ASSESSING FACTORS AFFECTING THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES (MSEs): THE CASE OF YEKA SUB CITY WOREDA 07, ADDIS ABABA

[a]Mesfin Lemma (Ph.D.) and [b]HilinaKebede (MBA)
[a] Associate professor at International Leadership Institute, Ethiopia
[b]Admin Assistant – Consulting Company, Ethiopia

Abstract:*This research aims to investigate factors affecting the performance of Micro & Small Enterprises (MSEs) with a special emphasis on Business management aspect. To achieve the objectives of this study, questionnaires were analyzed using statistical package for social science (SPSS) software. Descriptive and inferential analyses were done on the information collected through questionnaire from a sample of 140 operators of MSEs. The respondents were selected using stratified sampling technique. Besides, the qualitative interview questions from Woreda coordinators were analyzed using descriptive narrations through concurrent triangulation strategy. The empirical study considered five major factors which seem to affect performance of MSEs which are: inadequate finance, poor management practices, lack of relevant and timely information, marketing problems, and government policies and regulation problems including bureaucratic bottlenecks system.The findings indicate that, there exists a linear relationship between independent variables and dependent variable. Moreover, the selected independent variables may significantly explain the variations in the dependent variable at 5% level of significance. It is also found from this study thatthe main sources of startup and finance for expansion or funds for most MSEs are personal savings followed by support from family and friends/relatives. Overall study showed that managerial skill and experience, marketing skill, information availability, finance and government policies and regulations contribute a great deal for the performance of MSEs. Based on the findings, recommendations were forwardedto make MSEs competitive and profitable. Furthermore, government bodies should work to increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy from experts. Further research directions are also forwarded in the study.*

Key words:*MSEs, performance factors*

1. INTRODUCTION

1.1 Background of the Study

Different studies indicate that MSEs exert strong influence and are playing major role in development. In addition to the economic support, they also have huge contribution to human resource development, entrepreneurial progress, poverty alleviation and improved life quality. In most developing countries MSE sector are serving as economic transition by producing goods and services which have reasonable quality and price to the community at large (Bekele&Muchie, 2009;Mulhern 1995).

Even though MSEs are defined differently in different parts of the world there significance in contributing to development has been accepted all over the realm almost equally. This is to mean, there is no generally-accepted definition of a small business, because classifying businesses as "large-scale" is a subjective and qualitative judgment(Gray, Cooley and Lutabingwa 1997). In developed countries, small-scale business is defined in terms of annual sales and the number of paid employees. Thesenumbers vary across national statistical systems. The most frequent upper limit being 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers MSEs to include firms with fewer than 500 employees. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most ten, or in some cases five workers (OECD, 2000).

According to Hallberg (2000), "Small enterprises include a variety of firms, village handicraft makers, small machine shops, restaurants and computer software shops that possess a wide range of sophistication and skills and operate in very difficult markets and social environments. The owners may or may not be poor, some are dynamic, innovative and growth oriented while others are traditional lifestyle enterprises that are satisfied to remain small".In all successful economies, MSEs are seen as an essential facilitator for growth, job creation and social progress. The small business sector is also seen as an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, and enhance productivity and technical change and, through the combination of all of these measures, to stimulate economic development.This is not denying the importance of large industries and other enterprises for the growth of the Ethiopian economy, there is ample evidence to suggest that the labor absorptive

capacity of the MSE sector is high, the average capital cost per job created is usually lower than in big business, and its role in technical and other innovative activities is vital for many of the challenges facing Ethiopia (MoTI, 1997).

In Ethiopia, Micro and Small Enterprises (MSEs) sector have been working for the last two decades since 1990s', with the objective of transforming the lives of the poor in the move to poverty reduction. The sector has the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals, however, the sector is confronted with several factors that affect the performance of MSE. The major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises, etc. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In addition, there are also personal attitudes or internal factors that affect the performance of MSE, which are related to the person's individual attitude, training and technical know-how (Bezabih, 2010). Generally, there are external and internal factors which are still affecting the very performance of MSEs.

According toMackay, ADA (2017), most developing countries have formulated and implemented a wide variety of MSE development strategies in order to support the growth of the MSE sector, thereby transforming economies and generating substantial employment opportunities. Hence, the Ethiopian government has historically supported the growth of Micro, Small and Medium Enterprises, especially growth-oriented businesses, through various policy interventions. For instance, the government formulated a national Micro and Small Enterprises Development and Promotion Strategy in 1997 (revised in 2011) to create an enabling environment for the sector. As cited in the Report by Mackay, ADA., Ethiopia's first Micro and Small Enterprises (MSEs) development strategy was implemented between 2011 and 2015, MFIs extended 4.29 billion Birr (186,7M USD) to Micro and Small Enterprises (MSEs). Within the framework of the revised MSE development strategy, developed as part of the second Growth and Transformation Plan (GTP II – 2015/16 – 2019/20), MFIs have been given the responsibility of extending 21 billion Birr (934,2M USD) to the same target group which shows 400% increase on the previous period. This is an indication that, Ethiopia is considering investing in Micro and

SmallEnterprises as a good strategy to accelerate economic growth in urban and rural areas, by creating employment opportunities, and ensuring a fair wealth distribution & increasinghousehold income.Generally,the aim of MSE development and the provision of MSE services are to enable the entrepreneurs to take advantage of market opportunities and improve the access to skill development opportunities that strengthen entrepreneurial capabilities (UNIDO, 2002).

A positive relationship has been documented between small-business development and economic growth in developed countries (Harris and Gibson, 2006). However, far less research has been conducted on this relationship in developing countries. Studies in small-business development and performance are necessary in countries like Ethiopia because of the dissimilarities in the process between developed and developing countries. As with many developing countries, there is limited research and academic studies about the MSE sector in Ethiopia. It is also essential to understand the factors influencing small-business performance in African countries because they are significantly different from those facing developed countries. These Factors include: access to business information services, availability of managerial experience, Government Policy and Regulations, technology and access to finance.

1.2 Statement of the Problem

Micro and Small Enterprises have been used as one of the poverty reduction tools andmany citizens are benefiting from the program including women and youth. In Addis Ababa, Most youth and women form groups or associations to get the support they need, specially finance, for their Micro and Small Enterprises. Otherwise,as it was explained in the strategy of micro and small enterprise development strategy of 1997, most sources of finances are from personal savings, loans acquired from relatives, friends and moneylenders with high amount of interests(World Bank, 2004).

