Santos, 2003).

**Hypothesis 2 – H<sub>0</sub>: Access to Finance has a positive significant effect on MSEs growth**

### **2.5.1.1.3 Human Resources Capacities**

Similarly, Arinaitwe, 2006 noted that a well-educated and skilled workforce has more learning and innovative abilities. However, various studies recognize low human resource capabilities as a major challenge for the development of SMEs in developing countries (Okpara & Wynn, 2007). Human resources in developing countries in general are weak in terms of market research, marketing strategies, innovation, and financial management. The government in these developing countries itself also provided a considerable amount of capital and became a major shareholder in and owner of many of the new industries, though in the 1990s many were subsequently privatised. The political need to secure long-term survival of the society meant that the short-term interests of the class-based groupings such as landowners or capitalists were subordinated to the wider goal of collective economic growth. The developing countries

government's role in human resource terms as an allocator within the labour market and also as a developer of unique human resource capabilities and competences to have a critical competitive edge.

**Hypothesis 3– H<sub>0</sub>: Human resource capabilities have a positive significant effect on MSEs growth**

#### **2.5.1.1.4 Entrepreneur Characteristics (Innovative Entrepreneurship)**

John (2011) indicated that the entrepreneurs' characteristics have positive impact on small business success. The study recommended the need to further investigate more entrepreneurs' characteristics in the future research to include more personal entrepreneurs' characteristics, skill, competencies, and traits of the entrepreneurs. Okpara and Wynn (2007) showed that human resource factors and the sales revenue were found to be inadequate and severely inhibited the potential of the entrepreneurs for performance and growth. However, length of years in business and working experience were found to have positive contribution on their performance. Pompe and Bilderbeek (2005) revealed that the main constraints of the MSEs were shortage of capital, lack of raw materials, absence of government support, lack of market, lack of credit facilities and high interest rate. Studies were also conducted specifically with a purpose of identifying the problems that MSEs encounter. For instance,

**Hypothesis 4– H<sub>0</sub>: Entrepreneur Characteristics (Innovative Entrepreneurship) have a positive significant effect on MSEs growth**

#### **2.5.1.1.5 Managerial and Marketing Skills**

Most owners/ managers lack sufficient trainings, they do not have proper management procedures and their concern has remained on daily routine and to keep the business going and all decision making is concentrated in the hands of owner-manager, innovation activities in the enterprises mostly monopolized by them and gives less motivation for other workers to reveal their potential talents (Santos, 2003). Various empirical studies have tested the effect of human capital and demographic factors on innovation concerning firms, which are led by more educated executives or owners to innovate (Okpara, 2007). Mahemba and de Brujn (2003) have also shown that training of workers is associated with higher innovation. As Liedholm and Mead,

(1993) the ability of managers to perform activities has very important bearings on the performance of the business. This can serve as early warning system by providing clues for further study. Hence, lack of creativity, innovativeness and responsiveness hampers MSEs Management skills, lack of occupational experience in related businesses for many MSEs entrepreneurs has been indicated as a constraint to growth (Singh & Belwal, 2008)

**Hypothesis 5– H<sub>0</sub>: Managerial and Marketing Skills have a positive significant effect on MSEs growth**

#### **2.5.1.1.6 Technological Capacities**

Katua (2014) indicated that along with formal education, technical training and experience levels of the mechanics, the conceptualized variables: relative advantage, compatibility, complexity and observability of a particular innovation play a significant role in technology adoption among automobile mechanics in micro and small enterprises. In this regard, stake holders should create and encourage avenues that enable technology transfer, technology promotion, technology deployment, technology innovation, technology development, technology research, technology assessment, technology information and communication, technology investment, technology collaboration and technology commercialization. Gurmeet and Rakesh (2008) noted from the findings that there is low use of electronic commerce in marketing. This implies that there are still a lot of growth opportunities for SMEs to utilize electronic commerce for marketing their products and services. The study recommends the importance of innovation factor and product positioning as an influence on the uptake of electronic commerce.

**Hypothesis 6– H<sub>0</sub>: Technological Capabilities have a positive significant effect on MSEs growth**

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

This section looks at the methods to be used in order to achieve the objectives of the study. It highlights research design; data source and the methods use in data collection for the research. It also identifies the target population for the study, the sample size and frame, sampling technique and other method of study.

#### **3.2 Description of Study Area**

The study examined factors influencing the growth of MSEs in Addis Ababa city particularly in Kirkos sub city. Out of eleven sub cities found in Addis Ababa, this study was conducted in Kirkos sub city in Addis Ababa where several MSEs are operating. Kirkos sub city population is the second largest population next to Addis Ketema sub city in Addis Ababa and included 450,000 people by 2020 population estimation with a purchasing power approaching 900,000,000.00 Birr (per experts' opinion). Ethiopian Census projects that by 2050, more people lived in this sub city than in Bole or Kirkos sub cities due to its largest unused land and future condominium project expansions.

#### **3.3 Description of MSEs in Addis Ababa**

The nature of the MSEs in this study area and its location has been one of the main reasons to conduct this study. There are various MSEs in this sub city and this sub city is favorable for business and economic condition of the city as it is located in the center of the city and most of the economic spots found in this area such as stadium, old and new railway transaction, almost commercial government and private banks, MFIs and other institutions are found around here. This sub city is the hub of almost found sub city and it is the main conjunction point for Bole, Lideta, Arada and Nifasilk Lafto sub cities. Since there is a concern among policy makers, economists, and business experts that Micro and Small Enterprises (MSEs) are drivers of economic growth, this study found a convenient and suitable MSEs locations for obtain a healthy MSEs contributes that prominently to the economy through creating more employment

opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills.

### **3.4 Research Approach**

Research can be approached as qualitative and quantitative or mixed when approach to research has been well thought out as the criterion of classification. Qualitative research is extra subjective in nature than quantitative research and involves examining and reflecting on the less tangible aspects of a research subject. While the emphasis of quantitative research is on collecting and analyzing numerical data; it concentrates on measuring the scale, range, frequency etc. of phenomena. Furthermore, mixed method integrates quantitative and qualitative data collection and analysis in a single study or a program of enquiry (Creswell, 2009).

This study focused on measuring the scale, range, frequency etc. of MSES growth towards the success of MSEs business experience and practices. The study more structured and results can be easily collected. On the other hand, this study depended on careful definition of the meaning of small business growth and its associated factors in MSEs growth. Mixed methods have a procedure in which the researcher converges or merges quantitative and qualitative data in order to provide a comprehensive analysis of the research problem. In this design, the investigator collects both forms of data at the same time and then integrates the information in the interpretation of the overall results. The study applied mixed research approach followed by concurrent triangulation strategy.

### **3.5 Research Design**

The research design can be classified using a variety of ways, such as the methods of data collection, time dimension, researcher participation and the purpose of the study. On the other hand, the most widely used classification is the one based on the purpose of the study. There are three types of research design based on the study's purpose: exploratory, descriptive and causal (Creswell, 2009). The exploratory study provides more insight and ideas to discover the real nature of the issue under investigation. Descriptive study stems from prior knowledge and is concerned with describing specific phenomena; it is a means to an end rather than an end, since it encourages future explanation. Causal or explanatory research explains causal relationships

between variables. These three basic designs are interrelated, and the research can combine more than purpose.

This study has investigated factors MSES growth at sub city level. Because the research was conducted to test the factors affecting MSES growth at sub city level and explain the relationships between the studies constructs in MSES growth. The study explained causal relationships among factors influencing MSES growth at sub city level to facilitate generalization and to predict the future. Additionally, it employed mathematical models and theories pertaining to MSES growth at sub city level. Besides, the study provided a complete picture of MSES growth at sub city level in Ethiopia and explained the MSES growth of for sustainable the MSEs performance related factor is very important for developing countries like Ethiopia because the research conclusion could be useful for the economic development planners as well as to individual entrepreneurs and business owners in the countries concerned. In addition, it described various factors such as internal and external factors affecting MSEs growth in Ethiopia with its perceived owners of MSEs opinion. It is basically described a behavior and other factors studied in the social science and humanities. Thus, this study appropriately employed descriptive study and explanatory research.

### **3.6 Data Sources and Data Collection Tools**

For this study, data was collected from both primary and secondary sources. Using interview and questionnaires from MFI customers, and its experts and leaders collected the primary data. Besides, from secondary sources, several published and unpublished documents like books, magazines, annual reports, websites, directives and manuals and other relevant materials were reviewed.

## **3.7 Population and Sampling Procedure**

### **3.7.1 Target Population**

A population is the total collection of elements about which the researcher makes some inferences. The collection of all possible observations of a specified characteristic of interest is called a population while a collection of observations representing only a portion of the population is called a sample (Kothari, 2004). That's why the target population of the study was

micro and small enterprises located in Addis Ababa Kirkos sub city in which two Woredas' micro and small enterprises' owners and managers that were under operation and registered by Addis Ababa MSEs development agency and under operation in Kirkos sub city selected. Based on the report prepared by the Woredas; Woreda 4 from best performing and Woreda 6 from poor performing was selected as a sample. The total numbers of MSEs in the two Woredas are 614 until 2020/21.

### 3.7.2 Sample Unit

The sample unit of the study was individual's MSEs owners who lived and working in Kirkos sub city.

### 3.7.3 Sample Frame

The sample frame is the list of elements from which a proportional sample size is selected. For the study lists of MSEs found and registered at Kirkos sub city were taken.

### 3.2.2 Sample Size and Sampling Technique

This study employed a simple random sampling of MSEs operating in Addis Ababa. This study was conducted in two woredas of Kirkos sub city in Addis Ababa. Therefore, given the total population of the study, the study applied a simplified scientific formula. The sample size is determined based on Yamane's formula (Yamane, 1967); with an error 5% and with a confidence coefficient of 95% and the following equations applied, and the formula is presented below:

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

$$n = \frac{614}{1 + 614(0.05)^2}$$

$$=242$$

Where, n= sample size N= the total size of population e= acceptable sampling error, 95% confidence level with 5% precision. Accordingly, the sample is determined as follows:



**Table 1 Kirkos Sub City number of registered MSEs by sector**

<b>MSEs Enterprises by Sector</b>	<b>#MSEs</b>	<b>Proportion</b>	<b>Sample Size</b>
Manufacturing	173	0.394137	68
Urban Agriculture	27	0.394137	11
Trade	164	0.394137	65
Service	145	0.394137	57
Constriction	105	0.394137	41
<b>Total</b>	<b>614</b>		<b>242</b>

Source: Kirkos Sub-City, 2021

To fix the 242 MSEs random sampling was applied in each of the MSE's sectors based on their proportion to the total number of populations. Accordingly, 68 MSE from manufacturing, 11 MSE from urban agriculture, 65 MSE from trade, 57 from service sector and 41 MSE from construction randomly selected to fill the questionnaire.

This study used both probability and non-probability sampling methods. This study applied stratified proportional sampling. The stratified was based on the business types or functions as urban agriculture, services, trade, construction and manufacturing activities in the study area in Addis Ababa. It is based on professional, community and criminal investigation staffs. Proportionate stratified sample means that size of sample strata is proportional to the size of population strata; in other words, probability of unit being selected from the stratum is proportional to relative size of that stratum in population. 242 owners of MSEs were selected based on their current business activities (to select from inactive businesses) custom in Addis Ababa and those, which were being opened, recently was disregarded in this study. Purposive sampling was used to select interviews. Purposive sampling was used to select ten top management officers and experts who are among MSEs specialists and experts as well as MSEs top management for the aim of getting reliable information about growth of MSEs.

### **3.8 Method of Data Collection**

The study was conducted using primary data and interview to make conclusion. The data gathering tools for this study was questionnaire and interview.

### **3.8.1 Questionnaires**

The researcher prepared and administered structure questionnaires for the purpose of collecting the primary data and the questionnaires was structured using the five-point Likert scale, objective and narrative question. Review of numerous policy documents and performance reports on a desk. The assessment questionnaire was used to gather information on the growth of MSEs in Kirkos sub city. Converting the answers to a Likert Scale to measure the frequency of practices (1 to 5) was used to measure the MSEs growth accordingly. The questionnaire is adapted from Asma *et al.*, (2015) for measuring internal and external factors of MSEs growth.

