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DEPARTMENT OF MANAGEMENT

Assessment of Factors Affecting the Growth of Micro and Small Scale Enterprises (in case of Wolkite town, Menaheriya, and selamber kebele)

A Research Paper Submitted To the Department of Management in Partial Fulfillment of the Requirements for the Degree of Bachelor of Arts (BA) in Management

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ABSTRACT

This research aim to asses factors affecting the Growth of micro and small enterprise in Wolkite town in Menaheriya and Selamber kebele. The General objective of the study was to investigate the factors affecting the growth of micro and small-scale enterprises in Wolkite town in Menaheriya and Selamber kebele and to provide some valuable recommendations based on the results of the study. The study was a descriptive type of research design, and the research methodology used in conducting the study was the quantitative approach. To achieve the objective of the study, both primary and secondary source of data was used in the study. To determine sample size, I have used a stage sampling technique, these was a proportional stratified sampling technique and a simple random sampling technique. 60 questionnaires were distributed to respondents to collect data, and the collected data was presented, analyzed, and interpreted by using tables, frequency, and percentage. The main finding I have got in conducting the study was as follows; majority of respondent engage in the business due to lack of employment alternatives, majority of respondent start the business by their saving, there is no enough support from support providing institutions to micro and small enterprises, there is no favorable business location, there is high level of competition between micro and small enterprises, there is shortage of finance, there is marketing and operational factors facing micro and small enterprises. Finally, based on the findings the researchers reached on conclusions and provided some valuable recommendation based on the finding.

CHAPTER ONE

1. Introduction

1.1 Background of the Study

Throughout the world, governments have acknowledged the impact of small and micro enterprises (SMEs) on job creation, improvement of people's standards of living and hence an overall impact on the economy. The definition of SMEs is complex with authors using the SME's gross asset value, the number of employees and total revenue as indicators to help define the term SME (Nieman 2006) and also the SMEs definition vary from country to country. In Ethiopia up to 2009 G.C., the working definition of SMEs is derived from the National MSE strategy, 2004 based on the size of the capital and level of automation of business enterprises. Accordingly micro enterprises are those small business enterprises with a paid up capital of not exceeding Birr 20,000 and excluding high-tech consultancy firms and other high-tech establishments and Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 50,000 (Ethiopian Micro and Small Enterprises Strategy (2010).

In 2010 the Ethiopian government improved the definition of SME. In the improved definition of MSEs of Ethiopia (MSE strategy, 2010), Ethiopian Ministry of Trade and Industry and Central Statistical Authority (CSA) define MSEs according to the number of employees and capital. Based on that, micro enterprises are those small business enterprises with a paid up capital of greater than or equal to 100,000 ETB for industry and 50,000 ETB for service with at least 5 employees in both sectors and Small enterprises are those business enterprises with a paid up capital of greater than or equal to 1.5 million ETB for industry and 500,000 ETB for service with at least 6-30 employees in both sectors.

Since, in both developing and developed countries, the vast majority of businesses are micro-small business Kusi A., Narh C., and Wayo T., (2015), Worldwide SMEs have been recognized as engines of growth and development Felsenstein, (1996). Many countries have put considerable

efforts into supporting them to create and tap their employment opportunities, income, and productive capacity. As Sitharam Sh. (2016) stated, small and medium enterprises (SMEs) have important role to play in the development of the country. A strong SME sector contributes highly to the economy, contributing to the gross domestic product, reducing the level of unemployment, reducing poverty levels, and promotion entrepreneurship activity.

Despite the important and far reaching roles the SME sector play as well as their huge potential to initiate and facilitate sustainable economic growth in the country, micro-small businesses face a variety of challenges owning to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit cost of providing services to smaller businesses (Schmitz, 1982; Liedholm and Mead, 1987; Steel and Webster, 1990).

Moreover, different authors from different parts of the world including Ethiopia like (WeldegebrielMezgebe, 2012; ZemenuAynadis, 2014; Kamau J., 2014; Belay kinati, AsmeraTeshome, TekalignMinalu, 2015;Nedge M., 2015; and Sitharam SH., 2016) found out that lack of capital, human resource management (managerial competency and skill), legal issue (tax laws, labor laws), information technology, marketing, business plan, competition, poor infrastructure, globalization, government bureaucracy, crime and corruption, and access to finance (limited financial knowledge) all are factors that can be counted for both failure and success of SMEs regardless of the business country.

But there are no known attempts (no published documents) that have been made in Wolkite town in Menaheriya and Selamber kebele regarding on the factors affecting the Growth of micro and small enterprises; hence the objective of the study is to identify or quantify factors that are responsible for the growth or success and failure of SMEs in Wolkite town in Menaheriya and Selamber kebele.

1.2 Statement of the Problem

It is a well-known fact that one of the most challenging problems facing the majority of the world's population is the problem of development. There is a consensus that industrialization has a special

role to play in achievement of equitable and broad based on the economic development of one country. Especially, micro and small-scale enterprises are playing a crucial role in – socio-economic development of a country like Ethiopia Adualem (2000).

Micro and small-scale enterprises have been accepted worldwide as an instrument of economic growth and development. No wonder that the government, particularly in the developing countries, has made tremendous efforts and established policies to enhance the capacity of micro and small-scale enterprises (MSEs). Oppong M., Owiredu A., and Quarmyne C. (2014). It also contributes immensely to job creation, income generation and poverty reduction in emerging economies like Ethiopia.

However, despite government institutional and policies support to enhancing the capacity of micro and small scale enterprises, micro and small scale enterprises has fallen short of expectations and have been performing poor. The reasons for this poor performance have been researched by a number of researchers in different countries.

Nkonoki E., (2010) studied research on what are the factors limiting the success and/or growth of small businesses in Tanzania? – An empirical study on small business growth. The results obtained identified several limiting factors to small firm growth. The author saw it as a merit to group the results into two groups; limiting factors that are internal to the firm (Inadequate education and training, lack of a proper business plan, capital constraint etcetera) and those that are external to the firm (comprising things like corruption, government policy, bureaucratic processes etcetera).

Kusi A., Narh C., and Wayo T., (2015) conducted research on Exploring the Factors That Hinder the Growth and Survival of Small Businesses in Ghana (A Case Study of Small Businesses within Kumasi Metropolitan Area) and found that poor domestic demand, lack of working capital, lack of entrepreneur skill, lack of appropriate information technology, gender and educational based factors are the basic among different factors that hinder the growth and survival of small business.

Belay kinati, AsmeraTeshome, Tekalign Minalu, (2015) studied factors affecting the development of micro and small enterprise in four towns of Ilu Aba Bora and found factors that affect the development of MSEs in descending effect as lack of experience, promotion, networking and

access to capital; poor infrastructures; lack of knowledge; lack of professional assistance; lack of awareness of credit providing institution and lack of market linkage, negative attitude towards MSE, lack of integration among government sectors, 'me too' activities, and others.

GebrehiwetAgeba&WoldayAmeha. (2004) researched Survey of development of micro and small enterprises in Ethiopia, and their conclusion shows that the interruption of electric power, unavailability of adequate transport service, and unavailability and unreliability of water supply and other infrastructures are hindering the development of MSEs. The absence of finance further restricts the development of micro and small enterprises. Banks and micro finance institutions in Addis Ababa do not seem willing to give proper loans, and they are not meeting the financial needs of micro and small enterprises.

ZemenuAynadis (2014) did research on Determinants of Growth of Micro and Small Enterprises in Ethiopia (A Case of MSEs in Mekelle City, Tigray). According to the analysis intensive competition, inadequate credit facility, starting business without conducting survey, inappropriate tax imposition, inappropriate tenure, lack of business training, shortage of working capital, absence of appropriate technology, uncollectible receivables and lack of financial management skill and experience are the top ten challenges that micro and small enterprises of Mekelle city facing.

But as long as researchers try to search out there was no research locally conducted on the assessment of factors affecting the growth of micro and small enterprises in Wolkite town in Menaheriya and Selamber kebele. Therefore, the objective of this study was to explore the factors that hinder the growth and survival of micro and small businesses only in Wolkite town in Menaheriya and Selamber kebele.

After completed this research, this study addresses the question listed below;

1. "What are the basic factors that affect the growth of micro and small enterprises in Wolkite town in Menaheriya and Selamber kebele?"