Given the importance of small businesses for an economy, the success and performance of these enterprises in the sector is an issue of continuous concern. MSEs are affected by numerous factors either positively or negatively, which in turn will determine their outcome in the competitive business environment. Small businesses increasingly face competition not only from their peers but also from large corporations participating in the markets. Moreover, the ever

changing business environment requires firms to adapt quickly to the new challenges and competition, and it also presents particular problems for small businesses given their small size and limited resources. Thus, they need to identify, prioritize and effectively tackle these challenges in order to be more competitive and relevant in the business world.

Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, *et al.,* 2006). Lack of credit has also been identified as one of the most serious constraints facing MSEs and hindering their development (Aga and Reilly, 2011). Hallberg (2000) also identified limited capital, limited accessibility to business information services, limited access to finance affect their performance.The Government of Ethiopia has placed a lot of emphasis on development of MSEs as a means of encouraging self-employment, poverty reduction and accelerating economic growth. But as a strategy this program also expects the MSEs become self-reliant and grow to medium and large enterprises progressively within a given period of time.

This paper tries to look into the major factors contributing to performance of MSEs within the context of business administration. It also assesses the factorsinhibiting those businessesfrom growing and/or graduating to the next level by considering different key factors such as; having feasible plan and their implementation,managerial skill and experience, availability of training and developmentopportunity, financial support as well as effective utilization of resources including information.

Understanding of why some firms succeed while others do not is crucial to the stability and health of the economy. Despite this fact, however, which factors are the most important to the success ofMSE sector in Ethiopian has not been adequately studied empirically. Thus, research that can lead to the identification of those factors associated with small business performance is therefore of a great interest to policy makers, owner-managers and their advisors (Alasadi&Abdelrahim, 2007). So this study tries to investigate the factors affecting the performance ofsome selected micro and small enterprises (MSEs) in Yeka sub-city. Subsequently, the study tried to answer the following research questions:

i. To what extent does managerial and marketing experience affect the performance of MSEs?

ii. To what extent does training and development affect the performance of MSEs?

iii. How does business information affect the performance ofMSEs?

iv. To what extent is the performance of MSEs affected byaccess to finance?

v. To what extent does government policies and regulation affect the performance ofMSEs?

2. LITERATURE REVIEW

2.1Definition of Micro and Small Enterprise (MSEs)

MSEs are a very heterogeneous group of businesses usually operating in the service, trade, agri-business, and manufacturing sectors. They include a wide variety of firms such as village handicraft makers, small machine shops, and computer software firms that possess a wide range of sophistication and skills. Some are dynamic, innovative, and growth-oriented while others are satisfied to remain small and perhaps family owned. Small enterprises usually operate in the informal sector of the economy and employ mainly wage-earning workers. Small enterprises are often classified by the number of employees and/or by the value of their assets. The size classification varies within regions and across countries relative to the size of the economy and its endowments (Lukács, 2005).

Overall, MSEs could be defined and classified taking into consideration: quantitative, qualitative, and both quantitative and qualitative aspects. Quantitative criteria are more often used in defining MSEs, because these criteria allow a clear delimitation between different categories of MSEs, such as: micro entities, small and medium-sized entities. The most commonly used quantitative criteria according to which the MSEs are classified into categories are: number of employees, turnover, total balance sheet or a combination of the last two. There are other criteria like: net assets, initial capital, return, invested capital, industrial classification combined with number of employees, total produced quantity and their value, added value etc. (Filion, 1990).

2.2MSEs in Ethiopia

Micro and Small Enterprise Development Program in Ethiopia has been given due attention by government since 2004/2005. Of course, in 1996/97 National Micro and Small Enterprise

Strategy was developed by the government. However, the degree of recognition to the sector with regards to job creation and the alleviation of abject poverty among impoverished youth and women were not sufficient (Bekele and Jacobs, 2008).

Table 2.1.Definition of Micro and Small Enterprise (MSEs)

Sr. no.	Enterprise Level	Sector	Hired labor	Capital in ETB and USD($)
1.	Micro	Industry	Less than or equal to 5	$6000.00 or ≤ETB 100,000.00
		Service	Less than or equal to 5	$3000.00 or ≤ETB 50,000.00
2.	Small	Industry	6-30	$90,000.00 or ≤ETB 1,500,000.00
		Service	6-30	≤ETB500,000.00

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

Accordingly, MSEs development Agencies are set up in all regions, even sub branch offices at zone/district level. Recently the government amended MSEs strategy with the objective that the sector plays a significant role not only in alleviating poverty and reducing unemployment, but also to boost the sector to play its essential role as a base to medium and large scale industry (Konjit,na). According to the new Small and Micro Enterprises Development Strategy of Ethiopia (published 2011) the working definition of MSEs is based on capital and Labor.

2.3MSEs Contribution

There is worldwide consensus that high rates of economic growth contribute to economic and social development and poverty reduction. At the same time, there is growing recognition that poverty reducing growth depends on the quality of growth: its composition, distribution and sustainability (OECD,2004; Kalimah, 2011). It is obvious that Micro and Small Enterprises (MSEs) are pivotal in the socioeconomic development and improvement of people's lives. Many highly-industrialized countries like Japan, China, and Taiwan have based their industrial development on MSEs in which they are now a role model for less-developed countries on how to utilize their domestic resources, unemployed labor and domestic technologies (Chemeda, 2003; Rudjito, 2003).

Recent empirical studies show that small enterprises contribute to over 55% of GDP and over 65% of total employment in high-income countries. Small enterprises and informal enterprises, account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95%of total employment and about 70% of GDP in middle-income countries. In the European Union countries, for example, there are some 25 million small businesses, constituting 99% of all businesses; they employ almost 95million people, providing 55% of total jobs in the private sector (Hidayet et al. 2010). Additionally, as the Central Statistical Authority of Ethiopia's (2015) Report on Small Scale Manufacturing Industries Survey indicates, the importance of the sector can help transform the economy from agrarian-based to manufacturing-led, increasing agricultural productivity, reducing urban unemployment, and stimulating trade and construction.In Ethiopia, about half of the urban labor force is engaged in this sector and Addis Ababa alone accounts for nearly 40% of the total MSE operators in the country.

2.4The Concept of Business Performance

Global Entrepreneurship Monitor (GEM) defines Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it (GEM, 2004).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 (Chong, 2008; Walker and Brown, 2004).