### **3.8.2 Interview**

The main advantage of interviews is that they are useful to obtain detailed information about personal feelings, perceptions and opinions. It allows more detailed questions to be asked, and it also achieves a high response rate. Semi structure interview was conducted for the purpose of investigating the participants understanding the concept of internal and external factors of MSEs growth.

## **3.9 Data Collection Procedure**

Data was collected from April to June 2021 in Addis Ababa. Data collectors and supervisors was undergraduate students specialized in management and accounting and professionals who had experience in data collection. A total of three data collectors and one supervisor were trained for half day on ethics, interview techniques (mostly for illiterate and busy respondents), and data quality. During visits to each MSEs premises, data collectors explained the purpose of the study to the MSEs owners and managers, asked for a list of all surveyed sampled respondents that office, and randomly employees for face-to-face interviews (mostly for low educated persons).

## **3.10 Data Management**

Data were checked for completeness and consistencies. It was cleaned, coded and entered data using excel and then exported to SPSS version 23 for analysis. Exploratory data analysis was conducted to check missing values, potential outliers and the normality distribution for those continuous variables. The presence of multicollinearity also was checked, and effort was made to

incorporate different models to cross check. Frequencies and cross tabulation were calculated to describe the study population in relation to relevant variables.

### 3.11 Data Analysis Methods

The data analysis was done efficiently using SPSS Version 23 (Statically Package for Social Science 23). The SPSS was used to regroup and reduce the data in summarized form for the purpose of easier interpretation for the purpose of analyzing the factors affecting the growth of MSEs, mean scores were critical. To begin with, the data analysis process was descriptive statistics. And then, the descriptive statistics were applied to compose of the mean, standard deviation, frequency, multiple regression and correlation.

#### 3.11.1 Descriptive Statistics

Descriptive Statistics refers to a discipline that quantitatively describes the important characteristics of the dataset. For the purpose of describing properties, it uses measures of central tendency, i.e., mean, median, mode and the measures of dispersion i.e., range, standard deviation, quartile deviation and variance, etc. The researcher summarizes the data in a useful way, with the help of numerical and graphical tools such as charts, tables, and graphs, to represent data in an accurate way. Moreover, the text is presented in support of the diagrams, to explain what they represent.

#### 3.11.2 Inferential Statistics

Inferential Statistics is all about generalizing from the sample to the population, i.e., the results of analysis of the sample can be deduced to the larger population, from which the sample is taken. It is a convenient way to draw conclusions about the population when it is not possible to query each and every member of the universe. The sample chosen is a representative

#### 3.11.3 Analytical Model

The Model of the study was adapted from **Multiple Regression** theoretical application.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e \dots \dots \dots (1)$$

➤ Dependent

Y= micro and small-scale enterprise face in their growth.

➤ Independent

$X_1$  = Entrepreneur characteristics

$X_2$  = management and marketing skills

$X_3$  = technological capacities that micro and small-scale enterprise

$X_4$  = legal and regulatory framework

$X_5$  = access to external financing

$X_6$  = human resources capacities

$\beta_0$  = constant term

$\beta_1$  = Beta coefficient

$e$  = error term

### 3.12 Instrument test

#### 3.12.1 Reliability

Reliability, in quantitative research, refers to whether the result is replicable, the extent to which results are consistent over time and an accurate representation of the total population under study. If the results of a study can be reproduced under a similar methodology, then, the research instrument is considered to be reliable (Joppe, 2000).

**Table 2 Reliability Test Result**

Variables	Cronbach's Alpha	N of Items
Entrepreneur characteristics	.853	6
Management and marketing skills	.937	8
Technological Capacities	.866	6
Legal and regulatory framework	.777	6
Access to external financing	.934	6
Human resources capacities	.860	6
<b>Overall</b>	<b>.891</b>	<b>38</b>

Source: Study result, 2021

The method that is commonly used as a measure of reliability is Cronbach's Alpha. The Cronbach's Alpha measure was above 0.70 in this study which is an acceptable measure of reliability. Reliability of a measure indicates the extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instruments. It is, therefore, an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure. In this study, Cronbach's alpha, which is a reliability coefficient, was used to indicate how well the items in the set are correlated to each other.

In this study to ensure the reliability of the instrument Cronbach's Alpha was used. Cronbach Alpha value is widely used to verify the reliability of the construct. The findings indicated that Cronbach's Alpha coefficient obtained range from 0.777 to 0.937 as presented in above table. This indicates that all constructs depicted that the value of Cronbach's Alpha are above the suggested value of 0.7 thus the study was reliable (Peter, 2018). Based on the statistical analyses, the instrument appeared to be a reliable measure to establish the determinants of growth of in micro and small enterprises at sub city in Addis Ababa.

### **3.12.2 Pilot Study**

A pilot survey was conducted on ten respondents prior to administrating the questionnaire to the selected sample size. The pilot survey was conducted to check if the questionnaire is clear, easy to understand and straightforward to ensure that the respondents could answer the questions with no difficulty. Based on the feedback from the pilot survey, necessary changes were made on the questionnaire before administering to the selected sample size.

### **3.12.3 Validity**

Validity, in quantitative research, refers to whether the means of measurement are accurate and whether they are measuring what they are intended to measure (Joppe, 2000). Pre-test, according to Schindler & Cooper (2006), is described as a final step towards improving survey results. The researcher used MBA students to evaluate the appropriateness of questionnaires, and a pre-test was conducted on respondents who were not an element of this study. There were no major areas of concerns that were noted or experienced, and the data received were reconciled with what it was planned to collect.

### **3.13 Ethical considerations**

The following ethical considerations were taken into account: The need for approval of the research proposal by the Saint Mary's University is essential and mandatory to give validity to the document and show that the study was in accordance with the approved research standards and practices. Informed consent from the participants in the study is necessary to gain their trust and confidence in the objectives of the study, which is purely academic in nature. Observation and maintenance of confidentiality is vital, especially for participants who remain anonymous for either official or personal reasons, for fear of reprisal or otherwise.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

#### 4.1 Introduction

This chapter presents the research findings from the study, presentation of data, analysis and interpretation of data. A response rate and demographic profile of respondents is presented followed by presentation of result and analysis of responses on factors affecting the growth of micro and small enterprises: evidences from micro and small enterprises in Kirkos sub city, Addis Ababa.

#### 4.2 Response Rate

As indicated in chapter three, the actual sampled size used in the study was 242 micro and small enterprises currently operational in Kirkos sub city, Addis Ababa.

**Table 3 Response Rate Kirkos Sub-City number of registered MSEs by sector**

MSEs Enterprises by Sector	Sample Size	Returned questionnaire	Response rate by sector (%)	Sample Composition (%)
Manufacturing	68	49	72	24
Urban Agriculture	11	10	91	5
Trade	65	52	80	26
Service	57	52	91	26
Constriction	41	38	93	19
<b>Total</b>	<b>242</b>	<b>201</b>	<b>83</b>	<b>100</b>

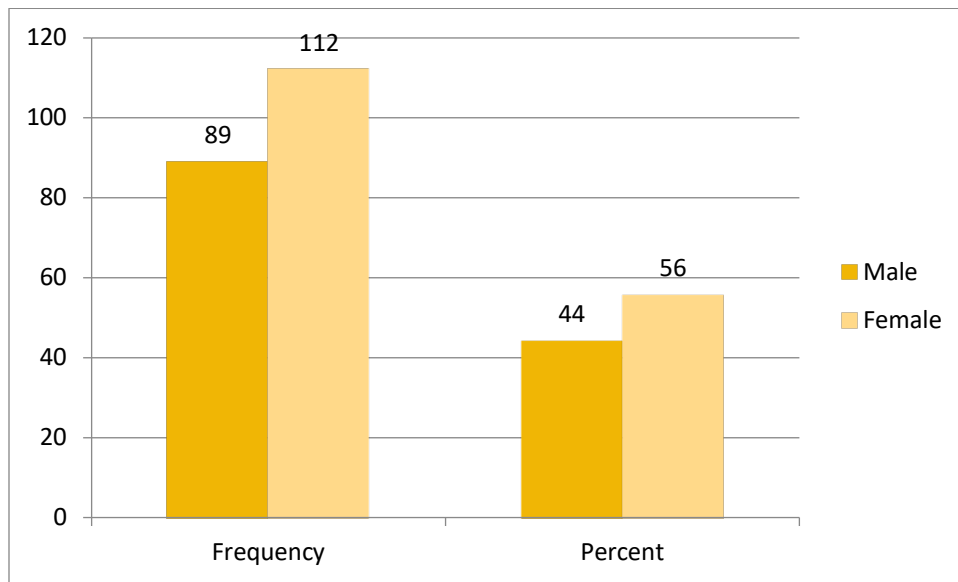
Source: Survey result, 2021

The above data shows that, out of the 242 questionnaires, which were distributed in person, a total of 201 questionnaires were returned which displayed 83% response rate. According to Peter (2018), a response rate of 50% is adequate for a study, 60% is good and 70% and above is excellent. Thus, a response rate of 83% was fit and reliable for the study has shown Table 3.

Consequently, the study appeared good data efficiency and worthy reactions with respondents due to Covid 19 consequence globally. This data also shows that most of the respondents and MSEs participants engaged in trade and service sectors, and few are from urban agriculture. It shows that the urban agriculture has been neglected as result of the sub city is more confound in center of the city. While Mizan (2018) studied in Bole and Kirkos sub city those grouped operating in food and beverage, metal and woodwork and construction type of business to assess impact of factors affect success of MSE.

### 4.3 Demographic Profile of Respondents

The demographic characteristics of the respondents include gender, age, educational background, marital status and income. The background information on the employees at different level has been shown in the below table and diagrams before analysing the data.



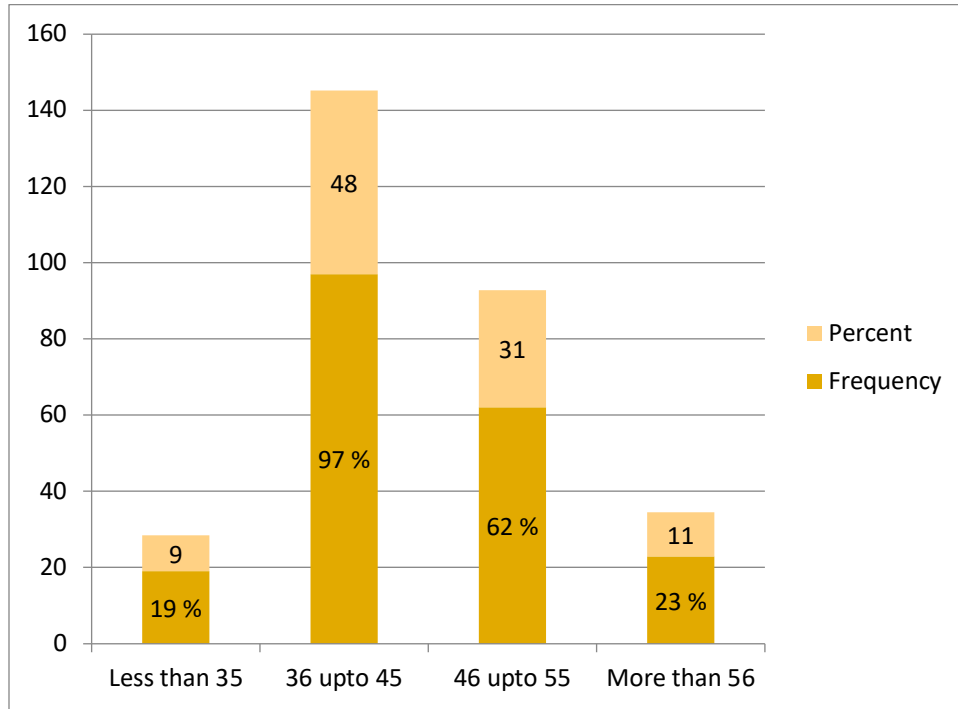
**Figure 2 Respondent's gender profile**

Source: Survey result, 2021

Among the 201 sampled respondents in which the study was conducted, 44%, i.e., 89 individuals were male, and others were female. This shows that the gender participation on the study have been almost identical which enhance the quality of data collected from both gender group. But it shows that more females were engaged in MSEs as the government and other concerned bodies have been tried to empower females in MSEs. Peter (2018) found that the percentages indicate an increase in the number of women engaging in entrepreneurial activities in Kenya. However,