2. What are the variable factors that hinder the growth and survival of small businesses in Wolkite town in Menaheriya and Selamber kebele?

3. What are the various factors that affect the enhancement of small business growth and survival?

1.3. Objectives of the Study

1.3.1 General Objective of the Study

The general objective of this study is to investigate the factors affecting the growth of micro and small enterprises in Wolkite town in Menaheriya and Selamber kebele and provide some valuable recommendation based on the result of the study.

1.3.2 Specific Objectives

The Specific Objectives of this study are:

- To assess factors affecting the growth of micro and small enterprises in Wolkite town in Menaheriya and Selamber kebele.
- To examine variables that hinder the growth and survival of small businesses in Wolkite town in Menaheriya and Selamber kebele.
- To asses various factors that affect the enhancement of small business growth and survival.

1.4. Scope or Delimitation of the Study

The study was conducted in Wolkite Town, Gurage Zone, which is located in the central part of Ethiopia and about 160 km from Addis Ababa. The zone shares a common frontier with the Sodo district, west of Kembata Tembaro zone, north of Butajira, and south of Hadiya zone. Wolkite is situated at a latitude of 8°17′N and a longitude of 37°47′E. In decimal format, these coordinates are approximately 8.2833° N and 37.7833° E. Wolkite Town is known for vibrant culture and economic activities. The town has a diverse population that engages in various forms of agriculture, trade, and small-scale industries. Geographically, the study was limited to Wolkite

town. Because of financial and time constraints, the researcher didn't explore further into another area.

1.5. Operational Definitions of Key Terms

Micro Enterprises: are those small business enterprises with a paid-up capital of greater than or equal to 100,000 ETB for industry and 50,000 ETB for service, with at least 5 employees in both sectors

Small enterprises: are those business enterprises with a paid-up capital of greater than or equal to 1.5 million ETB for small enterprises, and 500,000 ETB for service with at least 6-30 employees in both sectors. *Source*: Ethiopian Micro and Small Enterprises Strategy (2010) cited in ZemenuAynadis (2014).

1.6. Organization of papers

Identifying factors that affect the development of micro and small enterprises (MSEs) is the purpose. This paper has five chapters. The first chapter is an introduction, which consists of the background of the study, statement of the problem, research objectives, significance of the study, and scope of the study. The second chapter presents a review of related literature, and the third chapter presents research methodology. The fourth chapter is data to be collected, presented, and analyzed. The last chapter is a summary of findings, conclusions, and recommendations based on the findings

CHAPTER TWO

2. Literature Review

2.1 Theoretical literature

2.1. 1 Definition of Micro and Small Enterprises

The definition of SMEs is complex with authors using the SME's gross asset value, the number of employees and total revenue as indicators to help define the term SME (Nieman 2006) and also the SMEs definition vary from country to country. In Ethiopia up to 2009 G.C., the working definition of SMEs is derived from the National MSE strategy, 2004 based on the size of the capital and level of automation of business enterprises.

2.1.2. Definition of MSEs by European Commission

In 1996, small-scale enterprises were defined as enterprises which employ fewer than 50 persons and whose annual turnover does not exceed 7 million euros or annual balance sheet total does not exceed 5 million euros (Kushnir et al, 2010). The Commission developed new definition of MSEs, which took effect on January 1, 2005. The new definition is the result of wide-ranging discussions between the Commission, member states, business organizations, and experts, and open consultations on the internet. The new definition reflects general economic developments since 1996, and a growing awareness of the specific hurdles confronting MSEs.

The new definition is more suited to the different categories of MSEs and takes better account of the various types of relationships between enterprises. It helps to promote innovation and foster partnerships, while ensuring that only those enterprises which genuinely require support are targeted by public schemes (Kushnir et al, 2010). The new definition is developed to update thresholds, promote micro enterprises, improve access to capital, promote innovation and improve access to Research & Development (R&D), and to take account of different relationships between enterprises (Kushnir et al, 2010).

The European Commission utilizes three criteria to determine whether an enterprise is a micro or small-sized sized. These are staff headcount, annual turnover, and annual balance sheet (Kushnir

et al, 2010).Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro. Small enterprises are defined s enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro (Kushnir et al, 2010).

It is necessary to note that while it is compulsory to respect the staff headcount thresholds, a MSE may choose to meet either the turnover or balance sheet ceiling. It does not need to satisfy both and may exceed one of them without losing its status. The new definition developed in 2005 offers this choice since, by their nature, enterprises in the trade and distribution sectors have higher turnover figures than those in manufacturing. Providing an option between this criterion and the balance sheet total, which reflects the overall wealth of an enterprise, ensures that MSEs engaged in different types of economic activities are treated fairly (Kushnir et al, 2010).

2.1.3. Definition of Micro and Small Enterprises in Ethiopia

Size of employment, capital investment or turnover is used as criteria to categorize enterprises along scales of operations and define micro, small, medium and large enterprises. This categorization is important for functional and promotional purposes to achieve the desired levels of development (MSEDS, 2011).

In the case of Ethiopia, there is lack of uniform definition at the national level to have a common understanding of MSEs sector. While the definition by ministry of trade and industry (MoTI) use capital investment whereas the central statistics authority (CSA) uses employment and favored capital intensive technologies as yardstick. According to the MoTI (2004):

Micro enterprises: are those business enterprises in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and excluding high technology consultancy firm.

Enterprises: are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high technological establishments (MoTI, 2004). On the other hand, CSA (2004) categorizes enterprises into different

scales of operation on the size of employment and the nature of equipment. According to CSA (2004):

Enterprises in the micro enterprise category are subdivided into informal sector operations and cottage industries. Cottage and handicraft industries are those establishments performing their activities by hand and using non power driven machines.

The informal sector is defined as household type establishments or activities, which are non-registered companies and cooperatives operating with less than 10 persons.

Establishments employing less than ten persons and using motor operated equipment are considered as small scale manufacturing enterprises. (CSA, 2004).

The above definitions given by CSA, however consisted of the following short comings.

- It focuses on manufacturing ignoring other sectors.
- Failure in using size of capital

Although the main objective of MSE is to create job opportunity, it was difficult to compare the achievements in job creation with the definition. And it does not show enterprise capital size/amount/ when it is compared with the experience of other counties.

The existing definition of the sector considered a paid up capital without considering the experience in reality. It does not show the full pictures of MSEs as they are established based on self-paid up capital and credit from banks (MSEDS, 2011).

2.1.3. The Improved Definition of MSEs in Ethiopia

Based on the gathered experience, by identifying the gaps of the existing definition of MSE, ignoring the size of employee and by taking total asset as criteria and by dividing it in to industry and service sector; and considering the coming 5 years inflation and fluctuation/regularity of currency the definition of MSEs was improved in january2011 as follows. Based on the revised sector both micro and small scale enterprises are categorized in to industrial sector and service sector under industry sector (manufacturing, construction and mining) micro enterprises are

defined as an enterprise that operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000. Under service sector (retailer, transport, hotel and Tourism, ICT and maintenance service micro enterprises are defined as an enterprise that operates with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000. Under the industry sector (manufacturing, construction and mining) small enterprises are defined as operates with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million. Under the Service sector (retailer, transport, hotel and Tourism, ICT and maintenance service) Small enterprises are defined as operates with 6-30 persons or/and total asset, or a paid up capital is with Birr 50,001 and not exceeding Birr 500,000.

2.1.4 .Importance of Micro and Small Enterprises

According to Balve (2003) in a labour abundant and capital scarce country Ethiopia small business have come to occupy a significant position in providing employment opportunities and increase capital formation in the country. The following are some of the importance of micro and small enterprises.

The employment potential: - micro and small enterprises are labour intensive comparatively and thus create more job opportunities per unit of capital employed. It is therefore that leaving a side highly capital intensive industries involving most sophisticated technological and the building up of economic and social infrastructural facilities it is which help enlargement of job opportunities (ibid 2000).

Distribution of income: - the income generated in large number of micro and small enterprises is depressed more widely in community than income generated in a few large enterprises. Thus, the income benefit of micro and small enterprises is derived by a large segment of population while the large enterprises encourage monopoly capital and concentration of economic power in this way, micro and small enterprises about an equal distribution of income and wealth (ibid, 2000).

