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SCHOOL OF SOCIAL SCIENCES
DISCIPLINE OF ECONOMICS (MEC)

ANALYSIS OF FACTORS DETERMINING THE PERFORMANCE OF MICRO ENTERPRISES: THE CASE OF KEMISIE TOWN ON TECHNICAL AND VOCATIONAL ENTERPRISE DEVELOPMENT OFFICE (TVED)

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(Economics). I hereby declare that this work has been done by me and has
not been submitted elsewhere.

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Certificate

Certified that the project work entitled (**Analysis of Factors Determining the Performance of Micro Enterprises: The case of Kemisie Town on Vocational and Technical office**) submitted by **Ahmed Motuma Assen** is his own work and has been redone in the light of evaluator's comment's under my supervision.

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List of Acronyms

CED =   Committee for Economic Development

CSA =   Central Statistics Agency

FeMSEDA=   Federal Micro and Small Enterprises Development Agency

GDP =   Gross Domestic Product

ILO =   International Labor Organization

LDCs =   Least Developing Country's

LEs =   Large Enterprises

MEs=   Micro Enterprises

MoTI =   Ministry of Trade and Industry

MoUDH =   Ministry of Urban Development and Housing

MoWUD =   Ministry of Worker and Urban Development

MSEs =   Micro and Small Business Enterprises

SPSS =   Statistical Packages for Social Scientists

TVED=   Technical and Vocational Enterprises Development

UNID =   United Nations Industrial Development Organizations

Abstract

The research study evaluated the relation between personal related factors and business related factors on the performance of MEs in Kemissie. This is with a view to identify these personal and business related factors that have a favorable relation to the performance of the enterprises business performance. Primary data, through structured questionnaire, were collected from the samples of 62 MEs randomly selected from among those industries engaged in Food and Beverage; Textile and Garment, Wood and Metal, and Merchandise and Retail shop. Data were analyzed using descriptive and inferential statistics with the aid of Statistical Packages for Social Scientists (SPSS). Also, analysis of variance was carried out to examine the variation in the performance of enterprises related to the variation in each of the independent variables of the study. The ANOVA result indicates there is no significance variation on the performance of MEs in relation to the variations to each of the eight independent variables of the study. But the descriptive statistics result shows better performance for enterprises owned by individuals with better education level, have prior management and industry experience. In addition it also shows better performance for those enterprises that uses planning and record keeping. Micro enterprises found it very difficult to access alternative financing, to improve productivity and maintain the required standards of quality.

Key words: ANOVA, Micro Enterprises, Kemissie

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

The micro and small business sector is recognized as an integral component of economic development and a crucial element in the effort to enhance countries out of poverty (Wolfenson, 2007:28-39). The dynamic role of micro enterprises (MEs) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. It is estimated that MEs employ 22% of the adult population in developing countries (Fisseha, 2006:43). In developing countries, MEs by virtue of their size, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The ME sector has also been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and are reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology (ILO, 2008:56). Similarly, Lara and Simeon (2009:1453– 1464) found that the MSE sector generates substantial employment and economic output in many countries. Their share of overall employment tends to be higher in developing countries, which are typically more focused on small-scale production. The sector has potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (MoTI, 1997:9). In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, 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 sample 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, 1997:9). In Ethiopia, MEs sector is the second largest employment-generating sector following agriculture (CSA, 2005:34-35). A national survey conducted by Ethiopian Central Statistical Authority (CSA) in 2007 in 48 major towns indicates that nearly 967,000 and 4,060 operators engaged in micro and small scale manufacturing industries respectively, which absorb about 740,000 labor forces. Accordingly, the whole labor force engaged in the micro enterprises and small scale manufacturing industries is more than eight folds (740,000 persons) to that of the medium and large scale manufacturing industries (90,000 persons). This is a contribution of 3.4% to GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001 (CSA, 2005:34-35). According to Mulhern (1995:2-92), MSEs exert a strong influence on the economies of all countries, particularly in the developing countries. He reported that the MSEs have been a major engine in the economic growth, innovation and technological progress. In addition Carrier (2008:11-23) stated that: the MEs are more fertile than their larger [macro enterprises] in terms of innovation and development. The ME sector is characterized by highly diversified activities which can create job opportunities for a substantial segment of the population. This indicates that the sector is a quick remedy for unemployment problem. To curb unemployment and facilitate the environment for new job seekers and self-employment a direct intervention and support of the government is crucial. Due to the similarity of their characteristics, informal sector activities and micro enterprises are often lumped together. Assistance and support to strengthen these enterprises can lead to higher profits and employment levels which in turn can contribute to a bottom-up transition out of poverty for entrepreneurs and workers (Sievers& Vandenberg, 2007: 1341). It is further believed that: The micro enterprise (ME) activities can contribute to increasing tax-incomes for the government and enable the government in the long run to invest the money. In order to strengthen the position of micro enterprises (MEs) the access to financial and nonfinancial services plays a pivotal role in the performance and expansion of these enterprises.

The strengthening and the expansion of existing micro enterprises (MEs) and the support of new enterprises can contribute to fulfill social objectives, attract considerable foreign reserves into a country and have a clear importance in providing employment, meaning they are the backbone of the private sectors in developing countries (Mead &Liedholm, 1998:61). The aim of micro enterprise (ME) development and the provision of micro enterprise (ME) 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, 2002:36). Micro enterprise (ME) in Ethiopia is, however, confronted with several factors that affect the performance of micro enterprise (ME). 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 ME, which are related to the person's individual attitude training and technical know-how (Werotew, 2010: 226-37). Generally, there are external (contextual) and internal factors which are still affecting the very performance of MEs.

1.2. Statement of the Problem

In most developing countries, MEs face constraints both at start up phases and after their establishment. In Africa, for example, the failure rate of MSEs is 85% out of 100 enterprises due to **lack of skills and access to capital** (Fedahunsi, 1997:170-186). It is typical of MSEs in Africa to be lacking in business skills and collateral to meet the existing lending criteria of financial institutions (World Bank, 2004:29). This, according to World Bank, has created finance gap in most markets. The MEs are able to source and obtain finance mostly from informal sectors like friends and relatives while medium or large enterprises obtain funds from banks. This unequal access to finance by MEs and medium and large enterprises has undermined the role of MEs in the economic development in African countries (World Bank, 2004:29). The study conducted by Ethiopian CSA discloses that, the contribution of micro enterprises in creating job opportunities and in the development of our economy is vital (FMSEDA, 2006:13). However, their contribution is very low in compared with that of other countries due to **financial problem, lack of qualified employees, lack of proper financial**

records, marketing problems, lack of working premises and raw materials. Lack of information about market opportunities and standards and regulations is one of the underlying factors that hinder their performance (Mulu Gebreeyesus, 2009:10-13). According to Zeleke Worku (2009:1-9) lack of integration between the vocational curriculum taught at academic institutions and skills required at the workplace in micro businesses and enterprises is a major obstacle to the growth and development of MEs. The same author continued stating: the performance of the ME sector in Ethiopia is poor in comparison with similar sectors in other … African countries such as South Africa, Kenya, Uganda and Tanzania. Micro businesses and enterprises in Ethiopia are generally characterized by an acute shortage of finance, lack of technical skills, lack of training opportunities and raw materials, poor infrastructure and over-tax. Devereux and Sharp (2006 cited in Zeleke Worku, 2009:1-9) identified that lack of access to finance is the most influential factor from among all adverse factors hindering the growth and development of the MSE sector in Ethiopia. In Kemsie town administration, micro enterprises (MEs) have a problem of finance when establishing the business. Most individual sources of finance come from personal savings and loans acquired from relatives, friends and money lenders with high amount of interests (MoTI, 2005:13-14). After the business goes operational, the probability of becoming profitable and paying back debts along with accrued interest is less. Besides, MSEs do not conduct market research and develop/design a product or service as per the need of customers (Zeleke Worku, 2009:2-9). For micro enterprises (MEs), lack of shed is unquestionably a serious problem in the town. Most informal operators do not get access to suitable locations where they can get easy access to markets (HLCLEP, 2006:17). Further, the problem of technical procedures and appropriate technology used by the firm are another factor associated with high technology of equipment and use of new technologies. In view of the above problems, the central question of this study is: what are the factors that mostly affect the performance of micro enterprises (MEs) in Kemisie town administration? Specifically, the following sub-questions are raised:

- What are the sources of finance or funds available to the micro enterprises (MEs)?

- What are the various contextual factors that impeded the performance of the micro enterprises (MEs)?

- What are the sources of finance or funds available to the micro enterprises (MEs)?

- What are the various contextual factors that impeded the performance of the micro enterprises (MEs)?

- What are the internal factors that affect the performance of micro enterprises (MEs)?

- How can the problems of micro enterprises (MEs) in Kemisie town administration be minimized?

1.3 Hypothesis

After careful consideration of all independent variables and the dependent variable of the study, the following hypotheses are developed to be tested using Analysis of Variance (ANOVA) statistical technique. The first five hypotheses of this study are about the relationship between five personal related independent variables and performance of the enterprises in relation to them. And the rest three hypotheses are about the relationship between three businesses related factors and the performance of enterprises.

HO1: There is no significant difference on the performance of enterprises operated by owners with different age group.

HO2: There is no significant difference on the performance of enterprises in relation to the difference on the education level of the principal owners of the business.

HO3: There is no significant difference on the performance of enterprises in relation to the difference in the management experience of the principal owner of the business.

HO4: There is no significant difference on the performance of enterprises in relation to the difference in prior industry experience of the principal owner of the business.

HO5: There is no significant difference on the performance of enterprises in relation to the difference in the marketing skills of the principal owner of the business.

HO6: There is no significant difference on the performance of enterprises in relation to the difference in planning practice of the enterprises.

HO7: There is no significant difference on the performance of enterprises in relation to the difference in using record keeping and financial control mechanism within them.

HO8: There is no significant difference on the performance of enterprises in relation to the difference in the type of ownership of the enterprises.

1.4 Objectives of the Study

1.4.1 General Objective

The main objective of the study is to assess factors that affecting the performance of micro enterprises (MEs) in Kemissie town administration.

1.4.2 Specific Objectives

The specific objectives are:

➢ To examine the sources of finance or funds for the start-up and expansion of micro enterprises (MEs).

➢ To investigate the internal and external parametric factors that determines the performance of micro enterprises (MEs).

➢ To recommend possible solution to alleviate the problem of micro enterprises (MEs).

1.5. Significance of Study

The findings of this study will be useful to the stakeholders including:

1.5.1. Academics/Researchers

Findings from this study will assist academicians in broadening of the prospectus with respect to this study hence providing a deeper understanding of the critical factors that affect the performance of micro enterprises (MEs).

1.5.2. Micro Enterprises

The findings of this study will help micro enterprises (MEs) in Kemisie and others, within an insight into the benefits of using different factors studied in this research to predict the factors that affect the performance of micro enterprises (MEs).