Walker and Brown (2004) also suggest, 'all businesses must be financially viable on some level in order to continue to exist'. However, given that some businesses have no interest in growth, thereby implying that financial gain is not their primary or only motivation, there must therefore be other non-financial criteria that these small business owners use to measure their business performance.Thus, Mohan- Neill (2009) argues that in smaller, entrepreneurial and independent firms, measures of success may have more complex dimensions than just financial performance.

Even though the choice of performance measurement is open for anyresearcher,the selection of performance measures that reflect the true situation of small businesses with some degree of certainty and reliability is indeed a crucial process (Rami and Ahmed, 2007). As the Non-financial measures of performance used by business owners, such as autonomy, job satisfactionor the ability to balance work and family responsibilities are subjective and personally defined and are consequently more difficult to quantify(Walker and Brown, 2004; Mohan-Neill, 2009).

In this study, the financial measure of Performance of MSEswhich is the growth of total capital of the enterprises will be used since it is better than the non-financial measures in terms of reducing the subjectivity of the measurement results.

2.5Performance and Success Factors of MSEs:the Ethiopian Context

Most big businesses in Ethiopia have started as small and Micro and have grown to their maturity over long period by accumulating capital and business management experiences. According toEthiopian Economics Association Research Brief(2015) there are enterprises that are graduating into medium size enterprises and contribute a lot for economic growth of the country though they are limited in number. The success of a firm depends on internal and external opportunities, such as promising demand prospects for the firm's product, and/or internal inducements, such as a shift to a more efficient utilization of existing resources of the firm. On the other hand, external and internal factors may also function as obstacles to growth and Performance.

As far as external success determinants are concerned, demand for the firm's products is the major factor. Second, the market actions of competitors, the supply of production factors and the features of the local business environment are typically external to a small firm.Internal success determinants include the features of the firm itself and the attributes of the business owners of the enterprises (Abebe, 2011). A study conducted on 500 small businesses and enterprises selected from five major cities in Ethiopia showed that participation in social capital and networking (Iqqub schemes) was critically helpful for long term survival (Bekele and Worku, 2008).

2.6Problems and Challenges of MSEs

Although the MSME sector contributes significantly to the national economy, the high failure rate among well-established small businesses and enterprises is a matter of major concern. Businesses that failed were characterized by inability in obtaining loans from formal money lending institutions such as commercial banks, inability to convert part of profit back into investment, poor managerial skills, shortage of technical skills, and low level of education (Bekele and Worku, 2008; Bekele and Jacobs, 2008).

In addition to these MSEs in Ethiopia also face shortage of raw materials, inadequate credit assistance, inadequate finance, problems of skilled man power, lack of machinery and equipment and absence of adequate infrastructure (Getahun, 2016).Prior researches has shown that a number of factors affect the performance of small businesses, especially a lack of capital or financial resources.Administrative problems have also been cited as a major cause of failure for small businesses, poor recordkeeping and a lack of basic business management experience and skills can also be mentioned as major contributors. Researchers also identified inexperience in the field of business, particularly a lack of technical knowledge, inadequate marketing skills, lack of planning and plan implementation (Lussier, 1996). Other negative factors that have been identified include corruption, poor infrastructure, poor location, failure to conduct market research, and the economy (Mambula, 2002).

2.6.1 Access to Information

Many firms in Africa operate in an information-poor environment due to lack of adequate business support services and the poor information technological infrastructures (Oshikoya&Hussain, 2007). Access to information has however been not given the same attention as other constraints to growth of MSEs like access to finance, markets, technology or training (Ntakobajira, 2013).

2.6.2 Access to Finance and Record Keeping

Most of the micro and small enterprises depend on external finance or non-institutional finance sources. Financial assistance by the various agencies, like financial corporations and commercial bank, often falls much short of their requirements. As it was maintained by Getahun, in order to

supplement the institutional finance micro and small enterprises have to approach the unorganized money market at terrible heavy rates of interest or on suppliers credit on exceedingly unfavorable terms from Private finance, ultimately spoil the unit and cause for sickness in the small business (Getahun, 2016).

It is possible to point out that there is lack of access to finance; even the access which is delivered to MSEs is inappropriate. Moreover, MSEs are facing difficulties to bring collateral, disbursement of loans on time, interest rate, loan size and other availability of financial instruments. These and other problems together are hampering MSEs' expansion, diversification, promotion and growth. Lack of competition in financial institutions limits the access to finance. High risk and high transaction costs associated with creditors of MSEs likewise constrain access to finance. In addition to this, many MSEs are poor at book keeping and do notprepare formal financial statements and this deprives them from access to finance (Tadesse, 2014).

In addition to the above mentioned issue, poor record keeping can also lead to inadequate working capital decisions and businesses that donot keep updated and accurate records and do not use adequate financial controls have a greater chance of failure than firms that do (Lussier, 1995).

2.6.3 Managerial Experience, Training andDevelopment

Small business are owned by one person or small group of people and managed by their owners, who doall management usually with other little help. In Ethiopia most of micro and small enterprises are launched without a feasibility report. Moreover, wherever such reports were prepared, the purpose was to use them as advice to obtain institutional finance than to serve as a plan to make the unit a success(Getahun, 2016). Previous business experience of theowner affects growth significantly and positively (Gebreeyesus, 2007). Management experience may provide entrepreneurs with prior knowledge of markets, ways toserve markets, and of customer problems(Abebe, 2011). As cited by Worku, (2009) conducts a study on the efficiency of management as a determinant of long-termsurvival 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.

2.6.4 Marketing Skill

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 and stay long in the business environment. The study of Lussier (1995)emphasizes on the importance of marketing skill of the business owners as one factor to the success and better performance of small businesses.

2.6.5 Government Policy and Regulations

Although there have been attempts by the government to liberalize and improve the policy, regulatory and institutional support environment for MSEs, which resulted in increase in investment and competition and improvement in the licensing procedures, information from the survey data indicates that there is divergence between stated policies and directives and the outcome on the ground. Capital shortage, inadequate business premise, inadequate/uncertain market and high taxes still remain major constraints to expand MSEs. Moreover, the data reveal that policy predictability is quite low. Much more remains to be done to create an enabling business environment. Concrete and coordinated regulatory and institutional support (infrastructure facilities like business premises, water and power; financial services; extension services; assistance in the transfer of technologies; promotion of marketing facilities; and provision of training on sustainable basis) has yet to be provided by the government and other stakeholders (Gebrehiwot and Wolday, 2001).

