



**ASSESSING THE FACTORS AFFECTING
THE PERFORMANCE OF
MICRO AND SMALL SCALE ENTERPRISES
THE CASE OF YEKA SUB-CITY,ADDIS
ABABA**

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**ST. MARRY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
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Dec 2014**

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**FOR THE PARTIAL FULFILLMENT OF MASTERS
IN BUSINESS MANEGEMENT**

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Abstract

This research paper was aimed at investigating factors affecting the performance of MSEs with a special emphasizes on Textile & Garment, Food Processing and Wood & Metal work sectors in Yeka Sub-City, Addis Ababa. In order to meet the objectives of the study, data collected through questionnaires were analyzed using statistical analysis such as descriptive and inferential analyses. Mean and Standard deviation explained the descriptive statistics while Pearson Product Moment Correlation Coefficient and Multiple Regression applied .Information was gathered using a five point Likert scale questionnaire from a sample of 65 micro and small scale operators and through an interview conducted with 20 micro and small scale operators. The sample operators were selected using stratified sampling and simple random sampling techniques; Information from an interview was analyzed using descriptive narrations through concurrent triangulation strategy. The empirical study elicit eight major independent variables which seem to affect performance of MSEs in Yeka sub-city which include: Inadequate finance, Lack of working premises, Marketing problem, Inadequate infrastructure, Poor management practices, Technological, Entrepreneurial and Political-legal factors. The findings further indicated that among the independent variables Working premises, Marketing and Financial factors were the major factors that significantly affected performance. Based on the findings it was recommended that micro finances institutions should improve access to finance through offering a better lending terms and conditions and government to establish a centrally managed marketing sites that will equally give access to market in order to improve performance of MSEs in Addis Ababa.

Acknowledgements

The successful completion of this study was done with the support of Almighty God to whom I owe a great gratitude, as I shall continue to remain thankful to him.

My heartfelt thanks go to my Advisor Dr. Temesgen Belayenehe for his commitment on the thesis at each stage and for making invaluable comments and suggestions that guided me thoroughly towards its good end.

I further wish to thank for the Federal Micro and Small Enterprises Bureau for their cooperation and kindness in providing access to information and to Yeka Sub City Micro and Small Enterprise operators for giving their time to respond questioners.

Finally, I remain indebted to my beloved parents, relatives and friends for their kind support during my study.

BOARD OF EXAMINERS APPROVAL SHEET

Examiner's Name

Signature

Advisor's Name

Signature

Chair person Name

Signature

Table of Contents

Abstract	i
Acknowledgements	ii
BOARD OF EXAMINERS APPROVAL SHEET	iii
List of tables	vii
List of figures	viii
List of acronyms and abbreviations	ix
CHAPTER ONE	1
INTRODUCTION	1
1.1. Background of the study	1
1.2. Statement of the problem	3
1.3 Objectives of the study	4
1.3.1 General Objective.....	4
1.3.2 Specific Objectives.....	4
1.4 Research hypothesis	5
1.5 Definition of terms	5
1.6 Significance of the study	6
1.7 Scope of the study	7
1.8 Organization of the study	7
CHAPTER TWO	8
LITERATURE REVIEW	8
2.1 Introduction	8
2.2 Definition of MSEs	8
2.2.1 The Improved Definition of MSEs in Ethiopia	8
2.3 The concepts of business performance.....	9
2.4 Factors affecting the performance of micro enterprises.....	10
2.4.1 Internal Factors.....	10
2.4.2. External Factors.....	12
2.5. Empirical studies	18
2.6. MSEs Strategy in Ethiopia	20
2.6.1 The MSE Development Strategy of 2011	22
2.7 The Conceptual Frame Work	23

CHAPTER THREE	24
RESEARCH METHODOLOGY.....	24
3.1. Introduction	24
3.2. Research design.....	24
3.3 Sampling Technique and Sampling Size.....	25
3.4. Variables and Measurements	26
3.5.Instruments of Data Collection.....	27
3.5.1. Primary Data Collection.....	27
3.5.2. Secondary Data Sources.....	27
3.6. Procedures of data collection	27
3.7. Data processing and analysis.....	28
3.7.1. Data Processing	28
3.7.2.Descriptive Analysis	28
3.7.3.Inferential Analysis	28
3.7.4. The Pearson Product Moment Correlation Coefficient.....	28
3.7.5.Linear Regression Analysis.....	29
3.7.6.Regression Functions	29
3.7.7.Regress Performance on Selected Variables.....	30
CHAPTER FOUR.....	31
DATA PRESENTATION, ANALYSIS AND INTERPRETATION.....	31
4.1 Introduction.....	31
4.2 General Characteristics of The Enterprises.....	31
4.2.1 MSEs by Sectors	31
4.2.2 The Sources of Finance for MSE's	32
4.2.3 Important Aspects for the profitability of Business ventures.....	33
4.3.1.1 Comparison of Factors.....	42
4.3.2 Results of Inferential Statistics.....	43
4.3.2.1 Pearson's Product Moment Correlation Coefficient.....	44
4.3.2.2 Regressions Analysis.....	45
CHAPTER FIVE.....	48
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	48
5.1 Introduction.....	48

5.2 Summary of the Findings	48
5.3 Conclusions	49
5.4 Recommendations	51
5.5. Limitations of the study.....	52
REFERENCES	53
Annex - A	i
Annex - B	v
Annex - C	vi
Annex - D	vii

List of tables

<i>Title</i>	<i>Page</i>
<i>Table2.1. The improved definition of MSEs in Ethiopia.....</i>	<i>9</i>
<i>Table 4.1.Politico-legal factors that affect the performance of MSEs.....</i>	<i>34</i>
<i>Table 4.2 Working place factors that affect the performance of MSEs.....</i>	<i>35</i>
<i>Table 4.3 Technological factors that affect the performance of MSEs.....</i>	<i>36</i>
<i>Table 4.4.Basic Infrastructural factors that affect the performance of MSEs.....</i>	<i>37</i>
<i>Table 4.5 Marketing factors that affect the performance of MSEs.....</i>	<i>38</i>
<i>Table 4.6.Financial factors that affect the performance of MSEs.....</i>	<i>39</i>
<i>Table 4.7.Management factors that affect the performance of MSEs.....</i>	<i>40</i>
<i>Table 4.8.Entrepreneurial factors that affect the performance of MSEs.....</i>	<i>41</i>
<i>Table 4.9.Ranking of the major factors that affect the performance of MSEs.....</i>	<i>43</i>
<i>Table4.10.The relationship between independent variables and performance.....</i>	<i>44</i>
<i>Table 4.11.Regress performance on the selected variables using multiple regressions .</i>	<i>46</i>

List of figures

<i>Title</i>	<i>Page</i>
<i>Figure 2.1. Conceptual frameworks</i>	<i>23</i>
<i>Figure 4.1 The proportion of MSE Sectors respondents</i>	<i>31</i>
<i>Figure 4.2 Sources of finance</i>	<i>32</i>
<i>Figure. 4.3 Important aspects for business profitability</i>	<i>33</i>

List of acronyms and abbreviations

Art.	Article
ETB	Ethiopian Birr (Local currency)
CSA	Ethiopian Central Statistics Authority
FMSEDA	Federal Micro and Small Enterprises Development Agency
FP	Food Processing
GEM	Global Entrepreneurship Monitor
GTP	Growth and Transformation Plan
HASIDA	Handicraft and Small Scale Industries Development Agency
LDCs	Least Developed Countries
MN	Mean
MoTI	Ministry of Trade and Industry
MSEDA	Micro and Small Enterprises Development Agency
MSMEs	Micro, Small and Medium Enterprises
NMSEDPS	National Micro and Small Enterprises Development Promotion Strategy
RMSEDA	Regional Micro and Small Enterprise Development Agencies
SD	Standard Deviation
SSA	Sub Saharan Africa
SPSS	Statistical Package for Social Science
T&G	Textile & Garment
W&M	Wood & Metal

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Micro and Small enterprises (henceforth, MSEs) play a key role in economic growth and industrial development of a country. They make a vital contribution in improving economic and social development of a country through stimulating large scale employment, investment, development of indigenous skill and promotion of entrepreneurship and innovativeness, enhancing exports, and also building an industrial base at different scales (Liedholm, 2001).

Small enterprises are major drivers of both employment and economic growth contributing to more than 50 % to GDP and 60 % to employment in developed economies, These type of enterprises, however, constitute less than 30% of employment and 17% of GDP in developing countries. Indeed, a study conducted in Africa by the ILO finds that only 20% of the total populations of working age group in many African countries were reported to have been working in the small enterprise sector (ILO, 2003).

Micro-econometric studies using enterprise level data from MSEs sector has indicated that many of these enterprises have low levels of productivity, produces low quality products and grows only when they were young (e.g., Mead and Liedholm, 1998; Tybout, 2000). This is surprising given that many developing economies are characterized by labor and land abundance that creates favorable conditions to engage in labor intensive industrial activities. A question that would then arise is as to why the MSE sector has not expanded more by absorbing the cheaply available labor force and by adopting production organizations that are suitable for low-wage economies.

This is mainly due to poor growth and performance of MSEs, in Africa MSE affected by multiple factors that inhibited the sector, these factors included entrepreneurial and managerial capabilities of the owners, mentality, skill and motivation in exploring opportunities, access to technology and capital. The regulatory and institutional environment in developing countries was also notoriously burdensome; it frequently hampered small enterprise growth. Econometric analysis underscores how these challenges disproportionately harmed smaller enterprises (Beck, 2006). For instance, strict regulations and high taxes kept firms small and informal (De Soto, 1989). Due to these reasons performance of MSE in Sub Saharan Africa (SSA) is far below than the other developing countries in comparison. The study by Fedahunsi, (1997:170-186) confirmed that the failure rate of MSEs in SSA was 85%.

Ethiopia, as one of the sub-Saharan developing country has integrated MSEs as a strategic tools in the Growth and Transformation Plan (GTP) and forwarded a MSE development strategies to promote the sector. However the sector confronted several factors that affected its performance to grow and develop to its potentials (Werotew, 2010:226-37).

Therefore the purpose of this study was to assess the major factors that affected the performance of MSEs in Addis Ababa; Yeka Sub city in the light of the MSEs development strategies of Ethiopia, within the context of Addis Ababa business environments.

There are previous research works conducted on MSEs, most of them was focused from the success, and growth point of view, and conducted several years ago hence there was a time gap observed due to the recency of information and the progressive policies and strategies in the promotion of MSEs, the study was hopefully filled the information gap created due to the longevity of study.

1.2. Statement of the problem

Ethiopia recognized the important contribution that MSEs could make in poverty reduction, employment creation and private sector development, while raising the national income. In Ethiopia half of the work force is in MSE, Addis Ababa only accounts 40% of the MSE operators (Serneels, 2004).