Foreign exchange earnings: - small businesses facilitate substantial foreign exchange savings and earnings. A wide variety of consumer and simple procedure good can be procedure economically on micro and small enterprises basis (hailay, 2003)

Economic transformation: - micro and small enterprises play strategic role in the progress of a country. These include the industries by large represent a stage in economic transition from traditional to modern (hailay, 2003).

2.1.5. Special contribution of micro and small enterprises in Ethiopia

As a part of business community, small firms welfare. They produce a sustained portion of our total goods and services. Thus, their general economic contribution is similar to that of big business, small firms, however, possess than quality that make them more than immature variation of big business corporations. They make exceptional contribution as they provide new jobs, introduce innovation, big aid business, stimulate competition, and produce goods and services efficiently (Hayla, 2003).

Provide new jobs:-As the population grows, small businesses provide new job opportunities. It seems clear that small business provide "Lion's share" of new jobs, sometime adding jobs while large corporation are "Downsizing" and laying off employees (ibid, 2003).

Introducing innovation: - New product that originate in the research laboratories of big business make valuable contribution to our standard of living. There is question, however, as to relative importance of big business in achieving the truly significant innovations. The record shows that many scientific betake through originated with independent investors and small organizations. Studies of innovation have shown the greater effectiveness of small firms in research development. Innovation contributes to productivity by providing better products and better method of production (Lasser, 1989).

Stimulation economic competition: - According to Haylay (2003) many economists, beginning with A. smith, have expounded the values inherent in economic competition. In a competitive business situation, individuals are driven by self-interest to act in a socially desirable manner. Competition acts as the regular for that transforms their selfishness in to service. When produces consists of only a fief big business, however, the customer is at their mercy .They may set high price, with hold technological developments and exclude new competitors or otherwise about their position of power.

Aiding big business: - the facts that function as more expertly performed by small business enable small firms to contribute the success of large ones. If small business were saddled with a myriad of activities , that they should perform only in efficiently .Two function s that small business are the distribution and supply function (ibid,2003).

Producing goods and services efficiently: - The continued existence of small business competitive economic system is in itself evidence of small business operation .If small firms are hopeless and inefficient, they will make no useful contribution .They would be forced out of business quick by stronger competition. We believe that small business contributes in a substantial way to the economic welfare of our society (Lasser, 1989). Not only had the contribution of (SMEs) to employment, growth and sustainable development now widely acknowledged. Their development can deepen the manufacturing sector and foster competitiveness. It can also help to achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution (UNACTAD, 2000).

SMEs play a pivotal role in the development of the country. It has made significant contribution to industrial production, export and employment generation. In developing countries as well as developed countries they are important from the point of view of employment generations, which is very important in countries like India with huge backlog of unemployment in the urban sections of the economy. It has been observed that their composition depends upon the way the production is being organized in the economy (Zaidi, 2013).

SMEs are the future in leading emerging markets to sustainable growth. By creating jobs and income, SMEs they are crucial to the economic and social development of different countries (Kirui 2012).

Ayyagari et al., (2007) used country-level data and argued that, on average, SMEs account for close to 60 percent of employment in the manufacturing sector. (European Union, 2009) mentioned that, between 2002 to 2008, the number of jobs in SMEs increased at an average annual rate of 1.9 percent while the number of jobs in large enterprises increased by only 0.8 percent. In absolute numbers, 9.4 million jobs were created in the SMEs sector in EU-27 between 2002 and 2008. Also, it is often argued that SMEs are more innovative than larger firms (EU, 2011).

2. 1 .6. Challenges for the Expansion of MSEs in Ethiopia and other Countries

According to Commission on Legal Empowerment of the Poor (2006), most MSEs in Ethiopia face critical constraints both at the operation and start up level. Some of these constraints include

lack of access to finance, access to premise, infrastructure, training in entrepreneurial and management skills, information on business opportunities, and social and cultural factors particularly related to deficient entrepreneurial culture and excessive corruption.

1**. Lack of access to finance and credit:** lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector. Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new enterprises and the growth and survival of existing ones will be impeded (Commission on Legal Empowerment of the Poor, 2006).

Access to finance is a major bottleneck for the rapid growth and development of MSEs mainly due to targeted mechanism put in place to address the financial needs of small scale enterprises. Most micro and small enterprises do not have access to micro finance institutions and most banks are reluctant to avail credit facility to small enterprises unless they have acceptable collateral. The

standard of loan appraisal, the long delay the banks take to sanction loans, unfavorable disposition towards small loans and the limited collateral requirement, which is over 100% of the loan amount, are the major obstacles that small scale enterprises are facing (Commissionon Legal Empowerment of the Poor, 2006).

2**. Lack of clear and pragmatic national policy and institutional qualities:** most government policies have a tendency to over regulate and limit the growth of private sector enterprises and they are over bureaucratized and unfriendly to support small businesses (Commission on Legal Empowerment of the Poor, 2006). A study conducted

by Economic Commission of Africa (ECA) (2001) in countries such as Ethiopia, Cameron, Gabon, Nigeria, Senegal and Uganda have shown that the regulatory and policy environment in which MSEs operate proves to be major handicap for their expansion and growth.

The findings of Eshetu and Mammo (2009) also indicate that legal and regulatory problems are major obstacles to efficient operation of micro and small enterprises.

According to this study, bureaucratic registration requirements for licensing, high policy control, overregulation, corruption, high tariffs and unfair tax were found as major policy-related constraints that adversely affect the sector. Free market policy has also exposed them to international competition, and this had a significant negative impact on their performance.

Mbonyane&Ladzani (2011) further found that the government is not actively providing support mechanisms for business registration to ensure the success of micro-enterprises.

There is also poor communication between the government and small business owners. Lack of proper regulation in terms of borrowing funds from the banks by small business owners; lack of focus in formulation and implementation of policies, and tax laws affects the performance ofMSEs. For the proper promotion of the development of small business enterprises, there is need for a well-articulated plans or programs by the government (Etumeahu, 2009).

3. Location and working space problems: For MSEs, lack of premise is unquestionably a serious problem. Most informal operators do not get access to suitable locations where they can get easy

access to markets. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of micro, small and medium enterprises who aspire to startup businesses (Eshetu&Mammo, 2009).

According to Rolfe et al (2010) findings location is critical factor for sales and income of small scale enterprises and hence entrepreneurs benefit from businesses in formal residential areas.

4. Lack managerial and other skilled labor, and lack of training: There is lack of knowledge of entrepreneurial and managerial capacity, and marketing experience. Lack of skill 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 (Commission on Legal Empowerment of the Poor, 2006). Moreover, MSEs lack resources required for research and development and there is inadequate technical and entrepreneurial skills (Commission on Legal Empowerment of the Poor, 2006).There is lack of formal education and training in MSEs operators. The most common form of acquiring skills in the MSEs sector is through apprenticeships.

Mbonyane&Ladzani (2011) found that more than 50 percent of micro-enterprises lack training in proper business management. As a result, there is lack of technology available to micro and small businesses enterprises. The results of this research show that the government does not have enough support mechanisms available to ensure that small business owners and their employees receive the training that would enable them to run the business successfully. Most owners do not have management experience and adequate training and skills to operate a business (Okpara, 2011).

5. Lack of sufficient marketing and high competition level: The marketing problem is the main constraint for the growth of enterprises (Rahel& Paul, 2010). Micro and small enterprises in Ethiopia faced various marketing problems. There is lack of product diversity and as a result similar products are overcrowding the market. In addition to this certain micro and small

enterprises lack the skill to modify their products and they have lack of sufficient range of product designs (Assegedech, 2004).

Ethiopian micro and small enterprises have different pricing problems such as lack of costing knowledge, did not include overhead costs, salary or wage of family members involved in the production process are not considered, and do not know the exact earning from sales (Assegedech, 2004).

Many MSEs plan to promote their products, however, their budget is mostly limited. In addition to this, such MSEs have lack of awareness how to compete in the market. MSEs are less advantageous to compete in the market than large companies since they have smaller economies of scale (Assegedech, 2004). In terms of problems related to product diversity, the finding of Rahel and Paul (2010) and Eshetu and Mammo (2009) are similar.

According to Eshetu and Mammo (2009), majority of MSEs Produce or give services of similar products in a limited domestic market. Most of them do not seek new possibilities and opportunities outside the local markets.