1.5.3. Governmental Policy Makers

The government can use the findings of this study to assist in policy formulation and development for a framework for critical finance, marketing, work premises and other factors that affect the performance of micro enterprises (MEs). Moreover, the findings of this study will help the policy makers and financial institutions how to encourage establishing or expanding micro enterprises (MEs). It also enables them to know what kind(s) of policies should be framed

1.6. Limitations and Delimitation of the Study

1.6.1 Limitations of the Study

The study will cover only enterprises found in Kemisie. To conduct the researcher expects the limitation of real information from youth group, managers, leaders and customers. Similarly they will challenge by constraints of finance to collect data and shortage of time to collect data and analyze. Since this study employs cross sectional survey design, it will not check the situation through longitudinal survey. However, in Ethiopia, there is lack of sufficient research conducted on this study. Thus, it is difficult to obtain adequate data from leaders and youths concerning the public sector, working in the area and their status

1.6.2 Delimitation of the Study

The study assessed factors affecting the performance of (MEs) in Kemisie town administration. Although, there are different issues that can be researched in relation to micro enterprises (MEs), this study is delimited to the politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial factors. Besides, the scope of this study was spread across micro enterprises (MEs) especially in the business sector of metal and wood work and service enterprises.

1.7. Scope of the Study

This study delineates its scope only to those enterprises which are Micro Enterprises according to the Ethiopian Ministry of Urban and Housing Development (MoUHD) definition. Also it takes the sample of the study only from those Micro Enterprises operating in Kemissie town Administration on Technical and Vocational enterprises Development Office Amhara regional state.

1.8. Organization of the Thesis

The thesis has been divided into 5 chapters: like chapter one introduction of the study, chapter two deals with review of related literature, chapter three focuses on research methodology of the study, chapter four deals with data analysis and discussion and chapter five focuses on conclusion and recommendation of the study.

1.9. Operational Definitions of Terms

Cooperatives: association of at least 10 individuals who are from the same area.

Enterprise: It refers to a unit of economic organization or activity whether public or private engaged in to the service and manufacturing of goods.

Factors: A factor is a contributory aspect such as politico-legal, working premises, technologies, infrastructures, marketing, financial, management and entrepreneurial influences that affect performance of micro enterprises.

Gullit: A petty trading activity usually undertaken at road sides and sometimes at designated places.

Idir: A widely prevalent sort of funeral grouping in Ethiopia, where resources are mobilized and pooled to get emotional and material support up on a death of the member himself, his dependents or relatives.

Informal sector: in this paper the concept of informal sector is used alternatively with micro enterprises, because it is consistently and widely accepted, and comparative data are available for Ethiopia.

Initial paid-up capital: is that part of the issued capital of an establishment that has been paid by the owners to start the operation.

Iqub: A voluntary, informal, and indigenous form of rotating saving and credit scheme, where each member contributes a mutually agreed amount of money on weekly or monthly basis. **Manufacture of food products**: includes manufacture of vegetable, preparing 'baltina' products and manufacture of bakery products.

Manufacture of metal products: are an enterprises sector engaged in manufacture of fabricated metal products, except machinery and equipment; manufacture of parts and accessories for motor vehicles and their engines.

Manufacture of wood and wood products includes manufacturing of furniture, joinery and modern beehives.

Micro enterprise: In old definition micro enterprise means commercial enterprise whose capital is not exceeding birr 20,000 other than high technology and consultancy services. In a new definition micro enterprise defined by separating industry and Service as indicating by table below.

Table 1: New (current) definition of MEs in Ethiopia

Sector	Human power	Total asset
Industry	≤ 5	$\leq$100,000 ETB
Service	≤ 5	$\leq$ 50,000 ETB

Source: Ethiopian Micro enterprises development agency

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

This chapter reviews works on micro enterprises (MEs) in Ethiopia and other countries in general and Addis Ababa in particular. Works on performance and determinants of performance were also reviewed. This is of help to understand the state of micro enterprises (MEs) and its determinants of the performance. This chapter comprises of six sections. These are definitions of MEs, the role of MEs in poverty reduction, the ME sector in Ethiopia, the concept of business performance, empirical studies and the conceptual framework.

2.2 Definition of Micro Enterprises

The ME sector everywhere is characterized by highly diversified activities which can create employment opportunities for a substantial segment of the population. This implies that the sector is a quick remedy for unemployment and poverty problem. The realization of a modest standard of living through curbing unemployment and facilitating the environment for new job seekers and self-employment requires a direct intervention and support of the government and other concerned stakeholders (Mulugeta, 2011:13). Hence, in order to channel all necessary support and facilities to this diversified sector, a definition is needed to categorize the sector accordingly. However, there is no single and universally acceptable definition of a micro enterprise (Kayanula and Quartey, 2000:35). This is so because the criteria and ways of categorizing enterprises as micro and small 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. The absence of such uniform definition of

micro enterprises (MEs) has created a difficulty. In line with this, Tegegne and Meheret (2010:11) argued that the absence of a single or globally applicable definition has made the task of counting the number of micro enterprises (MEs) and assessing their impact extremely difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the desired levels of development of the sector. United Nations Industrial Development Organizations (UNIDO) gives alternative definition for developing countries. Accordingly, it defines micro enterprises as the business firms with less than 5 employees (UNIDO, 2002:53). The United States of America, the Small Business Act issued in 1953 stated that, small business is one which is independently owned and operated and not dominant in its field of operation. The act also further stated that, number of employees and sales volume as guideline in defining small business (Major L. C. & Radwan N. S., 2010:2-19). In the same country, a committee for economic development (CED) has explained that small business is characterized by at least two of the key features: management is independent (usually the managers are owners), capital is supplied and an individual or small group holds ownership and the area of operation is mainly local (workers and owners are in one home country).According to Kayanula and Quartey (2000:16) in Malawi, the official definition of enterprise sizes is based on three criteria namely the level of capital investment, number of employees and turnover.

An enterprise is defined as small scale if it satisfies any two of the three criteria, that is, it has a capital investment of USD 2,000 - USD 55,000, employing 5-20 people and with a turnover of up to USD 110,000 (using 1992 official exchange rate). The same authors narrated that come of the key characteristics of small enterprises are mobilizing funds which otherwise would have been idle; being a seed-bed for indigenous entrepreneurship; their labor intensiveness; employing more labor per unit of capital than large enterprises; promoting indigenous technological know-how; using mainly local resources, thus have less foreign exchange requirements; catering for the needs of the poor and; adapting easily to customer requirements (flexible specialization). In Kenya, by referring the 1999 ME National Baseline Survey, MEs defined as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting, gathering and forestry), whether in the formal or informal sector which employ 1-50 people (Ronge et al., 2002 cited in Mulugeta, 2011:15).More specifically, according to them, micro enterprises are those that employ 10 or

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fewer workers and small-scale enterprises are those that employ 11-50 workers. The same study argued that the above definitions are based on one of the three criteria mainly used in literature to define MEs-number of employees. The second criterion relies solely on the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, MEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes and labor laws. The last criterion defines MSEs by their limited amounts of capital and skills per worker. The above indicated writers emphasized highlighted that the degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of MEs is based; and lastly they claimed that the term ME incorporates firms in both the formal and informal sectors. Similarly, in Ethiopia there is no uniform definition at the national level to have a common understanding of the ME sector. The old (1998) definition was based on paid capital only (see table below). An enterprise is categorized as micro if it's paid up capital is less than or equal to 20,000 ETB. Similarly, an enterprise is considered small when its paid up capital is less than or equal to 500,000 ETB.

Table 2: Old Definition of MoTI MSEs in Ethiopia

Sector	Manpower	Paid Up Capital
Micro Enterprises	< 10	≤ 20,000 ETB
Small Enterprises	11-50	≤500,000 ETB

Source: Ethiopian Micro enterprises development agency

The limitation of this definition is that it does not provide information on job creation, size and asset base. This is because employment and asset ownership are not part of the definition. **Secondly**, the definition does not differentiate between manufacturing (industry) and services.

The New (2010/2011) definition considers human capital and asset as the main measures (see table 3 below). The new definition addresses the limitations of the old definition. Minimum asset requirement for services and industry is different as shown in table 3 below.

Table 3: New (Current) Definition of MSEs in Ethiopia

Level of the Enterprises	Sector	Human Power	Total asset
Micro enterprise	Industry	≤5	≤100,000 ETB
	Service	**≤5**	≤50,000 ETB
Small enterprise	Industry	6-30	≤ 1.5 million ETB
	Service	6-30	≤500,000 ETB

Source: Ethiopian Micro enterprise development agency

The CSA conducts survey on small scale industries. It has conducted surveys for the years 2001/2, 2005/6 and 2007/8. However, CSA adopts its own definition which is not well aligned with the MSE policy and the new definition. Hence, the data it collects is less useful in terms of analyzing the ME policy. CSA's definition is based on the size of employment and extent of automation. Hence, according to CSA: induce medicine

- Large and medium scale manufacturing enterprises have been classified as establishments with more than ten employees using automated machinery.

- Small and medium enterprises are establishments that engage less than 10 persons using power driven machinery.

- Cottage/handicrafts are household type enterprises located in households or workshops normally using own or family labour and mostly manual rather than automated/mechanical machinery. The limitations of the CSA definition are, it ignores the size of capital and the sectors outside manufacturing.

2.3 The Role of Micro Enterprise in Poverty Reduction

Poverty in Ethiopia is widespread and remains a major challenge of sustainable development and stability (Lutheran World Federation of Ethiopia, 2006 cited in Eshetu & Mammo, (2009:2). By now, it is clear and agreeable that poverty, both in urban and/ or rural areas, is

all about lack of basic needs, low or inadequate level of income and consumption, poor command over resources, and high level of social exclusion, inequality and vulnerability.

The role played by micro enterprises (MEs), through the various socioeconomic benefits emanating from the sector was found to be eminent in the overall development effort and process of nations. In other words, by generating larger volumes of employment as well as higher levels of income, the micro enterprises (MEs) will not only have contributed towards poverty reduction, but they will also have enhanced the welfare and standard of living of the many in the society (Mukras,2003:58-69). Current international thinking is in tune with a view that acknowledges micro enterprises (MEs) as a tool to fight poverty in the long run. The UNIDO approach to this is worth mentioning here: Poverty reduction is simply not going to happen by government fiat but only through private sector dynamism. The evidence directly linking MEs and poverty reduction is considerably less robust than that linking them to economic vitality, even in the most developed economies. There are suggestions of greater employment opportunities for poor, low skilled workers, increased skills development and broader social impacts. The movement to support ME development internationally reflects a return to promoting poverty reduction by investing in private sector-driven strategies by all of the major multilateral agencies. Poverty Reduction Strategies (PRSs) currently being formulated in many developing countries places a more pronounced emphasis on the contribution that the private sector will have to make – compared to the over-reliance on the social agenda that characterized earlier PRSs (Perumal K. & Prasad, n.d:2-29)). In conformity with the above view advanced by UNIDO and as an organization concerned to the condition of labor, the ILO‟s approach to poverty reduction is through small enterprise development. This strategy focuses on the needs of poor people who are part of the MSE economy, as owners/operators and workers, as their dependents, as the unemployed who may benefit from job creation and as customers. While further strengthening the above shown approach, Vandenberg (2006:18) suggests that: the ILO‟s existing strategy for poverty reduction through smallest enterprises must emphasize the fact that small enterprises make a positive contribution to poverty reduction when they provide employment, adequate levels of job quality, and low-cost goods and services used by the poor; entrepreneurship, combined with productivity increase, is a key ingredient for poverty reduction through small enterprise

development; and vibrant enterprises, competitive markets and a fair globalization can make a significant impact on poverty reduction.