On the other hand the country has one of the highest unemployment rates and the number of urban unemployment raised to 1.1million and the number of urban population below poverty line is 37% (Endalkachew, 2008). Hence, to promote the proliferation of MSE and enhance its performance to enable to tackle the problem of unemployment and poverty reduction, the government forwarded MSE Development Strategy in 1997, in 2003 and in 2011.

Regardless of the different promotional efforts made by the government the sector was highly constrained by poor productivity ,poor performance and stagnant growth, these was mainly due to unfavorable legal and regulatory frameworks, underdeveloped infrastructure, poor business development service, limited access to finance, ineffective and poorly coordinated institutional support.(Endalkachew, 2008).The problems encountered by MSEs are both at the startup and establishment phases. Majority of MSEs are survival driven, strive to secure the basic needs of an entrepreneur, with lack of capital, skill and knowledge to manage their business. All these forced enterprises to produce poor quality of products and have a lower productivity; these situations led for the poor performance, stagnant growth . Study also showed that,in SSA countries MSEs face a failure rate of 85% (Fedahunsi, 1997:170-186). As a result the contribution of MSEs to the national economy was very low as compared with that of other African countries of Kenya, Tanzania and Uganda (Zelege Worku 2009:1-9).

Therefore this study attempted to identify the different factors that influence the performance of MSEs and also tried to analyze which factors among the different were significantly affected the performance of MSEs in Addis Ababa;Yeka Sub City.

To guide the study towards the attainment of its objective, a number of research questions were developed:

- What are the major internal factors among the entrepreneurial and Management factors that affected the performance of MSEs?
- What are the major external factors among the Political-legal, Financial, Marketing, Working premises, Infrastructural and Technological factors that affected the performance of MSEs?

1.3 Objectives of the study

1.3.1 General Objective

The main objective of the study was to assess factors that was mainly affecting the performance of MSEs in Yeka sub-city.

1.3.2 Specific Objectives

The specific objectives of the study were to:

- To assess and identify the external factors that affected the performance of MSEs.
- To identify which external factors significantly affected the performance of MSEs
- To assess and identify the internal factors that affected the performance of MSEs.
- To identify which internal factors significantly affected the performance of MSEs.

1.4 Research hypothesis

With the help of appropriate empirical data on the factors affecting the performance of MSEs, this study will test the following hypothesis:

1. There is a relationship between political-legal factors and performance of MSEs in Addis Ababa.
2. There is a strong relationship between working premises factors and performance of MSEs in Addis Ababa.
3. There is a relationship between technology factors and performance of MSEs in Addis Ababa.
4. There is a relationship between Infrastructural factors and performance of MSEs in Addis Ababa.
5. There is a strong relationship between the marketing factors and performance of MSEs in Addis Ababa.
6. There is strong relationship between the financial factors and performance of MSEs in Addis Ababa.
7. There is relationship between Entrepreneurial factors and performance of MSEs in Addis Ababa.
8. There is relationship between Management factors and performance of MSEs in Addis Ababa.

1.5 Definition of terms

- ***An enterprise:*** can be defined as an undertaking engaged in production and/or distribution of goods & services for commercial benefits, beyond subsistence (household) consumption at the household level.
- ***Cooperatives:*** association of at least 10 individuals, who are grouped, organized for the same organizational objectives (from the same area).
- ***Factors:*** A factor is a contributory aspect such as political-legal, working premises, technologies, infrastructures, marketing, financial, management

and entrepreneurial influences that affect performance of micro and small enterprises.

- **Formal enterprises:** are defined as establishments principally engaged in production of marketed goods and services but formally registered at respective government agencies to undertake the business and hence have licenses to operate.
- **Growth oriented Micro and Small Enterprises (MSEs):** are MSEs engaged in production of goods and services in the sectors given priorities in the economic development of the country in most policy and strategy documents of the government (e.g., MoFED, GTP, 2010).
- **Informal enterprise:** there is consensus that they are small scale, and operate outside registration, licence and tax frameworks.
- **Micro Enterprise:** when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is $\leq 100,000$ ETB for industrial sector and $\leq 50,000$ ETB for service sector (MSEDS,2011).
- **Small Enterprise:** means a business engaged in commercial activities whose capital is not exceeding birr 1.5million and 6-30 employees for industries and 500000 for service other than high technology and consultancy service institutions.

1.6 Significance of the study

MSEs is one of the government priority areas in the struggle towards growth and development. This study also could be seen as part of an element of growth effort in identifying the factors that hinder the performance of MSEs.

The findings of this study would provide policy makers a ground for analyzing to structure MSEs promotional packages and it also provide practical inputs that would help MSE's office in Yeka sub-cities to take informed decisions in the problems encountered in a day to day operations, besides to that MSE operators in Yeka Sub city will have an opportunity to look inward of their enterprises and analyze the factors particular to individual enterprises. At last interested researchers also would

be able to have a base for further study, this paper provided substantial highlights before engaged in the study.

1.7 Scope of the study

The FMSE office followed similar institutional frame work, policies, procedures, promotional packages and created similar political-legal business environments in all sub cities of Addis Ababa. Hence, the study conducted in one of the sub cities of Addis Ababa i.e Yeka sub city, the outcome of the study is applicable to all MSEs in Addis Ababa.

The study focused only on the manufacturing sectors of TG,FP & WM MSEs mainly for the reasons of, data from manufacturing enterprises are easily measurable and the second reason is that the pre assessment study showed that the selected manufacturing sectors are commonly available in all sub cities of Addis Ababa ,for all enterprises are established under almost similar business environments, so the outcome of the study is applicable to all sectors of MSEs.

1.8 Organization of the study

This study paper organized in five chapters, the first chapter comprised of Background of the study, Problem statement, Objectives of the study, Research hypothesis and the Scope of the study. Chapter two presents the theoretical and empirical related literature to the study, while chapter three provides research methodology. Chapter four outlines data presentation, analysis and interpretation and chapter five concluded and suggested some recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter elaborates MSEs based on literatures, and it comprises of six sections, these are Definitions of MSEs, the Role of MSEs in poverty reduction, the MSE sector in Ethiopia, the Concept of business performance, Empirical studies and the conceptual framework.

2.2 Definition of MSEs

There is no single and universally acceptable definition of a small enterprise (Kayanula and Quartey, 2000:35). This is so because the criteria and ways of categorizing enterprises as micro and small differ from institution to institution and from country to country depending essentially on the country's level of development. Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations (Emma I. et al., 2009:1-9). Firms differ in their levels of capitalization, sales and employment. Hence, definitions that employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result.

2.2.1 The Improved Definition of MSEs in Ethiopia

Micro and Small scale enterprises are categorized into industrial sector and service sector. Under industry sector (manufacturing, construction and mining) micro enterprises are defined as an enterprise that operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000. Under service sector (retailer, transport, hotel and Tourism, ICT and maintenance service

micro enterprises are defined as an enterprise that operates with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000. Under the industry sector (manufacturing, construction and mining) small enterprises are defined as operates with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million. Under the Service sector (retailer, transport, hotel and Tourism and maintenance service) Small enterprises are defined as operates with 6-30 persons or/and total asset, or a paid up capital is with Birr 50,001 and not exceeding Birr 500,000. When ambiguity is encountered between manpower and total assets as explained above, total asset is taken as primary yardstick (MSEDS strategy, 2011).

Table 2.1: The improved definition of MSEs in Ethiopia

Level of enterprise	Sector	Human Power	
Micro Enterprise	Industry	≤ 5	\leq Birr 100,000 (\$ 5000)
	Service	≤ 5	\leq Birr 50000 (\$ 2500)
Small Enterprise	Industry	6-30	\leq Birr 1.5 mil (\$75000)
	Service	6-30	\leq Birr 500000 (\$ 25000)

Source: Ethiopian Micro and Small Enterprise Development Strategy (2011)

2.3 The concepts of business performance

According to Martin (2010:67) performance is defined simply in terms of output terms such as quantified objectives or profitability. Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (Bidzakin K.J., 2009:31). The issues that remain unresolved are the goals against which performance should be assessed and from whose perspective the goals should be established (Etzioni, n.d:128).

Rami Alasadi and Ahmed Abdelrahim (2007:6-13) on their study defined performance as follows.

[T]he most commonly 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. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.

Global Entrepreneurship Monitor (GEM) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it (GEM, 2004:10). However, performance seems to be conceptualized, operationalized and measured in different ways thus, making cross-comparison is difficult (Srinivasan et al., 1994:22). Among the most frequently used operationalizations are survival, growth in employees and profitability.

A business enterprise could measure its performance using the financial and non-financial measures. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting time and employees' turnover. Recognizing the limitations of relying solely on either the financial or non-financial measures, owners-managers of the modern small business has adopted a hybrid approach of using both the financial and non-financial measures (H Gin Chong, 2008:13).

2.4 Factors affecting the performance of micro enterprises

This section gives emphasis to two dimensions that influence microenterprise performance: the internal factors and external factors .

2.4.1 Internal Factors

Small business success studies are largely biased towards the macro aspects of factors such as structural, finances and enabling business environments than just dealing with entrepreneurial performance (Johnson, 1990). However, the growth of a firm is, to a certain extent, a matter of decisions made by individual operators. This is very much pronounced for microenterprises that are run by

owner-managers. Previous studies indicate that motivation, individual competencies and personal background are important factors for the success of micro and small enterprises (Baum et al., 2001; Shane et al., 2003).

i. Entrepreneurial factors

Studies related to psychological factors of business success for developing country firms are very scarce (Nichter and Goldmark, 2009). Most of the macro based studies have tended to assume entrepreneurs with similar experiences and demographic characteristics. However, none of these factors alone can create a new venture or drive success (Baum et al., 2001). Accordingly, personality traits play a key role in driving ventures towards success.

The 'big five' model advocated for by Johnson (1990) is widely used as a robust indicator of personality traits. These big five factors that are generally agreed as personality traits or characteristics include: extraversion, emotional stability, agreeableness, conscientiousness and openness to experience. Based on the big five model, researchers have further classified entrepreneurial personality traits in to five categories: need for achievement, locus of control, motivation, risk-taking propensity, and self-efficacy. These traits are important psychological factors that would influence the success of microenterprises (Johnson, 1990).

ii. Management factors

Zelege (2009) conducted a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises. Successful businesses are significantly associated with the ability to generate profit on a sustainable basis. Profitability has enabled successful businesses to achieve their next level of growth as well as the potential to stay competitive in business.

The main reason for failure is inexperienced management. Managers of bankrupt firms do not have the experience, knowledge, or vision to run their businesses. In diagnosing the root causes of small firm failure it should not be surprising that this turns out to be the management inefficiency of owner-managers (Zelege 2009).

Managerial effectiveness influences every aspect of a business and is often believed to be the most important factor contributing to small business failure. 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 (Lin and Yeh-Yun 1998).