(Rahel and Paul 2010) also reported the presence of competition is the most significant factor. This is because of the reason that enterprises in the same sector sell identical products without any additional distinctiveness and innovative activities. This led them to compete for the same demand.

In addition, presence of illegal traders around their market place leads to unbalanced competition and low demand for merchants who are legal. This results in lack of demands which is another problem for the enterprises.

6. Lack of formal or informal linkages / business cooperation amongst enterprises: according to Gebrehiwot and Wolday, 2004 a good portion (about 50%) of MSEs do not consider them as useful at all. The other factor that hinders growth and expansion of MSEs is the effectiveness with which they interact with large or similar firms. In other words, formal and informal linkages or business cooperation through networking are not common. Large public enterprises and the few foreign affiliates do not outsource some of their operations to local MSEs.

The legal and institutional mechanisms to enforce contractual obligations and government policy to design appropriate incentive mechanism to encourage the expansion of business linkages/sub-contracting managements is at its infant stage.

7. Lack of good infrastructure facilitates: Good infrastructure facilitates have a positive effect in reducing the cost of operation. MSEs Owners in Ethiopia indicated that lack of efficient, reliable, safe and affordable infrastructure is affecting the performance of their business. The physical infrastructure facilities are not adequately developed and expanded in Ethiopia to meet the growing demand of MSEs activities. As a result, most MSEs have problems related to business premises such as an increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water services (Eshetu& Mammon, 2009). According to Commission on Legal Empowerment of the Poor (2006), though not directly linked, inadequacy of infrastructure (road, banking service, electricity, telecommunication and other services in facilitating smooth operation of private investment are serious impediments.

8. License and record keeping: Micro enterprises with business license grow faster than those who have not license. But, the results for small enterprises were not significant. . This might be due to the fact that unlike the micro firms the variation of possession of business license might not be important predicting growth differential among the small firms' category since most of them (above 90%) have business license (Mulu, 2007).

According Commission on Legal Empowerment of the Poor (2006), MSEs complain about the bureaucratic system governing the business environment and it requires a lot of money to get the business license.

9. **Raw material problems**: Raw material is a basic component for the existence of the MSEs since they create a backward linkage and demand for other sector products. The high cost is the key raw material problem for the growth of enterprises. Lack of standardization, raw material storages, and poor quality of raw materials are also major problems (Rahel& Paul, 2010)
.

10. Educational level of the entrepreneur: Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo&Mutiso, 1999).

11. **Technological capabilities**. The primary reasons small businesses continue to face growth challenges in developing countries, despite significant support from governments and other organizations, is their technological capabilities or lack thereof (Arinaitwe, 2006). Small businesses are still hindered by their lack of technological implementation, despite great technological advancements globally. Without this technology, these small businesses find it difficult to neither compete, nor grow (Arinaitwe, 2006).

12. Globalization. Small businesses can no longer consider themselves to be strictly domestic businesses in the competitive global environment. For businesses across the globe, going global is not a preference or a matter of choice, but rather a necessity. Failure to cultivate global markets can be a lethal mistake for modern businesses, whatever their size. To be successful, businesses must consider themselves to be businesses without borders. Going global can put a tremendous strain on a small company (Scarborough et al., 2009). Though the trend toward the convergence has been developing for some time, the pace seems to be quickening, creating global opportunities and competition that did not exist even a few years ago. With the astounding rate of economic growth in countries such as China and India, a small business owner would be unwise to ignore overseas opportunities (Longenecker, 2012).

2.2 Empirical Literature

The researcher has discussed some related studies with researcher work to indicate their similarity and difference in methodological use and what they included as a researchable variable in research as follows. A study on factors affecting the performance of women entrepreneurs in

micro and small enterprises in the case of dessie town by (Mulugeta, 2010) on population of the study consisted of 2,026 women entrepreneurs who work in 5 sectors of MSEs with sample size of 203. After the data has been collected, it was analyzed using simple statistical techniques (tables and percentages) and descriptive statistics (mean and standard deviations) to describe the different factors that affect the growth of women entrepreneurs in MSEs as they exist. According to the findings of this study age category (40.1%) , educational level (27.92%) and working experience (46.19%) are the factors that affect the growth of MSEs in Dessie. Researcher concludes that the characteristics of women entrepreneurs in MSEs of Desie town show that they infer that the entrepreneurship age category, educational level and work experience given to women entrepreneurs in the town affect their long run ambition of their growth. (Daniel 2007), identified that lack of raw material, competition and shortage of working capital. Mainly relying on a sample survey of 557 operators and 200 MSEs chosen from four 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 4 major cities of Ethiopia namely Adama, Hawassa, Bahirdarand Mekelle, Tegegne and Meheret's research (2010) through use of Descriptive statistics such as mean and standard deviation were used to analyze the data. Multiple Regression analysis was used to test the regressed amount on the dependent variables under study in relation to the objectives of the study with the intention of assessing the contribution of the MSE 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%) with which the strategies determine in poverty reduction 95% level of confidence. Factors Affecting Developments of Micro and Small Enterprises(Case of Mettu, Hurumu, Bedelle and Gore Towns of Ilu Aba Bora Administrative Zone)by: Belay.. Etal... Data collected from MSE owners and leaders. Data sources were primary and secondary. Data collection tools were questionnaires. Collected data analyzed using descriptive statistics. Secondary data compiled and documented by the case zone MSE agency. Whereas, primary data was directly gathered from 120 MSE owners and 24 MSE leaders via questionnaires and interview. Specifically,

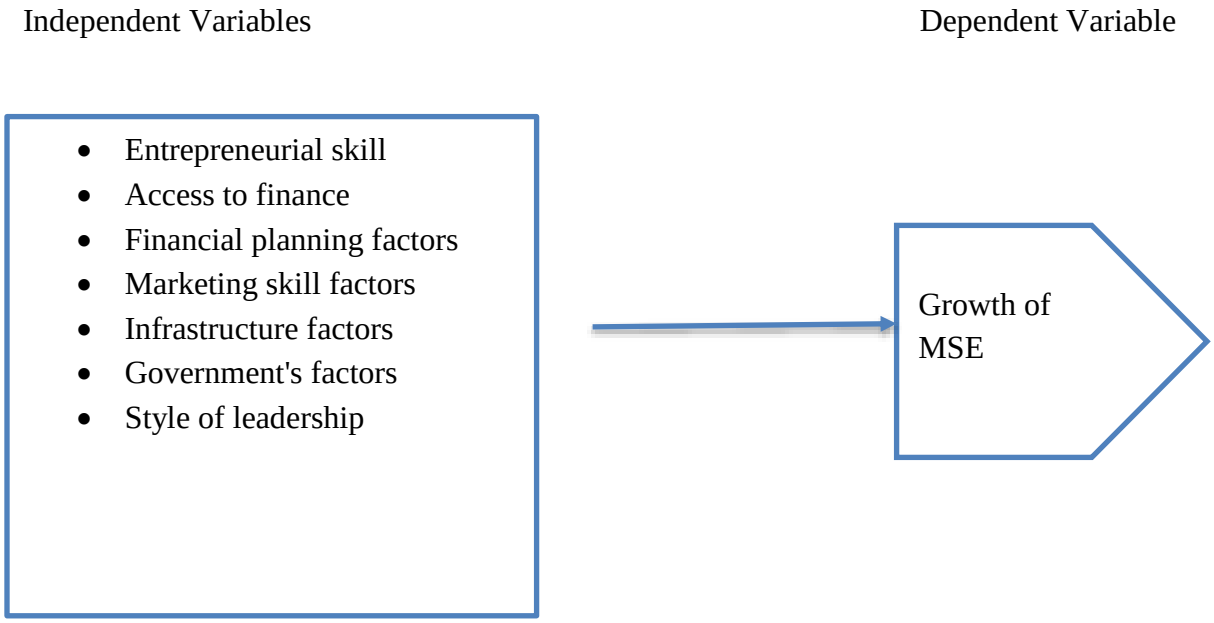
discussions related to demographic characteristics of sample respondents and their educational levels; financial sources, total current capital, origin, age and sector of enterprises; business plan, training, and accounting & bookkeeping in MSEs sector; transformation of enterprises; factors affecting development of MSEs and other factors were undertaken.