Drawing on a study conducted in the urban centers of four Western African countries namely Benin, Burkina Faso, Niger and Togo to identify key factors shaping the micro enterprise sector, explores the needs, characteristics, motivations, and success factors for micro entrepreneurship in the region, together with some of the impediments to the growth and success of micro enterprise ventures (Roy and Wheeler, 2006:452- 464). Roy and Wheeler indicated that MSE provide a substantial source of employment, thereby contributing to get rid of poverty to the urban poor. According to them, the main reason for the urban poor to be absorbed in the ME is due to the fact that the formal sector does not have the capacity to absorb this growing demand for jobs, and for this reason many have had to look for alternative means to generate a livelihood. Hence, participation in the informal sector is often the only option available as a source of income, and so the sector has absorbed many of the unemployed who have been neglected by the formal sector in the region. They pointed that the income generated from being engaged in MEs primarily used to satisfy the poor's own physiological needs and those of their family, and then to provide a home and security for the household. They specifically claimed that MEs help the urban poor by making them financially secure which in turn limits or reduces the misery, vulnerability and material and non-material hardships that come with poverty.

2.3.1 Micro Enterprise for Economic Growth: 'Pro' and 'Contra' Arguments

There are two polarized thoughts, according to (Agyapong, 2010:196-205; Anderson et al., 1994:129-133 and Staley & Morse, 1965:31) the role and contribution of MSE to economic growth and poverty reduction: 'Pro' and 'Contra' Arguments. Their works often classified as the classical and modern theories on MEs" development. **The contra argument** predict that advantages of MEs will diminish over time and large enterprises (LEs) will eventually predominate in the course of economic development marked by the increase in income. In line with these shortcomings and pessimism Admassie and Matambalya (2002:1-29), for instance, concluded that high level of technical inefficiency, which reduce their potential output levels significantly. Research carried out by Biggs (2002 cited in Tegegne and

Meheret, 2010:14) strongly question the role played by MEs to minimize the incidence of high level poverty in most developing economies through employment creation, income generation and multiplier effects on other sectors of the economy. While, the pro argument views based on experiences from many countries showing the **"contra" arguments** seem to get less supports as many international aid agencies, including the World Bank (2004:41). The World Bank gives three core arguments in supporting MEs in LDCs, which in line with the arguments of the modern" (pro) paradigm on the importance of MSEs in the economy (World Bank, 2002 and 2004 cited in Tulus T., 2006:5). First, MEs enhance competition and entrepreneurship and hence have external benefits on economy wide efficiency, innovation and aggregate productivity growth. Second, MSEs are generally more productive than LEs but financial market and other institutional failures and not conducive macroeconomic environment impede ME development. Third, MEs expansion boosts employment more than LEs growth because MEs are more labor intensive. In other words, the World Bank believes that direct government support for MEs in LDCs help these countries exploit the social benefits from their greater competition and entrepreneurship, and their MEs can boost economic growth and development. The above arguments do not mean, however, that LEs are not important, or MEs can fully substitute the role of LEs in the economy. Even, there are skeptical views from many authors about this World Bank's pro-ME policy. Some authors stress the advantages of LEs and challenge the assumptions underlying this pro-ME policy. Specifically, LEs may exploit economies of scale and more easily undertake the fixed costs associated with research and development (R and D) with positive productivity effects (TulusTabunan, 2006:5).

2.4 The Micro Enterprise Sector in Ethiopia

The five-year Growth and Transformation Plan (GTP) has given particular attention to the expansion and strengthening of micro-scale enterprises (MoWUD, 2007:17-28). 19 Table: 2.1 Numbers, Amount of Credit and Jobs Created through MEs **20008/09 2009/10 Percentage change** No. of MEs 73,062 176,543 141.6 No. of total employment 530,417 666,192 25.6 Amount of credit (in millions of Birr) 662.7 814.1 22.8 Source: (MoWUD, 2007:17-28) According to MoWUD (2007:17-28) The sector is believed to be the major source of employment and income generation for a wider group of the society. The major

objective of this program, which is creating and promoting MEs in urban areas, envisages reducing urban unemployment rate. A total of 176,543 MSEs were established in 2009/10 employing 666,192 people. The number of established and total employment created went up 141.6 and 25.6 percent, respectively, compared to a year ago. The total amount of loan received from micro finance institutions was Birr 814.1 million under the review period, 22.8 % higher than last fiscal year.

2.4.1 Micro Enterprise Development Strategy

Enterprise promotion efforts in Ethiopia have traditionally focused on urban based and MEs. In the 1960s and early 1970s, a department within the Ministry of Industry and Tourism was responsible for coordinating promotion activities which basically consisted of providing training on business management (United Nations, 2002:101-103). As stated by United Nations report (2002:101-103): In 1977, the Handicraft and Small Scale Industries Development Agency (HASIDA) was establish to provide training mainly in management and technical skills and to serve as coordinating agency for Government policy on small enterprises. Shortage of funds and Unfavorable government policy toward the private sector in the 1980s made it extremely difficult for HASIDA to have an impact on the development of local small enterprises. Since mid-1999, the government has revisited the whole issue of small and medium enterprise promotion in Ethiopia but with more focus on micro and small enterprises. A major study was conducted with the support of a donor agency which resulted in the preparation of a National Micro Enterprises Development Promotion Strategy (NMEDPS). The Ethiopian government released the country's first MEs development strategy in November 1997 E.C. The primary objective of the national strategy framework is to create an enabling environment for MEs. In addition to this basic objective of the national ME strategy framework, the MoTI has developed a specific objective which includes, facilitating economic growth and bring about equitable development, creating long-term jobs, strengthening cooperation between MSEs, providing the basis for medium and large scale enterprises, promoting export, and balancing preferential treatment between MEs and bigger enterprises (MoTI, 1997:8-27). The strategy outlines the policy framework and the institutional environment for promoting and fostering the development of MEs and stimulating the entrepreneurial drive in the country.

2.5 Empirical Study

According to Mead & Liedholm (1998:69) and Swierczek and Ha (2003:46-58), the main factors that affect the performance of MEs 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 ME entrepreneur in many instances is short-lived, with the statistic of ME 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 ME 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., & Meulenberg, 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 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 MEs 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.

2.5.1 Previous Studies on Ethiopian Micro Enterprises

Eshetu and Zeleke (2008:2-9) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises by using a random sample of 500 MSMEs from 5 major cities in Ethiopia. According to this research, that lasted from 1996-2001, the factors that affect the long term survival of MSMEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment. This is so because the findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%). The study further indicated that participation in social capital and networking schemes such as Iqub3 was critically helpful for long-term survival of the enterprises. Businesses that did not participate in Iqub schemes regularly were found to be 3.25 times more likely to fail in comparison with businesses that did, according to the study. In their study, based on the survey covering 123 businesses units in four Kebeles of Nifas Silk- Lafto and Kirkossub-cities of Addis Ababa, and aimed to investigate the constraints and key determinants of growth, particularly in employment expansion, Paul and Rahel (2010:89-92) found out that the studied enterprises registered 25% increment in the number of total employment they created since their establishment with an average annual employment rate of 11.72%. With regard to the sources of initial capital of the studied enterprises, the study indicated that, the main ones were loan from MFI (66.7%), personal savings/Iqub (17.5%), and loan from family/friends (17.1%). Moreover, the concrete problems that the targeted MSEs faced at their startup were lack of capital (52.8%), skills

problem (17.9%) and lack of working space (17.1%). Moreover, Daniel (2007:49), identified that lack of raw material, stiff competition and shortage of working capital. Mainly relying on a sample survey of 557 operators and 200 MEs chosen from four A voluntary, informal, and indigenous form of rotating saving and credit scheme, where each member contributes a mutually agreed amount of money on weekly or monthly basis. In such schemes, each member is entitled to receive the collected lump sum once as per his contribution. Major cities of Ethiopia namely Adama, Hawassa, Bahirdar and Mekelle, Tegegne and Meheret's research (2010:40-72) was conducted with the intention of assessing the contribution of the ME strategy to poverty reduction, job creation and business development. The raised causes for this gloomy prospect of business were not growing (33%), lack of finance (13%), lack of market (11%), and lack of working space (4%). The major constraints identified by various studies on MEs in Ethiopia are associated with market and finance problems. The causes of market-related problems of MEs engaged in metal and wood work are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting (FMSEDA, 2006:34). The product line of MSE activities in Ethiopia is relatively similar (Assegedech Woldelul, 2004:1). Accordingly she states that: lack of product diversity, however, is prevalent and as a result similar products are over-crowding the market. Some micro enterprises shift from one product to another, and in doing so, capture better market opportunities. Nevertheless, as soon as the market has established itself, a multitude of further micro enterprises start off in the same business and this causes the selling price to fall immediately. According to Assegedech Woldelul (2004:7) Shortage of funds discourages the smooth operation and development of MEs. Even if there are credit facilities, some of the MSEs do not use the money for the intended purpose. They rather divert it for other unintended and non-productive expenditures. Consequently, the enterprises fail to return the money back to the lender on time. This can result in a loss of credibility to get repeated loans when needed. According to Assegedech Woldelul (2004:4), competition is also another problem that hinders the performance of MSE. She explained it: As is mostly the case and common recognition, "Competition is Cruel", which implies that some larger companies in relation to MSEs have advantages due to: selling at reduced price without reducing product quality using economies of scale, customer targeting capacity, proper and intensified product/service

advertising capacity, good personal contacts and networks, sound industry reputation and sufficient information regarding existing market and capacity to exploit more market opportunities. In his research, Dereje (2008:47) studied the nature, characteristics, economic performance, opportunities and challenges of MEs in the construction sector based on 125 sample enterprises. The results of the study revealed that the main constraints of the MSEs were shortage of capital, lack of raw materials, absence of government support, lack of market, lack of credit facilities and high interest rate. Studies were also conducted specifically with a purpose of identifying the problems that MEs encounter. For instance, Workneh's (2007:51) research undertaken in Kolfe Keraneo sub-city of Addis Ababa indicated that lack of capital, lack of market, unfavorable policy, and inadequate infrastructure, absence of adequate and relevant training, bureaucratic structure and procedures are among constraints faced by MEs. Similarly, Adil's (2007:63) research carried out in Addis Ababa shows that inappropriate government intervention, shortage of capital, location disadvantage, lack of market and lack of display room are the major challenges that obstruct MEs. According to HLCLEP (2006:17), there is lack of entrepreneurial and managerial skills, which in turn leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process and inability to troubleshoot failures on machinery and/or equipment's is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control and those with technical knowledge. Mulugeta (2011:72-77) has identified and categorized the critical problems of MEs in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; ME-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products. In reality, literature on MEs in Ethiopia is scanty and most of the available studies were not conducted in line with

performance aspects of micro enterprises. However, this research tried to assess factors affecting the performance of MEs in a holistic way by targeting and deeply investigating those operators engaged in service, metal and wood work activities in Kemisie town administration

2.6. The Conceptual Framework

Conceptual framework means that concepts that relate to one another were used to explain the research problem. Since business performance is influenced by both internal and contextual factors, operators need to understand what influences businesses to reach peak performance. The **contextual** factors include 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 that 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.