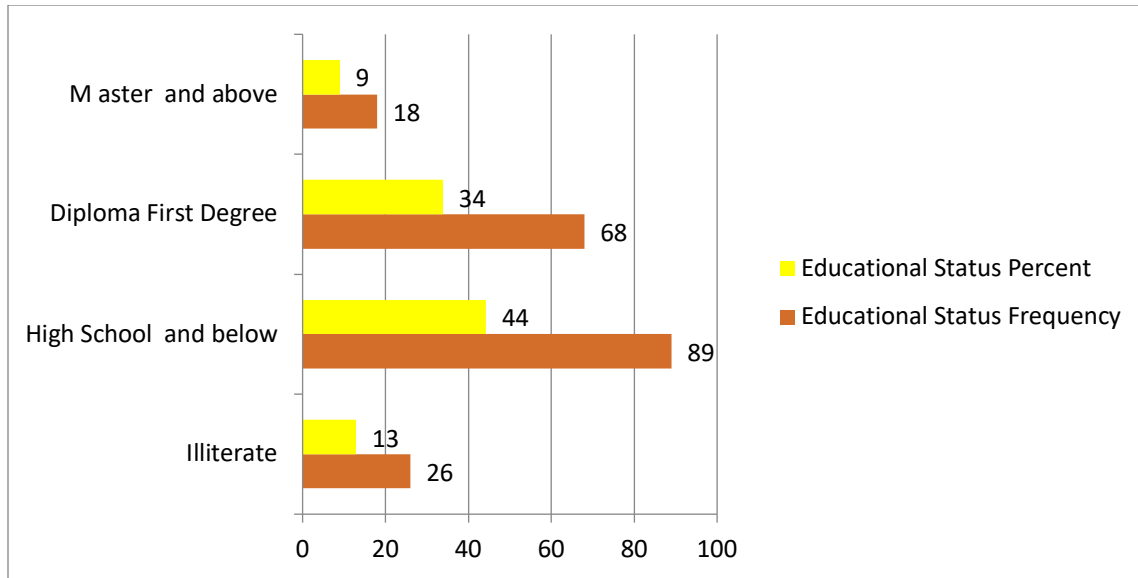
Mizan (2018) deduced this fact as the majority of the respondents 73 (65.2%) were males and the rest 39 (34.8%) were females. This implies that enterprise was dominated by male individuals more before two years. Thus, the situation has been changed gradually.



**Figure 3 Respondents' age composition**

Source: Survey result, 2021

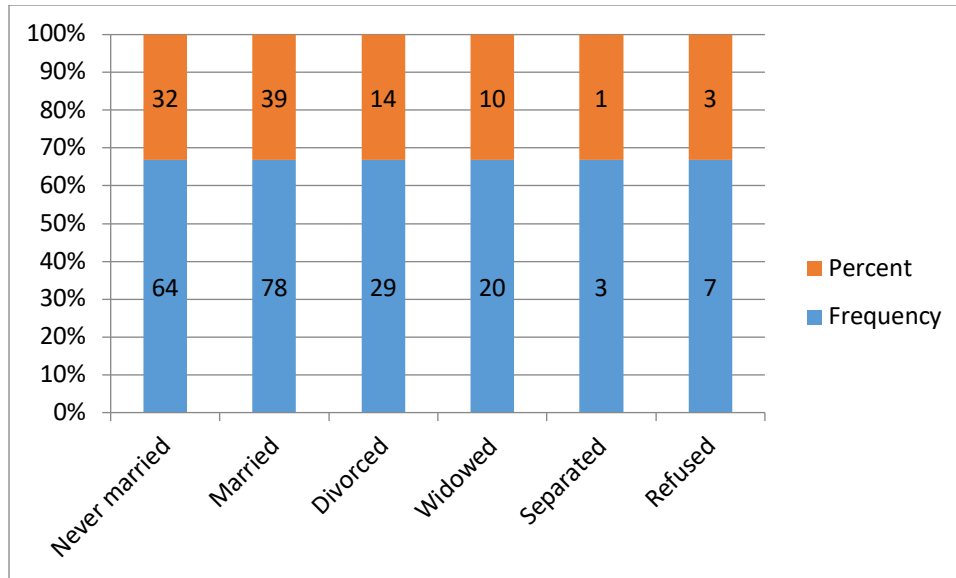
In addition, the data in figure 3 indicate the distribution of respondents as per age groups. It shows that among 201 sampled respondents, 9 % of the total respondents are found below 35 years, 48 % of them are found between the age group of 36 - 45 years, 31 % of the respondents are within the age group of 46-55 years and the remaining are above 56 years of age. This shows that the study incorporated all age group to accommodate various age group opinions. Peter (2018) further indicated an increase in the number of young people engaging in entrepreneurial activities once they attain the age of 18 years. This study determined that the optimum age for entrepreneurs to fall between 25-35 years.



**Figure 4 Respondents' education level**

Source: Survey result, 2021

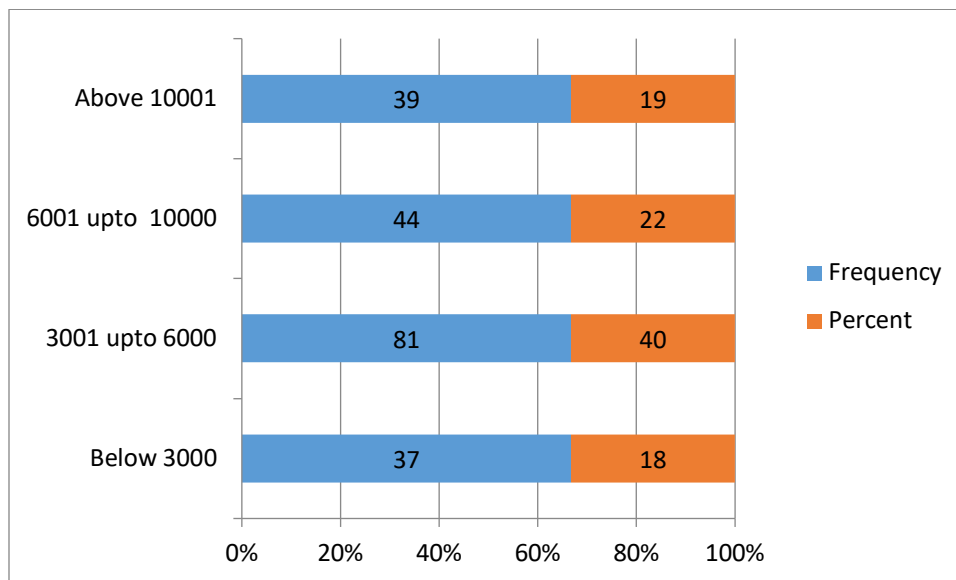
The data in Figure 4 shows that, among the selected respondents, 44 % of them have completed high school and below and 43% of the respondents attended university graduates (diploma, first degree and masters and above). The high number of university graduates engaging in entrepreneurial activities and can be supported by the Ethiopian government on education training and research (Mizan, 2018). Most of the interviewee's responses showed entrepreneurship training was done extensively in Ethiopia particularly for the youth. There are various undergoing training in all courses offered at tertiary institutions as well as in vocational trainings and technology and science universities with a hope that after the training, these youths would opt for self-employment initiatives by starting their own sustainable business enterprises. These findings fail to agree with those of Peter (2018) who established that majority of those who run MSEs are ordinary lot whose educational background is lacking.



**Figure 5 Respondents' Marital Status**

Source: Survey result, 2021

In addition, more than 39 % of the sample respondents were married and 32% of the respondents were single or never married (Figure 5). This shows that the study collected pertinent data from various marital groups. Out of which, married respondents have been the most participants in this study. This also shows that most married engaged in MSEs in the surveyed area.



**Figure 6 Respondent's Income Grouping**

Source: Survey result, 2021

The data in Figure 6 show that, among the selected respondents, 18 % of them were having less than 3,000 Birr monthly income, 40 % of the respondents obtained from 3,001 to 6,000 Birr monthly income, 22 % of them from 6,001 up to 1,0000 and 19 % acquired more than 10,0001 Birr per month. This data shows that most of the respondents have obtained above 3000 Birr per month. In addition, it shows MSEs vary in their source of income. Mizan (2018) indicated that regardless of MSEs Potential to enhance the economic growth, micro and small enterprises in developing countries have not been given proper consideration. They produce largely for the low-income group and employ lower levels of techniques. Several of them are self-employed type with a low transformation rate into higher size categories and their innovative activities are limited. Entrepreneurial characteristics of the owners/managers of small businesses may be related to key factors to small business performance. Ages of the owners/managers were one of the most important characteristics that were repeatedly used to predict small business performance and growth. This shows MSEs need income generation opportunities to reduce problems that are related to low-income sectors of the economy.

#### **4.4 Analysis of Factors Affecting MSEs Growth**

This section examines the factor affecting MSEs growth at sub city level. The questionnaire was developed in five scales ranging from five to one; where 5 represents Strongly agree, 4 agree, 3 Neutral, 2 disagree, and 1 strongly disagree. The collected data was used to assess factors affecting MSEs growth at sub city level in Addis Ababa. Categorizing these characteristics into specific dimensions carries out the analysis in the following section.

Based on Data were further classified into various factor affecting MSEs growth, this study applied Peter (2018) response analysis method. Therefore, empirical findings of the responses results are presented and discussed in this chapter. In this study, a rating scale was used, and the statistical data (mean) was interpreted in the same way as Asma, et al., (2015). Rating scale was used to analyze the result of factor affecting MSEs growth as ( $X < 2.49$  = low practice,  $X > 2.5 < 3.49$  = Moderate,  $X > 3.5 < 4.49$  = Good Practice,  $> 4.5 < 4.75$  = Very Good Practice,  $4.75 - 5$  = Excellent. Besides, From the table mean and standard deviation were used to test respondent ideas where Standard deviation is the square root of the variance, measuring the spread of a set of observations. The larger the standard deviation is, the more spread out the observations are while mean is the arithmetic mean across the observations. It is the most widely used measure of

central tendency and is referred to as the average. The mean is sensitive to extremely large or small values.

**Table 4 Respondents’ Responses**

Dimensions	Mean			Sd
	Grand	Min Items	Max Items	
Entrepreneur characteristics	3.90	3.69	4.10	1.04
Management and marketing skills	3.64	3.52	3.78	1.06
Technological Capacities	4.01	3.81	4.16	1.09
Legal and regulatory framework	3.78	3.62	3.98	1.01
Access to external financing	3.62	3.55	3.78	1.06
Human resources capacities	3.79	3.61	3.98	1.01

Source: Survey result, 2021

#### 4.4.1 Entrepreneur Characteristics (Innovative Entrepreneur)

Table 4 shows that the mean ranges from 3.69 to 4.10 having widespread range and 3.90 with less variability data. Accordingly, grand mean was rated as agree or good. Standard deviation is being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data groups with different mean (Hair, *et al.*, 2007). The standard deviation that was rounded to one and it was evaluated as its variability is less. This grand mean was found by an average mean result of six dimensions.

The highest mean (4.10) indicated that sample respondents strongly agreed that they always undertake product/ service research and development. In addition, they intensely maintain original product and always identify new source of raw materials. But the lowest mean (3.69) indicates that the respondents weakly believe that opportunity generally knocks only once. Abdulwahab & Dame (2015) stated that the characteristics of an entrepreneur are extensively accepted as vital ingredients that influences business growth. Research indicates that particular characteristics of the entrepreneur that are associated with growth of the enterprise include

motivation, previous management experience and demographics of the entrepreneur i.e., age, education. If the entrepreneur's reasons for starting the business originated in pull or opportunity driven motivates rather than push or necessity driven motivates, the resulting enterprise is more likely to grow. Peter (2018) also stated that some entrepreneurs exhibit mildly risk-loving behavior; these individuals prefer risks and challenges of venturing to the security of stable income.

It has been further contended that some of the characteristics or behaviors associated with entrepreneurs are that they also tend to be more opportunity driven in their business ventures. Several of these entrepreneurs demonstrate high level of creativity and innovation, by showing high level of management skills and business know how. Innovative entrepreneurs have also been found to be optimistic, emotionally resilient and have mental energy, they are hard workers, show intense commitment and perseverance, thrive on competitive desire to excel and win, tend to be dissatisfied with the status quo and desire improvement.