The researchers found factors in descending effect as lack of experience, promotion, networking and access to capital; poor infrastructures; lack of knowledge; lack of professional assistance; lack of awareness of credit providing institution and lack of market linkage to conclude the effect of this variable development of MSEs. In these the above research the researcher have been used their methodological design to achieve their studies objective. In their work some researcher had good research procedure from sampling to data analyzing stage. Similar to the above procedure the researcher was also followed the necessary procedure. The collected data was analyzed using simple statistical techniques (tables and percentages) and descriptive statistics. This study was only focused to identify factors that affecting the growth of MSEs of Wolkite town in Menaheriya and Selamber kebele.

2.3 Conceptual Framework

The conceptual model figure 1 posits that growth of MSE (dependent variable) is influenced different factors. Under this the concepts that relate to one another were used to explain the research problem. Since business growth is influenced by contextual and internal factors, operators need to understand what influences businesses to reach peak growth. The internal factors include Entrepreneurial skill, Access to finance, financial planning factor, Financial Controlling factor, Marketing skill factor and the contextual Infrastructural factor. The positive influence of these factors to the firm growth is very important but it is noteworthy that the management has no (little) control over them (Wanjiku, 2009). 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 threat. To align the conceptual framework with the research objectives, business growth is the dependent variable

whereas entrepreneurial innovative skill, access to finance, financial planning and controlling, marketing skill and infrastructures factors are all independent variables.



Conceptual figures 1.

Source: Developed by researcher

CHAPTER THREE

3. Research Design and Methodology

3 .1 Study area

The study was conducted in wolkite Town, Gurage Zone, which is located in central part of Ethiopia and about 160 km from Addis Ababa. The zone shares common frontier with sodo district, near west of kembata Tembaro zone, north of butajira and south of Hadiya zone. Wolkite is situated at a latitude of 8°17′N and a longitude of 37°47′E. In decimal format, these coordinates are approximately 8.2833° N and 37.7833° E. wolkite Town is known by vibrant culture and economics activities the town has a diverse population that engages in various form of agriculture, trade and small-scale industries.

This study was conducted on the factors affecting the Growth of micro and small enterprise in case of Wolkite town in Menaheriya and Selamber kebele.

3.2 Research Design

A research design provides a framework for the collection and analysis of data (Bryman and Bell 2007). It is the blueprint that is followed in carrying out a study. The purpose of this study was assessing the different factors affecting the growth of micro and small enterprises in Wolkite town in Menaheriya and Selamber kebele. Therefore, the descriptive surveys design has been employed in this study. This design was selected because it is helpful to show situations, as they currently exist (Gay, 2000). It was also assumed that this method was economical since it enables to describe the prevailing situations both quantitatively as well as qualitatively which eventually help draw valid general conclusion.

3 .3. Research Approaches

According to Kothari (2004), the two basic approaches to research are the quantitative approach and the qualitative approach. The quantitative approach contains the group of data in a quantitative form which can be subjected to difficult quantitative analysis formally and informally. The

qualitative approach on the other hand was concerned with the subjective assessment of attitudes, opinions, and behavior. For this study, a quantitative research approach was followed.

3.4 Sources of Data

There were two basic sources of data: secondary data and primary data: Secondary data was data that already exists such as books, documents and films" (Collis and Hussey, 2003). Primary data: is "data collected specifically for the research project being undertaken" by the researcher (Saunders et al., 2007). In order to achieve the objective of the study both primary and secondary sources of data was used in this study. The primary data source for this study to be questionnaires administered to the employees of the departments small and micro enterprise to be select for this study. Again, work of other authors such as research books, reports, journal articles and literature from the internet would have been used as secondary sources of data.

3.5 Population, sampling technique and sample size

The target populations of this research were owner, managers and employees of MSEs operating in Wolkite town in Menaheriya and Selamber kebele.To determine the sample size of active MSE, the researcher has used two stage sampling technique where all sector manufacturing and service sector in selected in Kebele (complete enumeration) to be considered; and the sample size was proportionally taken from each sectors (proportional stratified Sampling technique) from which the ultimate sample size of MSEs were drawn based on simple random sampling technique. From MSE operators in Wolkite town in Menaheriya and Selamber kebele researcher selected service and manufacturing sector and there were 150 people in both sector and the researcher has distributed the questionnaire on operators in this two sectors.

Based on Yemane (1996) sample size determination formula, the researcher got a grand total sample of 60, at 90 % confidence level and 0.1 precision levels.

$$n = N/ (1+N (e^2)$$

$$150/ (1+150(0.1^2) = 60$$

Where n = sample size

N = population size

e = sampling error/level of precision

3.6. Method of Data Collection and Research Procedures

Questionnaire was the primary data gathering instruments in this study. The reason behind using only questionnaire as data gathering tools was that, it was not time consuming and since it was based on alternatives, it limits respondents' idea to only those factors under investigations. The researcher employed both close ended and open ended questionnaires. The research instrument as method of data collection that was used in this study to be open ended and closed ended questionnaires. The questionnaires were prepared and distributed to those individuals who are working in Wolkite town in Menaheriya and Selamber kebele of Micro and small scale enterprise.

3.7. Methods of Data Analysis

The data were collected through the aforementioned instruments were categorized and organized by theme according to their conceptual similarity. The data were analyzed and then described or narrated based on the methods best suited to its' nature. Accordingly, the quantitative data was analyzed using descriptive statistics like frequency count and percentage to describe the extent of various responses for the issue raising were used.

CHAPTER FOUR

4. Data Presentation, Analysis and Interpretation

4.1. Introduction

This chapter is concerned with data presentation, analysis, and interpretation that are collected through questionnaires. Questionnaires have been prepared and distributed to employees of the given kebele and the questionnaires were distributed to 60 respondents, and all questionnaires distributed were filled and returned with 100% response rate.

4.1.1 Characteristics of Respondent

The first part of the questionnaire consists of the demographic characteristics of respondents. This part of the questionnaire requested a limited amount of information related to personal and demographic status of the respondents. Out of personal information includes sex, age, marital status, and educational level, size of business and motivation factors.

4.1.2 Sex, Age and Marital status of respondent

Table 4.1.2 represent the sex, age and marital status of respondent

No	Item	Number of respondent	Percentage
1	Sex		
	Male	35	58%
	Female	25	42%
	Total	60	100%
2	Age		
	18-30	40	67%
	31-40	15	25%
	41-50	5	8%

	Above 50	0	0%
	Total	60	100%
3	Marital status		
	Unmarried	38	63%
	Married	22	37
	Total	60	100%

Source: Field survey 2025

As it has been seen from table 4.1, 35(58%) of respondent are found to be male and 25(42%) of them were female. Item two of the same table shows the age distribution of sample respondent accordingly 40(67%) of sample found between 18-30 , 15(25%) of respondent were found between 31-40, 5(8%) of respondent were found between 41-50 and none of them were above 50. And item three of the same table shows employees response regarding to their marital status of accordingly 38(63%) of respondent were unmarried and 22(37%) of respondent were married. The table implies most of respondent were male, and also most of them were in productive age group this means their age were found to be between 18-40, 55(92%), the table also shows that large number of sample respondent were unmarried.

4.1.3. Educational Level of Respondent and size of business

Table 4.1.3 Educational level of respondent and size of business.

No	Item	Respondent	
4		Number	Percent
Educational level	Elementary school	5	8%
	High school	19	32%
	TVET	15	25%
	Diploma	10	17%
	Degree and above	11	18%
	Total	60	100%
5.Size of business	Micro	34	57%
	Small	26	43%
	Total	60	100%

Source: Field survey 2025

Table 4.1.3 describes educational level of respondents. As a researcher see from the table; 5(8%) were in elementary level, 19(32%) of respondent were high school level, 15(25%) of respondent were qualified in TVET, 10(17%) of respondent were diploma holder and 11(18%) were degree

holder. The table also shows size of business; 34(57%) of respondent were operating in micro enterprise and 26(43%) of respondent were operating in small enterprise. From this the researcher can conclude that majority of respondent were educated. The table also shows large number of respondents were operating in micro enterprise than small enterprise.