2.7. Personal Related Factors

2.7.1. Education

Some business owners are highly educated and extremely successful whereas others have yet to complete their high school but are equally successful. In many instances, it may depend on the individual himself/herself. Nevertheless, education level can have an effect on the performance of a business as noted in many studies. A reason for supposing it would do so is that education improves literacy, quantitative training, and social and communication skills. And of course specialized education is necessary for many occupations. The study of Lussier (1995) suggested that 'people without any college education who start a business have a

greater chance of failing than people with one or more years of college education. Education can provide the skills set and knowledge, which can help owner/managers with tools, like technology literacy, which helps to increase productivity and success. 'If education cultivates comprehensive literacy, this would help owner/managers to integrate relevant information to do effective planning and to make well-informed decisions, which would ultimately enhance the organization's success' (Mohan -Niell, 2009). Thapa and Goswami and Joshi (2008) in their study they found that the education of owners has positive effect on entrepreneurial and small business success. Similarly Rose, Kumar and Yen (2006), in their study of the 'Dynamics of Entrepreneurs Success Factors', reported that, higher education level helps the business owners to have better knowledge and skills which contribute to the success of their venture. Working experience also assists the entrepreneurs with information and understanding about the industry and thus, assisted them in venturing into the current business they are in.Another research by Charney and Libecap (2000), found that entrepreneurship education produces self-sufficient enterprising individuals. Furthermore, they found that entrepreneurship education increases the formation of new ventures, the likelihood of self-employment, the likelihood of developing new products, and the likelihood of self-employed graduates owning a high-technology business.

2.7.2. Age

Entrepreneurs vary in age from young to old in many instances, an individual may a business as a hobby or secondary source of income and have it grow into a profit-driven enterprise. A number of studies have focused on the entrepreneurial characteristics of the owners/managers of small businesses as key factors to small business success. Age of the owners/managers was one of the most important characteristic that was repeatedly used to predict small business performance and success (Lussier and Pfeifer, 2001).Similarly, Praag (2003), in his study of business survival and success of young small business owners, younger small business starters have a lower success and survival probabilities than older starters. The chance of both voluntarily and forced exit from the business is higher to young starters. From this one can understand that the age of small business owners have its own contribution to the success and failure because individuals learn not only from formal education but also from their walks of life.

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Alasadi and Abdelrahim (2007), in their study of Small Business Performance in Syria also reported that, as the age of the business owner increase it contributes to the success of the enterprises performance. From the study result of Alasadi and Abdelrahim, it may be argued that increased age brings with it a sufficient level of accumulated knowledge or experience of a certain trade to try going into self-employment alone.

2.7.3. Prior Business and Industry Experience

Prior to starting their businesses, entrepreneurs are involved in a number of different fields of work and for a variety of reasons such as desire, flexibility, independence, and family commitments decide to open their own businesses. In most instances, they start a business in an area in which they feel comfortable. However, there are also a number of individuals who have absolutely no experience in a given field, but\ start businesses nevertheless.

Shonesy and Gulbro (2004) cited from the study of Beckman and Marks (1996) and reported that, business experience is a factor in the success of small firms. Dyke, Fischer, and Reuben (1992) also found that management experience may be a significant factor in achieving success or successful performance in the small business environment. In their study they stated that 'would-be business owners should be concerned to gain related industry, management, and start-up experience regardless of the type of industry in which they plan to operate'. It was also noted, however, that while experience was a significant factor, it could vary by industry in importance.

Lafuente and Rabetino (2011), in their study of the importance of human capital in small business growth in Romania using employment level as a measure of small enterprises success, reported that previous work experience of small business owners is an important factor for the success of the enterprises they operates in. Lafuente and Rabetino (2011), in their study of the importance of human capital in small business growth in Romania using employment level as a measure of small enterprises success, reported that previous work experience of small business owners is an important factor for the success of the enterprises they operates in. Previous start-up experience and cross-functional experience seem to provide individuals with knowledge that improve their ability to recognize new venture opportunities. Previous small business management experience and varied management

experience seem on the other hand to provide individuals with knowledge that increase their ability to handle liabilities of newness in the new venture creation process (Politis and Gabrielson,2002).

2.7.4. Prior Management Experience

Management experience may provide entrepreneurs with prior knowledge of markets, ways to serve markets, and of customer problems. Zeleke (2009) conducts 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. 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).In addition Tem time and Pansiri (2004) also reported in their study managerial of background has less significance on the success of the enterprises. This may arise from the fact that most managers of failed enterprises do not accept the fact that their lack of managerial education and experience is also responsible for failure. Lin and Yeh-Yun (1998), in their study of, Success factors of small and medium sized enterprises, suggested that the management skills and management concepts of business founders are much more important than their technical skills and their concern about production which has resulted in an overall positive organizational performance. They argued in their study that, 'although technical skills may guarantee the survival of a given ME, for an enterprise to truly thrive, founders need to enhance their capabilities in carrying out contemporary management concepts, such as satisfying employees' growth needs, delegating responsibility, and participative management. Another study done by Okpara (2011), on MEs operating in Nigeria supports the argument that, lack of management experience of the small business owners is the other major reason to small

business failure. As the findings of this study show that, most business owners who do not have management experience and adequate training and skills to operate a business faces a problem of collapse of their businesses.

2.7.5. Marketing Skill of Business Owners

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. 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.

2.8. Business Related Factors

2.8.1. Planning and Performance in Small Enterprises

Planning was also recognized by several studies as a key factor to small business success such Lussier (1995), Lussier and Pfeifer (2001), Alasadi and Abdelrahim (2007). Ahmed, Shahbazand Mubarak (2008) suggested that no one should start a business in today's economy without a business plan. They argued that success for small businesses is achieved through planning, commitment, and time, nurturing, financing, and positioning to seize opportunities. Many of these activities must be done on a continual basis as the environment in which businesses operate is continuously evolving.

2.8.2. Record Keeping and Financial Control

Poor record keeping can also lead to strained relationships with vendors which may result in difficulty in obtaining and receiving merchandise. Inadequate working capital decisions and accounting information have been referenced consistently as causes of small business failure. The study of Lusseir (1995) supports this fact. In his study, he reported that 'businesses that do not keep updated and accurate records and do not use adequate financial controls have a greater chance of failure than firms that do. However, the study of Rose, Kumar and Yen (2006) did not show any significant relationship between small business performances and the record keeping, and financial control practices of the enterprises.

2.8.3. Form of Ownership

The other study report of Lafuente and Rabetino (2011) indicates the relationship between enterprises performance and forms of ownership. They reported that rather than those firms with a single-tier leadership structure (entrepreneur-manager), the presence of entrepreneurial teams increases firm's resources and capabilities, a fact that enhances employment growth indicating that the presence of entrepreneurial teams improve internal decision making processes leading to higher growth rates. Similarly the study of Lusseir (1995) supports the fat that enterprises which are owned by more than one owners have a higher chance of success than those enterprises owned and managed by a single owner.

CHAPTER THREE

3. RESEARCH APPROACH AND DESIGN

3.1. Research Approach

Mixed research approach was employed in order to investigate factors determining the Performance of micro –enterprises in Kemissie town. According to Dawson (2002) qualitative research explores attitudes, behavior and experiences through such methods as interviews or focus groups. It attempts to get an in-depth opinion from participants. As it is attitudes, behavior and experiences which are important, fewer people take part in the research, but the contact with these people tends to last a lot longer. Thus, both qualitative and quantitative approach is the most appropriate method to investigate the analysis of factors determining the performance of micro -enterprises.

3.1.1 Research Design

The research design/strategy that employed was case study research design. According to Gerring (2007) case study research design to research is most usefully defined as an intensive study of a single unit or a small number of units (the cases), for the purpose of understanding a larger class of similar units (a population of cases). The case study is a way of organizing economic data for the purpose of viewing economic and social reality. It examines a socio-economic unit as a whole. The unit may be a person, a family, a social group, a social institution, or a community. The case study probes deeply and analyses interactions between the factors that explain present status or that influence change or growth (Best and Kahn, 2003).Creswell (2003) referring to (Stake, 1995) suggests that case studies are research strategies , in which the researcher explores in depth a program, and event, and activity, a process, or one or more individuals. The cases are bounded by time and activity, and researchers collect detailed information using a variety of data collection procedures over a sustained period of time. Furthermore, as a research strategy, the case study is used in many situations to contribute to our knowledge of individual, group, organizational, social, political and related phenomena in different fields of study like political science, business and

community planning (Yin, 2003). Therefore, Case studies help us to connect the actions of individual people to the large scale socioeconomic structures and processes. The logic of case study is to demonstrate a casual argument about how general social force shape and produce results in particular settings. As a result, the issues of analysis of factors determining the performance of micro –enterprises were investigated through the application of case study research design.

3.1.2. Data Sources

In this study, both primary and secondary data sources were employed. The primary data sources were questionnaire, key informants interviewees and focus group discussants whereas secondary data sources were books, articles and journals.

3.1.2.1. Primary data source

The study used well-designed questionnaire as best instrument and face-to-face interviews with the MEs operators/and the relevant owner managers who heads the enterprises in the selected sectors.

3.1.2.2. Secondary data Sources

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

3.1.3. Sampling Technique

Stratified random sampling was used to get information from different sizes of the MEs. This technique is preferred because it is used to assist in minimizing bias when dealing with the population. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. According to Janet (2006:94), this step increases the probability that the final sample was representative in terms of the stratified groups. The strata's are sectors including: metal work, food processing and wood work. According to Catherine Dawson (2009:54), the correct sample size in a study is

dependent on the nature of the population and the purpose of the study. Although there are no general rules, the sample size usually depends on the population to be sampled. In this study to decide sample size, list of the population formally registered until October 2016 by Kemisie town Administration office of Micro and small enterprises. The researcher will use 62 samples among the population which are 124 micro enterprises. From the total population of the enterprise the sample size was selected randomly from the strata.

3.1.4. Methods of Data Collection

3.1.4.1. Questionnaire

The questions that were used in the questionnaire was multiple-choice questions and five-point liker scale type questions. The type of scales used to measure the items on the instrument is continuous scales (strongly agree to strongly disagree).

3.1.4.2. Semi-structured Interview

Semi-structured interviews were employed for qualitative data collection. Semi-structured interviews incorporate elements of both quantifiable, fixed-choice responding and the facility to explore, and probe in more depth, certain areas of interest. Thus, this type of interview has the advantages of easiness to analyze, quantify and compare data and allows interviewees to explain their responses and to provide more in-depth information where necessary (Brewerton & Millward, 2001). Hence, semi-structured interviewing is perhaps the most common type of interview used in qualitative social research (Dawson, 2002). Semi-structured interview was held with prominent personalities in the town who could know deeply the factors determining the performance of micro enterprises. As a result, a total of 10 participants or interviews from managers, religious leaders, and zonal leaders of the town were selected through availability sampling technique.

3.1.4.3. Discussions

In this study, FGD was one of the data collection tool to supplement, confirm and check the validity of information that was generated in semi-structured interviews and in-depth interviews with key informants. Gillham (2000) states that Focus Group Discussion (FGD)

using semi structured questions allows researchers to look more deeply into the research issues and develop new lines of inquiry that arise during interviews. Likewise, Krueger (1994) argues that group discussion compared with formal questionnaire interviews allow sensitive issues to be more freely discussed in groups when individual would not wish to discuss them alone with a stranger. Hesse-Biber and Leavy (2004) also delineates Focus Group as a distinct method of qualitative and quantitative interviewing in that multiple participants are interviewed in the context of a group. It is often used to give voice for group participants.