#### **4.4.2 Management and Marketing Skills**

This study found that the mean ranges from 3.52 to 3.78 having widespread range and 3.64 with less variability data. The grand mean was rated as agree or good. The standard deviations that have been around one and it shows its variability is less. This grand mean was found by an average mean result of eight dimensions. Therefore, it can be concluded that the management and marketing skills factors were the worthy factor for the startup and expansion of business performance. According to interviewees, even if business skills are the most important factors to enhance business growth of MSEs, the majority of the members of MSEs have lower educational and marketing experiences. The respondents indicated that they could not easily be searching new market and it is difficult for them to always prepare plan for managing their business. This may be related to lack of proper training as per their educational level and language problems, for example, when one needs to train low level members, she or he may use English to define balance sheet, credit, debt etc.

In this study, the main factor that contributed for growth was related to always prepare to face changes in the business environment. Mizan (2018) found that managerial skills as the most important constraint faced the respondent agreed to a mean of 4.0333. Further, there is lack of

business experience. Experience is central in any business because it determines the quality of decisions made and how they impact on the performance of an organization. By seeking to understand the managerial experience of entrepreneurs in the study area, the study is able to determine how the entrepreneurs have been able to utilize their managerial experience for the success of their organizations. Kaleleoul (2016) also classified the enterprises on the bases of managerial experience and found out that only 27 (32.9%) of the enterprise's owners have managerial experience and the remaining 55 (67.1%) have no managerial experience and they lack most managerial skills. The last variables are related to marketing skill of owners from the respondents. In relation to this about 63 (76.8%) have agreed that they have marketing skill, which is obtained from different training programs facilitated by Kirkos sub city micro and small business development agency. The remaining 19 (23.2%) respondents have agreed that they have no marketing related skill. Business owners without marketing skills have a greater chance of failure than owners with marketing skills. This shows that managerial experience is significant in guiding the path which an organization is to follow in order to arrive at the designated goal.

#### **4.4.3 Technological Capacities**

The entrepreneurs were well prepared to face changes in the business environment and to plan appropriate changes in technology. The technology applied by SMEs is easier to acquire, transfer and adopt. This study found that the higher mean ranges from 3.81 to 4.16 having less widespread range and 4.01 with less variability data. The grand mean was rated as agree or good. The standard deviations that have been around one and it show its variability is less. This grand mean was found by an average mean result of six dimensions. Consequently, sample respondents have strongly agreed that their business promotes products/services via a web site and emails. They always introduce new products using new technology and they believe they have skills to handle new technology. This may be related MSEs use of low-level technology like telephone applications, cook equipment for hotel services, small machineries for construction and minor equipment for manufacturing. MSEs are better positioned to satisfy limited demands brought about by localized and small markets due to their low fixed and overhead costs. In addition, SMEs owners tend to show more resilience in face of hardships holding on to their businesses since they are prepared to be compensated lower temporarily.

#### **4.4.4 Legal and Regulatory Framework**

An enabling environment legal and regulatory environment is important for the MSE sector to play effective role as an engine for economic growth, poverty eradication and employment creation. This study found that the higher mean ranges from 3.62 to 3.98 having less range and 3.78 with less variability data. The grand mean was rated as agree or good. The standard deviations that have been around one showing low variability. This grand mean was found by an average mean result of six dimensions.

Most of the respondents strongly agreed that their business can meet license fee and they have made various contracts with private and government institutions in the last 3 years and multiple taxation i.e., from the various government offices raises the cost of operations. This may be related to the fact that the government may highly control this business. Mizan (2018) stated that in Ethiopia the legal and policy framework that govern the business environment is heavily regulated. For that reason, SMEs' operate in this difficult policy and regulatory environment have two alternative options; to compliance with rules and regulations and or to operate the business in informal manner. On other hand, this study found that the majority of the respondents indicated that procedure of obtaining their business license was not so easy.

#### **4.4.5 Access to External Financing**

This study found that the higher mean ranges from 3.55 to 3.78 having less range and 3.62 with less variability data. The grand mean was rated as agree or good. The standard deviations that have been around one and it show its variability is less. This grand mean was found by an average mean result of six dimensions. The majority of the respondents strongly agreed they often obtain sufficient source of capital (bank, saving institution) and they have an effective communication within various financial organizations. However, the majority of the sampled respondents agreed that they rarely obtain sufficient source of capital (donation from family and friends) and they infrequently obtain sufficient source of capital (from business partners). Some of them are interested in the reliability and integrity of financial information and they do not have always enough collateral to obtain external funding. The main universally indicated key



problem for SMEs is lack of access to credit/finance. As per Kaleleoul (2016), credit constraints operate in variety of ways in Ethiopia where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives, is not enough to enable SMEs undertake their business activities optimally. Insufficient access to long-term finance for SMEs has forced most SMEs in Kenya to rely on high-cost short term finances. The numerous financial challenges that SMEs face includes high cost of credit, high bank charges and fees and lack of proper infrastructure (John, 2011).

#### **4.4.6 Human Resources Capacities**

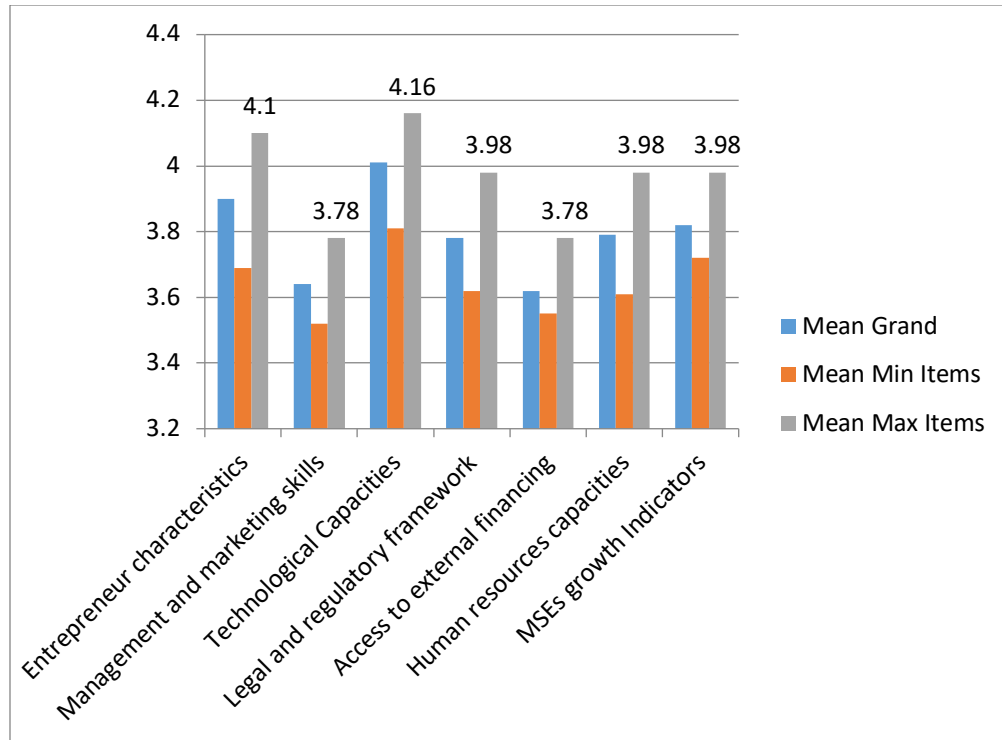
Ethiopia has put a lot of emphasis on human capital development as a way of facilitating economic growth. Training nurtures creativity, critical thinking produces innovative and adaptive human resources with appropriate skills and improves attitude and values for wealth creation, employment and prosperity (Gebrehiwot, *et al*, 2006). This study found that the higher mean ranges from 3.61 to 3.98 having less range and 3.79 with less variability data. The grand mean was rated as agree or good. The standard deviations that have been around one and it show its variability is less. This grand mean was found by an average mean result of six dimensions. The majority of the respondents strongly agreed that they always obtain trained human resource from the market and employees are more innovate nowadays. 45 % of them agreed that employees are well disciplined for their activities, working culture of employees has been developed and employees have good attitude for MSEs. Thus, it showed that employees who are working in MSEs have less attitude towards the business of MSEs. So, they are not always well disciplined for their activities, and they have poor working culture of employees.

This may be related to the size of the MSEs firm, the low managerial and marketing capability, and the lower business potential of the owners of the business. Most of the interviewee responses indicated that employees particularly the society in general associated MSEs with political issues. They believed most of the owners of MSEs have obtained a paramount support from government, but others did not. Unfair involvement of government to start up micro and small business may be discarded real entrepreneurs particularly women and vulnerable groups. Bouazza, Ardjouman & Abada (2015) indicated that unfair competition from the informal sector, cumbersome and costly bureaucratic procedures, burdensome laws, policies, and regulations, an

inefficient tax system, a lack of access to industrial real estate, a lack of access to external financing, and low human resources capacities are the key business environmental factors affecting Algerian MSEs.

#### **4.4.7 MSEs Growth Indicators**

The most frequently adopted definition of success [good performance] is financial growth with adequate profits; other definitions of success [good performance] are equally applicable. For example, some entrepreneurs regard success [good performance] as the job satisfaction they derive from achieving desired goals. Nonetheless, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models (Kaleleoul, 2016). Accordingly, this study used six performance measurement indicators. This grand mean was found by an average mean result of six dimensions. This study found that the higher mean ranges from 3.72 to 3.98 having small range and 3.82 with less variability data. The grand mean was rated as agree or good. The standard deviations that have been around one and it show its variability is less. The majority of sample respondents strongly agreed that their market coverage has been growing for the last three years and they can now provide more products or services. 38 % of them strongly agreed that sales activities of their business have been developed for the last three years. Others agreed that number of their employees have been increased for the last three years. This shows that their business is moderately profitable, and their customers have been slowly growing for the last three years. Mizan (2018) found that enterprises run by individuals without marketing skill on average show 6.48% increase in total capital since their establishment to date in terms of performance and enterprises in this category shows on average a 6.57% increase in total capital throughout their stay in the business when compared those enterprises run by individuals without marketing skill, the performance of owners who have marketing related skill show better performance in terms of capital growth.



**Figure 7 Grand Mean Competition**

Source: Survey result, 2021

The above figure show that the mean grand value of the variables as entrepreneur characteristics (innovative entrepreneurship) (3.9), management and marketing skills (3.64), technological capacities (4.01), legal and regulatory framework (3.78), access to external financing (3.62), human resources capacities (3.79) and MSEs growth indicators (3.82). The highest mean was 4.01 accountable for technology and it means technology is the main determinates of MSEs growth.

## 4.5 Inferential Analysis

The study applied correlation analysis to identify the degree of association between different variables under consideration. In addition, regression analysis was also used to test determinates of MSEs growth or effect of independent variable on dependent variable.

### 4.5.1 Correlation Analysis

To determine if any relationships existed between six business-growing factors as independent variable and MSEs growth dependent variable a correlation analysis was conducted.