2.4.2. External Factors

i. Marketing Factors

The study of Lussier (1995), and Lussier and Pfeifer (2001) emphasizes on the importance of marketing skill of the business owners as one factor to the success and better performance of small businesses. Marketing skills, such as identifying new prospects, showing effective corporate positioning, customer handling, finding ways to efficiently advertise, and the ability to come up with new ideas are very important factors that micro and small business enterprises should possess to be successful long term survival in the future. Temtime and Pansiri (2004) also reported in their study of Small business Critical Success/Failure Factors in Developing Economies, in Botswana shows that; marketing activities such as product marketing, market research, and demand forecast and so forth have a greater impact on the success of small businesses performance. In this study customer relationship also reported as one of the important success factors of the small business owners. From this study report one can understand the importance of marketing skills of the business owners to be successful in their competitive environment.

Pulendran, Speed and Widing (2002), suggest that the quality of marketing planning is associated with a higher level of market orientation. Perhaps one can argue that, better quality planning assists managers seeking to implement a market orientation to achieve their goal, or conversely, market orientation assists planning by providing a clear and unambiguous goal that serves to focus the planning effort. This study also indicates that managerial functions in small enterprises are limited to routine short term focused activities, and very little emphasis is given long term competitiveness which in turn has an impact on the long-term success and profitability of the enterprises.

Small enterprise growth could be influenced by factors that affect its supply and demand conditions because these factors have a direct implication on costs and benefits accruing to the business. Accordingly, factors such as location and sector of the business could have a direct influence on profitability, and performance of small entrepreneurs. Liedholm (2002) in a study of small firm dynamics in Africa found that businesses located in commercial districts and on roadsides were positive and statistically significant in influencing enterprise growth rates compared to enterprises located at home, the base category in his regression. McPherson (1995) also found similar results; but his success indicator was hazard rate. According to him, mobile MSEs, roadside locations and market locations were found to show a significant survival advantage compared to home-based enterprises. McPherson (1996) also revealed similar findings but, this time, success was represented by employment growth. The author points to agglomeration externalities as factors explaining success related to location. Location of the enterprise affects demand conditions and degree of competition. Enterprises located at commercial districts may experience better demand but they could also face stiff competition. A positive relationship between location and success can be expected if enterprises produce complementary products and are located near final demand. However, if imitative products are located together, it will lead to a higher competition and hence very small market share leading to poor performance (Liedholm, 2002). Therefore, success related to location may

depend on the net effect of both factors. However, following the above empirical studies, it can be hypothesized that home-based enterprises may perform poorly compared to those in other locations, *ceteris paribus*.

ii. Working place factors

For MSEs, lack of premise is unquestionably a serious problem. Most informal operators do not get access to suitable locations where they can get easy access to markets. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of micro, small and medium enterprises who aspire to start up businesses (Eshetu & Mammo, 2009).

According to Rolfe et al (2010) findings location is critical factor for sales and income of small scale enterprises and hence entrepreneurs benefit from businesses in formal residential areas. Logically, this finding stems from the higher per capita income and demand density in developed urban areas. Demand density also makes taxi ranks and train stations more lucrative. These spaces are limited and thus a source of competitive advantage that cannot be copied or re-created. Mboniyane & Ladzani (2011) found that small businesses select a site without first thoroughly analyzing the suitability of location. The same researcher found that most of the micro-enterprises are failing owing to a lack of space provided by the government and the various shortcomings of the small business owners regarding their businesses. Olawale & Garwe (2010) also found that poor location has a negative impact of the performance of micro and small enterprises.

iii. Technology

Choice of technology and innovative capacity is another important factor determining growth of MSEs. According to Albu (2001: 16) in Moyi, E and Njiraini, P (2005), it is divided into production, investment, and innovative/

adaptive capability. Production capability is the static knowledge and skill required to use existing Technology development which is far less applicable to MSEs is the process of designing new machineries/ equipments/ Processes/ products.

The appropriate technology paradigm assumes MSEs as beneficiaries and not as active participant of development and improvements of technology; technology as a resource that can only be adapted by MSEs for improving factor productivity and reducing unit costs. It also focuses on incremental choice and suitability of available technologies to the production and market environment of MSEs operating in environment of unskilled and large labor market, low income consumer market, and low quality inputs. But appropriate technology paradigm is challenged for its limited impact and its failure to narrow gaps between MSEs and larger enterprises. The technical capability paradigm has emerged as a result of unsatisfactory result with appropriate technology paradigm and with an objective to raise capacities of MSEs in making use of innovated technologies as most innovated technologies is adopted from separate workshops. It needs institutional, technical and engineering skills to adapt these technologies to different climate, raw materials and market demand.

iv. Financial factors

Lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector. Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new enterprises and the growth and survival of existing ones will be impeded

(Commission on Legal Empowerment of the Poor, 2006). Access to finance is a major bottleneck for the rapid growth and development of MSEs mainly due to targeted mechanism put in place to address the financial needs of small scale enterprises. Most micro and small enterprises do not have access to micro finance institutions and most banks are reluctant to avail credit facility to small enterprises unless they have acceptable collateral. The standard of loan appraisal, the long delay the banks take to sanction loans, unfavorable disposition towards small loans and the limited collateral requirement, which is over 100% of the loan amount, are the major obstacles that small scale enterprises are facing (Commission on Legal Empowerment of the Poor, 2006).

Moreover, the interest rate by most micro finance institutes, which is higher than the lending rate of formal banks, inhibits effectiveness in addressing the needs of micro enterprises (Commission on Legal Empowerment of the Poor, 2006). According To Wolday and Gebrehiwot (2006), more than 93% of MSEs replied that they did not apply for bank loans for the reasons they considered themselves as discouraged potential borrowers, need credit but are discouraged from applying by the perceived or real high collateral requirement, high cost of borrowing, difficulty of processes, ineligibility, or concern about their repayment ability and uninformed (i.e. not aware of the facility, or where and how to apply, etc.).

The findings of Mulu (2007) also indicate that banks and MFIs do not seem to support MSEs expansion. Due to this 85% of the respondents have never received credit from these formal sources. The availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks appear more appealing for MSEs. Hence, firms with better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster. Lack of finance has been considered in many studies as a key success factor for MSEs such as Rolfe et al (2010), Mbonyane & Ladzani (2011).

v. Infrastructure

Good infrastructure facilitates have a positive effect in reducing the cost of operation. MSEs Owners in Ethiopia indicated that lack of efficient, reliable, safe and affordable infrastructure is affecting the performance of their business. The physical infrastructure facilities are not adequately developed and expanded in Ethiopia to meet the growing demand of MSEs activities. As a result, most MSEs have problems related to business premises such as an increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water services (Eshetu & Mammon, 2009). According to Commission on Legal Empowerment of the Poor (2006), though not directly linked, inadequacy of infrastructure (road, banking service, electricity, telecommunication and other services in facilitating smooth operation of private investment are serious impediments. Rahel & Paul (2010) also identify that even if access to infrastructure is not reported as a significant problem, lack of access to water and lack of awareness about the advantages of telephones and media leads to a negative or insignificant effect on the growth of enterprises. According to the findings of the same research most MSEs have an easy access to transportation. But, the number of enterprises that has access to the rest of the infrastructures such as telephone, television,radio and water are limited.

vi. Enabling business environment

Many studies emphasize enabling business environment as major factors determining small enterprise success in developing countries (e.g. Sethuraman,1997; De Soto, 2001). The institutional, regulatory and legal frameworks are in these days the three important pillars shaping business environments (ILO, 2000). According to the ILO (2000) report, institutional frameworks determine effectiveness and efficiency of key business infrastructures such as business development support (BDS), microfinance institutions, marketing and research and development. A good institutional framework enables

access of these services to the needy with minimum cost. Poor institutions in general, lead to higher transaction costs. ILO (2002) indicates signs of poor/good institutions based on several checklists: the number of steps/ procedures to obtain a business license and the costs paid for it, enforcement of contracts and access to legal redress, ease of access to information about markets, access to credit facilities, ease of acquisition to land titles/ lease and tax costs to a business. In many developing countries, lack of enabling business environments has hampered the development of the MSE sector and kept entrepreneurs mired (Sethuraman, 1997). Therefore according to Sethuraman, poor enabling environments are growth barriers and hence negatively influence success. More recently, concepts such as inter-firm relations and flexible specialization, clustering and networking are being advocated in many parts of developing countries to boost the development of small and microenterprises (Van Dijk, 1996). Many East Asian economies have implemented and succeeded through this strategy. The idea is, clustering helps firms to reduce costs that they cannot shoulder if they stand alone. Exchange of information and technology diffusion can also take place within these clusters. This helps firms to specialize in technologies with which they are good at. The advantage is that every firm benefits from the formed mutual interactions.

2.5. Empirical studies

According to Mead & Liedholm (1998:69) and Swierczek and Ha (2003:46-58), the main factors that affect the performance of MSEs in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new. Although this may be true, the vast majority of new enterprises tend to be one-person establishments (Mwega, 1991:33-36). This has tended to ensure that the journey of the MSE entrepreneur in many instances is short-lived, with the statistic of MSE failure

rate in Africa being put at 99 per cent (Rogerson, 2000:41). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick 1998:26-27), intense competition with replication of micro-businesses (Manning & Mashego, 1993:59-61); manager characteristics including lack of skills and experience (Katwalo & Madichie, 2008:337-348 and Verhees, F. M., & Meulenber, M. G., 2004:134-154). A study by Hall (1992:237-250) has identified two primary causes of small business failure appear to be a lack of appropriate management skills and inadequate capital (both at start-up and on a continuing basis). The research undertaken in Tanzania by surveying 160 micro enterprises showed that high tax rates, corruption, and regulation in the form of licenses and permits, are found to be the most important constraints to 24 business operations of micro enterprises (Fjeldstad et al, 2006 cited in Mulugeta, 2011: 22). A view expressed by Fredland and Morris (2009:8) argued that the causes of failure cannot be isolated and that 'any attempt to do so is, at bottom, a futile exercise'. However, they suggested that:

The issue of causation is clarified somewhat by classifying causes as endogenous (internal to the firm and presumably within its control) and exogenous (external to the firm and beyond its control). Such a classification has the merit of providing a somewhat better policy handle since if causes are endogenous, appropriate policy 'helps firms help themselves'; if exogenous, appropriate policy may seek to change the economic environment.

Previous evidence suggests that, although endogenous factors were the main cause of failure, exogenous factors had a significant effect in approximately one third of small business failures (Peterson et al., 1983:15-19). Roy and Wheeler (2006:452-464) identified that the level of training of micro entrepreneurs (both formal and informal); experience and number of years in operation; knowledge of the market; level of differentiation (in terms of price, quality or other) and diversification of products; access to the necessary resources and/or technologies;

level of planning; vision for the future; and the entrepreneur's level of poverty are among the factors contributing to success of MSEs while lack of market knowledge and training, limited access to capital, and lack of co-operation among possible business partners are some of the factors inhibiting the growth and development of the micro enterprise sector.