4.1. 4. Motivating factor

Table 4.1.4. Represent the motivating factor that enable firm to start the business

No	Item	Respondent	
		Frequency	Percent
6.What motivates you to start the business	Profitability of business	21	35%
	Lack of employment alternatives	32	53%
	Good government support	7	12%
	Total		100%

Sources: Field survey 2025

Table 4.1.4 shows that 21(35%) of respondent engage in the business because of the business profitability, 32(53%) of respondent engage in the business due to lack of employment opportunity and 7(12%) of respondent engage in the business because of government good support. From this table the researcher can understand that more than half respondent engage in the business due to lack of employment opportunity and also we can understand that government contribution in encouraging the people to start the business is low.

4.2. Favorability of business environment for MSE.

Table 4.2. Favorability of business environment for MSE

No	Item	Frequency	Percentage
7..how do you see favorability of	Very good	5	8%
	Good	15	25%
	Medium	30	50%

business environment for MSE	Low	10	17%
	Very low	0	0%
	Total	60	100%

Sources: Field survey 2025

As it's shown from table 4.2, 5(8%) of respondent answer is very good, 15(25%) of respondent said good, 30(50%) of respondent said medium, 10(17%) of respondent said low and none of them said very low. From this the researcher understand that 20(33%) of respondent are operating in favorable business environment and half of them are in middle business environment and 10(17%) are in bad business condition. So the researcher concluded that favorability of business environment is not much good as they need and not comfortable for their growth.

4.3. Satisfaction level of respondent from supporting institutions

Table 4.3.Satisfaction level of respondent from supporting institution

Institutions 8.	Frequency	Percentage	institutions	Frequency	Percentage
MSE's Development bureau			Micro and finance institutions		
Extremely satisfied	0	0%	Extremely satisfied	5	8%
Satisfied	15	25%	Satisfied	8	13%
Dissatisfied	14	23%	Dissatisfied	15	25%
Extremely dissatisfied	6	10%	Extremely dissatisfied	8	13%
I do not get service	25	42%	I do not get service	24	40%
Total	60	100%	Total	60	100%
TVET centers			NGO's		
Extremely satisfied	3	5%	Extremely satisfied	0	0%
Satisfied	10	17%	Satisfied	6	10%
Dissatisfied	15	25%	Dissatisfied	9	15%
Extremely dissatisfied	6	10%	Extremely dissatisfied	10	17%
I do not get service	26	43%	I do not get service	35	58%

Total	60	100%	Total	60	100%

Sources: Field survey 2025

As shown in above table the respondents were asked about their level of satisfaction from support provider institutions like MSE's Development bureau, MFI, TVET Centers and NGO's. the response were as follows, 0%, 8%, 5%and 0% were extremely satisfied by support providing institution described above respectively, 25%, 13%17%and10% were satisfied by support providing institution described above respectively. 23%, 25%, 25%and15% was dissatisfied by support providing institution. 10%, 13%, 10% and 17% were extremely dissatisfied by support providing institution. And the remaining 42%, 40%, 43% and 58% were not got service from support providing institution. From above table the researcher can understand that the high support providing institutions were MFI's 59%, followed by MSE's 58% and TVET57%. The NGO's contributions were less than 50%.

4.4. Business success dependency of MSE's on support providing institution and source of finance of MSE's.

Table 4.4.How your business success depend on support provider institutions and source of finance of MSE's business operators.

9. business success	Frequency	Percentage
Very high	3	5%
High	5	8%
Medium	18	30%
Low	10	17%
Very low	24	40%
Total	60	100%
10. source of finance		
Owner personal saving	25	42%
Bank loans	0	0%
From relatives	21	35%
MFI loans	14	23%
Total	60	100%

Sources: Field survey 2025

The above table 4.4 shows employees response regarding to their dependence of business success on support providing institutions and their response were as follows ,3(5%) of respondent dependence were very high, 5(8%) of respondent were high, 18(30%) of respondent were medium , 10(17%) of respondent were low and 24(40%) of respondent were very low. From this the researcher can conclude that more than half of respondent this means 57% of respondent dependence on support providing institutions was less. And the table also shows that larger proportion of respondent this means 25(42%) start the business by their own personal saving, this followed by 21(35%) of respondent that got money from relatives to start their business, 14(23%) of respondent got money from MFI and none of them got money from bank. From this the researcher can conclude that bank contribution in providing loans to MSE is zero.

4.5. Financial problem

Table 4.5.Financial problem

11.Failure to apply financial statement analysis	Frequency	percentage	Unplanned withdrawal of cash for personal use	Frequency	Percentage
Very high	15	25%	Very high	7	12%
High	16	27%	High	20	33%
Medium	14	23%	Medium	18	30%
Low	9	15%	Low	10	17%
No effect	6	10%	No effect	5	8%
Total	60	100%	Total	60	100%
Poor management of working capital			Shortage of finance		
Very high	12	20%	Very high	25	42%
High	15	25%	High	16	27%
Medium	18	30%	Medium	14	23%
Low	10	17%	Low	5	8%

No effect	5	8%	No effect	0	0%
Total	60	100%	Total		100%

Sources: Field survey 2025

The above table 4.5 describe financial problem of the firm, this include failure to apply financial statement , unplanned withdrawal of cash, poor management of working capital and shortage of finance respectively, 25%,12%, 20% and 42% of respondents responded effects were very high, 27%, 33%, 25% and 27% respondents effect were high , 23%, 30%, 30% and 23% of respondents effect were medium, 15%, 17%, 17%, and 8% of respondent effects were low and 10%, 8%, 8%,and 0% of respondent were not affected by the problem described above respectively. From this the researcher can understand that shortage of finance were the main factor affecting the firm which hold 100% , followed by failure to use financial statement which hold 94% and the remaining were unplanned withdrawal of cash and poor management of working capital are holding the same portion 92%. Generally the firms were highly suffering from all above financial problems.

4.6. Location of business, Level of competition and competitors of MSE.

Table 4.6.Location of business, level of competition and competitors of MSE.

12. Is your location in attractive business area?	Frequency	Percentage
Yes	25	42%
No	35	58%
Total	60	100%
13.Level of competition		
Very high	10	17%
High	21	35%
Medium	20	33%
Low	5	8%
Very low	4	7%
Total	60	100%
14. Who are your major competitors?		
Other MSE’s	40	67%
Medium and large enterprise	15	25%

Importers and exporters	5	8%
Total	60	100%

Sources; Field survey 2025

The respondent were asked about their business location and more than half of respondent this means 35(58%) of respondent were not in attractive business area and 25(42%) were interested in their business location.

The table 4.6 above also shows level of competitions of firms with other firms, the respondents response were as follows, 21(35%) of respondent said high, 20(33%) of respondent said medium, 10(17%) of respondent response were very high, 5(8%) of respondent response were low and 4(7%) of respondents response were very low. From this we can understand that more than half of respondent were in stiff competition these were 52% which gained from summations of respondent response who said high and very high.

The table also describe about major firms competitors, larger proportions of firms competitors were other MSE's this hold 40(67%) , the next firms competitor are medium and large enterprise which hold 15(25%) and the last one is importers and exporters which hold 5(8%).

From this the researcher can conclude that the major firms competitor were other MSE's.

4.7. Access and quality of basic infrastructure

Table 4.7 access and quality of basic infrastructure

Facility 15.	Frequency	Percentage	Facilities	Frequency	percentage
Electricity			Water		
Very high	5	8%	Very high	4	7%
High	10	17%	High	8	13%
Medium	20	33%	Medium	19	32%
Low	10	17%	Low	13	22%
Very low	15	25%	Very low	16	27%
Total	60	100%	Total	60	100%
Telephone			Transport		
Very high	15	25%	Very high	7	12%
High	20	33%	High	22	37%
Medium	9	15%	Medium	20	33%
Low	6	10%	Low	5	8%
Very low	10	17%	Very low	6	10%
Total	60	100%	Total	60	100%

Source: Field survey 2025

As the above table 4.7 shows us the respondent were asked about access and quality of infrastructures facilities , this includes electricity , water, telephone and transport respectively, and their response were as follows , 8%, 7%, 25% and 12% very high, 17%, 13%, 33%, and 37% of respondent said high, 33%, 32%, 15% and 33% of respondent said medium , 17%, 22%, 10% and 8% of respondent said low and 25%, 27%, 17% and 10% of respondent said very low respectively. Generally From the above table the researcher can conclude that the access and quality of electricity and water were poor and they were highly suffering from it. And on the other hand the access and quality of telephone and transport were good.