**Table 5 Correlations Test Result N= 201**

<b>Variable's Spearman's rho</b>		<b>Entrepreneur characteristics</b>	<b>Management and marketing skills</b>	<b>Technological Capacities</b>	<b>Legal and regulatory framework</b>	<b>Access to external financing</b>	<b>Human resources capacities</b>	<b>MSEs growth Indicators</b>
<b>Entrepreneur characteristics (Innovative Entrepreneur)</b>	Correlation Coefficient	1.000						
	Sig. (2-tailed)							
<b>Management and marketing skills</b>	Correlation Coefficient	.359**	1.000					
	Sig. (2-tailed)	.000						
<b>Technological Capacities</b>	Correlation Coefficient	.821**	.462**	1.000				
	Sig. (2-tailed)	.000	.000					
<b>Legal and regulatory framework</b>	Correlation Coefficient	.492**	.209**	.493**	1.000			
	Sig. (2-tailed)	.000	.003	.000				
<b>Access to external financing</b>	Correlation Coefficient	.474**	.349**	.455**	.536**	1.000		
	Sig. (2-tailed)	.000	.000	.000	.000			
<b>Human resources capacities</b>	Correlation Coefficient	.375**	.242**	.352**	.493**	.592**		
	Sig. (2-tailed)	.000	.001	.000	.000	.000		
<b>MSEs growth Indicators</b>	Correlation Coefficient	.541**	.568**	.571**	.374**	.588**	.459**	1.000
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	

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

Source: Survey result, 2021

Correlation analysis is concerned with measuring the degree of association between two variables, x and y. This study used Spearman's rho's Correlation Coefficient as of the study of Gemechu & Teklemariam (2016) used this coefficient to investigate the strength of relationships between the studied variables. The study employed the Spearman's rho correlation that measures the linear association between two metric variables based on the Likert scales changed to numerical values. The Spearman's rho correlations were calculated as measures of relationships between the independent variables and dependent variables. This test gives an indication of both directions, positive (when one variable increase and so does the other one), or negative (when one variable increase and the other one decreases). The test also indicates the strength of a relationship between variables by a value that can range from -1.00 to 1.00; when 0 indicates no relationship, -1.00 indicates a negative correlation, and 1.00 indicates a perfect positive correlation. Hair et al. (2007) put forward the rules of thumb about the coefficient range and the strength of association. The rules of Thumb Spearman's rho Correlation Coefficient as  $\pm 0.91$  to  $\pm 1.00$  Very Strong,  $\pm 0.71$  to  $\pm 0.90$  High,  $\pm 0.41$  to  $\pm 0.70$  Moderate,  $\pm 0.21$  to  $\pm 0.40$  Small but definite relationship,  $\pm 0.01$  to  $\pm 0.20$  Slight, almost negligible.

Sample correlation coefficient (r) measures the strength and direction of linear relationships between pairs of continuous variables. The possible values of r range from -1 to 1: Values near to +1: perfect positive linear relationship; -1: perfect negative linear relationship Values near to 0: no linear relationship although there may be a non-linear relationship and r is a dimensionless quantity; that is, r it has no units of measurement of leadership practices and employees' attitude towards female leaders in banking services (r is a pure number without any unit). Spearman's rho correlation test was conducted to see the degree of relationship between the independent variable i.e., political factor and SMEs performance (growth). The results of the correlation between these variables are shown in the above table:

### **Entrepreneur Characteristics (Innovative Entrepreneurship) and SMEs growth performance**

There is significant correlation between entrepreneur characteristics (innovative entrepreneurship) and SMEs growth performance. In other hand, entrepreneur characteristics

(innovative entrepreneurship) and SMEs growth performance have moderate relationship ( $r=0.541$  with  $p=0.000$ ). Gemechu & Teklemariam (2016) used Spearman's rho correlation test and found that there is significant correlation between Entrepreneurship factors and SMEs performance. In other words, Entrepreneurship factors and SMEs performance have high or strong relationship ( $r=0.738$  with  $p<0.02$ ).

### **Technology**

For technology variable Spearman's rho correlation test was conducted and the results are shown in the Table 5. Accordingly, there is significant correlation between technological factor and SMEs performance. In other words, technological dimension and SMEs performance have a moderate relationship ( $r=0.571$  with  $p=.000$ ). However, Gemechu & Teklemariam (2016) found that there is significant correlation between technological factor and SMEs performance. In other words, technological dimension and SMEs performance have moderate relationship ( $r=0.331$  with  $p<0.01$ ). In general, these studies believed that technology enhances small businesses efficiency, reduce cost and broadens market share both locally and globally.

### **Access to external financing**

Similarly, Spearman's rho correlation test was also conducted for access to external financing and the results are shown in table 5. As it is indicated in the table, there is significant positive correlation between access to external financing and SMEs performance. In other words, access to external financing and SMEs performance are correlated in a moderate relationship ( $r=0.588$  with  $p=0.000$ ). According to the findings, there exists a medium positive relationship management and marketing skills and SMEs growth performance ( $r=0.475$  with  $p=0.000$ ). Similarly, Gemechu & Teklemariam (2016) found that there is significant positive correlation between Management factors and SMEs performance. In other words, Management factors and SMEs performance are correlated in a moderate relationship ( $r=0.396$  with  $p<0.02$ ). Mizan (2018) found that the result show that there is a strong correlation between growth and marketing strategy variable value is 0.815.

### **Legal and regulatory framework**

Similarly, Spearman's rho correlation test was also conducted for these variables and the results are shown in table above. As it is indicated in the table, there is significant positive correlation

between legal framework and SMEs performance. In other words, legal factor and SMEs performance are correlated in a moderate relationship ( $r=0.374$  with  $p=0.000$ )

### **Human Resources Capacities**

Similarly, Spearman's rho correlation test was also conducted for these variables and the results are shown in table above. As it is indicated in the table, there is significant positive correlation between human resources capacities and SMEs performance. In other words, access to human resources capacities and SMEs performance are correlated in a moderate relationship ( $r=0.459$  with  $p=0.000$ ). Similarly, Mizan (2018) found that the result from Spearman's rho Correlation Coefficient test shows that all independent variable has significant relationship with employee MSE business performance.

### **4.5.2 Regression Analysis**

While investigating research objective aimed to test determinates of MSES growth or effect of independent variable on dependent variable. Multiple linear regressions attempted to model the relationship between two or more explanatory variables and a response variable by fitting a linear equation to observed data. The following basic and common assumptions are considered. Peter (2018) agrees and further highlights that when the assumptions of the linear regression model are correct, ordinary least square (OLS) provides efficient and unbiased estimates of the parameters. To keep on with the assumptions, this study tested for outliers, homoscedasticity, multicollinearity and serial correlation and there was presented in Appendix II next to data collection instruments.

As per the Appendix II information, to begin with, the values of correlation were used for checking multicollinearity. The correlation between each of the independent variables is not too high, meaning that the correlation is not above value 0.5. It can be concluded that in this study is no problem with multicollinearity. The Spearman's rho correlations between independent variables and the dependent variable SMEs performance in the Trade sector of SME in Kirkos sub city in Addis Ababa. In addition, the assumption assumes that independent variables are not highly correlated with each other. Collinearity Statistics shows that the VIF value of six variables that is less than 5 and no collinearity is observed on this data. The table also presents the result of regression analysis; the result regression analysis is based on MSEs performance. In addition, .to

determine whether the relationship between dependent variable (MSES performance) and the six independent variables was linear, plots of regression residuals through SPSS had been used. The scatterplot of residuals displays no big differences in the spread of the residual. This result recommends that the relationship that is being predicted is linear; therefore, the assumption is satisfied.

In this Appendix, the subsequent figure shows the frequency distribution of the standardized residual compared to normal distribution. The graph displays the histogram that shows a plot of how often possible values occurred. The study used a histogram plot indicating normality of residuals. It produced a bell-shaped curve that shows the normal distribution of the series. In this study, the figure above shows a bell-shaped distribution of the residuals. Therefore, this histogram plot confirms the normality test results from the two tests in this study.

The other assumption of CLRM states that the variance of the errors is constant,  $\sigma^2$  this is known as the assumption of homoscedasticity. Based on the scatter plot above, it appears that the spots are diffused and do not form a clear specific form. So, it can be concluded that the regression model does not occur heteroscedasticity problem. To test the presence of autocorrelation, the popular Durbin-Watson Test was employed in this study. In other words, it is assumed that the errors were uncorrelated with one another (as it is below 2).

#### **4.5.2.1 Regression Test Results**

The study further conducted regression analysis and the findings above discussed results relating to test of assumption of study variables, testing of outliers, normality of the dependent variable and serial correlation. To this, Peter (2018) agrees and further highlights that when a small sample is involved the Adjusted R square value in the sample tends to be a rather optimistic overestimation of the true value in the population. The adjusted R square statistic corrects this value to provide a better estimation of the true population value, rather than the normal R square value. So, for the regression analysis of this study the adjusted R square was considered to provide a better estimation of the true population than the normal R square. For the purposes of determining the extent to which the explanatory variables explain the variance in the explained variable, regression analysis was employed.



**Table 6 Regression Test Results, N=201**

**Model Summary <sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749 <sup>a</sup>	.561	.547	.592

a. Predictors: (Constant), Human resources capacities, Management and marketing skills, Legal and regulatory framework, Entrepreneur characteristics, Access to external financing, Technological Capacities  
 b. Dependent Variable: MSEs growth Indicators

**ANOVA <sup>a</sup>**

Model	Sum of Squares	d/f	Mean Square	F	Sig.
1 Regression	86.685	6	14.447	41.291	.000 <sup>b</sup>
Residual	67.879	194	.350		
Total	154.564	200			

a. Dependent Variable: MSEs growth Indicators  
 b. Predictors: (Constant), Human resources capacities, Management and marketing skills, Legal and regulatory framework, Entrepreneur characteristics, Access to external financing, Technological Capacities

**Coefficients <sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.301	.241		1.247	.214
1 Entrepreneur characteristics	.212	.078	.228	2.709	.007
Management and marketing skills	.174	.047	.197	3.665	.000
Technological Capacities	.187	.076	.209	2.448	.015
Legal and regulatory framework	-.037	.045	-.048	-.820	.413
Access to external financing	.237	.063	.232	3.777	.000
Human resources capacities	.175	.055	.190	3.191	.002

a. Dependent Variable: MSEs growth Indicators

Source: Survey result, 2021

Regression analysis was conducted to identify how much the independent variable explains the dependent variable. It is also used to understand the variability accounted by each independent variable (entrepreneur characteristics, management and marketing skills, technological

capacities, legal and regulatory framework, access to external financing and human resources capacities) on the dependent variable. The model summary in table above presents how much of the variance in the dependent variable is explained by the model. The multiple coefficients of determination denoted as R square is 0.561. The value of the R square indicates that 56.1 percent of variance in the dependent variable was explained by the model. This suggests that 56% of MSEs growth performance clearly depends on the independent variables while the remaining 44% is determined by other unaccounted factors in this study. Adjusted R squared (adj. R<sup>2</sup>) is 0.547. It means that 55 percent of the total variability of the dependent variable (MSES growth) is explained by the stated six independent variables and 45 percent of it is explained by other variables.

As the ANOVA table shows the result  $F= 41.291$ , it can be concluded that the combination of determinant factor has positive effect on MSEs growth which is statistically significant. Consequently, this study rejects the null hypothesis. When we see the statistical significance of each variable from the above coefficients table, the result displays that entrepreneur characteristics or innovative entrepreneurship (sig. =.007) have a positive statistically significant contribution to MSEs growth which is the prediction of the dependent ( $\beta=0.212$ ,  $p<0.000$ ). The regression coefficient for entrepreneur characteristics (innovative entrepreneurship) was positive and significant ( $\beta = 0.212$ ) with a  $t\text{-value}=2.709$  ( $p\text{-value}<0.05$ ) implying that for every 1 unit increase in entrepreneur characteristics, growth of micro and small enterprises in Ethiopia is predicted to increase by 0.212 units and therefore the hypothesis is supported.

In the same way, management and marketing skills, (sig. =.0001) have a statistically significant contribution to MSEs growth which is the prediction of the dependent ( $\beta=0.174$ ,  $p<0.000$ ). The regression coefficient for management and marketing skills was positive and significant ( $\beta = 0.174$ ) ( $p\text{-value}<0.05$ ) implying that for every 1 unit increase in management and marketing skills, growth of micro and small enterprises in Ethiopia is predicted to increase by 0.174 units and therefore the hypothesis is supported. Mizan (2018) stated that the management skills and management concepts of business founders are deemed much more important than their technical skills and their concern about production which has resulted in an overall positive organizational performance.

Besides, technological factor (sig. =.015) has a statistically significant contribution to MSEs growth which is the prediction of the dependent ( $\beta=0.187$ ,  $p<0.000$ ). The regression coefficient for technological factor was positive and significant ( $\beta = 0.187$ ) ( $p\text{-value}<0.05$ ) implying that for every 1-unit increase in technological factor, growth of micro and small enterprises in Ethiopia is predicted to increase by 0.174 units and therefore the hypothesis is supported. Gemechu & Teklemariam (2016) showed that there is a significant relationship for technological factor (0.003) and MSEs growth. This means that all the variables are good predictors of the dependent variable.