2.6. MSEs Strategy in Ethiopia

Examinations of attempts institutional involvement to support MSEs development in Ethiopia came late after 1950s. Teshome (1994) .During the 1940's and 1950's, manufacturing enterprises were required to acquire a temporary license of six month validity and a permanent license, if fully formed (Teshome, 1994). The Investment Proclamation No. 242/1966 provided MSE's tax relief, access to land and buildings, public utilities and other facilitations of advisory and administrative nature. The period 1974 to 1991 started with socialist proclamations and nationalization of businesses and firms throughout the country. Acquisition of private businesses was restricted to a single license and capital ceiling set at 300,000 birr for wholesale trade, 200,000 for retail trade and 500,000 for industrial establishments. In late 1977, the Handicrafts and Small Scale Industries Development Agency (HASIDA) was established. Following policy failure over two decades, the Derg, declared a new program of mixed economy development. Accordingly, it issued two declarations in succession: Decree No.9/1989 allowed establishment of small-scale enterprises by business organizations, cooperatives and individual entrepreneurs. Decree allowed participation by the Diaspora and raised the capital ceiling for small scale enterprises from birr 500,000 to between two and four million birr. Decree No.17/1990 lifted the restriction of private sector participation to single license (by Proclamation No.76/1975) and allowed individuals to undertake investment in unlimited number of enterprises, and attempted to provide incentives to do so. However, the adventure into mixed economy development was short lived. The Derg was overthrown in 1991. The new EPRDF Proclamation No.41/1993: Definition of Powers and Duties of the Central and Regional ,doesn't seem to

have a lasting impact on the status of MSEs development in the country. The issue of temporary licenses proceeded without restraint and at a nominal charge and resulted in an oversell of such licenses. One of the measures taken to enhance the operation of MSEs is the issuance of the licensing and supervision of micro financing institutions proclamation in 1996 (Proclamation No. 40/1996), to enable MSEs have access to credit facilities, counseling services and income generating projects through micro-finance institutions. By building the capacity of MSEs, this legislation provides opportunities and security for the informal sector operators through enhancing legality and formalization. The adopted Agricultural Development Led Industrialization and private sector development strategy in 1995. An element of these strategies was focused on MSEs development: Federal Micro and Small-Scale Enterprises Strategy (FMSES) and Regional Micro and Small-Scale Enterprises Strategies (RMSES) were formulated in 1997 with main objectives for exploitation of local raw material, creation of productive job opportunities, adoption of new and appropriate technologies, and enhancement of the development of MSEs which have wide-ranging backward and forward linkages. In order to operationalize FMSEDA and RMSEDA the government issued an Industrial Development Strategy in 2003, which was aimed at providing a package of material and technical government support to the MSEs including, inter alia, provision of utilities and infrastructure, raw materials, access to credits, etc. At the early 2000's, the World Bank introduced poverty reduction strategy for Less Developed Countries which is in line with the Millennium Development Goals. For Ethiopia, the program has two phases: the Sustainable Development and Poverty Reduction Program (SDPRP) and the Plan for Accelerated and Sustained Development to End Poverty (PASDEP). According to PASDEP, MSEs would get extended basic trainings, upgraded business development services and enhanced market linkages with foreign importers through FMSEDA and RMSEDA in the planned period. GTP (Growth and Transformation Plan), put the MSEs development as one of the seven identified growth pillars of the

country. Two MSE strategy documents could come into attention from most recent attempts the current government has been making. These are:

- MSE Development Strategy of 1997 and
- MSE Development Strategy of 2011

The specific objectives of the 1997 strategy framework were to:

- Facilitate economic growth and bring equitable development,
- Create long term jobs;
- Strengthen cooperation between MSEs;
- Provide the basis for medium and large scale enterprises;
- Promote export and
- Balance preferential between MSEs and bigger enterprises

2.6.1 The MSE Development Strategy of 2011

The new MSE Strategy (2011) included fresh band of target groups, the graduates, (in addition to its classical emphasis on the poor and less skilled people) to form cooperatives and create their own jobs. On top of providing jobs to the people, the establishments are also hoped to bring about the technological transfer and new corporate management skills to the nation. The manufacturing sector that encompasses the majority of the previously identified areas, the service sector which is a relatively new one, though not completely new, construction sector , the urban agriculture sector , and the retail sector. These sectors got attention because they are expected to substitute imports or are categorized in the manufacturing sector. According to this strategy the supports these enterprises receive is dependent up on their level of growth and is relatively a tailored one. The growth stages of the MSEs are three in number and they are: the start-up stage, the growth stage and the maturity stage.

2.7 The Conceptual Frame Work

The External factors included politico-legal, working premises, technological, infrastructural, marketing and financial factors. The influence of these factors to the firm performance is very important but it is noteworthy that the management has no (little) control over them (Wanjiku, 2009:81-82). Nevertheless, the factors must be closely monitored to ensure stringent measures are taken within the best time to either take advantage of the opportunities or combat the threats found in the external environment. The internal factors that influence the firm's performance can be classified as management and entrepreneurial factors. To align the conceptual framework with the research objectives, business performance is the dependent variable whereas politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial factors are all independent variables. The relationship can be expressed and shown in figure 2.1.

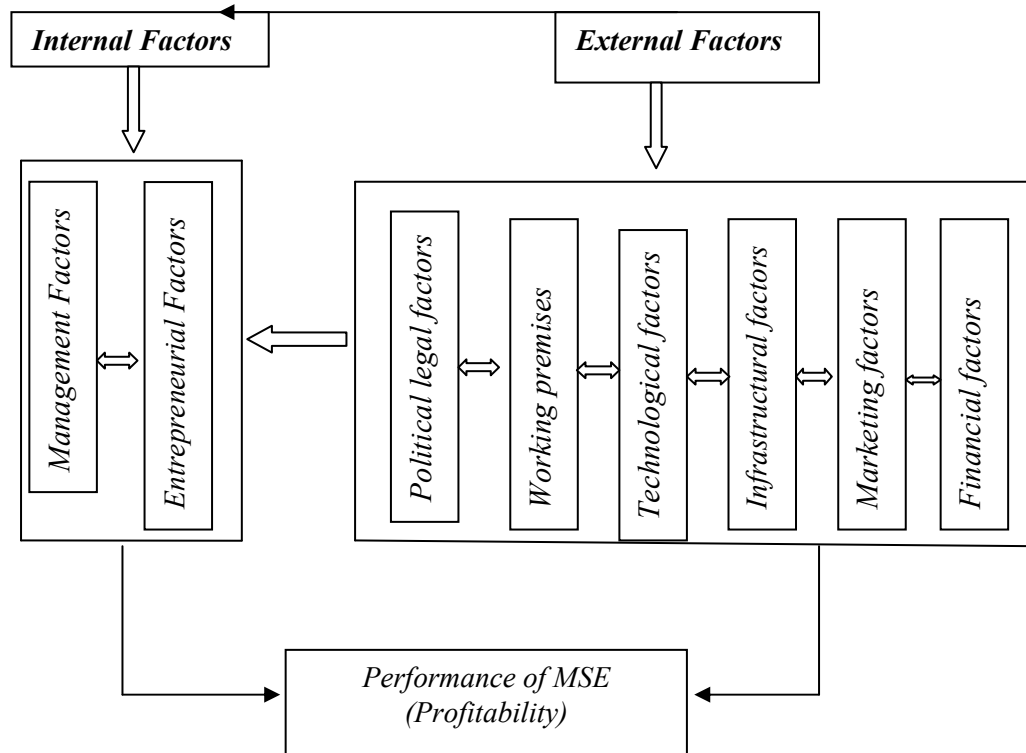


Figure 2.1. Conceptual frameworks (Own Model)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

Under this section a number of external and internal factors were taken into account to identify the major factors affecting performance of MSEs. This section provides an overview of the study's research approach which lays within the mixed methods strategies, the chapter discusses procedures and activities undertaken, that includes research design, questionnaire design, data collection, sampling strategy, data processing and analysis and instrument development.

3.2. Research design

The study applied both descriptive and explanatory type of research; in order to enable to describe the state of affairs as it existed at the time of study period, and also to explain the relationship between variables that correlated to estimate the integrated influence of the factors on performance. Then the study described and critically assessed the factors affecting the performance of MSEs in Yeka sub-city of Addis Ababa. All relevant Data were collected from a single point in time through cross sectional method. A qualitative and quantitative method of data collection was applied so as to compensate each method's weaknesses with strengths from the other method. In Designing of the Instruments a questionnaire comprised of a Five Point Likert Scale questions were constructed, the type of scales used to measure the items on the instrument was continuous scales (strongly agree to strongly disagree) , multiple choice questions and interview questions developed in consultation with literature, advisor's comment and through pilot study test.

3.3 Sampling Technique and Sampling Size

To select samples of enterprises from the total population of MSEs, a stratified random sampling was applied to get a representative number of enterprises from each sector that was considered in this study. This technique was preferred because it was used to assist in minimizing bias when dealing with the population. With this technique, the sampling frame was organized into relatively homogeneous groups (strata), before selecting elements for the sample. The strata's were sectors of MSEs including: TG, WM & FP.

To select samples of MSE operators from each strata (sectors) simple random sampling method applied from a complete list of enterprise operators in the sub city.

Sectors of MSE systematically selected from the complete list of the FMSE, those sectors commonly available in all sub cities of Addis Ababa and those enterprises from privately own manufacturing sectors selected for the study because data from manufacturing sectors are measurable the sectors selected include TG, WM, & FP.

Although there are no general rules, the sample size usually depends on the population to be sampled. In this study to select sample size, a list of the population formally registered by the Federal MSE Bureau (FMSEB) until May 2013 was used. A list containing names, address and the type of MSE business engaged, of the total population of the study area was found from the FMSE Bureau. A total population of 180 enterprises that comprised of FP (63), T&G (18) and W&M (99). The sample size selected here was considered as representative of FP, TG and WM respectively. To estimate the sample representatives the following formula was applied. Since it is relevant to studies where a probability sampling method is used (Watson, 2001:5).

Once the sample size from the total population was determined samples of the different sectors were selected proportionally from the total number of samples obtained through Watson mathematical method.

$$n = \left[\frac{\frac{P [1-P]}{A^2 + P [1-P]}}{\frac{Z^2 N}{R}} \right]$$

Where,

n = sample size required = 65

N = number of population = 180

P = estimated variance in the population = 50%

A = margin of error = 5%

Z = confidence level = 1.96 for 95% confidence

R = estimated response rate = 96%

3.4. Variables and Measurements

The lack of universally accepted standard performance measures left the door open to business organizations to decide and choose its own performance measures that might not truly reflect their performance. Such performance measures include but not limited to: market share, sales volume, company reputation, return-on-investment (ROI), profitability, and established corporate identity. While most of these performance measures are appropriate for large corporations, they are not always perfectly applicable to small businesses.