3.1.4.4. Key Informants Interview

Attempts to explore facts on the ground makes it a rational approach to include key informant interviews by involving selected group of individuals who are likely to provide needed information, ideas, and insights on the proposed research. Accordingly, interviews were conducted among key informants that will allow the researcher collecting data on relevant and well-informed sources about determinants of micro enterprises. According to Kumar (1989) key informant interviews involve interviewing of knowledgeable individuals who are likely to provide the required information, ideas and insights on a particular subject. Such individuals must be identified carefully and in this study key informants were selected from each user group. A total of 15 key informants were selected purposely as key informants to support data that were obtained from interviewees and discussants. Key informant interviews were conducted using a check list of open ended questions prepared for FGD. The time and place for key informant interviews were decided by key informants themselves and the majority of interviews were held at their home/office.

3.1.5. Method of Data Analysis

The data gathered from questionnaires, interviews and discussants were analyzed carefully to keep their accuracy and validity. The study has used both descriptive and inferential statistical analysis, to analyze the data collected from participants of the study. Initially; the survey data was recorded and organized. Then, it was edited and analyzed using SPSS Version 20. Generally, the data processing procedure passes two consecutive phases: First data cleaned up in which the collected raw data was edited to detect errors and omissions in

response. The next phase was the process of assigning variable type whether it is numeric or other type.

3.1.5.1. Descriptive Analysis

Descriptive statistics is one of the important techniques used to summarize information (data) collected from a sample. It helps to attain a clear picture of the characteristics of sample units. The descriptive statistics employed to explain the demographic and socioeconomic behavior of sample characteristics. By applying descriptive statistics such as mean, standard deviation, frequency of appearance etc. one can understand situation of sample units (in this case enterprises) with respect to the desired characters to draw some important conclusions. Although, results drawn using descriptive statistics can be presented using tables. The descriptive statistical tools such as frequencies, percentages and mean helped the researcher to describe the data.

3.1.5.2. Inferential Analysis

In order to examine the impact of independent variables on performance of the enterprises, an appropriate inferential analysis was used. Statistical analyses were conducted to analyze the relationship between enterprise performance and key identified variables of MEs operators. Statistical analyses were conducted to analyze the performance of enterprise of MEs operators.

Data were analyzed with the help of Statistical Packages for Social Scientists (SPSS). Also, analysis of variance was carried out to examine the variation in the performance of enterprises related to the variation in each of the independent variables of the study. The ANOVA result generated from SPSS were used to analyze the performance of MEs in relation to the variations to each of the eight independent variables of the study. This method is used to investigate the effect of independent variables and enterprises performance. In general, to assess the determinants of enterprise performance ANOVA output was used in this study. Enterprise performance is the dependent variable the independent variables included in this study was:

AGBO = Age of the business owner

EDUCBO = education level of the owners

OWNERSHIP = the ownership form of the enterprises,

PLAN = the planning practice of enterprises,

RECORD = record keeping and financial control system,

MGTEX = management experience of owners,

INDEXP = prior industry experience of owners,

MKTGSK = marketing skill of owners.

3.1.5.3. Analysis of Variance for Different Variables

Even though the analysis is produced by the SPSS software which is described above, here under the formula which is important for variance analysis is given accordingly. For groups with equal sample size of independent variable the average of variance of the group is illustrated there.

$$(Sw)^2 = \frac{1}{I} \sum_{i=1}^{i} \sum_{j=1}^{ni} (\frac{Xij - X^-}{ni - 1})$$

Within groups variance

$$(Sw)^{n2} = \frac{(n1 - 1)S1^2 + (n - 1)S2^2 + (n3 - 1)S3^2}{(n1 - 1) + (n2 - 1) + (n3 - 1)}$$

Where, n= sample size

S^2 =standard deviation

Sw = group standard deviation

Between groups variance

For equal sample size, the between groups variance is:

$$(Sb)^2 = \sum_{i=1}^{I} \frac{(\ddot{X}i - \overline{X})^2}{I - 1}$$

Test statistics for independent t-test is given by the following formula which is illustrated here under: $t = \frac{\overline{X}1 - \overline{X}2}{\sqrt{\overline{X}1 - \overline{X}2}}$

$$S = \frac{(n-1)S^21 + (n2-1)S2^2}{n1 + n2 - 2}$$

$$df = n1 + n2 - 2$$

$$S.e. = \frac{S}{\sqrt{n}}$$

$$S = \frac{\sum X^2 - \frac{(\sum X)^2}{n}}{n - 1}$$

Sum sq. between groups

Sum sq. $=$ sum sq. $= n \sum_{i=1}^{n}(\overline{X}i - \overline{X})^2$

$$\text{mean sq.} = \frac{\text{sum sq.}}{df}$$

Where t= test statistics, $\overline{X}$ = mean, S^2 = standard deviation, df = degree of freedom, n= number of samples, s.e.=standard error

CHAPTER FOUR

4. RESULT AND DISCUSSION

4.1. Demographic and Enterprises Profile Related Data

As it is depicted in Table 4 majority of the enterprises 46 (74.2%) were Micro services with a total capital less than Birr 100,000 while the rest of the sample 16 (25.8%) of the respondent enterprises are in the category of industries businesses enterprise which have total capital within less than Birr 50,000 according to the classification scheme of MoUDH. The other demographic character is sex of the respondents or owners, in this regard 30 (48.40%) of the respondents were male business owners while 32 (51.6%) were female business owners which makes the respondents in this study somewhat proportional in terms of sex. Also from Table 4 one can easily identify the type of the industry that the enterprises engaging in. Majority of the enterprises 44 (71.0%) involved in a business that can be included in the following service type namely, Merchandise & Retail Business, Food and Beverages, Tea and Coffee service, internet rent service, barber shops, mobile maintenance, video rentals, electronics equipment business. While the rest of the enterprises in the sample 18 (29.0%) are engaged in Wood and Metal work industry business activities. In this study the sample respondents included for the analyses are those enterprises that stay in business at least two years since establishment. In this regard, the majority of the enterprises 57 (91.9 %) have the age of 2 to 10 years since establishment while the rest, 5 (8.1%) of the respondent enterprises have stayed in business for more than 10 years. When we classify the enterprises involved in this study on the bases of the number of employees as they initially established, one can get the following facts in Table 4 below. 24 (38.7%) of the enterprises were operated only by the principal owner of the business as self-employed sole business owner. But majority of the enterprises in this study 30 (48.4%) were started their business with 2 to 3 employees including the principal owners of the enterprises. The remaining enterprises in the sample, 8 (12.9%) have started their business with 4 and 5 employees including the principal owner of the business.

Table 4: Count and percentage of the Demographic Characteristics of the Respondents

Demographic Variables	Frequency	Percentage	Cumulative percentage
Sex of the principal business owner			
Male	30	48.4	48.4
Female	32	51.6	100.0
Total	62	100.0	
The type of industry Enterprises operating			
Food and Beverages	14	22.6	22.6
Merchandise & retail business	16	25.8	48.4
Tea and Coffee	9	14.5	62.9
Wood and Metal	18	29.0	91.9
Others	5	8.1	100.0
Total	62	100.0	
Age of the Business Enterprises			
Enterprises within 2-5 years	39	62.9	62.9
Enterprises within 6-10 years	18	29.0	91.9
Enterprises more than 10 years	5	8.1	100.0
Total	62	100.0	
Number of initial employees of the enterprises including the owner			
One employee	24	38.7	38.7
2-3 employees	30	48.4	87.1
4 employees	6	9.7	96.8
5 employees	2	3.2	100.0
Total	62	100.0	
Current capital of the enterprises			
Current capital below 10,000 Birr	33	53.2	53.2
10,000-50,000 Birr	13	21.0	74.2
50,001-100,000 Birr	16	25.8	100.0
Total	62	100.0	

Source: questionnaire survey data, 2018

4.2. Descriptive and Inferential Statistics Result about the Main Variables

4.2.1. Descriptive Analysis

The first variable considered in this study as the factor for performance of MEs is the age of the principal owner of the enterprises. To examine the variation in the performance of the enterprises in different age categorizes, the sample is grouped into three age groups as depicted in Table 5 below. As it is indicated in the table, from the total sample taken 21 enterprises are possessed by principal owners with the age of 29 years old and below. When we look at the capital growth of the enterprises in this age category on average they show a total capital growth of 1.157 or 115.7% from the time of establishment to date. The other 32 MEs in this study are owned by individuals with the age range of 30 to 45 years which roughly shows the adult age group of the population in Ethiopia. The performance of MEs under this age category in terms of average capital growth is about 8.38 or 83.8% from the year they have been established to date.

The remaining 9 enterprises have owners with age above 45. In terms of the total capital growth of the enterprises possessed by individuals in this age category, on average they grow by 5.37 or 537% since establishment to date. Over all from this descriptive statistics result, those MEs owned by individuals with the age of 30 to 45 shows higher average capital growth than those enterprises owned by individuals with age 29 and below and those individuals with age above 45 years old. The possible argument for the better performance of those enterprises owned by individuals with this age bracket would be, first business owners in this age category would have better chance of acquiring business experience compared to those 29 years and below on the other hand relative to business owners above the age of 45 this age category would be more energetic to spend more time in their business. These two conditions may in turn makes enterprises owned by those individuals in this age category perform better.

Table 5: Enterprises Capital Growth in Age Categories

Age of MEs Owners	No	Mean capital growth	Std. deviation CG	Std. error CG	95% confidence interval for mean		Min CG	Max CG
					Lower bound	Upper bound		
29 years old and below	21	1.1569	1.944	0.42424	0.272	2.0419	-0.7	9
30 to 45 years old	32	8.3841	15.03	2.65757	2.964	13.8043	0	65.67
Above 45 years old	9	5.3732	13.01	4.33652	-4.6268	15.3732	-0.53	39.77
Total	**62**	**5.4991**	**12.22**	**1.55102**	**2.3977**	**8.6006**	**-0.7**	**65.67**

CG is capital growth of the enterprises

Source: questionnaire survey data, 2018

The other independent variable of this study is the education level of the principal owners of the enterprises which is expected to have a relation with the performance of the enterprises and in turn determines their success. Some business owners are highly educated and extremely successful whereas others have yet to complete their high school but are equally successful. In many instances, it may depend on the individual himself/herself. Nevertheless, education level can have an effect on the performance of a business as noted in many studies. To see the difference in the performance of enterprise with respect to the difference in the education level of the owners of the enterprises, the education status of the principal owners of the sample enterprises in this study is grouped into three categories. As it is indicated in Table 6, 16 sample enterprises have principal owners below 10th grade in terms of their education level. When we see the performance of these enterprises in terms of total capital growth in relation to the education status of the principal owners of the business enterprises, on average they scored a 6.79 or 679% growth of total capital in their stay in the business from the time they have established to date. The other 28 enterprises or enterprises owners of this study have an education status of 10th to 10+2 which means those completed 10th grade and have 2 years additional education either in technical and vocational or preparatory

classes. Enterprises owned by owners with this education level or status on average scored 3.23 or 323% growth in total capital from their establishment time to the time of data collection. The remaining 18 MEs involved in this study are owned by individuals having an education level 10+3 and above. This educational status category of the principal owners includes those completed 10th grade and has stayed three additional years in further education and those completed their preparatory class and have one year additional education. In addition this category also includes those owners having first degree and above. Regarding performance of the enterprises in this category of the educational status of the principal owners of the enterprises; on average they showed a 7.88 or 788% growth in total capital since establishment.