Moreover, access to external financing factor (sig. =.0001) have a statistically significant contribution to MSEs growth which is the prediction of the dependent ( $\beta=0.237$ ,  $p<0.000$ ). The regression coefficient for external financing was positive and significant ( $\beta = 0.237$ ) ( $p\text{-value}<0.05$ ) implying that for every 1 unit increase in external financing, growth of micro and small enterprises in Ethiopia is predicted to increase by 0.237 units and therefore the hypothesis is supported. Contrasting the results of this study, the negative relationship between the use of bank financing and years of experience is found. Also found that less educated SME owners tend to use the external financing more, while higher educated SME owners are less likely to resort to the external financing and also find out that a significant negative correlation exists between having a bank loan and the level of education of the SME owner (Abdulwahab & Damen, 2015).

Human resources capacities also (sig. =.002) have a statistically significant contribution to MSEs growth which is the prediction of the dependent ( $\beta=0.175$ ,  $p<0.000$ ). The regression coefficient for human resources capacities was positive and significant ( $\beta = 0.175$ ) ( $p\text{-value}<0.05$ ) implying that for every 1 unit increase in human resources capacities, growth of micro and small enterprises in Ethiopia is predicted to increase by 0.237 units and therefore the hypothesis is supported. Gemechu & Teklemariam (2016) showed that there is a significant relationship Management factor (000). This means that all the variables are good predictors of the dependent variable.

Legal and regulatory framework, however, (sig. =.413) have a negative contribution to MSEs growth which is not the prediction of the dependent ( $\beta= -.037$ ,  $p<0.000$ ). The coefficient of the explanatory variable legal framework rate was found to be insignificant and hence fails to determine the growth of micro and small enterprises of the study area in Ethiopia. This shows

that no relationship between legal framework and growth of MSEs; a relationship between dependent and independent variables is not linear (may be curvilinear or non-linear). The possible reason may be labor law (stringent and favors for workers), low understanding of legal procedures by respondents, bribery, dishonest, and other illegal government office conducts. These activities have hampered business entrepreneurial in this study area. These unethical activities enable those in positions of power, control, and influence to make fast and illegal money. In general, corruption affects people in different occupations, including small businesses. However, without the insignificant result interpretation, the regression coefficient for legal and regulatory framework was negative ( $\beta = - 0.037$ ) implying that for every 1 unit increase in legal and regulatory framework, growth of micro and small enterprises in Ethiopia is predicted to decrease by 0.237 units and therefore, totally the hypothesis is not supported. It is a lesion that in addition to disheartenment the legal framework, national integrity, and regulatory system, it also undermines the trust and confidence of business owners.

Furthermore, the study aims to identify which of the variables contributed the most to prediction of the dependent variable. This information can be investigated via Standardized coefficient Beta in table above. In this study the highest Beta value is .237 for access to external financing, and second highest is .121 for entrepreneur characteristics. The other variables except legal factors are also good predictors. These results indicate that the variables access to finance and entrepreneur characteristics (innovative entrepreneurship) make the strongest unique contribution in explaining the dependent variable SMEs growth performance. But the legal factors make insignificant contribution in explaining the dependent variable SMEs. This indicated that there is high legal control for MSEs in the country. The respondents showed that their business performance may be decreased based on unnecessary legal factors like taking long time to renew licenses, tax related laws, and others. Gemechu & Teklemariam (2016) showed that there is a significant relationship for Technological factor (0.003), Marketing factors (0.002), financial factor (0.003) and Management factor (0.000). This means that all the variables are good predictors of the dependent variable. Their multiple regression result showed all the internal and external factors that used in this study have positive and significant influence on the explained variable (MSEs growth).

## **4.6 Hypothesis Testing**

### **4.6.1 Characteristics of Entrepreneurs (Innovative Entrepreneurs)**

**H<sub>0</sub>: Characteristics of Entrepreneurs (Innovative Entrepreneurs) have a positive significant effect on MSEs growth**

Using correlation analysis, this study established the relationship between characteristics of entrepreneurs and MSEs growth at sub city level in Addis Ababa. The findings indicate there is a relation between them. There is significant correlation between entrepreneur characteristics (innovative entrepreneurship) and SMEs growth performance. In other hand, entrepreneur characteristics (innovative entrepreneurship) and SMEs growth performance have moderate relationship ( $r=0.541$  with  $p=0.000$ ). This study tested the influence entrepreneur characteristics (innovative entrepreneurship) on SMEs growth performance by applying multiple regression analysis. Then, the result of the regression analysis displays that entrepreneur characteristics (innovative entrepreneurship) (sig. =.007 and  $\beta = .212$ ) has a positive statistically significant contribution to MSEs growth. This assures that the hypothesis is supported. Similarly, Gemechu & Teklemariam (2016) used Spearman's rho correlation test and found that there is significant correlation between Entrepreneurship factors and SMEs performance. In other words, Entrepreneurship factors and SMEs performance have high or strong relationship ( $r=0.738$  with  $p<0.02$ ). John (2011) also showed that the entrepreneurs' characteristics have positive impact on small business growth. Okpara & Wynn (2007) found to have positive contribution on their performance. Pompe and Bilderbeek (2005) revealed that entrepreneurs' characteristics have positive impact on small business growth.

### **4.6.2 Managerial and Marketing Skills**

**H<sub>0</sub>: Managerial and Marketing Skills have a positive significant effect on MSEs growth**

Using correlation analysis, this study established the relationship between managerial and Marketing Skills and MSEs growth at sub city level in Addis Ababa. The findings indicate there is a relation between them. According to the findings, there exists a medium positive relationship management and marketing skills and SMEs growth performance ( $r=0.568$  and  $\beta = .174$  with  $p=0.000$ ). This study tested the influence it on SMEs growth performance by applying multiple

regression analysis. Therefore, management and marketing skills, (sig. =.0001) have a statistically significant contribution to MSEs growth which is the prediction of the dependent ( $\beta=0.174$ ,  $p<0.000$ ). This assures that the hypothesis is supported. Similarly, Gemechu & Teklemariam (2016) found that there is significant positive correlation between Management factors and SMEs performance. This is related to focus on the hands of owner-manager, innovation activities in the enterprises mostly monopolized by them and gives less motivation for other workers to reveal their potential talents (Santos, 2003). Various empirical studies have tested the effect of human capital and demographic factors on innovation concerning firms, which are led by more educated executives or owners to innovate (Okpara, 2007). Mahemba and de Bruijn (2003) have also shown that training of workers is associated with higher innovation. Therefore, creativity, innovativeness and MSEs Management skills, occupational experience in related businesses for many MSEs entrepreneurs has been indicated as a factor for MSES growth (Singh & Belwal, 2008)

### **4.6.3 Technological Capacities**

#### **H<sub>0</sub>: Technological Capabilities have a positive significant effect on MSEs growth**

Using correlation analysis, this study established the relationship between it and MSEs growth at sub city level in Addis Ababa. The findings indicate there is a relation between them. According to the findings, technological dimension and SMEs performance have a moderate relationship ( $r=0.571$ ,  $\beta = .187$  with  $p=.000$ ). This study tested the influence it on SMEs growth performance by applying multiple regression analysis. This assures that the hypothesis is supported. Therefore, technological factor (sig. =.015) has a statistically significant contribution to MSEs growth which is the prediction of the dependent ( $\beta=0.187$ ,  $p<0.000$ ). In the same way, Katua (2014) indicated that along with formal education, technical training and experience levels of the mechanics, the conceptualized variables: relative advantage, compatibility, complexity and observability of a particular innovation play a significant role in technology adoption among automobile mechanics in micro and small enterprises. However, Gemechu & Teklemariam (2016) found that there is significant correlation between technological factor and SMEs performance. In other words, technological dimension and SMEs performance have moderate relationship ( $r=0.331$  with  $p<0.01$ ). Gurmeet and Rakesh (2008) noted from the findings that

there is low use of electronic commerce in marketing. This implies that there are still a lot of growth opportunities for SMEs to utilize electronic commerce for marketing their products and services.

#### **4.6.4 Access to Finance**

**H<sub>0</sub>: Access to Finance has a positive significant effect on MSEs growth**

Using the correlation analysis this study found that access to external financing and SMEs performance are correlated in a moderate relationship ( $r=0.588$ ,  $\beta = .237$  with  $p=0.000$ ). In addition, this study tested the effect of access to finance has a positive significant effect on MSEs growth using multiple regression analysis. Thus, this study found that access to external financing factor (sig. =.0001) have a statistically significant contribution to MSEs growth which is the prediction of the dependent ( $\beta=0.237$ ,  $p<0.000$ ). This assures that the hypothesis is supported. Similarly, this study is the same as Eshetu & Zeleke (2008) showed about the need for finance to create new enterprises and the growth and survival of existing ones will be impeded. Santos (2003) also indicated that the need for finance to expand their business and that is the main contributor for the growth of entrepreneur's business.

#### **4.6.5 Human Resources Capacities**

**H<sub>0</sub>: Human resource capabilities have a positive significant effect on MSEs growth**

In this study, Spearman's rho correlation test was also conducted for these variables and this study found that there is significant positive correlation ( $r=0.457$ ,  $\beta = .237$  with  $p=0.000$ ) between human resources capacities and SMEs performance. Using multiple regression, this study found that human resources capacities (sig. =.002) have a statistically significant contribution to MSEs growth which is the prediction of the dependent ( $\beta=0.175$ ,  $p<0.000$ ). Alike, Mizan (2018) found that it has significant relationship with employee MSE business performance. This assures that the hypothesis is supported. Likewise, Arinaitwe (2006) distinguished that a well-educated and skilled workforce has more learning and innovative abilities. Firms located in urban and commercial areas are more likely to survive and human capital also plays a crucial role. Again size and growth are central features in describing firm dynamics. Sector, location and gender also play a significant role in determining enterprise

growth. In particular, it is shown, that enterprises run by male entrepreneurs grow more rapidly than those run by females.

#### **4.6.6 Legal and Regulatory Framework**

##### **H<sub>0</sub>: Legal and regulatory framework has a positive significant effect on MSEs growth**

Using correlation analysis, legal and regulatory framework (sig. =.374) have a statistically significant and positive contribution to MSEs growth. To test its influence on MSEs growth, multiple regression has been used. Thus, legal and regulatory framework (sig. =.413) have a statistically insignificant and negative contribution to MSEs growth which is not the prediction of the dependent ( $\beta = -.037$ ,  $p < 0.000$ ). This assures that the hypothesis is not supported. Obviously, Peter (2018) found that the constant  $\alpha = -0.549$ , if the effect of legal and regulatory environment is held constant then there was a negative growth in micro and small enterprises in Kenya by 0.549. The regression coefficient for legal and regulatory environment was negative but significant ( $\beta = -0.110$ ) with a t-value=2.566 (p-value<0.05).

Similar studies conducted by Nganda, Wanyonyi and Kitili, (2014), on the determinants of growth of small and medium enterprises in Kakamega central sub county Kenya noted that, between law and regulations on growth of SMEs do indicate that income taxes and collection of revenues from the government agents hamper the running of the business, thus, slowing the growth of the SMEs ( $r = -0.018$ ,  $p < 0.05$ ). This may be related to majority of the respondents were able to comply with the legal and regulatory requirements in relation with the business requirement. These could mean that the MSEs improved their competitiveness quite well. The respondents specified that they could meet license fee, and they also reported that the procedure of obtaining business licenses was not very much easy. However, all MSEs were registered with all the legal documents and had public contract information but only a few of the MSEs transacted business with the county and national government. The findings distinguished the challenges MSEs face in acquiring tenders in the competitive business environment. The study noted that multiple taxation from both the county and national government was reported to have had raised the cost of MSE, business operations.



**Table 7 Summary of Hypotheses**

Items	Hypothesis	Sig. Value	Decision
Entrepreneur characteristics	Entrepreneur Characteristics (Innovative Entrepreneurship) have a positive significant effect on MSEs growth	.007	<i>Supported</i>
Management and marketing skills	Management and marketing skills have a positive significant effect on MSEs growth	.000	<i>Supported</i>
Technological Capacities	Technological Capacities have a positive significant effect on MSEs growth	.015	<i>Supported</i>
Legal and regulatory framework	Legal and regulatory framework has a positive significant effect on MSEs growth	.413	<i>Not Supported</i>
Access to external financing	Access to external financing have a positive significant effect on MSEs growth	.000	<i>Supported</i>
Human resources capacities	Human resource capabilities have a positive significant effect on MSEs growth	.002	<i>Supported</i>

Source: Survey result, 2021

## 4.7 Chapter Summary

The chapter presents the empirical findings and results of the application of the variables using the techniques mentioned in chapter three. The current study sought to examine the determinants of growth in micro and small enterprises at selected sub city in Addis Ababa. The specific variables of the study were access to capital, legal and regulatory, access to market and adoption of technology and others. Specifically, the data analysis was in line with specific objectives where patterns were investigated, interpreted and implications drawn on them. Descriptive and inferential statistics as well as qualitative data were used.