In this study, business profitability perceptions of owners and operators used as a dependent variable to assess and measure the performance of MSEs. Here the perception of profitability of a business from different angles used as the measure of the dependent variable performance of enterprises involved in the survey. This is mainly because of three reasons. First, other studies indicated, MSEs are more focuses on profitability than other modes of performance measures. Second, For microenterprises are characterized by little or no education and without record keeping hence most measure profitability by covering household consumptions. Also growth in employment level of the enterprises would not be another appropriate alternative measure of performance because, MSEs are primarily

established as a source of self employment. The independent variables are politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial variables.

3.5. Instruments of Data Collection

3.5.1. Primary Data Collection

Primary data collected from MSE operators through questionnaire and interview .The study applied a well-designed Five point Likert scale questionnaire to gather primary information, this was completed by owner managers/or operators of the MSEs. Besides to that, an interview questions having five open questions was developed.

3.5.2. Secondary Data Sources

Complete information about the MSE operators of the study area, Policies, support rendered, collected from FMSE office database and Magazine. Besides to that a variety of books, published and/or unpublished government documents, websites, reports and newsletters had been reviewed to make the study fruitful.

3.6. Procedures of data collection

The complete list of operators were arranged by sectors and numbers representing the list were written on paper and rolled and put in a hut for draw, the required number of samples from each sector was drawn using lottery technique. The name and address of the number drawn taken from the list.

The structured five point Likert skale questionnaire translated into Amharic prepared ,to ease for those who don't write and read proportional pilling used to grade their factors. Interview was conducted with selected MSE operators.

3.7. Data processing and analysis

3.7.1. Data Processing

In the data processing procedure editing, encoding, classification and tabulation of the collected data was made manually. Data clean-up was made to detect anomalies, errors and omissions in responses and checking that the questions were answered accurately and uniformly. Numerical assigned to reduce responses into a limited number of categories or classes. Data having the common characteristics was placed together and in this way the entered data was divided into a number of groups. Finally, tabulation and pie charts were used to summarize the raw data and displayed. Transformation of the processed data to look for patterns and relationship between and/or among data groups by using descriptive and inferential (statistical) analysis. The Statistical Package for Social Science (SPSS) was used to analyze the data obtained from primary sources.

3.7.2. Descriptive Analysis

Descriptive analysis is used to reduce the data in to a summary format by tabulation and measure of central tendency . Moreover, pie charts was also used to describe the general characteristics of enterprises. The reason for using descriptive statistics is to compare the different factors. Besides, the interview questions was also analyzed using descriptive narrations through concurrent triangulation strategy.

3.7.3. Inferential Analysis

Inferential statistics allows to infer from the data through analysis, the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable. The following inferential statistical methods was applied for the study.

3.7.4. The Pearson Product Moment Correlation Coefficient

Conclusions were established on the bases of results, Such generalizations is therefore, made for the population from the samples it speculated. Pearson Product Moment Correlation Coefficient is a widely used statistical method for obtaining an index of the relationships between two variables when the relationships between the variables is linear and when the two variables correlation are continuous. To ascertain whether a statistically significant relationship exists between politico-legal, working premises, technology, infrastructure, marketing, finance, management and entrepreneurial factors with firm's performance. Correlation coefficient can range from -1 to +1. The value of -1 represents a perfect negative correlation while a value of +1 represents a perfect positive correlation. A value of 0 correlations represents no relationship.

3.7.5.Linear Regression Analysis

Linear regression is a method of estimating or predicting a value on some dependent variable given the values of one or more independent variables. Like correlations, statistical regression examines the association or relationship between variables. Unlike correlations, however, the primary purpose of regression is prediction . In this study multiple regressions was applied. Multiple regression analysis takes into account the inter-correlations among all variables involved. This method also takes into account the correlations among the predictor scores .Multiple regression analysis, was helped to see more than one predictor are jointly regressed against the criterion variable. This method is used to determine if the independent variables explain the variance in the dependent variable.

3.7.6.Regression Functions

The equation of regressions on this study is generally built around two sets of variables, namely dependent variable (performance) and independent variables

(politico-legal, working premises, technology, infrastructure, marketing, finance, management and entrepreneurial skill). The basic objective of using regression equation on this study was to make the study more effective at describing, understanding and predicting the stated variables.

3.7.7. Regress Performance on Selected Variables

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8$$

Where:

Y = is the response or dependent variable- performance

X₁= politico-legal, X₂= working premises, X₃= technology, X₄= infrastructure, X₅= marketing, X₆= finance, X₇= management and X₈= entrepreneurial skills are the explanatory variables. β_0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0. $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7,$ and β_8 are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables. Accordingly, this statistical technique was applied to explain the following relationships. Regress performance (as dependent variable) on the selected linear combination of the independent variables using multiple regressions.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This section is organized by presenting the general information about MSEs, were presented and analyzed and data collected through questionnaires and interviews were analyzed at the same time. On top of that, the results of Pearson's Product Moment Correlation Coefficient and regressions were also analyzed and presented.

A total number of sixty five questionnaires were distributed and among them 62 were completed by the respondents and returned back, this represented a response rate of 95% .Out of the total sample of 65 questionnaires administered 35 were from Wood & Metal (WM)work, 8 from Textile & Garment (TG) and 22 were from Food processing (FP) MSE sectors. The number of questionnaires filled and returned back from WM, TG and FP were 38, 8 and 19 showed a response rate of 100%, 100% and 95% respectively.

4.2 General Characteristics of The Enterprises

4.2.1 MSEs by Sectors

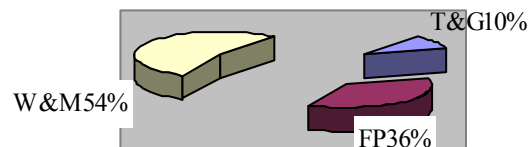


Figure 4.1 The proportion of MSE Sectors respondents

Source: From Field survey, 2014

Among the sampled sectors of Micro Enterprises the majority of them were engaged in W&M (54%) followed by FP (34%) and T&G (12%). This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the performance of MSEs. This is because firms in different sectors of the economy face different types of problems. That means the degree of those critical factors in FP sector may differ from the factors that are critical to T&G , W&M work sectors.

4.2.2 The Sources of Finance for MSE's

To capture information regarding the relative importance of the various sources of finance, enterprises were asked whether they ever received credit from each of a given list of sources of finance. The following figure shows the main sources funds.

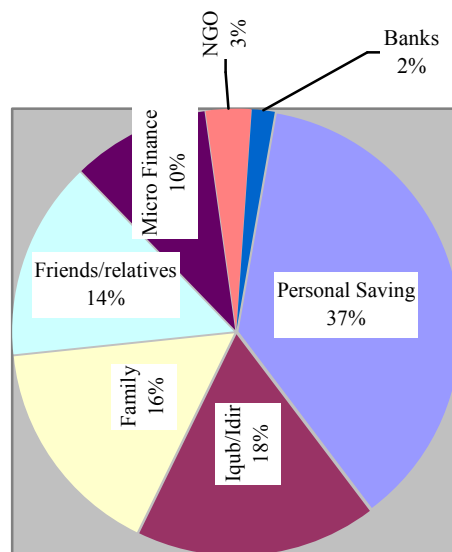


Figure 4.2 Sources of finance

Source: Field survey, 2014

From here it can be concluded that the major sources of finance for MSEs in Yeka Sub city was the informal sources that totally accounted 48 % (*iqub/idir*17.7%, family 16.0%, friends/relatives 14.3%)followed by personal savings.

From the interviewee it could be understood that the reason for emphasizing on informal Financial institutions were that the requirement of collateral is relatively easier since such sources usually take place among parties with intimate relationship and trust of each other.

4.2.3 Important Aspects for the profitability of Business ventures

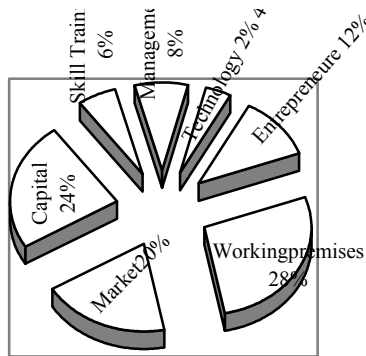


Figure. 4.3 Important aspects for business profitability

Source: Field survey, 2014

From the response of MSE operators it can be concluded that the majority of respondents replied that availability of Working Premises,Market and Capital as a major aspects for the profitability of business in Yeka Sub City 28%,20% and 26% respectively.Hence from here it can be concluded that working premises, Availability of Market and Availability of Capital altogether accounted for 78 % of profitability of a business.

4.3 Factors Affecting The Performance of MSEs

Respondents were asked different questions regarding the factors affecting the performance of MSEs in Yeka sub-city and their responses were organized in the following manner.

4.3.1 Outcome of Measures of Central Tendency and Dispersion

There are a number of challenges that affect performance of MSEs associated with different factors. This part explains the descriptive statistics calculated on the basis of the factors that affect the performance of MSEs. The results of measures of central tendency and dispersion were obtained from the sample of respondents of Textile & Garment (T&G), Food Processing (FP), Wood & Metal (W&M) works are presented in the following table.

Table 4.1. Politico-legal factors that affect the performance of MSEs

<i>Item</i>	<i>T&G</i>		<i>FP</i>		<i>W&M</i>		<i>Grand Total</i>	
	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>
<i>Political Legal factors</i>								
Tax levied on my business is not reasonable	3.97	.93	3.73	.99	3.98	.95	3.86	.97
Costy company registration and licensing bureaucracy	4.23	.76	4.36	.70	4.02	.70	4.24	.73
Bias in government support	3.13	.99	2.96	1.1	3.82	.93	3.22	1.1
Political influence in team formation, enterprise selection, affected my business	2.5	1.22	3.94	.80	3.77	.87	3.52	1.1
Lack of access to information on government regulation to my business	3.28	.89	3.32	.91	3.18	.95	3.27	.91
	Grand Mean and Standard Deviation						3.62	1.05

Source: Field survey, 2014 MN=Mean, SD=Standard deviation

Therefore from here it can be concluded that among the political legal factors the regulatory compliance and the cost of formalization was the major obstacle for the startup and expansion of business performance .In many developing countries,

lack of enabling business environments has hampered the development of the MSE sector and kept entrepreneurs mired (Sethuraman, 1997).

Table 4.2. Working place factors that affect the performance of MSEs

<i>Item</i>	<i>T & G</i>		<i>FP</i>		<i>W & M</i>		<i>Grand</i>	
	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>
Absence of Owen premises	4	.98	4.28	.96	4.52	.65	4.27	.917
Current working place is not convenient	3.02	1.15	3.64	1.18	3.98	1.07	3.57	1.19
House rent is costly to my business	4.07	.85	4.17	.92	4.28	.83	4.17	.88
	Grand Mean /Standard deviation						4	1.05

Source: Field survey, 2014 MN= Mean , SD = standard Deviation

The table above shows the response to the working place factors, absence of Owen premises and high cost of house rent ,was the important factors agreed by the respondents of all sectors.