2.9 Conceptual Framework

A conceptual framework is defined as an element of the scientific research process in which a specific concept is defined as a measurable occurrence or in measurable terms that basically gives a clear meaning of the concept. According to Mugenda and Muginda, (2003) conceptual framework is a diagrammatic presentation of the relationship between dependent and independent variables as cited by (Ntakobajira, 2013).

In this study, the dependent variable is the performance of the MSEs which is measured in profitability while the independent variables are management experience, information, training and development, infrastructure, marketing skill, finance and government rules and regulation.

If MSEs have good management experience and/or get training and development, finance and on time business information, they will improve their efficiency, effectiveness and performance. These in return contribute to goal achievement and their success in providing quality service and product and stay profitable in the business.
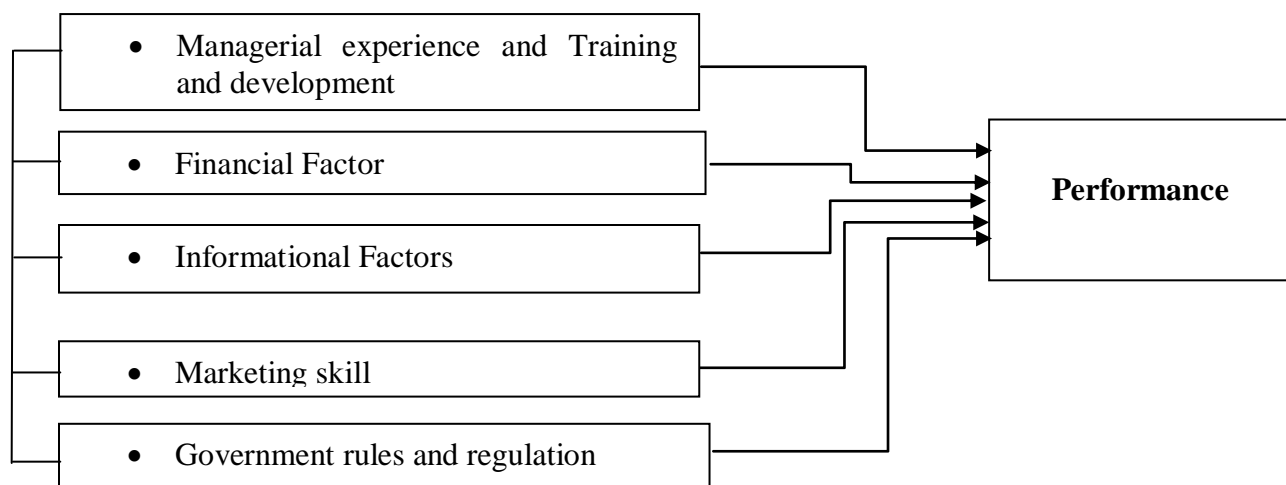
Figure 2.1: Conceptual Framework   Source: Literature Review

3. RESEARCH METHODS

3.1 Research Design

This research employed descriptive and explanatory research. The major purpose of descriptive research is description of the state of affairs as it exists at present. Thus, this study describes and critically assesses the factors affecting the performance of MSEs in Yeka sub city Woreda7. Moreover, the study uses mixed approach of qualitative and quantitative data collection techniques i.e., triangulation, is used as it gives the potential to cover each technique's weaknesses with strengths from the other techniques. In this study, a combination of qualitative and quantitative approaches is employed.

3.2 Sample Size and Sampling Technique

The target population consists of all MSEs in Yeka sub city Woreda 7, which includes 216 long-standing registered MSEs. The population is chosen purposely, for the nearness and convenience to collect data considering the short period and other resource constraint.

3.2.1 Sampling Procedure

The study applied stratified random sampling to get information from different groups of the MSEs. This technique is preferred because it is assumed that there exists some kind of homogeneity within the group. The samples selected are from the five major categories of MSE sector namely; Manufacturing, Construction, Service, Trade and Urban agriculture. This sampling technique is considered because it allows the sample to be representative and increase precision, confidence and generalizability of the research findings.

3.2.2 Sample Size

In this study to select sample size, a list of the population formally registered MSEs until March 2018 by Yeka sub city Woreda7 MSE enterprise development Bureau were obtained. The total population of the study is 216 enterprises which includes all the five major sectors.

The following formula was used for the calculation of the sample size since it was relevant to studies where a probability sampling method was used (Watson, 2001).Accordingly, as table 3.1 shows, 147 respondents were selected from the total of 216 MSEs operating in Woreda7.

$$n = \cfrac{\cfrac{P\,[1-P]}{\cfrac{A^2}{Z^2} + \cfrac{P\,[1-P]}{N}}}{R}$$

Where, n = sample size required = 147

N = number of population = 216

P = estimated variance in the population = 50%

A = margin of error = 0.05

Z = confidence level = 1.96 for 95% confidence

R = estimated response rate = 95%

Table 3.1 Population and sample selected in each sector

Sectors	Population in the Woreda	Samples taken
Trade	106	72
Service	69	47
Manufacturing	19	13
Urban agriculture	13	9
Construction	9	6
Total	**216**	**147**

Source: Yeka sub-city Woreda 7 MSE office and own computing

3.3 Source of Data and Data Collection Tools

This study employed both primary and secondary sources of data. In order to get the intended result, the researchers used structured questionnaire which include both open and close ended questions as best instrument. The questionnaire involved 5 point Likert-scales ranging from strongly agree (5) to strongly disagree (1) for major factors that affect performance.Moreover, it included general information on the respondent and on the business venture. These questionnaires were filled by the owners and operators of the MSEs.Furthermore, face-to-face interviews with the MSEs' development bureau officials were conducted for support and to give the full picture of the research. Besides, secondary data from files, pamphlets, office manuals, circulars and policy papers are be used to provide additional information where appropriate. In this study the reliability of the data was tested by using Cronbach's alpha coefficient, which resulted in .805.

3.4 Method of Data Analysis

Descriptive statistics like mean, standard deviation, frequencies and percentages are applied to facilitate meaningful analysis and interpretation of research findings and inferential statistics i.e., logistic regression is also applied. The results of processed data are presented using tables and charts. The qualitativedata obtained through questionnaire and interviews was also analyzed through descriptive method of analysis.

Accordingly, this statistical technique is used to explain the following relationships. Regress performance (as dependent variable) on the selected linear combination of the independent variables using logistic regressions.