Table 6: Enterprises Total Capital Growth by Education level

Education level of ME owners	No	Mean CG	Std. Deviation CG	Std. error CG	95% confidence interval for Mean (CG)		Min CG	Max CG
					Lower bound	Upper bound		
Below 10th grade	16	6.7859	12.894	3.22353	-0.849	13.6567	-0.5	39.00
10 to 10+2 completed	28	3.2333	7.171	1.35531	0.4524	6.0142	-0.7	36.60
10+3 and above	18	7.8799	17.053	4.01930	-0.6001	16.3599	0.2	65.67
Total	62	5.4991	12.218	1.55102	2.3977	8.6006	-0.7	65.67

CG- capital growth of the enterprise

Source: questionnaire survey data, 2018

The third variable of this study is the ownership form of the enterprises. This ownership form deals with whether the enterprises are possessed by single individual or sole proprietorship or owned by more than one owner as partnership or private limited enterprises and this ownership form of the enterprises would have relation to the performance of MEs and

determine their success in the business environment they are working in. As shown from Table 7, 17 MEs are owned and operated by one person as sole proprietorship business. When we look at the performance of the enterprises under this category ownership type in terms of capital growth, on average they show 3.05 or 305 % growth since establishment to date. On the other hand, from the same Table 7, 45 sample enterprises in this study are owned by two or more owners either as partnership or private limited company. Looking to the performance of the enterprises in terms of the growth in total capital, on average they show a 6.42 or 642% growth in total capital to date. Generally from this statistical data, those enterprises owned by more than one owner perform better in total capital growth compared to those possessed by only one owner. The possible reason for the better performance of those enterprises owned by more than one individual is that the pooled entrepreneurial capacity and skill of different individuals may positively contribute to the performance of the enterprises.

Table 7: Enterprises Total Capital Growth by Ownership

Ownership form of the MSEs	No	Mean CG	Std. Deviation CG	Std. error CG	95% confidence interval for mean CG		Min CG	Max CG
					Lower bound	Upper bound		
Owned by one person	17	3.0504	9.31249	2.25861	-1.7376	7.8385	0.00	39.00
Owned by 2 and more persons	45	6.4242	13.11677	1.95533	2.4835	10.3649	-0.7	65.67
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-0.7	65.67

CG-capital growth of the enterprise

Source: questionnaire survey data, 2018

The other variable of this study which is expected to have relation to the performance MEs is the internal practice of planning in advance for different activities to be executed in the day to day operation of the enterprises for attaining pre-established goals. As it is indicated in

Table 8, from the total sample enterprises in this study, 33 MEs do not use any kind of plan in their day to day operation of business. Looking to the performance of the enterprises that do not use any plan using total capital growth of the enterprises as a measure of performance, on average these enterprises show 3.69 or 369% growth in total capital from the year they have established to date. On the other hand 25 enterprises in the sample taken have planning practice in their day to day business operation that covers 1 to 2 years. In terms of performance using capital growth as a measure, enterprises which uses 1 to 2 years plan for their business activities have scored 8.47 or 847% average capital growth. The remaining 4 enterprises in the sample have a plan that covers 3 to 5 years which can be considered as a medium term plan. The performance of the enterprises in this category in terms of average capital growth is about 1.86 or 186%.The overall picture of the descriptive statistics result about enterprises performance and their planning practice shows that, those enterprises using a plan covering 1 to 2 years performs better in terms of total capital growth when compared with those enterprises that do not use any kind of plan and those using 3 to 5 years plan in their day to day operation of business. The possible justification to the importance of using plan is that, planning in advance what needs to be done helps enterprises to act strategically to realize established development goals rather than moving in a random and unsystematic way to the opportunities as well as unfavorable situation that will happen in their business operations. This proactive move of the enterprises increases their chance of success in the dynamic environment. And this also works to the enterprises that use a short term plan of 1 to 2 years for their business activities.

Table 8: Enterprises Total Capital Growth in relation to planning

Plan	No	Mean CG	Std. Deviation CG	Std. error CG	95% confidence interval for mean CG		Min CG	Max CG
					Lower bound	Upper bound		
No plan	33	3.6865	11.38245	1.98143	-0.3495	7.723	-0.53	65.67
Use 1to 2 years plan	25	8.4741	13.73686	2.74737	2.803	14.144	0.0	39.77
Use 3 to 5 years plan	4	1.8596	3.686	1.843	-4.006	7.7248	-0.7	7.33
Total	62	5.4991	12.21272	1.55102	2.398	8.6006	-0.7	65.67

CG-capital growth of the enterprise

Source: questionnaire survey data, 2018

Use of formal record keeping and financial control mechanism in the enterprises day to day business operation is considered as another variable that would result difference in performance between those use the system and those do not use. As it is depicted in Table 9 below from the total sample enterprises considered in this study, 33 enterprises do not use any kind of formal record keeping and financial control mechanisms related to their day to day operation. When we look at the performance of enterprises in this category in terms of total capital growth from the time they have established to date, on average they have shown 3.26 or 326% growth in total capital. The remaining 29 sample enterprises included in this study use record keeping and financial control system to facilitate their day to day business activities. In terms of their performance in total capital growth, enterprises in this category on average shows 8.05 or 805% increase in total capital since their establishment. Overall the average performance of those enterprises using record keeping and financial control system in their operation is better than those do not use. This system helps enterprises to distinguish the financial expenses as well as revenues generated by the business operation.

Table 9: Enterprises Total Growth in Relation to Record Keeping & Financial

Record keeping and financial control	No	Mean CG	Std. Deviation CG	Std. error CG	95% confidence interval for mean CG		Min CG	Max CG
					Lower bound	Upper bound		
Enterprise do not have record keeping & financial control mechanism	33	3.2555	6.88654	1.19879	0.8136	5.6973	-0.33	29.00
Enterprises have record keeping & financial control mechanism	29	8.0522	16.064	2.98301	1.9418	14.1626	-0.7	65.67
Total	62	5.4991	12.21273	1.55102	2.3977	8.6006	-0.7	65.67

CG- Capital growth of the enterprise

Source: questionnaire survey data, 2018

From Table 10, 31 principal owners of MEs in this study have no any prior management experience acquired either being employed in other organizations and working in a management position or managing their own independent enterprises before the current one. In terms of performance of enterprises owned by individuals without any prior management experience, they show on average total capital growth of 4.86 or 486%.From the same Table 10, 25 MEs are owned and managed by owners which have a prior management experience of 1 to 5 years. Regarding the performance of the enterprises in this category on average they show 6.02 or 602% increase in total capital. The remaining 6 MEs in this study are owned and managed by individuals who have a prior management experience of more than 5 years. The performance of the enterprises in this category in terms of average total capital growth is 6.65 or 665% increase throughout their stay in the business. Generally from the descriptive statistics results in Table 10, the performance of those enterprises owned and managed by those individuals having more than 5 years management experience is better than the others.

This is because, management experience may provide entrepreneurs with prior knowledge of markets, ways to serve markets, and of customer problems and this kind of exposures in turn increases the chance of the enterprises' success in their business environment.

Table 10: Enterprises total Capital Growth in relation to Management Experience of Owners

Owners management experience	No	Mean CG	Std. Deviation CG	Std. error CG	95% confidence interval for mean CG		Min CG	Max CG
					Lower bound	Upper bound		
No experience	31	4.8581	10.57927	1.90009	0.9776	8.7386	-0.50	39.77
1 to 5 years' experience	25	6.0168	14.51295	2.90259	0.0262	12.0075	-0.70	65.67
More than 5 years' experience	6	6.6542	11.47258	4.68366	-5.385	18.6939	0.08	29.00
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-0.70	65.67

Source: questionnaire survey data, 2018

As it is shown in Table 11, 33 owners of MEs in this study have established and run the current business without any prior experience of establishing and operating business of their own which was related to the business enterprises currently operating. In terms of the performance of enterprises run by individuals without any prior industry experience, on average they show 4.59 or 459% increase in total capital since establishment to date. The remaining 29 owners of the MEs in this study have a prior experience of establishing and running at least one business of their own similar to the business they are operating currently. The performance of these enterprises owned by owners having prior industry experience, on average shows 6.53 or 653% increase in total capital. Overall MEs owned and run by individuals who have prior industry expertise shows better performance in capital growth

compared to those enterprises operated by individuals without any prior industry experiences. The possible argument for this better performance of enterprises with prior industry experience of the owners is because prior business experience is useful training to utilize opportunities that maximize performance and minimize the risk of failure.

Table 11: Enterprises Total Capital Growth & Prior Industry Experience of Owner

Owners industry experience	No	Mean CG	Std. Deviation CG	Std. error CG	95% confidence interval for mean CG		Min CG	Max CG
					Lower bound	Upper bound		
No prior industry experience	33	4.5944	10.34440	1.80073	0.9264	8.2623	-0.53	39.77
Have prior industry experience	29	6.5287	14.16261	2.62993	1.1415	11.9158	-0.70	65.67
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-0.70	65.67

Source: questionnaire survey data, 2018

The last variable considered in this study is the marketing skill of the business owners' which is expected to create variations in the performance MEs .As indicated from Table 12, 20 MEs in this study are owned and run by individuals without any marketing skill acquired ether in their formal education or informal ways like training. In terms of performance, enterprises run by individuals without marketing skill on average show 6.01or 601% increase in total capital since their establishment to date. The remaining 42, MEs involved in this study are owned and run by individuals with marketing skill. In terms of performance enterprises in this category shows on average a 5.50 or 550% increase in total capital throughout their stay in the business. But when compared to those enterprises run by individuals without marketing skill, the performance is lower. But this better performance of those enterprises

owned by owners without any marketing skill is an exceptional to the common wisdom that marketing skill and knowhow helps businesses to a better performance in their operation.

Table 12: Enterprises Total Capital Growth & Marketing Skill of Business Owner

Owners marketing skills	No	Mean CG	Std. Deviation CG	Std. error CG	95% confidence interval for mean CG		Min CG	Max CG
					Lower bound	Upper bound		
Owners without marketing skills	20	6.0141	11.71229	2.61895	0.5325	11.4956	-0.50	39.77
Owners with marketing skills	42	5.2539	12.57561	1.94046	1.3351	9.1727	-0.70	65.67
Total	62	5.4991	12.21272	1.55102	2.3977	8.6006	-0.70	65.67

Source: questionnaire survey data, 2018

4.2.2. Inferential Analysis

The second part of this data analysis and discussion section deals with results obtained from inferential statistics that is specifically regression and ANOVA analysis.

4.2.2.1. Regression Analysis

Multiple regression analysis was conducted to determine the influence of the independent predictors (the eight aspects considered in this study) on the dependent variable enterprise performance.

The model equation:

EP= Bo+ B1AGBO + B2EDUCBO + B3OWNWRSHIP + B4PLAN + B5RECORD + B6HGTEX + B7INDEXP +B8MKTGSK + ε

This model explained 82.3 % admeasured by the goodness of fit as shown in Table 13. This showed that aspects of enterprise performance explained 82.3% of the variation in enterprise performance. This indicates good positive relationships between dependent and independent variables; it revels their inter correlation. The overall R^2 of the model is good with R^2 = 0.677. In addition, it is well placed in the range of predictive power of the theory; R2= 0.43-0.94 (Ajzen, 1991:189). Thus, the applications of the variables towards the development of micro enterprise capital growth the model have explained 0.677 or 67.7% of the variance in enterprise performance of the study area.