# **CHAPTER FIVE**

## **SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary of the findings of the study. It has elaborated the summary and major findings from the analysis and has produced the presentation in detail. This part of the study presents the possible recommendations and conclusions after summarized the major findings of the research study.

### **5.2 Summary**

This study aimed to investigate the key factors affecting the growth of SMEs in Kirkos sub city in Addis Ababa. A total of 201 owners of MSEs were sampled from the study sub city. The study attended 83 % of responses rate as. This study mainly used primary data and self-administrated questionnaire. A pilot study was undertaken with various MSEs to test the reliability and validity of the questionnaire. The stratification was based on the type of business that the owned MSEs were operating such as construction, manufacturing, trade, and services. This study found that sample respondents rarely obtain sufficient source of capital (from business partners), infrequently search an adequate market for my product, seldom obtain sufficient source of capital (donation from family and friends), hardly interested in the reliability and integrity of financial information and they obtain insufficient collateral to obtain external funding.

Remarkably, the sampled respondents always identify new source of raw materials, they believe they have skills to handle new technology, undertake product/ service research and development, and introduce new products using new technology. In addition, this study found that there exists a medium relationship between entrepreneurship characteristics ( $r=0.541$  with  $p=0.000$ ), technology ( $r=0.568$  with  $p=.000$ ), access to external financing ( $r=0.588$  with  $p=0.000$ ), management and marketing skills ( $r=0.568$  with  $p=0.000$ ), legal factor ( $r=0.374$  with  $p=0.000$ ) and human resources capacities and MSEs growth performance. Using multiple regression, this study found that entrepreneur characteristics (innovative entrepreneurship) (sig.  $=.007$ ) have a

positive statistically significant contribution, management and marketing skills, (sig. =.0001), technological factor (sig. =.015), access to external financing factor (sig. =.0001) and human resources capacities (sig. =.002) have a statistically significant contribution to MSEs growth. However, legal and regulatory framework (sig. =.413) have a statistically insignificant and negative contribution to MSEs growth.

### **5.3 Conclusions**

The objective of this study was to explore the determinants of growth of MSEs at sub city level in Addis Ababa. The study concluded that MSEs face challenges in trying to access seed capital due to high cost of accessing capital, high interest rates. This conclusion was arrived by observing that many MSEs need a good access to financing to enhance their businesses. They have had a strong desire in trying to access capital from lending institutions. Further the study concluded that the bureaucratic and difficult procedures encountered by MSEs in the process of trying to access capital has resulted to many of them not seeking for financial assistance from lending institutions to expand their businesses. However, this study concluded that many MSEs have been fed up with complicated and extensive legal procedures. Even if many MSEs could meet their business license fee, they need an easy and efficient procedure in obtaining business license. The study concluded that high taxation was a major reason as to why some MSEs failed to comply with the tax requirements. The conclusion was reached after seeing that some MSEs improve their business to some extent.

Besides, this study concluded that change in technology enhance MSEs business to grow; it is a strong determinate of their business. This conclusion was arrived at after observing that MSEs including those that were able to embrace technology previously could not embrace new technology immediately as a result of cost implications. Based on the study findings the study concluded that MSEs need innovated based technology to enhance their business. This conclusion was arrived at by observing that many MSEs maintained their original products which indicate the slow pace of embracing innovation in their businesses. In addition, the study concluded that human resource capacities will enhance the growth of MSEs business performance. The conclusion was arrived at MSEs need effective training opportunities and it needs innovative and adaptive human resources with appropriate skills and improves attitude and

values for wealth creation, employment and pros. In addition, the study concluded that managerial and marketing skills will enhance the growth of MSEs business performance. It is concluded that marketing and managerial skills as the most important factors that enhance the business growth in MSEs.

## **5.4 Recommendations**

- Micro and small institutions, government and other non-governmental organizations need to take note of access financing will enhance MSEs business growth. Thus, they should intervene in the expensive and difficult lending conditions facing MSEs in Kirkos Sub City. Then, micro and small institutions they should address the critical issue of lending rates i.e., how to lower the cost of credit through lowering the interest rates. Credit lending procedure may also be simple and clear. It is therefore important for all to come up with a policy that redesigns the available credit programmes for MSEs in order to address the high-cost access to capital that is affecting MSEs. That will make access to credit affordable to MSEs.
- The Federal government may formulate effective strategy to reduce the complex legal and regulatory requirements to ease the cost of business operations for MSEs. Considerations should be given to MSEs given their small-scale financial strength and to encourage MSEs owners to access micro-credit facilities. There is a need to have clear MSEs business licensing, permission and legal requirements to avoid misunderstanding on expectations on legal and regulatory issues.
- Local governmental administrations (at Woreda level) may undergo business management training for them to adopt critical knowledge relating to accounts, bookkeeping procedures, inventory system, and business plan development. The proposed training areas are important since they are the parameters that lending institutions use to evaluate MSEs viability to access credit.
- MSEs should be supported to be able to adopt better production technology particularly for urban agriculture and construction sector that will enable them increase efficiency, improve quality and diversity of products. The local government may also encourage and support MSEs manufacturing enterprises to acquire the new technology. It is also necessary to train MSEs on how to identify and adopt appropriate technology based on

the needs of specific types of products, services or consumer needs. The government also needs to reduce importation of technologies and increase the usage of local technologies from the existing MSEs. There may be necessary to link between training schools (vocational, construction and agriculture schools) with MSEs to transfer and adapt technology to enhance their businesses.

- The MSEs are better to enhance their management and marketing skills through group discussion, proper training and experience sharing with other successful medium and large-scale enterprises. Furthermore, marketing abilities such as setting a competitive price for their products, developing positive interpersonal relationships with clients, and effectively presenting their outputs to clients are required.
- The sub city micro and small enterprise agency may together to implement information and market data hub for all stakeholders to assist them when they need market data by searching market for their products which is produced by the MSEs operators, by doing this, they are trying to save them from losses. This hub may be linked with regional market areas for raw materials, supplies and end consumer tracing.

## **5.5 Recommendations for Future Research**

The study looked at the determinants of growth of micro and small enterprises in Ethiopia. The study recommends a similar study on SMEs to look out for possible similarities. Future study may focus on effectiveness financial supports and capital programmes for MSEs. They may review MSEs that included youth run enterprises towards business growth and development.

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# ANNEX

## Appendix I - Questionnaire in English



### SCHOOL OF GRADUATE STUDIES SAINT MARY'S UNIVERSITY Department of Business Administration

*(To be filled by MSEs Owners)*

Dear Respondents,

My name is Girma Hurgessa. I am a student in the postgraduate program of master's degree in Business Administration. It is intended to assist the researcher, in partial fulfillment of the award of a Master of Arts Degree, titled "Factors Affecting the Growth of Micro and Small Enterprises: Evidences from Micro and Small Enterprises in Kirkos Sub City, Addis Ababa". This questionnaire has been designed to ask for information for purely academic purpose. Since the data collected is for academic purposes only, the confidentiality of the information you provide is fully assured. For that reason, I would appreciate the genuine response you give to the questions. All information given will be strictly confidential.

Thank you very much in advance for your cooperation and timely completion of the questionnaire.

***Direction:***

- Do not write your name.
- Put a tick mark "✓" in the space provided in front of each item.
- The questionnaire has three that includes respondents' profile and study related questions.

Best Regards,

Girma Hurgessa

09 11 41 12 87

**Part I - Personal Information**

**Direction:** Please select an appropriate response category by putting a thick mark (✓) an appropriate option.

	Male	Female		
<b>Gender</b>	<input type="radio"/>	<input type="radio"/>		
	Below 35	36 - 45	46 -55	Above 56
<b>Age</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	Illiterate	High School and below	Diploma First Degree	Master's Degree & above
<b>Education Level</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	Never married	Married	Divorced	Widow(er)
<b>Marital Status</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	Separated	Refused		
	<input type="radio"/>	<input type="radio"/>		
	Below 3000	3001 – 6000	6001 – 10000	Above 10001
<b>Monthly Income</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	Construction	Manufacturing	Urban Agriculture	Trade
<b>Please indicate your main work sector?</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	Service	Others _____		
	<input type="radio"/>			

## **Part II: Business Information**

Please indicate the degree to which the following factors are affecting the growth of the enterprises. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (√) under the choices below. Where, 5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree and 1= strongly disagree.

No	Measurement Items	Measurement Scale				
		<i>SD</i>	<i>D</i>	<i>N</i>	<i>A</i>	<i>SA</i>
		1	2	3	4	5
<b>Entrepreneur characteristics</b>						
1	I always undertake product/ service research and development.					
2	I always maintain original product.					
3	I always identify new source of raw materials.					
4	I am confident on my ability to recover from my mistakes					
5	I believe that opportunity generally knocks only once					
6	When facing a decision with uncertain consequences, my potential losses are my greatest concern					
<b>Management and marketing skills</b>						
1	I am always prepared to face changes in the business environment					
2	I am always prepared plan for managing my business.					
3	I always develop my managerial skills as the most important constraint faced.					
4	I am interested in attending training and development program.					

5	I always guided by basic managerial function (planning, organizing, staffing directing and controlling)						
6	I always search an adequate market for my product						
7	Searching new market is so easy for me.						
8	I always establish a market network.						
<b>Technological Capacities</b>							
1	I believe I have skills to handle new technology						
2	My business can afford the cost of acquiring new technology						
3	My business promotes products/services via a web site and emails						
4	I can be able to acquire new technology immediately it is introduced in the market						
5	I always introduce new products using new technology						
6	Change of technology has poised a great challenge in my business						
<b>Legal and regulatory framework</b>							
1	My business can meet license fee						
2	Procedure of obtaining my business license was easy						
3	My business is registered with all the legal documents easily.						
4	Availability of public contracts information						
5	I have made various contracts with private and government institutions in the last 3 years						
6	Multiple taxation i.e., from the various government offices raises the cost of operations						

<b>Access to external financing</b>					
1	I always obtain sufficient source of capital (bank, saving institution)				
2	I always obtain sufficient source of capital (donation from family and friends)				
3	I always obtain sufficient source of capital (from business partners)				
4	I have an effective communication within various financial organizations.				
5	I am interested in the reliability and integrity of financial information.				
6	I have enough collateral to obtain external funding.				
<b>Human resources capacities</b>					
1	I always obtain trained human resource from the market.				
2	It is easy to obtain well trained employee from the market.				
3	Employees are well disciplined for their activities.				
4	Working culture of employees has been developed.				
5	Employees have good attitude for MSEs.				
6	Employees are more innovate nowadays.				
<b>MSEs growth Indicators</b>					
1	Sales activities of my business have been developed for the last three years.				
2	Number of my employees have been increased for the last three years.				



3	My business is profitable.					
4	My customers have been growing for the last three years.					
5	My market coverage has been growing for the last three years.					
6	I can now provide more products or services.					

1. Why did you choose this type of business? Are you passionate about this particular business or just about being in business? How did it come about?

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2. Did you have any difficulties in finding finances either for start-up or expansion?

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3. Please indicate the major factors that help to grow your business.

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4. Please indicate the significant factors that deter or limit to grow your business.

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Thank You!

## Appendix II- Interview Checklist

Dear Sir/Madam,

I really appreciate for your valuable responses to the following checklists. It will not take much of your time.

Shall I proceed with my questions?

*Thank you!*

1. Do you think the relation between factors and MSEs growth?

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2. Please inform us internal and external factors that enhance MSEs business.

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3. Please indicate the significant factors that deter or limit to grow your business.

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*Thank you again!*

## Appendix III- Multiple Regression Assumption Test Results

To keep on with the assumptions, this study tested for outliers, homoscedasticity, multicollinearity and serial correlation.