Regress Performance on Selected Variables:

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

Where:

Y is the response or dependent variable- performance

X_1= Lack Management experience,

X_2= Lack of Information,

X_3= Lack of Finance

X_4= Lack of Marketing skill

X_5= government policies and regulation are the independent variables.

β_0 is the intercept term-constant which would be equal to the mean if all slope coefficients are 0.

β_1, β_2, β_3, β_4 and β_5 are the coefficients associated with each independent variable which measure the change in the mean value of Y, per unit change in their respective independent variables.

4. RESULTS AND DISCUSSION

4.2 Category of Business Venture

As shown in the figure below, the firms in the sample were operating in five sectors of the economy. Most of them are engaged in Trade (48.92%) followed by Service sector (32.37%), Manufacturing, Urban-Agriculture and Construction are summarized to be8.63%, 6.47% and 3.6% respectively. This division of MSEs by the type of business they were engaged in was believed to be helpful to study the critical factors that affect the performance of MSEs in each sector.
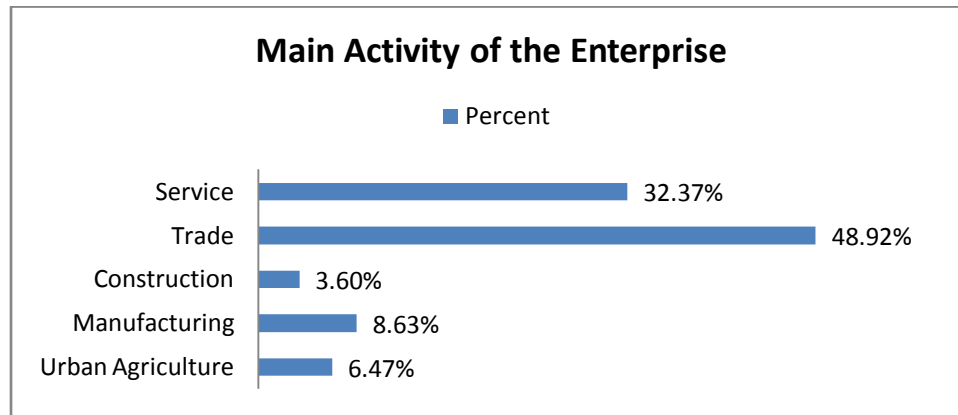
Main Activity of the Enterprise

*Figure 4.1: Main activity of the enterprise*Source: Own Survey, May 2018

4.3 The Main Source of Start-up and Expansion Finance

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

As it was argued by Getahun (2016),in order to supplement the institutional finance MSEs use private finance sources, which ultimately spoil the unit and cause for sickness in the small business and lead them to failure. As can be seen from the above figure personal saving (36.43%) is the most frequently used source, followed by family (32.86%), micro finance (10.0%), friends/relatives (6.43%), Banks (5.0%) and Iqub (5.0%) in that order. And the remaining sources of finance come from NGOs (0.7%) and joint source from Personal saving and Iqub (0.7) and from family and micro finances (1.4%). This shows that the main source of finance for MSEs which is more than 60% is from personal saving and family source. Even though informal sources are playing the greatest role, we can also observe from the data that formal sources such as microfinance and Bank are also used.
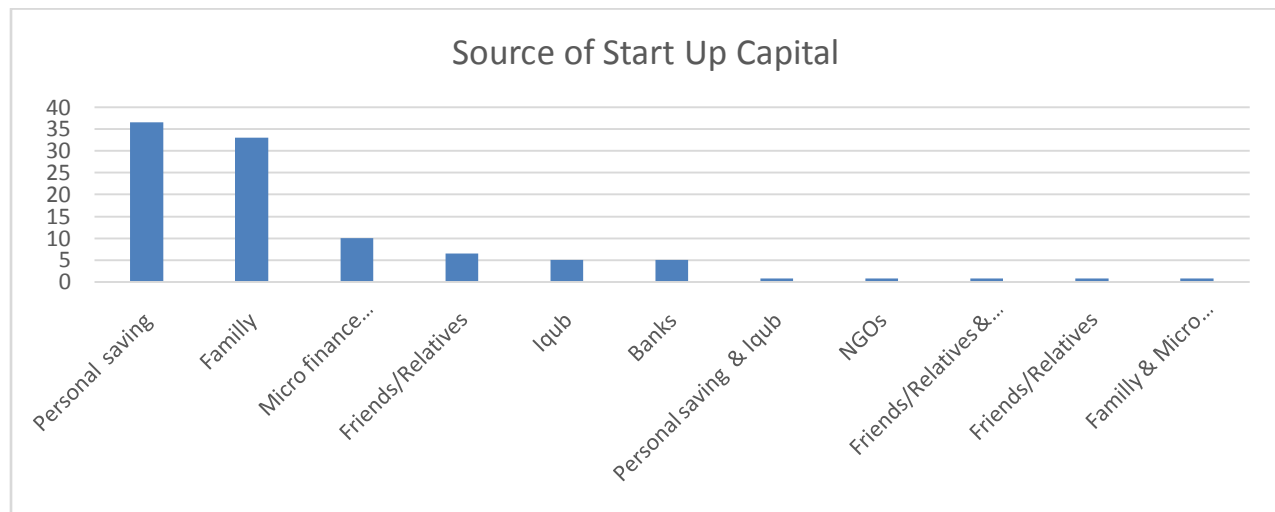
Figure 4.2: Source of FinanceSource: Own Survey, May 2018

Besides, the result of interview shows that the majority of MSEs in the study area use informal sources. The formal financial institutions have not been able to meet the credit needs of the MSEs, as they require collateral and the MSE owners' do not have such guarantee especially at the starting point of the business and even at the middle for their business expansion. According to the majority interviewees, the reason for emphasizing on the informal sector is that the requirement of collateral/guarantor is relatively rare since such sources usually take place among parties with intimate knowledge and trust of each other. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. To wind up, such constraint of finance for MSE affects their performance directly or indirectly.