Table 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	. .823ª	.677	.628	.520	.677	13.889	8	53	.000

a. Predictors: (Constant), marketing skill of owners., Age of the business owner, record keeping and financial control system, the ownership form of the enterprises, management experience of owners, the planning practice of enterprises, education level of the owners, prior industry experience of owners

b. Dependent Variable: Capital performance

The results of the above model summary also indicated that enterprise performance with the aspects of eight characteristics incorporated for this study the model has F-value 13.88,p=0.000 and explained the variance in enterprise performance in the study area. In overall the model is significant. Thus, variables which are considered as factors significantly predicted the dependent variable.

The main output of multiple regression analysis presented in Table 14. The result revealed that some of the variables have a positive influence on enterprise performance. This is illustrated by the regression results at 95% confidence interval with un standardized beta coefficient and t value with a p-value.

Table 14: Results of Regression Coefficients

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.633	.493		-1.285	.204
	Age of the business owner	.012	.111	.009	.108	.914
	education level of the owners	.279	.159	.244	1.756	.085*
	the ownership form of the enterprises	.089	.163	.047	.544	.588
	the planning practice of enterprises	.096	.140	.067	.685	.497
	record keeping and financial control system	.724	.228	.427	3.177	.002***
	management experience of owners	.051	.161	.040	.320	.750
	prior industry experience of owners	.496	.237	.293	2.089	.042**
	marketing skill of owners.	-.239	.163	-.132	-1.469	.148
a. Dependent Variable: Enterprise performance						

Source: questionnaire survey data, 2018

*, ** &*** shows the level of significance at 10%, 5% and 1% respectively

The result in the above Table 14 shows, 3 independent variables which are education level of the owners, record keeping and financial control system and prior industry experience of owners are significant and positive influence on enterprise performance. The standardize coefficient beta values indicates the extent of a unit change in each dimensions has in enterprise performance. The result shows that a unit change in education level of the owners has 0.244 (24.4%) changes in enterprise performance keeping other variables constant. The relative importance of independent variables for the increase of dependent variable indicated from the above table 14. The study revealed that record keeping and financial control system is dominant factor, followed by prior industry experience of owners and education level of the owners respectively.

Output equation

The output equation for this model is

EP= Bo + B1AGBO + B2EDUCBO +B3OWNWRSHIP +B4PLAN + B5RECORD +

   B6HGTEX + B7INDEXP + B8MKTGSK + ε

Where:

 EP= Enterprise performance (Dependent variable)

AGBO, EDUCBO, OWNWRSHIP, PLAN, RECORD, HGTEX, INDEXP and MKTGSK are the independent variables

Bo, B1, B2, B3, B4, B5, B6, B7 and B8 represent the coefficients and consequently the model written in the following manner

EP= -0.633 + 0.012*AGBO + 0.279*EDUCBO + 0.089*OWNWRSHIP + 0.096*PLAN +

   0.724*RECORD + 0.051*HGTEX + 0.496*INDEXP - 0.239*MKTGSK + ε

4.2.2.2. ANOVA Analysis

The analysis and interpretation of the ANOVA (Analysis Of Variance) results in relation to the variation in each of the independent variable of the study and the related variations in the performance of enterprises taking total capital growth of the enterprises from their date of establishment to date as a performance measure of the enterprises. The Table 15 given bellow shows the ANOVA result of performance of MEs in relation to the variation of the eight explanatory variable of the study.

Table 15: Analysis of Variance in Performance Related to the Independent Variables

Variable	Source of variation	Sum of squares	Df	Mean square	F	Sig.
AGBO	Between groups	.838	2	.419	.568	.569
	Within groups	43.500	59	.737		
	Total	44.339	61			
EDUCBO	Between groups	24.401	2	12.201	36.105	.000
	Within groups	19.937	59	.338		
	Total	44.339	61			
OWNERSHIP	Between groups	.443	1	.443	0.941	0.336
	Within groups	43.895	60	.732		
	Total	44.339	61			
PLAN	Between groups	382.669	3	191.335	1.295	0.282
	Within groups	8715.517	59	147.721		
	Total	**9098.186**	62			
RECORD	Between groups	23.269	1	23.269	66.261	.000
	Within groups	21.070	60	.351		
	Total	44.339	61			
MGTEX	Between groups	27.444	3	13.722	0.089	0.915
	Within groups	9070.742	59	153.741		
	Total	**9098.186**	62			
INDEXP	Between groups	14.483	1	14.483	29.106	.000
	Within groups	29.856	60	.498		
	Total	44.339	61			
MKTGSK	Between groups	7.829	1	7.829	0.052	0.821
	Within groups	9090.357	60	151.506		
	Total	**9098.186**	61			

Significance level for alpha $\alpha =0.05$

Source: questionnaire survey data, 2018

AGBO- Age of the business owner**, EDUCBO** – education level of the owners, OWNERSHIP – the ownership form of the enterprises, PLAN – the planning practice of enterprises, **RECORD** – record keeping and financial control system, **MGTEX** – management experience of owners, **INDEXP** – prior industry experience of owners, **MKTGSK** – marketing skill of owners.

4.2.2.2.1. Enterprises performance and Age of Business Owners

Table 15 shows there is no significance difference between MEs performance (as defined by capital growth) with respect to the difference in the age of the principal owners of the enterprises (F=2.317, p=0.108, df 2, 59) at 5 percent significance level .The null hypothesis which states that, there is no significant difference on the performance of enterprises operated by owners with different age group can be accepted. The result indicates there is no significant difference on the performance of Micro Enterprises run by owners who have an age of 29 years and below, those between 30 to 45 and those above 45 years old. But it doesn't mean that there is no difference in the performance of the enterprises in the three categories, but the variation in performance is not statistically significant among these three age categories of the owners. Though the ANOVA result do not show a statistically significant variation in the performance of MEs in terms of owners age difference, those enterprises run by individuals with age between 30 to 45 shows better average performance in capital growth than the other two categories(see Table 5).To sum up about the variable age of the business owners as one factor that contribute to the success of MEs, the statistical result do not show a significant variation on the performance of enterprises owned by individuals in the three age categories. Based on this it can be conclude that, age of the principal owners is not the factor that determines the success of MEs operating in Kemissie.

4.2.2.2.2. Performance and Owners' Education

Table 15 shows there is no significance difference among the performance of MEs (as it is defined by capital growth of the enterprises) and the difference in the education level of the principal business owners(F=36.1, p=0.000, df 2, 59) at 5 percent significance level. Hence the null hypothesis of the study which states that, there is significant difference on the performance of enterprises in relation to the difference on the education level of the principal

owners of the business is accepted. Even though the ANOVA result indicates absence of statistically significant variation in the performance of MEs in relation to the difference in the education level of the principal owners of the business, MEs owned and run by individuals having education level of 10+3 and above shows better performance in average capital growth compared to the other two categories of enterprises. The statistical result support to conclude, enterprises owned by individuals with an education level of 10+3 and above are successful. Better education of the owners of the business is proofed by this study as the factor that contributes to the success of business enterprises in Kemissie.

4.2.2.2.3. Performance and Ownership Type

As it is indicated in Table 15, there is no significance difference in the performance of MEs (as defined by capital growth) in relation to the type of ownership of the enterprises; those owned by one individual and those owned by more than one individual (F=0 .941, p=0 .336, df= 1, 60) at 5 percent level of significance. Hence based on this ANOVA result the null hypothesis of this study which states, there is no significant difference on the performance of enterprises in relation to the difference in the type of ownership of the enterprises is accepted. But it is not to mean the performance is the same for MEs owned and run by single owner and those owned by more than one owner, it means the variation in performance of enterprises is not statistically significant. Though the variation in performance between these two groups of enterprises based on ownership form of the business is not statistically significant, the performance of those enterprises owned by more than one individual or those partnerships and private limited enterprises shows higher average capital growth than those MEs owned by single owner (see Table 7).To sum up the ANOVA result does not enable us to conclude those enterprises owned by more than one individual are successful and establishing enterprises in partnership or private limited company form is important to the successful performance of the enterprises. Because the variation in performance between enterprises in these two groups is statistically insignificant.

4.2.2.2.4. Performance and Plan

The other variable in this study is the internal practice of preparing plan for business activities and the related variation in the performance of enterprises with respect to the

enterprises practice of planning. As Table 15 shows there is no significance difference in the performances of MEs among those enterprises that do not use plan at all, those use 1 to 2 years plan and those enterprise use 3 to 5years plan for their business activities with (F= 1.295, p = 0.282,df 2, 59) at 5 percent level of significance. Thus the ANOVA result helps to accept the null hypothesis which states that, there is no significant difference on the performance of enterprises in relation to the difference in planning practice of the enterprises .When we look the performance of enterprises in each category separately; the performance of MEs using 1 to 2 years plan shows better average performance in capital growth than the other two groups of MEs in this study (see Table 8). But this variation in performance of the enterprises is not statistically significant to say enterprises using 1 to 2 years short term plan are successful compared with those enterprises that do not use any plan and those enterprises that use 3 to 5 years plan. This ANOVA result could not enable us to proof a short term plan of 1 to 2 contributes to the performance of MEs as a result of this planning is not one of the success factors to MEs operating in Kemissie.

4.2.2.2.5. Performance and Record Keeping and Financial Control:

Record keeping and financial control practice of the enterprises is considered as one variable that creates variation on the performance of MEs. Then the variation in performance between those enterprises using record keeping and financial control system and those do not, is indicated in Table 15, the ANOVA result in the table implies, there is significance variation in the performance between MEs, (F=66.261, p =0.000, df=1, 60) 5 percent level of significance, that uses record keeping and financial control mechanism to facilitate their day to day operation and those do not use record keeping and financial control mechanism. This result rejects the null hypothesis of this study which states that, there is no significant difference on the performance between those enterprises that use record keeping and financial control and those do not use record keeping and financial control mechanism in their day to day operation. When we look at the performance of the enterprises separately in each category, those MEs that uses record keeping and financial control mechanism in their day to day operation shows much better performance in average capital growth than those enterprises that do not use record keeping and financial control mechanism in their operation (see Table 9), though the variation in average capital growth is not statistically significant.

Generally the ANOVA result support the argument, using record keeping and financial control mechanism makes MEs successful in their day to day operation and this internal practice of using record keeping and financial control mechanism is one not the factor that contribute to the performance of MEs operating in Kemissie town..

4.2.2.2.6. Performance and Management Experience of the Principal Owners':

Difference in management experience of business owners considered as one variable that results variations on the performance of MEs. But as it is indicated in Table 15, there is no significance difference between the performances of MEs (as defined by capital growth) and the difference in the management experience of the principal owners of the enterprises (F=0.089, p=0.915, df=2, 59) at 5 percent level of significance.

This statistical result supports to accept the null hypothesis of the study which states that, there is no significant difference on the performance of enterprises in relation to the difference in the management experience of the principal owner of the business. Looking separately, the performance of those MEs owned by individuals with a management experience of more than 5 years shows higher average capital growth than those enterprises owned by individuals without any management experience as well as those with 1 to 5 years of management experience(see Table 10). But the ANOVA result is not statistically significant to conclude enterprises which have owners with more than 5 years prior management experience better succeed in their operation than those enterprises owned by individuals with prior experience below 5 years.