From the interview conducted it was also understood that almost all enterprises didn't have their Owen work place, they used a rented house ,they are paying high price, a continuous price increment on the house rent forced to frequently change working places this in turn destabilize the working condition.

It can be concluded that the majority of enterprises don't have their Owen working places, though the factor is a problem of all sectors it is much higher in WM and FP sectors for they require larger space. The Working place factors are highly interlinked with each other and the short fall of the absence of working premises directly expose the MSE operators for house rent and inconvenient working place this could affect business performance. Location and sector of the business could have a direct influence on profitability and performance of small entrepreneurs (Liedholm,2002).

Table 4.3. Technological factors that affect the performance of MSEs

<i>Item</i>	<i>T&G</i>		<i>FP</i>		<i>W&M</i>		<i>Grand</i>	
	MN	SD	MN	SD	MN	SD	MN	SD
<i>Technological factors</i>								
Lack of information in the availability of appropriate tools and materials	3.20	1.18	4.37	.63	3.02	.95	3.72	1.08
Lack of skill and knowledge to handle new technology	3.46	.89	3.37	.99	3.08	.91	3.32	.95
Lack of capital to acquire new technology	3.87	.87	4.30	.70	4.08	.83	4.14	.79
Unable to select proper technology	3.08	.86	3.16	.95	3.23	.93	3.16	.92
	Grand Mean /Standard deviation						3.58	1.02

Source: Field survey, 2014

Lack of capital to acquire new technology is identified as a major Technological factors affecting the performance of FP and W&M sectors with a MN of 4.3,4.08 and SD of .70 and .83 respectively. Interview response also showed loan to purchase equipments and materials were obtained from both personal and informal sources and the cost of machines were also very high for microenterprises both at start up and expansion. It can be concluded that almost all enterprises utilized machines, tools and equipments and there is a high demand to have the required technology to produce quality products but the demand is bigger in W&M and FP sectors, this demand is highly constrained by Lack of capital to purchase.

Table 4.4. Basic Infrastructural factors that affect the performance of MSEs

<i>Item</i>	<i>TG</i>		<i>FP</i>		<i>WM</i>		<i>Grand</i>	
	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>
<i>Basic Infrastructural factors</i>								
Absence of Power and power interruptions	4.43	.59	4.63	.58	4.68	.47	4.59	.57
Insufficient and interrupted water supply	2.02	1.01	4.16	.85	1.97	.76	3.05	1.39
Lack of business development services	2.95	.81	3.22	.93	3.38	.80	3.19	.88
Lack of sufficient and quick transportation service	3.97	.80	4.03	.83	4.17	.67	4.05	.71
Lack of appropriate dry waste and sewerage system	2.92	.90	3.89	.93	3.08	.96	3.43	1.03
	Grand Mean /Standard deviation						3.73	1.08

Source: Field survey, 2014

The result presented in table 4.4 showed that among the infrastructural factors that affected the performance of MSE, respondents of all the three sectors replied above agreed point scales of 4.59 and 4.05 showed that the factors of power interruption as the main problem in their business performance followed by lack of sufficient and quick transportation service respectively.

From the interview it was understood that poor road condition incurred additional transportation cost, lose of customer, absence and interruption of water supply was significant in FP. Though the MN and SD showed that power interruption as the main problem to all sectors it was identified that Lack of appropriate dry waste and sewerage system is a specific enterprise factor in FP, and poor road condition affected transportation, marketing and incurred additional cost.

Table 4.5. Marketing factors that affect the performance of MSEs

<i>Item</i>	<i>TG</i>		<i>FP</i>		<i>WM</i>		<i>Grand</i>	
	MN	SD	MN	SD	MN	SD	MN	SD
<i>Marketing Factors</i>								
Inadequate market for my product	4.28	.66	4.29	.69	4.36	.52	4.31	.64
Searching new market is so difficult	4.15	.68	4.18	.72	4.38	.52	4.22	.67
My products are Poor quality for the market	4.02	.67	4.21	.85	4.34	.66	4.19	.78
Lack of establishing a market network	4.03	.89	4.15	.79	4.28	.59	4.15	.78
Lack of market information	4.02	.75	3.86	.87	4.18	.68	4.03	.81
Lack of promotion to attract potential users	3.00	1.22	4.05	.66	3.20	1.10	3.57	1.06
Poor customer relationship and handling	3.07	1.03	2.96	1.18	3.10	1.23	3.02	1.15
	<i>Grand Mean /Standard deviation</i>						3.93	.96

Source: Field survey, 2014

Among the marketing factors that affected the performance of enterprises: Inadequate market , difficulty of searching new market , Poor quality product for the market, Lack of establishing a market network and Lack of market information ,the respondents were agreed that these factors are important in affecting the performance of enterprises , the response of all sectors showed that a grand MN score of above 4 point scale implies it is above agreed point and below strongly agreed point . In an interview conducted with an operator of the MSE, it was confirmed that production area is inaccessible for market hence forced to rent a shop which in turn incurred additional costs to firms , promotion of products, searching of market and networking took more time and cost as a starter. Some of the operators believed that personal factor is significantly played a role in succeeding in marketing.From here it can be concluded that marketing factors are linked to infrastructural (access, transportation, amenities) ,entrepreneurial, working place , management and personal factors of customer handling ,these interconnection made the marketing factors more significant .Lack of market to

products emerged from the various marketing factors hence inefficiency on the other factors lead to lack of market.

Table 4.6. Financial factors that affect the performance of MSEs

<i>Item</i>	<i>T&G</i>		<i>FP</i>		<i>W&M</i>		<i>Grand</i>	
	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>
<i>Financial Factors:</i>								
Absence or inadequacy of credit institutions	2.97	1.14	3.01	1.09	2.92	1.25	2.97	1.14
Lack of access to credit institutions	3.82	.81	3.83	.85	4.20	.82	3.92	.84
Shortage of working capital	4.34	.70	4.42	.66	4.43	.65	4.41	.67
High collateral requirement from lending institutions	4.36	.86	4.46	.70	4.45	.75	4.43	.75
High interest rate by lending institutions	4.26	.99	4.33	.82	4.42	.77	4.33	.86
Loan application procedures are complicated	4.07	.87	3.91	.97	4.17	.92	4.02	.93
	<i>Grand Mean /Standard deviation</i>						4.01	1.01

Source: Field survey, 2014

The table above showed that High collateral requirement from lending institutions, Shortage of working capital, High interest rate by lending institutions and complicated loan application procedures was identified as an important factors for the performance of enterprises. Shortage of capital was identified as the prime factor for startup and expansion of micro enterprises, operators search to raise finance within their reach i.e the informal sectors and from personal savings, the formal institutions were not easily accessible due to high collateral ,high interest rate and difficult loan application procedures. The informal source of finance is the major source of finance for MSEs.

Table 4.7. Management factors that affect the performance of MSEs

<i>Item</i>	<i>TG</i>		<i>FP</i>		<i>WM</i>		<i>Grand</i>	
	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>
<i>Management Factors:</i>								
Lack of clear division of duties among members	3.16	.89	3.21	.92	3.13	.85	3.18	.97
Poor organization and ineffective communication	3.26	.99	2.85	1.09	2.97	.94	2.99	1.04
Poor selection of business partners	4.18	.81	4.28	.79	4.33	.75	4.27	.78
Lack of well trained and experienced employees	3.85	.75	3.28	1.11	4.08	.87	3.63	1.03
Lack of low cost and accessible training facilities	4.08	.86	3.97	.81	3.93	.78	3.99	.81
Lack of financial ,human and material management	3.98	.81	4.07	.78	4.02	.68	4.03	.76
	<i>Grand Mean /Standard deviation</i>						3.68	1.02

Source: Field survey, 2014

Poor selection of business partners and Lack of financial, human & material management are the main Management factors identified in affecting the performance of business. In this regard in an interview conducted with operators of MSEs, it was confirmed that most started their business by trial, without prior plan of the material requirement and usage, practice doing by learning , misallocation of financial and material resources ,lack of cost benefit analysis ,poor record keeping. From here it can be concluded that financial, human and material management is the important aspects of management factors.

Table 4.8. Entrepreneurial factors that affect the performance of MSEs

Item	T&G		FP		W&M		Grand	
	MN	SD	MN	SD	MN	SD	MN	SD
Lack of motivation and self drive	2.46	.89	2.49	.85	2.38	.96	2.46	.89
Lack of tolerance to work hard	2.92	.97	2.82	.86	3.28	.74	2.96	.88
Lack of readiness to learn ,to improve and to change	4.16	.86	4.21	.70	4.30	.74	4.22	.76
Lack of creativity, flexibility and adaptability to new ideas.	4.02	.92	3.99	.97	3.95	.91	3.99	.94
Lack of entrepreneurship training	3.90	.87	3.96	.75	3.97	.92	3.95	.82
Lack of information to exploit business opportunities	3.84	.99	3.89	.90	3.88	.89	3.87	.92
	Grand Mean /Standard deviation						3.57	1.08

Source: Field survey, 2014

Among the entrepreneurial factors, Lack of readiness to learn ,to improve and to change for ones failure scored the highest mean as 4.30, 4.21 and 4.16 with standard deviation of .74, .70 and .86 for operators engaged in W&M , FP and T&G respectively. The second most important Entrepreneurial factor identified is Lack of creativity, flexibility and adaptability to new ideas, with mean score of 4.02, 3.99 and 3.95 with standard deviation of .92, .97 and .91 for owners engaged in T&G, FP and W&M work respectively. This showed that the operators of all sectors agreed with the effect of the factor in their business.

Since MSEs are a self started business almost all sectors agreed that motivation, self drive and tolerance to work hard was not a problem in affecting the performance rather it was aware that Lack of readiness to learn, to improve and to change, Lack of creativity, flexibility and adaptability to new ideas, Lack of

entrepreneurship training and Lack of information to exploit business opportunities, because the majority of them are survival driven enterprises.

Table 4.9. Performance rating based on business practice.

Item	T&G		FP		W&M		Grand	
	MN	SD	MN	SD	MN	SD	MN	SD
The business is Profitable	4.11	0.68	4.14	0.71	4.38	0.52	4.21	0.64
There is a good Sales turnover	3.34	0.76	3.32	0.65	2.88	0.64	3.18	0.68
The business has good Market share	2.75	0.66	3.14	0.64	2.75	0.71	2.88	0.67
There is good customer loyalty	2.63	0.55	2.95	0.65	2.63	0.74	2.74	0.65
							3.25	0.67

From the table above it can be understood that all the sectors agreed on the profitability of the business they are engaged in this was demonstrated by the MN score observed above 4 and the SD showed that there is low variation in among the responses. Where as the respondents showed their disagreement on Market share and Customer loyalty with score of below 3 point.

From here it can be concluded that regardless of other factors the business engaged by operators are profitable. For most of enterprises are not keeping record profitability is justified by survival and covering household expenditures.