4.4 Performance of MSEs

In this study as MSEs are concerned, the financial measure of success that is the growth of total capital of the enterprises is used since it is better than the nonfinancial measures in terms of reducing the subjectivity of the measurement results and this consideration is also supported by Walker & Brown, (2004)who articulate, financial measures to be important and all businesses should be financially viable on some level in order to continue to exist. The following figure shows the performance measure of MSEs from the data collected.
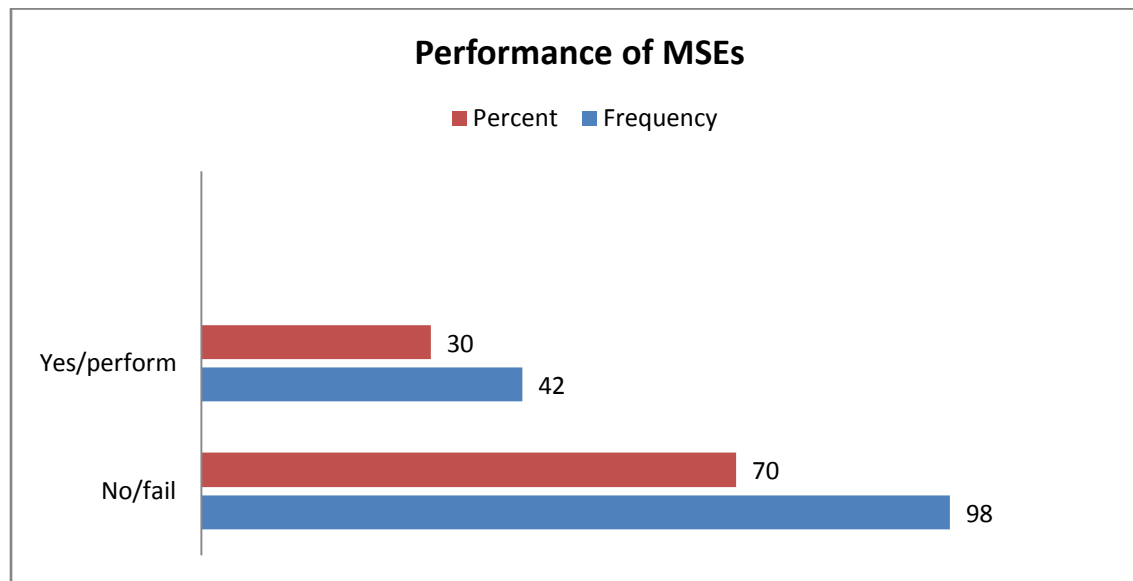
Figure 4.3: **Performance of MSEs**Source: Own Survey, May 2018

4.5 Factors Affecting the Performance of Micro and Small Enterprises

4.5.1 Results of Central Tendency and Dispersion

There are a number of factors that affect the performance of MSEs. This part discusses the descriptive statistics considering the results for measures of central tendency and dispersion calculated on the basis of the data obtained from the sample of respondents.

4.5.1.1 Management Factors

As shown in the table below, lack of clear division of duties and responsibility is shown to be the main problem that hinders the performance of MSEs. It shows a mean score of 3.91 with a standard deviation of 1.03. According to Nkonoki (2010), management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship. It can also be observed from this survey that lack of low cost and accessible training facilities to be the next factor inhibiting their performance in management aspect with mean 3.86 which is also supported by some theoretical perspectives.

Table 4.2: Management Factor

Management Factor	N	Mean	Std. Deviation
Lack of clear division of duties and responsibility	140	3.91	1.038
Poor coordination and ineffective communication	140	3.74	1.062
Lack of well trained and experienced employees	140	3.76	1.057
Lack of low cost and accessible training facilities	140	3.86	.938
Lack of strategic planning	140	3.77	.984

Source: Own Survey, May 2018

With regard to strategic business planning the mean scores are 3.77 with standard deviation of 0.98. This shows that MSEs have a problem with developing and implementing the strategic planning activities successfully. Likewise, in relation to well trained and experienced employees and poor coordination and communication, the table above shows that, the mean score of 3.76and3.74 respectively.Generally from the descriptive statistics results in Table 4.2, we can see that management experience is an agreeable factor in the performance of MSEs. This is because, management experience may provide MSE operators with prior knowledge of how to handle their businesses effectively, ways to serve markets, and of customer problems and this kind of exposures in turn increases the chance of the enterprises' performance in their business environment.

4.5.1.2 Informational Factors

When asked about whether the lack of business information readily available affects their business, they somehow agreed as shown by a mean of 3.88 and standard deviation 1.04. Oshikoya and Hussain (2007) also argue that accessing business information services has over the years been greatly enhanced with the emergence of various information and communication technologies. The businessmen could easily communicate with different players in the market using their mobile phones, and hence they were able to access information concerning the operations of their systems on time.

Table 4.3: Informational Factors

| Informational Factors	N	Mean	Std. Deviation
Lack of information to exploit business opportunities	140	3.93	1.008
Lack of business information readily available	138	3.88	1.047
Lack of relevant information for the business	140	3.92	1.060
Lack of necessary information for the growth of the business	140	3.89	1.053
Lack of market information	140	3.84	1.101

Source: Own Survey, May 2018

When asked the effect of lack of relevant information for their business, they also agreed as supported from the collected data by a mean of 3.92. For the businessmen to make better decisions, the information available needs to be timely and accurate.

When asked whether the lack of information necessary for their business growth affects their business they agreed with a mean3.84, and additionally most of them agreed that lack of market information affects their business.With the advancements in communication technology, the businessmen were able to access information concerning their operations in a timely manner,hence better decision making on matters affecting the performance of their businesses (Levy, 2000).