4.8. Business plan

Table 4.8.Business plan

16. Does your company have business plan?	Frequency	Percentage
Yes	40	67%
No	20	33%
Total	60	100%

Source: Field survey 2025

The above table 4.8 shows employees' response regarding to weather they have a business plan or not, accordingly more than half of them 40 (67%) responded they have a business plan and 20(33%) of respondents operate without business plan. From this analysis the researcher conclude that majority of them are using business plan.

4.9. Marketing factors

Table 4.9.marketing factors

Marketing factors 17.	Frequency	Percentage	Marketing factors	Frequency	Percentage
Lack of skill to competitive price			poor customer handling and relationship		
Very high	7	12%	Very high	5	8%
High	16	27%	High	9	15%
Medium	20	33%	Medium	20	33%
Low	12	20%	Low	24	40%
No effect	5	8%	No effect	2	3%%
Total	60	100%	Total	60	100%
Poor location			Lack of product diversity and inability to modify existing products		
Very high	11	18%	Very high	7	12%
High	20	33%	High	16	27%
Medium	15	25%	Medium	17	28%
Low	10	17%	Low	14	23%
No effect	4	7%	No effect	6	10%

Total	60	100%	Total	60	100%
Lack of demand forcasting			Lack of efficient distribution channel		
Very high	12	20%	Very high	10	17%
High	18	30%	High	18	30%
Medium	14	23%	Medium	15	25%
Low	10	17%	Low	14	23%
No effect	6	10%	No effect	3	5%
Total	60	100%	Total	60	100%

Source: Field survey 2025

As above table shows the respondents were asked about how marketing factors are affecting their business performance. This include, lack of skill to set competitive price, poor location, lack of demand forecasting, poor customer handling, lack of product diversity and inability to modify existing product and lack of efficient distribution channel respectively. Their response were as follows, 12%, 18%, 20%, 8%, 12% and 17% respondents response were very high, 27%, 33%, 30%, 15%, 27% and 30% of respondent response were high, 33%, 25%,23%, 33%, 28% and 25% of respondent response were medium , 20%, 17%, 17%, 40%, 23%, and 23% of respondent response were Low and 8%, 7%, 10%, 3%, 10% and 5% of respondent said No effect on the marketing factors described above respectively. From this the researcher that, poor customer handling were highly affecting the firm this hold 97% , followed by lack of distribution channel 95%, poor location 93%, lack of skill to set competitive price 92% , lack of demand forecasting and lack of product diversity and inability to modify existing product both hold 90% respectively.

4.10. Improvement in solving business constraint of MES's

Table 4.10.improvement in solving business constraint of MSE

18. Improvements	Frequency	Percentage
Good improvement	18	30%
No change	25	42%
Decreasing	17	28%
Total	60	100%

Source: Field survey 2025

The respondents were asked about improvement in solving business constraint of MES's. Their responses were as follows, 25(42%) of respondent said there is no change, 18(30%) of respondent said there is good improvement and 17(28%) of respondent said decreasing. The overall impression of this analysis indicated that as there is no improvement in business constraint.

4.11. Operational factors

Table 4.11.operational factors

Operational factor 19.	Frequency	Percentage	Operational factor	Frequency	Percentage
Implementation of rules and regulation			Poor quality of institution		
Very high	16	27%	Very high	13	22%
High	20	33%	High	17	28%
Medium	21	35%	Medium	15	25%
Low	3	5%	Low	9	15%
No effect	0	0%	No effect	6	10%
Total	60	100%	Total	60	100%
Lack of working place			Shortage of raw material		
Very high	14	23%	Very high	15	25%
High	24	40%	High	18	30%
Medium	10	17%	Medium	19	32%
Low	8	13%	Low	6	10%
No effect	4	7%	No effect	2	3%
Total	60	100%	Total	60	100%
Insufficient training			Management problem		
Very high	15	25%	Very high	18	30%
High	20	33%	High	9	15%
Medium	15	25%	Medium	18	30%
Low	10	17%	Low	10	17%
No effect	0	0%	No effect	5	8%
Total	60	100%	Total	60	100%

Source: Field survey 2025

Table 4.11. above shows that how the following operational factor affecting the growth of firms business, this include, implementation of rule and regulation , lack of working place, insufficient

training, poor quality of institution, shortage of raw material and management problem respectively. Their response were as follows, 27%, 23% ,25%, 22% , 25% and 30% of respondent said very high, 33% , 40%, 33%, 28%, 30% and15% of respondent said high, 35%, 17% , 25%, 25%, 32% and 30% of respondent said medium, 5% , 13%, 17%, 15%, 10% and 17% Low and 0%, 7% , 0% , 10%, 3% and 8% of respondent said No effect on above factors described respectively.

From this the researcher can conclude that, implementation of rules and regulation and insufficient training were the main factor affecting the growth of firm both holding 100%, followed by shortage of raw material 97%, lack of working place 93%, management problem 92%, and poor quality of institution 90% respectively.

4.12. Profitability of business

Table 4.12.profitability of business

20. Profitability	Frequency	Percentage
Increasing	20	33%
Decreasing	40	67%
Total	60	100%

Sources: Field survey 2025

The above table 4.12 shows respondents response regarding to profitability of the business accordingly 40(67%) of them responded decreasing from time to time and 20(33%) of respondent responded Increasing. From this the researcher conclude that as profitability decreased from time to time.

Open ended question

21. if your answer for question number" 20" is increasing or decreasing what are the factors contributing to it?

As the result of 20 respondents shows the profitability of their organization were increasing and the reason behind this were as follows,

The increasing number of customer, Balanced price of our product, Our ability in producing quality product, Our ability in providing quality service, Our ability in attracting many customers, Attractive location of our business, Our ability of handling customers, Strength and commitment of our workers, Our product out come in satisfying the need and want of customers and also our attractive service provision style than our competitors, High number of users in addition to our customers, Because we operate based on plan, Because of good management in our enterprise, and Because we are expanding our product in different place in the city.

As the result of 40 respondents shows, the profitability of both manufacturing and service enterprises were decreasing and their reason behind this were as follows;

Because of imposition of unbalanced tax rate, unfavorable business location, expensive living standard, Decreasing number of customer due to increased number of competitor, High exchange rate of dollar which leads to increase in price of raw material, Unstable market condition, Competition from medium and large enterprise, Unfavorable business condition, Shortage of raw material, Decreasing interest of customer on some of our product, Hard government rule and regulation, Low access and quality of infrastructure facility and Weak buying power of customer.

22. The respondents were asked about the overall problem facing their business. And as information we gather from them shows, the main problems were as follows;

Lack of finance, Lack of infrastructure facility, specially there is no continuous electricity and water supply, Failure of micro and finance institution in providing enough loan ,Lack of workers and lack of working place ,Increase in price of raw material and shortage of raw material, Lack of educated leaders, Lack of efficient training and failure of copying with current technology, Failure of support providing institution in providing the desired support for growth of MSE's, Management problem, Lack of government in supporting and encouraging MSE's, Lack of NGO's in providing the needed support, Poor loan provision system of government, Lack of enough knowledge in operating the business, Lack of attractive working place for MSE's, Discrimination in providing support, Imposition of unbalanced tax rate, Failure of government in supervising MSE's, Lack of experience in operating the business, High corruption, Lack of favorable

marketing place, Customer handling problem, High bureaucracy , High number of competitors in market and Generally there is no continuous support in every aspect of MSE's.

23. The respondent was asked about the possible solution of the above problem.

The solutions they suggest were as follows;

Providing enough financial support for MSE's development, Government support and participation in every aspect of MSE's is important, Participating knowledgeable and experienced leaders in solving MSE's problems, Facilitating full supply of raw material, Facilitating favorable working and marketing condition, Imposing balanced tax considering firms income, Facilitating condition for TVET center to provide the desired training, Making supervision on MSE's continuously, Increasing the number of support providing institution and increasing the current support providing institutions participation in MSE's, Encouraging the young age people to work hard, Increasing the habit of working together, Facilitating loan provision system, Special attention of government and non-government institution is important, Improving the access and quality of infrastructure facility , Expanding loan providing institution, Providing attractive working place, Hiring educated employees in government institution, Avoiding corruption and discrimination, Providing awareness to society about importance of MSE,s, Making meeting and talking about MSE's problem and talking about possible solution to problem and Generally the support of government, access and quality of infrastructure, favorable marketing condition, full supply of raw material and financial support is important for growth of MSE's.