4.3.1.1 Comparison of Factors

Even though, all the Politico-legal, Infrastructure, Working premises, Technology, Marketing, Financial, Management and Entrepreneurial factors affect the performance of MSEs, this does not necessarily mean that all factors have equal impact. The following table clearly compares the overall impact of all key factors discussed in detail above.

Table 4.9. Ranking of the major factors that affect the performance of MSEs

No	Factors	Grand Mean	Grand Standard	Rank
1	Political Legal factors	3.62	1.05	6 th
2	Working Premises factors	4.00	1.04	2 nd
3	Technological factors	3.58	1.02	7 th
4	Infrastructural factors	3.73	1.07	4 th
5	Marketing factors	3.93	.96	3 rd
6	Financial factors	4.01	1.01	1 st
7	Management factors	3.68	1.02	5 th
8	Entrepreneurial factors	3.57	1.08	8 th

Source: Field survey, 2014

It can now be seen that Financial and Working premises factors has the biggest potential to contribute to the performance, followed by Marketing, Infrastructural, Management, Politico-legal, Technological and Entrepreneurial factors. In another words, the result shows that Financial and Working premises factors were the two top most factors that affected the performance of MSE in the selected area. This result is supported by Haftu Berihun et al. (2009:84-86) who found that lack of finance and working space rank on top being reported as the major constraints by a large proportion of the enterprises. It can, therefore, be concluded that finance and working premises factors do largely affect the performance of MSEs.

4.3.2 Results of Inferential Statistics

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

4.3.2.1 Pearson's Product Moment Correlation Coefficient

In this study Pearson's Product Moment Correlation Coefficient was used to determine whether there is significant relationship between Politico-legal, Working premises, Technological, Infrastructural, Marketing, Financial, Management and Entrepreneurial variables with performance. The following section presents the results of Pearson's Product Moment Correlation on the relationship between independent variables and dependent variable. The table below indicates that the correlation coefficients for the relationships between performance and its independent variables are linear and positive ranging from substantial to strong correlation coefficients.

Table 4.10. The relationship between independent variables and performance

Independent Variable		Performance
Political legal factors	Pearson correlation	.736**
	P – Value	.000
	N	65
Working Premises	Pearson correlation	.815**
	P – Value	.000
	N	65
Technological factors	Pearson correlation	.637**
	P – Value	.000
	N	65
Infrastructural factors	Pearson correlation	.791**
	P – Value	.000
	N	65
Marketing factors	Pearson correlation	.809**
	P – Value	.000
	N	65
Financial factors	Pearson correlation	.802**
	P – Value	.000
	N	65
Management factors	Pearson correlation	.692**
	P – Value	.000
	N	65
Entrepreneurial factors	Pearson correlation	.791**
	P – Value	.000
	N	65

**Correlation is significant at the 0.01 level (2-tailed). *Source: Field survey, 2014*

As it is clearly indicated in the above table 4.10, a strong positive relationship was found between working premises and performance ($r = .815$, $p < .01$), marketing and performance ($r = .809$, $p < .01$), and finance and performance ($r = .802$, $p < 0.01$), which are statistically significant at 99% confidence level. This implies that at a 1% level of significance it was discovered that the working premises, marketing and finance plays a significant role in determining the performance of MSEs in the selected sub-city.

Moreover, the table presents the association between the selected variables and performance of MSEs for a sample of 65 operators in Yeka Sub City, Addis Ababa. There is substantial, however statistically significant relationship between infrastructures and performance ($r = .791$, $p < .01$). This would imply that, the more infrastructures the better performance of MSEs would be. The result on table above further indicates that, there is a substantial positive correlation between entrepreneurial factors and business performance ($r = .719$), which was statistically significant at 99% confidence level. This implies that MSEs with entrepreneurial skills performed considerably better. There exists a positive relationship between politico - legal factors and performance ($r = .736$, $p < 0.01$), Management and performance ($r = 0.692$, $p < 0.01$), and technological factor and performance of MSEs ($r = 0.637$, $p < 0.01$), which are statistically significant at 99% confidence level.

4.3.2.2 Regressions Analysis

For the purposes of determining the extent to which the explanatory variables explain the variance in the explained variable, regression analysis was employed. The results of such analysis are narrated under.

Table 4.11. Regress performance on the selected variables using multiple regressions.

<i>Model summary</i>	R	R Square	Adjusted R Square	Standard Error of the Estimate		Sig.
	.941	.885	.881	.255		.000
<i>Coefficients</i>	<i>Model</i>	<i>Un standardized Coefficients</i>		<i>Standard Coefficient</i>	<i>t</i>	
	<i>Variables</i>	B	Std. error	Beta		Sig.
	Constant	-.351	.116		-	.003
	Political–Legal (X ₁)	.090	.031	.101	2.96	.003
	Workingpremises (X ₂)	.234	.036	.238	6.15	.000
	Technological (X ₃)	.078	.026	.086	2.98	.003
	Infrastructure(X ₄)	.150	.034	.159	4.42	.000
	Marketing (X ₅)	.157	.038	.163	4.09	.000
	Finance (X ₆)	.200	.036	.200	5.51	.000
	Management (X ₇)	.102	.029	.110	3.54	.000
	Entrepreneurial (X ₈)	.086	.030	.094	2.87	.004

Source: Field survey, 2014

**P< .01

Predictors: (Constant), Entrepreneurial factors, Technological factors, Management factors, Politico - legal factors, Financial factors, Infrastructural factors, Working premises, Marketing factors .Table 4.11 above displays the estimates of the multiple regression of performance

against its variables for the samples of 65 operators. Table 4.11 revealed that, the correlation between the observed value of performance and the optimal linear combination of the independent variables is 0.941, as indicated by multiple R. Besides, given the R Square value of 0.885 and adjusted R square 11 value of 0.881, it may be realized that 88.5% of the variation in performance can be explained by the independent variables. The remaining 11.5 % of the variance is explained by other variables not included in this study. The unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below: Predicted performance score = $-.351 + .090$ (politico-legal) + $.234$ (working premises) + $.078$ (technological) + $.150$ (infrastructures) + $.157$ (marketing) + $.200$ (finance) + $.102$ (management) + $.086$ (entrepreneurial). Table 4.11 further shows that, all the explanatory variables included in this study can significantly explain at 99% confidence level to the variation on the dependent variable. The standardized beta coefficient column shows the contribution that an individual variable makes to the model. The beta weight is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant). As these are standardized we can compare them. Thus, the largest influence on the performance of MSEs is from the working premises factor (.238) and the next is financial factor (0.200). On the other hand technology with the beta value of .086 and entrepreneurial with the beta value of .094 are the poorest predictor of performance when it is compared with the other explanatory variables under study.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter findings from the outcome of analysis were listed and conclusions were also made based on the findings and possible alternative solutions is forwarded as recommendations.

5.2 Summary of the Findings

The main sources of finance for startup and expansion of most MSEs in Yeka Sub City was from Informal sources, which comprised of 48% (i.e : Iqub,Family,Friends/Relatives) and the second major sources of finance was Personal savings comprised of 37%. The formal financial institutions were only 15%, this was mainly because the formal institutions have difficult application procedures, collateral requirement and high interest rate. Therefore there observed poor institutional frame work that lead to a big gap in the accessibility to finance.

According to the ILO (2000) report, institutional frameworks determine effectiveness and efficiency of key business infrastructures such as, microfinance institutions, Poor institutions in general, lead to higher transaction costs.

Working premises, Marketing and Financial factors have shown a Strong positive relationship as stated in the hypothesis ($r = .815, p < .01$, $r = .809, p < .01$, $r = .802, p < .01$ respectively). Implies the improved situation in the independent variables will cause the same effect in the improvement of performance.The Multiple Regression analysis result also showed that the Beta weight largest influence on the performance of MSEs is from the Working premises factor (.238), the Financial factor (0.200) and at the third place from Marketing factors (.163),this is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent

variables are held constant). Since the majority of operators of Micro enterprises' are very poor, have no capital, no education and skill, have no permanent resident because they don't have their own houses, the above factors are immediate and direct for startup of business. Although previous research showed that, endogenous factors were the main cause of failure, exogenous factors had a significant effect in approximately one third of small business failures (Peterson et al., 1983:15-19).

On the other hand Technology with the beta value of .086 and Entrepreneurial factors with the beta value of .094 are the poorest predictor of performance when it is compared with the other explanatory variables under study. It can be understood from the Entrepreneurial factors analysis MSEs operators are self employed, have a strong self motivation, self drive and tolerance, to overcome their immediate needs and to cover their daily subsistence. Personality traits, motivation, individual competencies and personal background are important factors for the success of micro and small enterprises (Baum et al., 2001; Shane et al., 2003). The study result demonstrate that more personal commitment exerted in startup of a business, hence less Internal factors come in to attention and more of the External factors are visibly confronted.

5.3 Conclusions

This research was conducted with the prime intent of critically assessing the factors affecting the performance of MSE operators engaged in TG, FP and WM work sectors of MSEs in Yeka Sub City of Addis Ababa. Specifically, the study attempted to examine the External and Internal factors affecting the performance of MSEs. Based on the findings of the study, the following conclusions were drawn.

It can be concluded that 88.5% of the variation in performance can be explained by the independent variables (Political legal, Marketing, Finance, Working Premises, Management, Entrepreneurial, Technological and Infrastructural factors

).The remaining 11.5 % of the variance is explained by other variables not included under this study.

It can be concluded that there exist a big gap of financial sources for the startup and expansion of MSEs that can be easily and equally accessible to all entrepreneurs in Yeka Sub City. The formal financial institutions was not easily accessible because of the difficult application procedures, collateral requirement and high rate of interest, and these situations led MSE operators to use more of the informal institutions. So lack of sources of finance is the major factors affecting startup and expansion of business by many entrepreneurs in the area.

The External factors are identified as the major factors in affecting the performance of MSEs, these are the Working premises, Financial and Marketing factors , which has a strong positive correlation with performance of business in Yeka Sub City.The largest influence on the performance of MSEs is from the Working premises factor (.238) and the next is Financial factor (0.200). On the other hand Technology with the beta value of .086 and Entrepreneurial with the beta value of .094 are the poorest predictor of performance when it is compared with the other explanatory variables under study.

The internal factors (Entrepreneurial and Management) showed a positive correlation with performance of MSEs in Yeka Sub City. How much a business can with stand the external factors affecting performance and its ability to exploit the internal and external business opportunities depend up on the Entrepreneurial and Management skill of businesses. Entrepreneurial factors are the main Internal factors affecting the performance of business in the Sub City, it has shown a substantial positive correlation with performance ($r = .791$, $p < 0.01$).Among the entrepreneurial factors lack of readiness to learn, lack of readiness to improve and to change, lack of creativity, flexibility and adaptability to new ideas were the most important factors identified in affecting the performance of business in the area.