4.5.1.3 Financial Factors

Most of the respondents agreed that shortage of capital and the problem related to high collateral requirement from banks and other lending institutions to be their problem for their business performance with a mean 3.96 and 3.90 respectively. Similarly, interest rate charged by banks and other lending institutions is said to be high by the respondents with a mean score of 3.84 and with standard deviation of 1.15. Regarding lack of cash management skill the mean score is found to be 3.77 and by the same token, respondents agreed with the complexity of loan application procedures of banks and other lending institutions with a mean of 3.75.
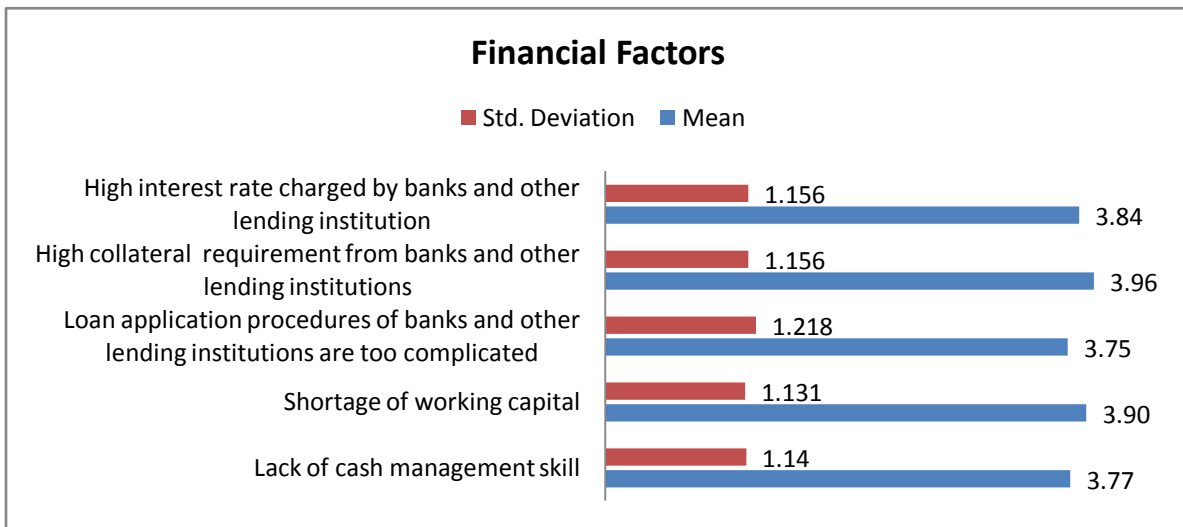
Figure 4.4: Financial Factor Source: Own Survey, May 2018

4.5.1.4 Marketing Factors

As shown in the table below, marketing factor is consisted of six items. From these factors lack of demand forecasting, inadequate market research and poor customer relationship and handling are critical factors that affect the performance of MSEs engaged in all sectors. The mean scores and standard deviations clearly show respondents agreement on the variables. That is mean scores of 4.17, 4.06 and 4.05 with standard deviations of 0.85, 0.98 and 0.95 respectively. Thus the result also agrees with Lussier (1995) that emphasized the importance of marketing skill for best performance of small businesses.

Table 4.4: Marketing Factors

Marketing Factors	N	Mean	Std. Deviation
Inadequate market	140	3.90	1.159
Searching for new market is difficult	140	3.98	1.083
Inadequate market research	140	4.06	.983
Lack of demand forecast	140	4.17	.848
Poor customer relationship and handling	140	4.05	.955
Lack of promotion to attract potential users	140	3.91	1.086

Source: Own Survey, May 2018

4.5.1.5 Government Policies and Regulations Factors

As it is indicated in the table above, the mean and standard deviation for the government policy and regulation factors were calculated. The table shows the bureaucracy in company registration and licensing and lack of government support has both mean score of 4.01 with a standard deviation of 1.06 and 1.02respectively. Additionally, most respondents agreed the lack of information on relevant government regulations affects the performance of their business with a mean score of 4.02.
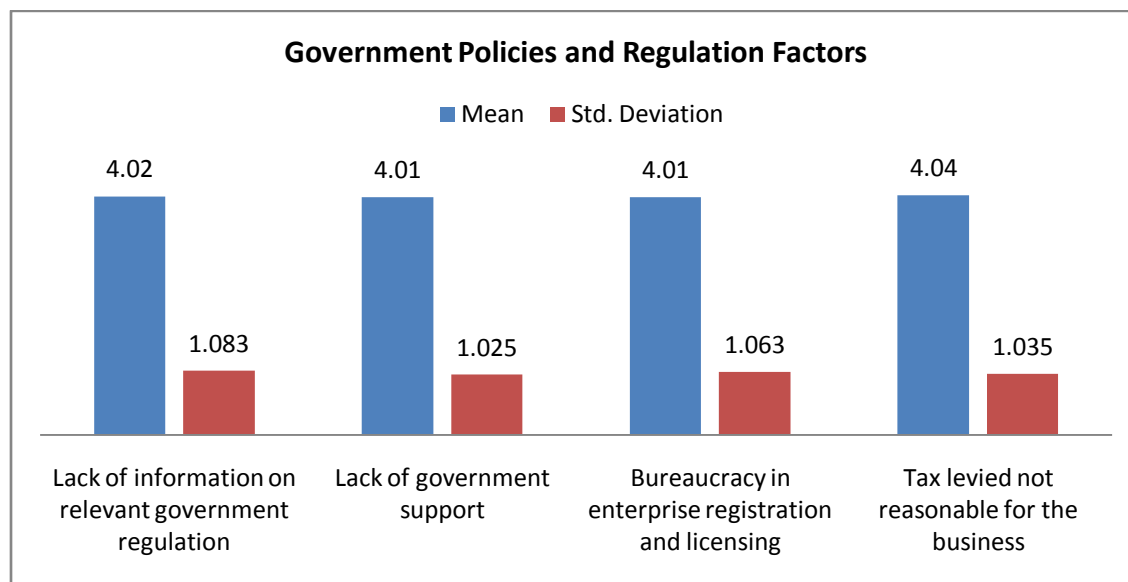

Government Policies and Regulation Factors

■ Mean ■ Std. Deviation

	Lack of information on relevant government regulation	Lack of government support	Bureaucracy in enterprise registration and licensing	Tax levied not reasonable for the business
Mean	4.02	4.01	4.01	4.04
Std. Deviation	1.083	1.025	1.063	1.035

*Figure 4.5: Governmental Factor*Source: Own Survey, May 2018

This is followed by average score of 4.04 the respondent's response with regard to unreasonable tax and related issues. As it was discussed by Gebrehiwot and Wolday (2001), government has to make effort to improve MSEs business environment concerning policy and regulations. In addition to this, concrete and coordinated regulatory and institutional support should also be provided for the MSEs to be successful and contribute for the economy.

4.5.1.6 Comparison of Major Factors

Even though, all the management, financial, marketing, informational and Government policy and regulation factors affect the performance of MSEs, this does not necessarily mean that all

factors have equal impact. The following table compares the overall impact of all key factors taken into general consideration.

Table 4.5: General Factors that affect Performance of MSEs

No.	Major Factors	Mean	Std. Deviation	Rank of severity
1	Managerial factor	4.06	1.078	3rd
2	Financial factor	3.95	1.155	4th
3	Marketing factor	3.87	1.219	5th
4	Informational factor	4.06	0.965	2nd
5	Government policy & regulation factor	4.15	0.992	1st

Source: Own Survey, May 2018

It can now be observed that all the factors considered significantly affect the MSEs performance, government policy and regulation factors being the biggest potential to contribute to the performance, followed by informational, management, financial and marketing factors.