CHAPTER FIVE

5. Summary, Conclusion, and recommendations

5.1. Conclusion.

The researcher concluded the overall theme of the research and major findings as follows:

From study analysis majority of respondent were male, young, unmarried and educated. The majority of respondent were operating in micro enterprise than small enterprise. The majority respondent engaged in the business due to lack of employment alternative and also government contribution is low in encouraging the people to start the business.

The favorability of the business for micro and small enterprises is not good enough. The majority of respondents did not get service from support-providing institutions. The dependency of the business success of micro and small enterprises on support providing institutions is very low. Most of respondents' source of finance were their saving. All of respondents were affected by financial problem. The majority of respondents were located in the unfavorable business area. There is a high level of competition in micro and small enterprises. Most micro and small enterprise competitors were other micro and small enterprise. From infrastructure factors, there is a high level of telephone and transport access and quality, and the access and quality of electric and water supply are not good enough as needed. The majority of respondent have business plan.

From marketing factors there is high level of lack of demand forecasting, lack of efficient distribution channel and poor location and medium level of lack of product diversity and inability to modify existing product, lack of skill to set competitive price and poor customer handling and relationship. There is no change in solving business constraint of micro and small enterprise. From operational factors, there is high level of management problem, insufficient training, lack of working place and poor quality of institution and medium level of implementation of rules and regulation and shortage of raw material. Most of micro and small enterprise business profit were decreasing from time to time.

The reason why most of respondents' profit decrease were; their unfavorable business location, decreasing number of customer, high number of competitor, shortage of raw material and low access and quality of infrastructures. The overall problem facing micro and small enterprises were ; lack of finance, lack of infrastructure facility, lack of training, lack of experience, lack of favorable market condition and lack of government support. The possible solutions the respondent suggested on the problems were; providing financial support, continuous supply of raw material, improving access and quality of infrastructure facility, providing training, facilitating market condition and good government support.

5.2. Recommendations

Based on the major finding of the study, the researcher suggests the following recommendation that helps to solve the problem of MSE's.

- ✓ Most of MSE's are working on micro enterprise, so they should have to work hard to increase their business size and also the government should have help them to develop their size.
- ✓ Most of MSE's engaged in the business due to lack of employment alternative, so the government should have to create employment opportunity.
- ✓ The favorability of the business environment for MSEs is not good enough, so the government should have to offer a favorable business environment in cooperation with society.
- ✓ The support-providing institution existing in the country are not providing enough support for MSE's so, the government should improve the quality and accessibility of the service providing institution by assessing employees that have proper knowledge in the business area.
- ✓ The government should develop comfortable source of finance for MSE's by arranging and supporting the performance of MFI, Banks and other source of finance.
- ✓ The government should have to reduce finance related problem of MSE's by providing finance support and by providing awareness to MSE's on how to implement planned

withdrawal of cash, good management of working capital and to use financial statement analysis.

- ✓ The government should have to provide attractive business location.
- ✓ The competition among MSE's and other medium and large enterprise should minimize by diversifying the product of the enterprise.
- ✓ The quality and accessibility of infrastructure should have to improve.
- ✓ MSEs should enhance their marketing skill by sharing experiences with other MSEs and medium and large enterprises to reduce their marketing-related factors.
- ✓ The government action in solving the business constraint of MSEs should have to improve.
- ✓ The government should have to reduce operational factors facing MSEs by applying formal rules and regulation, by providing appropriate working places, by providing sufficient training, by improving the quality of institution, by facilitating the supply of raw materials and by avoiding management-related problems.
- ✓ MSE's operators should have to increase their profitability by producing quality products, by providing quality service, and by using a good customer handling system. The government should also have to help MSEs to increase their profitability by imposing a fair tax system, by facilitating good marketing conditions and by improving access and quality of infrastructure.
- ✓ Finally the researcher recommend that, the societies beside the government should have to support MSE's business operators by providing the needed advice and support to develop their size and to be more profitable.

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APPENDIX

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

Questionnaires to be filled by respondents

Dear respondent,

I am currently a student at Wolkite University, and I am doing my BA Degree in management research under the Assessment of Factors Affecting the Growth of Micro and Small Scale Enterprises. This questionnaire is designed to collect data from both micro and small business enterprises in Wolkite town in: the case of enterprises in Menaheriya and Selamberkebele for comparative analysis of factors affecting the growth of Micro and Small Scale Enterprises. Your cooperation in providing genuine answers to the following questions is highly important for the success of this study. Your responses will be kept confidential. It is only for academic purpose

Thank you in advance for your cooperation!

Instructions

- This questionnaire must be filled by OWNERS of enterprise only
- Do not write your name
- Put this mark (√) on space provided

Part One: General Information

1. Age: A. 18-30 ☐ B. 31-40 ☐ C. 41-50 ☐ D. 51-60 ☐ E. above 60 years ☐

2. Sex: A. Male ☐ B. Female ☐

3. Marital Status: A. Unmarried ☐ Married ☐

4. What is your education level?

A. Elementary school ☐ B. Secondary school ☐ C. TVET graduate ☐

D. College diploma ☐. First degree and above ☐

5. Size of your business: A. Micro ☐ B. Small ☐

6. What motivates you to involve in this business?

A. Profitability of business ☐ B. Lack of employment alternatives ☐ C. Good ☐ government support

Part Two: Basic Business Information

7. How do you see the favorability of business environment for MSEs?

A. Very good ☐ B. Good ☐ C. Medium ☐ D. Low ☐ E. Very low ☐

8. Compared to your expectation how satisfied are you with the service provided by the MSEs/Government institutions till now?

Type of service	Extremely satisfied	Somewhat satisfied	Neither no	Somewhat dissatisfied	Extremely dissatisfied	I do not get service
MSEs Dep't bureau						
Micro & finance institutions						
TVET centers						

NGO's						

9. To what extent your business successes depend on the support provider institution?

A. Very high ☐ B. High ☐ C. Medium ☐ D. Low ☐ E. Very low ☐

10. What was your source of finance when you start your business?

A. Owner personal saving B. Bank loans ☐ C. From relatives ☐ D. MFI loans ☐

11. Please indicate in the box below, the degree to which these finance related factors are affecting the performance of your business

Financial factors	Very high	High	Medium	Low	No effect
Failure to apply financial statement analysis					
Unplanned withdrawal of cash for personal use					
Poor management of working capital					
Shortage of finance					

12. Do you think your location is in attractive business area?

A. Yes ☐ B. No ☐

13. How do you see the level of competition with the other business?

A. Very high ☐ B. High ☐ C. Medium ☐ D. Low ☐ E. Very low ☐

14. Who are your major competitors?

A. Other MSE's ☐ B. Medium and large enterprise ☐ C. Importers and Exporters ☐

15. How do you evaluate the access and quality of the following basic infrastructures?

Facility	Very high	High	Medium	Low	Very low
Electricity					

Water					
Telephone					
Transport					

16. Does your company have a business plan?

A. Yes ☐ B. No ☐

17. Please indicate the degree to which these marketing factors are affecting the performance of your business

Marketing factors	Very high	High	Medium	Low	Very low
Lack of skill to set competitive price					
Poor location					
Lack of demand forcasting					
Poor customer handling and relationship					
Lack of product diversity and inability to modify existing products					
Lack of efficient distribution channel					

18. How do you see the improvement in solving business constraints of MSE's in the last few years?

A. There is no good improvement ☐ B. There is no change ☐ C. Decreasing ☐

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

Operational factors	Very high	High	Medium	Low	No effect

Implementation of rules and regulation					
Lack of working place					
Insufficient training					
Poor quality of institution					
Shortage of raw material					
Management problem					

20. How do you see the profitability of your business?

A. Decreasing ☐ B. Increasing ☐

21. If your answer for question number 20 is decreasing or increasing what do you think are the factors contributing to it?

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……..

22. What overall problems do you have in your business?

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……
…….

23. What do you think the solutions to these problems?

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Thanks again for completing the questionnaire!