5.4 Recommendations

The FMSE office in consultation with the government should review the current Institutional frame works of the lowest administrative offices and Microfinance institutions .The FMSE office should establish a digitally networked business registration system that can register MSE operators from anywhere, this will eliminate bias in registration, and provide license within a short period of time by assigning MSE extension officers to facilitate. The office in consultation with the customs office should made a very fair registration and licensing fee and provide grace period for tax .The Microfinance institutions should review and simplify loan application procedures ,the level of collateral and interest rates ,that can be easily accessed and affordably utilized by MSEs . Assigning of trained MSEs extension workers at grass root level is vital in providing technical support, information required about the political legal requirements and facilitate on the day to day support needed.

Establish a Microenterprise revolving fund under each woreda by allocating a lump sum of funds and allow operators to take funds for start up and payback periodically the process is closely monitored, technical support also rendered by extension workers. The other alternative is to provide employment guarantee for a certain period of time, mean while promoting savings by creating linkage with a saving and credit institutions.

There should be a systematic and well organized Entrepreneurial training center within a Sub City that provides a continuous training, for MSE officers, extension workers and business operators. It assesses up-to-date market information through the extension workers, conduct study on the current and new business areas, identify the opportunities and threats available and communicate to MSE operators above all guide the operators to have a big vision that can lead to smaller and medium enterprises.

The FMSEs office should establish a well structured marketing sites ,where every producers could supply their products for sell, their prices and marks tagged on it and marketed together ,this creates an access to market for products of MSEs and it can easily promote products through organized marketing structure all operators can gain equal opportunity of entering to the market, above all it avoids unfair house rents, provide a chance of concentrating only on production while their products are sold at a common market. It is the researcher's view that future research could therefore investigate the other sectors like construction, urban agriculture, and retail and come up with specific findings which will potentially contribute a lot in the development of the country in general.

5.5. Limitations of the study

First the independent variables which were only assumed to be common to all operators under Addis Ababa business environment were chosen for this study hence it doesn't exhaust all the factors affecting MSEs. These are the Political-legal, Marketing, Infrastructural, Working premises, Financial, Technological, Management and Entrepreneurial factors .

Secondly ,profitability is considered as measure of performance this is because the majority of MSE are profit focused and it was attempted to measure profitability based on the respondents perception ,this is mainly dueto the majority of operators doesn't keep record and the business are survival based ,hence they estimate their performance by fulfilling their household expenditure and survival of the business.

Thirdly all the variables measurement was based on the respondents assumptions tried to convert in to empirical results this is due to the fact that most of the MSE operators are characterized by no education and without record keeping.

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Annex - A
ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES MBA PROGRAMME
QUESTIONNAIRE FOR MSE OPERATORS

SECTION 1: INTRODUCTION

This is to conduct a research entitled Performance of Micro and Small Enterprises in Addis Ababa. So you are one of the respondents selected to participate in this study. The information you are providing will be of great importance in producing current ,practical and reliable out put , that will inform readers of the study .

The information you will provide is confidential and only used for the academic purpose.

Thank you in advance for your kind cooperation .

Instructions

- ✓ No need of writing your name
- ✓ For multiple choice questions indicate your answers with a check mark (✓) in the appropriate block.

SECTION 2: GENERAL INFORMATION ON BUSINESS ENTERPRISES

1.What is the main activity of the enterprise?

A)Textile and garment B)Food processing C)Wood and metal work

2. How did you raise funds to start-up your business?

A) Personal saving D) NGOs G) Micro finance institutions
B) Family E) Friends/Relatives H) Others (specify)--
C) Banks F) Iqub/Idir

3. Which one of the following aspect is the most important for the profitability of your business?

A) Existence of working premises B) Availability of capital

- C) Availability of skill training E) Management
 D) Technology F) Market Availability
 G) Entrepreneur

SECTION 3: FACTORS AFFECTING THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES

Please indicate the degree to which the following factors are affecting the profitability of your business enterprise performance. 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.

3. Please indicate the degree to which you agree or disagree with the following statements concerning politico-legal factors.

S.No	4. Political legal factors:	5	4	3	2	1
4.1	Tax levied on my business is not reasonable					
4.2	Costly company registration and licensing bureaucracy					
4.3	Political influence in team formation, enterprise selection,					
4.4	Lack of access able information to government regulations relevant to my business					

4. Please indicate the degree to which you agree or disagree with the following statements concerning working place factors.

S.No	5. Working place factors:	5	4	3	2	1
5.1	Absence of own premises					
5.2	Current working place is not convenient					
5.3	House rent is too high for my business					

5. Please indicate the degree to which you agree or disagree with the following statements concerning technology factors.

S.No	6. Technology factors:	5	4	3	2	1
6.1	Lack of information in the availability of appropriate tools and materials					
6.2	Lack of skill and knowledge to handle new technology					
6.3	Lack of capital to acquire new technology					
6.4	Unable to select proper technology					

6. Please indicate the degree to which you agree or disagree with the following statements concerning infrastructural factors.

S.No	7. Basic Infrastructural Factors:	5	4	3	2	1
7.1	Absence of Power and power interruptions					
7.2	Insufficient and interrupted water supply					
7.3	Lack of business development services					
7.4	Lack of sufficient and quick transportation service					
7.5	Lack of appropriate dry waste and sewerage system					

7. Please indicate the degree to which you agree or disagree with the following statements concerning marketing factors.

S.No	8. Marketing Factors:	5	4	3	2	1
8.1	Inadequate market for my product					
8.2	Searching new market is too difficult					
8.3	My products are Poor quality for the market					
8.4	Lack of establishing a market network					
8.5	Lack of market information					
8.6	Lack of promotion to attract potential users					
8.7	Poor customer relationship and handling					

8. Please indicate the degree to which you agree or disagree with the following statements concerning financial factors.

S.No	9. Financial Factors:	5	4	3	2	1
9.1	Absence or inadequacy of credit institutions					
9.2	Lack of access to credit institutions					
9.3	Shortage of working capital					
9.4	High collateral requirement from lending institutions					
9.5	High interest rate by lending institutions					
9.6	Loan application procedures are complicated					

10. Please indicate the degree to which you agree or dis agree with the following statements concerning management factors.

S.No	10.Management Factors:	5	4	3	2	1
10.1	Lack of clear division of duties among members					
10.2	Poor organization and ineffective communication					
10.3	Poor selection of business partners					
10.4	Lack of well trained and experienced employees					
10.5	Lack of low cost and accessible training facilities					
10.6	Lack of financial ,human and material management					

11. Please indicate the degree to which you agree or disagree with the following statements concerning entrepreneurial factors

S.No	11.Entrepreneurial factors:	5	4	3	2	1
11.1	Lack of motivation and self drive					
11.2	Lack of tolerance to work hard					
11.3	Lack of readiness to learn ,to improve and to change					
11.4	Lack of creativity, flexibility and adaptability to new ideas.					
11.5	Lack of entrepreneurship training					
11.6	Lack of information to exploit business opportunities					

12. How do you rate the performance of your business profitability?

Item	5	4	3	2	1
Performance Factors					
The business is Profitable					
There is a good Sales turnover					
The business has good Market share					
There is good customer loyalty					

Annex - B

INTERVIEW QUESTIONS FOR MSE OPERATORS

1. What problems did you face while running MSEs in relation to:

A. External factors

- Politico-legal factors [government policy, bureaucracies (in relation to company registration and licensing), taxation and like]
- Premises factors
- Technology factors
- Infrastructure (power, transportation, water supply and like)
- Marketing factors (relationship with suppliers, customers and others)
- Financial factors (interest rates, collateral requirements, etc)

B. Internal factors

- Management and related factors
- Entrepreneurial factors

2. What are other problem(s) did you faced regarding the overall Functioning of your activity?

Annex - C

CORRELATION MATRIX

Correlation Matrix										
		Performance	Political legal factor	Working Premise factor	Technological factor	Infrastructure factor	Marketing factor	Financial factor	Management factor	Entrepreneurial factor
Performance	Pearson	1								
	Sig (2 tailed)									
	N	65								
Political legal factor	Pearson correlation	.736**	1							
	Sig (2 tailed)	.000	.000							
	N	65	65							
Working Premise factor	Pearson correlation	.815**	.645**	1						
	Sig (2 tailed)	.000	.000	.000						
	N	65	65	65						
Technological factor	Pearson correlation	.637**	.490**	.575**	1					
	Sig (2 tailed)	.000	.000	.000	.000					
	N	65	65	65	65					
Infrastructure factor	Pearson correlation	.791**	.607**	.664**	.533**	1				
	Sig (2 tailed)	.000	.000	.000	.000	.000				
	N	65	65	65	65	65				
Marketing factor	Pearson correlation	.809**	.691**	.647**	.499**	.673**	1			
	Sig (2 tailed)	.000	.000	.000	.000	.000	.000			
	N	65	65	65	65	65	65			
Financial factor	Pearson correlation	.802**	.611**	.641**	.515**	.676**	.716**	1		
	Sig (2 tailed)	.000	.000	.000	.000	.000	.000	.000		
	N	65	65	65	65	65	65	65		
Management factor	Pearson correlation	.692**	.498**	.592**	.453**	.579**	.627**	.554**	1	
	Sig (2 tailed)	.000	.000	.000	.000	.000	.000	.000	.000	
	N	65	65	65	65	65	65	65	65	
Entrepreneurial factor	Pearson correlation	.791**	.566**	.611**	.486**	.621**	.639**	.619**	.488**	1
	Sig (2 tailed)	.000	.000	.000	.000	.000	.000	.000	.000	.000
	N	65	65	65	65	65	65	65	65	65
Correlation is significant at the 0.01 level (two tailed)										

Note that: As we are producing multiple correlations and regression model we need to be aware of certain features of the *multicollinearity*. That means, when two or more independent predictors are highly correlated with each other this is known as multicollinearity. As a general rule of thumb, predictor variables can be correlated with each other as much as 0.8 before there is cause for concern about multicollinearity (Perry R. et al., 2004: 323). But, here a pair wise correlation is below 80%, which indicates the absence of series problem of multicollinearity in the regression equation as indicated in the above correlation matrix.

Annex - D

REGRESSION TABLES

Multiple Regressions

Model Summary

Model	R	R square	Adjusted R Square	Std.Error of the Estaimate
1	.941 ^a	.885	.881	.255

a.predictors (constant) : Entrepreneurial factors, Technological factors, Management factors, politico - legal factors, Financial factors, Infrastructural factors, Working premises factors, marketing factor.

Coefficients ^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Standard Error	Beta		
(constant)	-.351	.116		-3.033	.003
Political legal factors	.090	.031	.101	2.966	.003
Working Premises Factors	.234	.036	.238	6.519	.000
Technological Factors	.078	.026	.086	2.981	.003
Infrastructural Factors	.150	.034	.159	4.422	.000
Marketing Factors	.157	.038	.163	4.098	.000
Financial Factors	.200	.036	.200	5.513	.000
Management Factors	.102	.029	.110	3.543	.000
Entrepreneurial factors	.086	.030	.094	2.879	.004

a. Dependent variable