4.2.2.2.7 Performance and Prior Industry Experience of the Principal Owners'

The other variable in this study which is expected to create variation on the performance of enterprises is the experience of the owners in establishing related business of their own before the current enterprises they are operating. As Table 15 shows there is significance difference between the performances of MEs (as defined by capital growth) and the variation in the prior industry experience of the owners of the enterprises (F= 29.106, p= 0.000, df= 1/60) at 5 percent level of significance. Based on this ANOVA result, the null hypothesis which states, there is no significant difference on the performance of enterprises in relation to

the difference in prior industry experience of the principal owner of the business is rejected. That mean there is variation in the performance of enterprises owned by individuals with prior experience of establishing their own independent business and those do not have the experience of establishing their own independent business. From Table 15, the performance of MEs owned by individuals with experience of establishing at least one independent business of their own in related business areas shows higher capital growth than those enterprises owned by individuals without prior experience. But this result is not supportive to conclude having prior industry experience helps owners to be successful and it is one factor to the success of MEs in Kemissie.

4.2.2.2.8. Performance and Marketing Skill of the Owners:

The last variable in this study is the marketing skill of the business owners which is expected to create difference in the performance of enterprises. In this regard Table 15 shows there is no significance difference between the performances of MEs (as defined by capital growth) related to the difference on the marketing skill of the owners of the enterprises (F=0.052, p= 0.821, df= 1/60) at 5 percent level of significance. This ANOVA result enables to accept the null hypothesis which states that, there is no significant difference on the performance of enterprises in relation to the difference in the marketing skills of the principal owner of the business. Looking separately for the performance of enterprises in each category interims of the market skill of the owner, those enterprises owned by individuals without marketing skills shows higher average capital growth than their counter parts. This result is exceptional to the conventional knowledge that marketing skill and know-how leads businesses in general to a better performance.

4.3. Challenges of Accessing to Alternative Financing

At the international level, the constraint that MEs face is access to financing options around the world, in developing (Beck et al. 2005; Ayyagari et al. 2007). The financial constraints facing MSEs is one of the critical bottlenecks for the growth of MEs. Even though there are progresses made in the provision and service of loans, the sector is beset with a number of problems (EDRI, 2014). Based on this finding the section tries to explore the view of the challenge really exists in their town.

4.3.1. Accessing Finance from Micro Finance Institutions

Table 16 below shows that out of the total 62 respondents, 16 (25.81%) of the MEs in the study at least agree that there is a challenge in accessing finance from micro financing institutions. On the other hand 14.52% of the participants disagree that getting finance from MFIs is a challenge.

Table 16: Is MEs face challenge in accessing to finance from Micro Finance Institutions?

Level of agreement		Frequency	Percentage
Valid	Strongly disagree	10	16.13
	Disagree	9	14.52
	Neutral	3	4.83
	Agree	16	25.81
	Strongly agree	24	38.71
	Total	62	100

Source: questionnaire survey data, 2018

From the study it can be drawn that more than majority of the MEs either strongly agree or agree that MEs face challenge in accessing finance from the microfinance enterprises.

4.3.2. Accessing Credit Suppliers

Table 17 below shows that out of the total 62 respondents, 19 (30.65%)of the respondents agree and 22 (35.48%) strongly agree that that accessing goods on credit from suppliers is challenging for MEs. 4 (6.45%) respondents were neutral whereas about8 (12.91%) of the participants disagree that accessing on credit suppliers is challenging and 9 (14.5%) respondents are strongly disagree that accessing on credit suppliers is challenging.

Table 17: Is MEs face challenges in accessing Finance from Suppliers on credit?

Level of agreement		Frequency	Percentage
Valid	Strongly disagree	9	14.51
	Disagree	8	12.91
	Neutral	4	6.45
	Agree	19	30.65
	Strongly agree	22	35.48
	Total	62	100

Source: questionnaire survey data, 2018

According to the result showed in table 15 that 35.48% of the respondents at least strongly agree that MEs face a challenge to access on credit suppliers in their locality as one source of financing.

4.3.3 Accessing Finance from Leasing Companies

Table 18 showed that out of 62 respondents, About 6(9.7%) and8(12.9%)of the respondents disagree and strongly disagree that accessing finance through leasing companies was a challenge. 2(3.2%) of the respondents chose to be neutral while 20 (32.3%) and 26 (41.9%) agree and strongly agree that they faced a challenge in accessing finance to leasing companies respectively.

Table 18: Is MEs face challenge in accessing to finance from leasing companies?

Level of agreement		Frequency	Percentage
Valid	Strongly disagree	8	12.9
	Disagree	6	9.7
	Neutral	2	3.2
	Agree	20	32.3
	Strongly agree	26	41.9
	Total	62	100

Source: questionnaire survey data, 2018

4.3.4. Accessing Finance from Banks

Table 19 showed that 22(35.48%) and 19(30.65%) of the respondents are strongly agree and agree that the MEs in Kemissie town administration face a challenge to access alternative financing from banks. About 8 (12.91%) respondents neutral. About 9(14.51%) and 4(6.45%) of the respondents are strongly disagree and disagree that it is not a challenge for MEs to access credit from banks in the town.

Table 19: Is MEs face challenges in accessing to finance from banks?

Level of agreement		Frequency	Percentage
Valid	Strongly disagree	9	14.51
	Disagree	4	6.45
	Neutral	8	12.91
	Agree	19	30.65
	Strongly agree	22	35.48
	Total	62	100

Source: questionnaire survey data, 2018

4.3.5. Accessing finance from other sources (including family, friends, etc)

Existence of this challenge as the result of the survey in table 20 below indicated that 22(35.5%) and 24(38.7%0) of the respondents respond strongly agree and agree that accessing finance/credit from family, friends, and private credit provides a challenge. 1(1.6%) is neutral from response whereas 7(11.3%) and 8(12.9%) of the respondents strongly disagree and disagree deny the accessing finance from friends, family, etc.

Table 20: Is MEs face challenges in accessing to finance from Families, friends &etc

Level of agreement		Frequency	Percentage
Valid	Strongly disagree	7	11.3
	Disagree	8	12.9
	Neutral	1	1.6
	Agree	24	38.7
	Strongly agree	22	35.5
	Total	62	100

Source: questionnaire survey data, 2018

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Eight independent variables were taken in this study to examine the variation in the performance of Micro Enterprises in response to each of the independent variables. The statistical result indicates that, there is no significant variation on the performance of MEs operation in Kemissie in relation to the age difference of the principal owners. In this study, enterprises owned by individuals with the age of 30 to 45 showed higher performance than the other two groups of enterprises but the regression and ANOVA result does not support us to say this age bracket of owners' is the most important to the success of MEs. In other way the result indicated that, there is significant variation in the performance of ME operating in the area in relation to the difference in education level, record keeping and financial control system and prior industry experience. These three variables have significant impact according the output of regression and variation analysis. As education level of the owners concerned, those enterprises owned by individuals who have an education level of 10+3 and above shows higher performance. In relation to industry experience, those enterprises owned by individuals who established at least one independent business of their own before the current enterprises shows better performance. In terms of record keeping and financial control, those enterprises using this system shows better performance. The other result obtained in this study is that, there is no significant variation on the performance of MEs operating in the town in relation to the deference in their internal practice of using or not using plan and the type of ownership of the enterprise as possessed by single owner or more than one owners. The MEs operating in the town have been facing constraints in access to alternative financing sources. MEs have faced a challenge of getting finance. According to the result, there is a challenge in accessing to finance (strongly agree with the existence of the challenge) from micro finance institution, suppliers on credit, leasing companies, banks and other sources.

5.2. Recommendation

The suggestions of this study are on the bases of the descriptive statistics and most importantly on inferential results. Among the eight independent variables and their relation to the average capital growth of the enterprises the three mentioned in the above discussion are significant and have creating variation on ME operators. Accordingly the significant variables need attention to enhance the performance of ME's.

In relation to the education level of the owners, those enterprises owned by individuals with education level of 10+3 and above shows better performance. In this respect enterprise owners should focus on up grading themselves in education by using alternative programs. Also other stakeholders of the sector, especially Micro and Small Development Agencies should work on providing short term training that helps enterprises in their business work.

In relation to prior industry experience, enterprises have owned by individuals with previous experience shows better performance. So the stake holders of the sector should work on preparing training programs on management issues and creating experience sharing opportunities especially to those enter into the sector without any previous business background. The other significant variable is the application of record keeping and financial system. Proper recording is very vital and helps the operator to properly and clearly manage the enterprise that it boosts the profitability of the enterprise. The other area that this study wants to suggest based on the descriptive statistics result is issue of planning practices of the enterprises. The result shows those enterprises that have 1 to 2 year plan shows better performance.

On the other hand stake holders of the sector like Enterprises Development Agencies should work on increasing the capacity of enterprise owners by providing assistances in the area of training which enables them to prepare their own plans to their business activities as well as making enterprise owners' literate on basic book keeping skills. The government must look at the real effect and contribution of the MEs to the overall economy; and it should be involved and built the capacities of private financing institutions, including MFIs, Banks, Capital Leasing Companies and so. All of the above suggestions are recommendable for micro Enterprises and other responsible bodies.

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APPENDIX

Indria Gandhi National Open University (IGNOU) in Collaboration with Saint Mary's University

Masters of Arts Degree in Economics (MA)

Questionnaire

Dear respondents; Please spare a few minutes to complete this questionnaire. Your participation in the Small Business Research Survey will help us to understand your business and give you a chance to get to know the Micro Business Perspectives in Kemissie. Please be assured that your responses will be treated with the strictest confidence. Make tick in the box which expresses your answer.

   Demographic information of the principal business owners.

   1. Gender :

   Male ☐   Female ☐

2. Age of the principal business owner(s)…………………

3. Education level of the principal business owner(s)

   10+1 ☐   10+4 ☐

   10+2 ☐   Degree ☐

   10+3 ☐   Masters ☐

   If your education level is just below the above levels, please write the highest grade level you have completed……………………………………………..

4. What is the age of your business under the current ownership?

   …………………………………………………………………………..

5. What is the form of ownership in this business?

   Sole proprietorship ☐   Partnership ☐

6. What is the type of business you are involved in?

Construction ☐   Merchandise and retail shop ☐

Wood and metal work ☐   Animal fattening ☐

Food and beverage ☐

If other, specify………………………………………………………..

7. How many employees did the enterprise have when first established including the principal owner? ....

8. How many employees are working currently in the enterprise including the principal owner? ....

9. What was the amount of total capital invested in Birr to start this business?

....

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

....

11. Do you prepare a plan for your future operations of the enterprise?

Yes ☐   No ☐

12.   If your response for question 11 is yes, what is the time span your plan covers?

Below 1 year ☐   3 to 5 years ☐

1 to 2 years ☐   Above 5 years ☐

13.   Do you have a recordkeeping and financial control system?

Yes ☐   No ☐

14. If your response for question 13 is yes, what kind of record keeping and financial control system you are using?

Recording the daily transaction ☐

Balance sheet ☐

Income statement ☐

If others ☐

specify…………………………………………………...........................

15. Do (se) the principal owner manager(s) of the enterprise have/has any management experience before establishing this business?

       Yes ☐   No ☐

16. If your response for question 15 is yes, how many years?

      ………………………………….

17.   Do (se) the principal owner(s) of this enterprise have/has experience on establishing similar business in the industry before establishing the current business?   Yes ☐   No ☐

18. If your response for question 17 is yes, how many similar businesses did you establish and operate before this one? ……………………………………….

19. Do you have any marketing related skill that you obtain either through your formal education or any kind of informal education and marketing training?

       Yes ☐   No ☐

20.   If your response for question 19 is yes, what is the specific advantage you gained?

      How to price your products ☐   How to handle customers ☐

      How to sale your products ☐   How to create market linkages ☐

      If others, specify…………………………………………………………………