### I. Multi-Collinearity Test Result

The values of correlation are also used for checking multicollinearity. The correlation between each of the independent variables is not too high, meaning that the correlation is not above value 0.5. It can be concluded that in this study is no problem with multicollinearity.

**Table in Appendix 1 Variance Inflation Factor (VIF) statics result**

Model	Variables	Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Entrepreneur characteristics	.319	<b>3.131</b>
	Management and marketing skills	.786	<b>1.273</b>
	Technological Capacities	.311	<b>3.210</b>
	Legal and regulatory framework	.672	<b>1.489</b>
	Access to external financing	.600	<b>1.668</b>
	Human resources capacities	.639	<b>1.565</b>

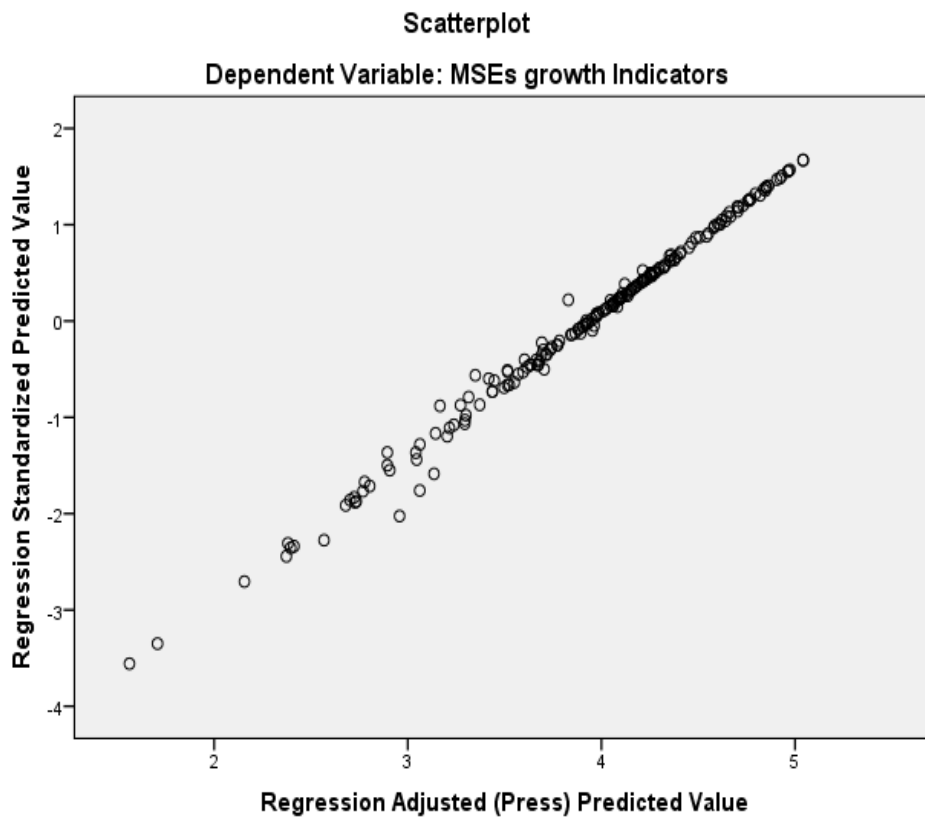
Source: Survey result, 2021

The Spearman's rho correlations between independent variables and the dependent variable SMEs performance in the Trade sector of SME in Kirkos sub city in Addis Ababa. In addition, the assumption assumes that independent variables are not highly correlated with each other. The One or more large VIF indicate multicollinearity. Practical experience indicates that if any of the VIF results exceeds 5 or 10, it is an indication that the associated regression coefficients are poorly estimated because of multicollinearity (Hair, *et al.*, 2007). Collinearity Statistics shows that the VIF value of six variables that is less than 5 and no collinearity is observed on this data. The table also presents the result of regression analysis; the result regression analysis

is based on MSEs performance. The independent variables that contribute to variance of the dependent variable are explained by standardized Beta coefficient.

## II. Linearity Test Result

Linearity refers to the degree to which the change in the dependent variable is related to change in the independent variables. To determine whether the relationship between dependent variable (MSES performance) and the six independent variables is linear, plots of regression residuals through SPSS had been used.



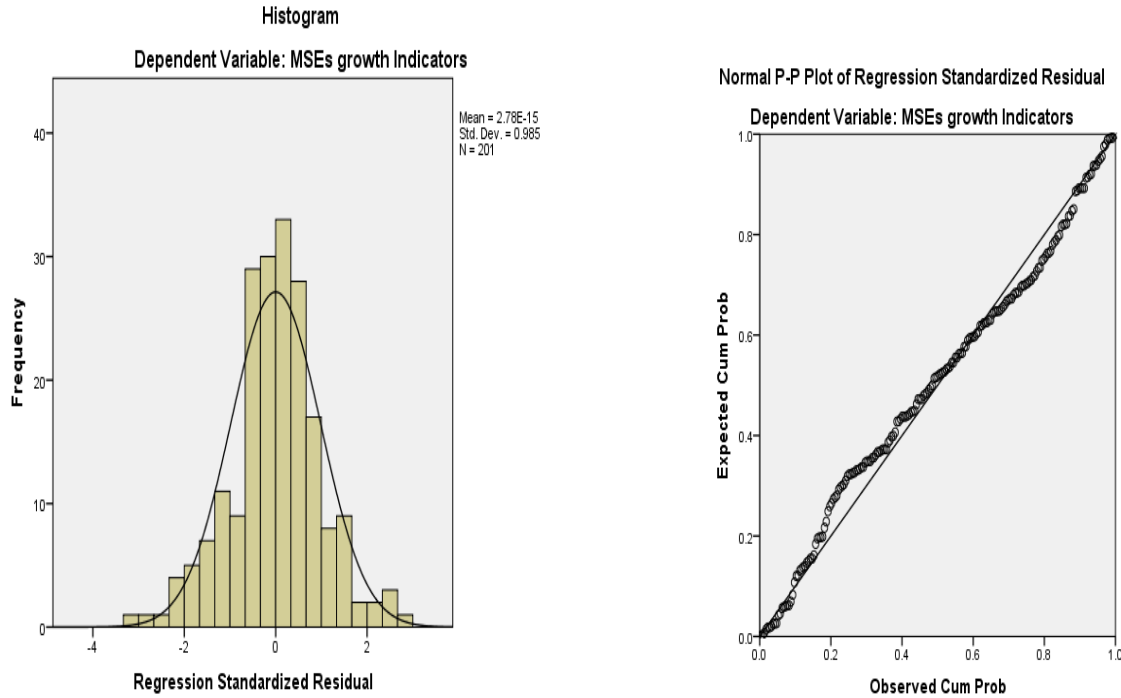
**Figures in Appendix 1 Linearity Test for Growth**

Source: Survey result, 2021

The scatterplot of residuals displays no big differences in the spread of the residual. This study tried to look from the left to the right in the above figure. This result recommends that the relationship that is being predicted is linear; therefore, the assumption is satisfied.

### III. Normality Test Result

The subsequent figure shows the frequency distribution of the standardized residual compared to normal distribution. As can be understood from the figure, the data points are close to the diagonal line confirming that there is normality.



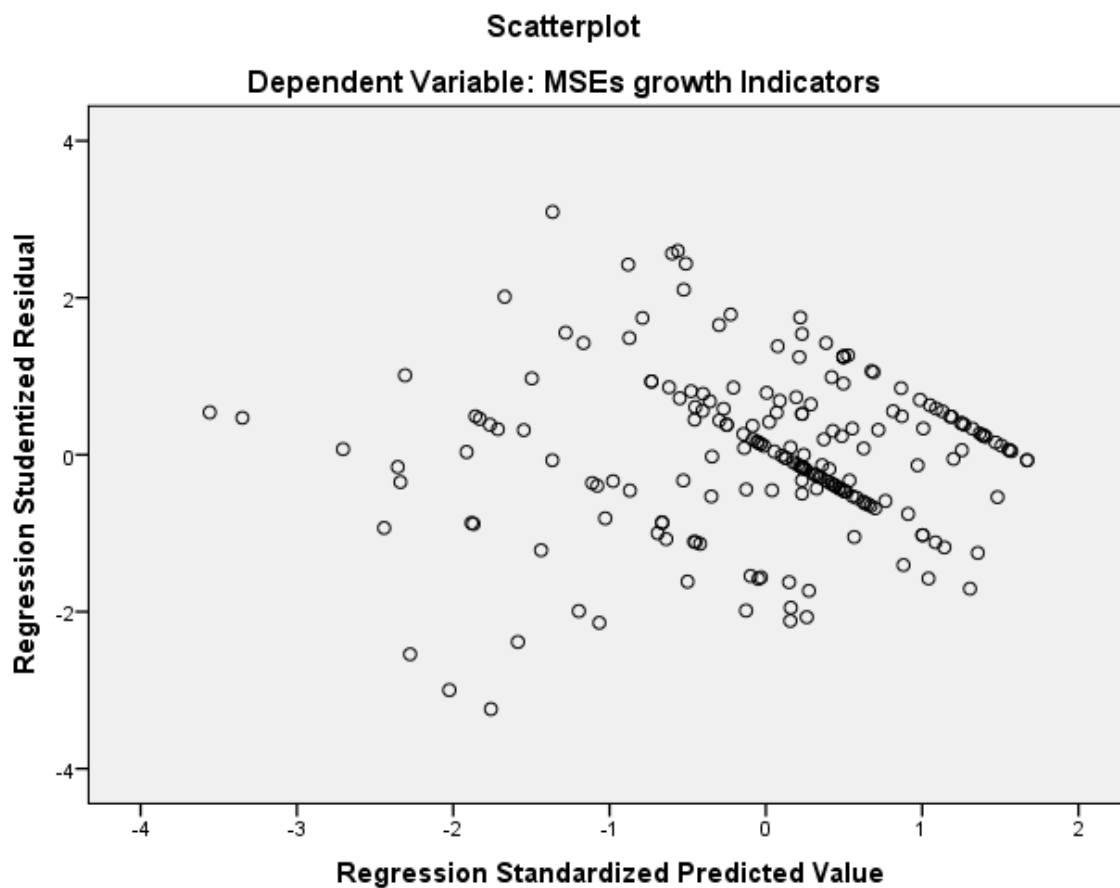
**Figures in Appendix 2 Normality Test Result**

Source: Survey result, 2021

The graph displays the histogram that shows a plot of how often possible values occurred. It's one way to see if there is anything actually strange in the data - any extreme values, or all the scores piled up on one side. First, normality is checked through histogram. The study used a histogram plot indicating normality of residuals. It produced a bell-shaped curve that shows the normal distribution of the series. In this study, the figure above shows a bell-shaped distribution of the residuals. The figure shows that X-axis shows the residuals, whereas Y-axis represents the density of the data set. Therefore, this histogram plot confirms the normality test results from the two tests in this study.

#### IV. Test for Heteroscedasticity

The other assumption of CLRM states that the variance of the errors is constant,  $\sigma^2$  this is known as the assumption of homoscedasticity. If the residuals of the regression have variability (systematically changing) over the sample, that is a sign of heteroscedasticity. White test was used for general test of heteroscedasticity. Since the test results for three regression analysis's p-values are considerably in excess of 0.05, it can be said that there is no evidence for the presence of heteroscedasticity.



**Figures in Appendix 3 Scatter Plot**

Source: Survey result, 2021

Based on the scatter plot above, it appears that the spots are diffused and do not form a clear specific form. So, it can be concluded that the regression model does not occur heteroscedasticity problem.

## V. Autocorrelation Test Result

**Table in Appendix 2 Durbin-Watson Test Result**

<b>Model Summary</b>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	<b>Durbin-Watson</b>
1	.749 <sup>a</sup>	.561	.547	.592	<b>1.860</b>

a. Predictors: (Constant), Human resources capacities, Management and marketing skills, Legal and regulatory framework, Entrepreneur characteristics, Access to external financing, Technological Capacities

b. Dependent Variable: MSEs growth Indicators

Source: Survey result, 2021

To test the presence of autocorrelation, the popular Durbin-Watson Test was employed in this study. In other words, it is assumed that the errors are uncorrelated with one another (as it is below 2). If the errors are not uncorrelated with one another, it would be stated that they are “auto correlated” or that they are “serially correlated” A test of this assumption is therefore required.