4.5.2 Regression Analysis

In this study logistic regression analysis was carried out to determine the relationship between the dependent variable that is Performance of MSEs and the independent variables that is Management factor, Informational Factors, Marketing Factors, Financial Factors and Government policies and Regulation factors. The model summary table is shown below.

Table 4.6: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	54.165[a]	.566	.802

Estimation terminated at iteration number 8 because parameter estimates changed by less than 0.001.

Source: Own Survey, May 2018

The Cox & Snell R square and Nagelkerke R square values are both methods of calculating the explained variation. These values are sometimes referred to as pseudo R square values and will have lower values than in multiple regressions. However, they are interpreted in the same

manner, but with more caution. Therefore, the explained dependent variable based on the model ranges from 56.6% to 80.2%. Most of the timethe Adjusted R Square value provides a more correct estimate measure of the success of the model, which is equivalent toNagelkerke R square in this model. So based on the data the model is 80.2% adequate to explain the variation in performance.

Table 4.7: Variables in the Equation

Major Factors	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Lack of Management	-1.817	.558	10.617	1	.001	.163	.054	.485
Lack of Information	-2.212	.647	11.691	1	.001	.110	.031	.389
Lack of Finance	-.526	.560	.884	1	.347	.591	.197	1.770
Lack of Marketing	-1.818	.738	6.075	1	.014	.162	.038	.689
Lack of Government Factors	-2.504	.679	13.602	1	.000	.082	.022	.309
Constant	32.547	6.815	22.811	1	.000			

Variable(s) entered on step 1: lack of Management, lack of Information, lack of Finance, lack of Marketing, Government Policies and Regulations Factors
Source: Own Survey, May 2018

The objective of this study is to establish the association between Management factor, Informational factor, Financial factor, Marketing Factor and Government policies and regulation factors with performance of MSEs. This can be explained with the following table. The above table contains Beta Coefficient and the coefficients' Significance. This value explains the unique contribution of each independent variable to the model when other predictor variables are in control.

The overall result displays the estimates of the logistic regression of performance against the independent variables for the sample of 140 operators. The hypothesis which states that the

business environments of Ethiopia aimed at MSE development (which was explained by management factors, informational factors, financial factors, marketing factors and government policy and regulation factors) do not affect the performance of MSEs in the selected area was tested at 5% level of significance, and it was discovered that the business environments of Ethiopia aimed at MSE development do play a significant role in determining the performance of MSEs. Looking into each beta values:

- Lack of management experience does affect the performance of the businesses negatively as the Beta value is -1.8 and its p value is 0.001.

- Lack of information also plays a significant role with beta value -2.21 and p-value 0.001.

- Considering the finances, the result in the regression shows that lack of finance affects the performance of the businesses negatively with beta value -0.526 and p-value 0.347. As it was discussed by other researches among other problems financial problem is also an issue for MSEs specially it is challenging to get formal source of finance as it requires high collateral and the high interest rate inhibiting them to expand their business and grow (Tadesse, 2004;Getahun, 2016). Unlike others, this research finding shows higher p-value for finance factors. This is because most of MSEs try to fill their financial gap by their own sources and from their families, as it was shown in the previous section.Since most of the MSE operators in this study were able to get financial support from the informal sector, and that they are also functioning with minimum capacity as a coping strategy, they might have not given due emphasis to the financial aspect as a major constraint for their performance as compared to the other factors.

- The lack of marketing skill was also considered to affect performance with beta value -1.81 and 0.014 significance, and

- Government policies and regulation factor was found to affect the performance with beta value -2.504 and p-value of 0.000.

Thus, the null hypothesis may therefore be rejected and the study accepted the alternative hypostasis which says the business environment of Ethiopia aimed at MSEs development (which was explained by management factors, informational factors, financial factors, marketing factors and government policy and regulation factors do affect performance of MSEs.

Based on the findings the logistic regression formula can be developed as:

Y= Bo+ (-1.82) (Lack of Management)+ (-2.21)(Lack of Information)+ (-.53)(Lack of Finance)+ (-1.82)(Lack of Marketing skill) + (-2.50)(Lack of Govn't Factors).

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

From the overall result this study concludes that, the availability of managerial and marketing skill and experience affected the performance of MSEs to a great extent as managerial experience is important in any business because it determines the quality of decision making and how they affect the performance of an organization. Furthermore, accessibility of business information services affected performance in such a way that if business information was readily available to MSE operators, they can be able to make timely and quality decision to propel their business operations. Government policies and regulation factors also affect the performance of the business to a very great extent through taxation, licenses, through creation of support funds and through liberalization of the economy.

The study further concludes that access to finance affected the performance of MSEs. It affected performance to a great extent because it limits the MSEs' ability to take advantage of opportunity as and when they arose. The sources of capital for MSEs differed ranging from own savings, family and friends, and MFIs and other sources. Even though, the MSE operators were found not to have enough capital to finance their business operations their perception is to function with the available finance.

5.2 Recommendations

Suggestions and recommendations to enhance the potential performance of MSEs are essential. Such recommendations demand an in-depth analysis of the influence of different factors regarding the sector. Based on the findings and conclusions of this study, the following recommendations are forwarded.

Different government bodies should provide affordable alternative sources of finance for MSEs. This can be done by communicating with the banks and other credit institutions to lower their requirements. This should be done so that MSEs can get enough access to finance for their business activities and to improve their performance. Moreover, the strengthening of government institutions at different levels would play a major role in positively influencing the development of MSEs, thus reducing delays in processing legal requirements. Concerning the marketing issues, linking the MSEs with other private contractors working within or around Addis Ababa so that the operators are able to secure market opportunity and changing the perception of the general public through extensive awareness creation mechanisms may help the MSEs.

Finally, to make MSEs competitive and profitable, increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial. Moreover, improved provision of necessary infrastructure, uninterrupted power supply, quick transportation and enabling the environment for business operations is generally very important and basic to the effective performance of these enterprises.

5.3 Further Research Directions

Investigating different factors based on the right information are vital for the good performance of any business venture. This can be achieved by conducting more researches in related areas. Here are some further research directions that are suggested:

➢ Investigating in to the factors that affect performance of MSEs; Replication of this study using larger samples size and broader geographic base;

➢ Another approach could be, to conduct a longitudinal nationwide study in order to identify more factors that affect performance of MSEs and their overall performance in Ethiopia.

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