



COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

**FACTORS CHALLENGING THE EFFECTIVENESS OF MICRO
AND SMALL SCALE BUSINESS PERFORMANCE IN SOME
SELECTED AREAS OF WOLKITE TOWN**

**RESEARCH PAPER SUBMITTED FOR THE PARTIAL
FULFILMENT OF BA DEGREE IN MANAGEMENT**

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Acronyms

MSE= Micro and small scale enterprise

SSE's= Small scale enterprises

NGO=Non-governmental organization

Abstract

The purpose of this study is to assess the factors that challenge the effectiveness of micro and small business enterprises in case of Wolkite town. The target populations of this study were 278 entrepreneurs of selected micro and small business enterprise in Wolkite town. There are three entrepreneurial sectors in Wolkite town micro and small business enterprise office. In this study the researcher used descriptive research design. For this purpose stratified simple random sampling technique is used. In this study 74 samples of entrepreneurs can be selected. The data obtained from the items of the questionnaires can be analyzed quantitatively by using table, frequency count and percentage. The data from the open-ended items of the questionnaires, and document was analyzed through tabulation and statement form. Finally recommendation and conclusion was given by researcher based on findings.

KEY WORDS

**FACTOR CHALLENGING THE EFFECTIVENESS OF
MICRO AND SMALL SCALL BUSINESS ENTERPRISE
IN SOME SELECTED AREAS OF WOLKITE TOWN**

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Developing micro and small scale enterprises play a significant role in improving the deterioration of living standard of the people and the development gap of the country with the other world (Iiedholm, 2001). Micro and small enterprises are characterized by having greater inter and intra sector linkages, uses local raw materials and labor intensive technologies, have potential for competition, one that have a relatively small share of the market and is managed by its owner or part owner in a personalized way and not through the medium of formalized management structure (MUDCO, 2013). It is independent in a sense that it doesn't part of a larger enterprise and that the owners/managers should be free from outside control in taking their principal decisions.

In Ethiopia micro enterprises are defined as those business enterprise with a paid up capital of not exceeding birr 20,000 and employ five (5) to nineteen (19) persons high technical consultancy firms and other high technical establishments. Around the world micro and small business enterprises are increasingly seen as the creators of new jobs. The flexibility and dynamism of micro and small enterprises have made them more competitive and adaptable than large firms, many of which have been forced to down size and restructure. The benefits of business networks and commercial linkage between micro and small enterprises are now recognized as effective and efficient means of doing business as we enter new current (International labor office, 2003).

(Amdemichiel 2010) found development of micro and small scale interposes in Ethiopia is so slow that little attention was given to the development of the sector in the previous governments, but the previous researcher failed to investigate the influence of government tax and the factor that influence product modification of micro and small business enterprises. So the researcher try to address the above problem that previous researcher did not investigate as research gap. To address this problem this study was systematically assessed the main constraints that are pushing back micro and small

enterprise from rapid expansion done to accelerate its development and enhances economic development of the country in general and Wolkite town in particular. Despite these encouraging measures taken, the overall performance of Micro and Small Scale Enterprise is not significantly increased.

1.2 Statement of the problem

It is true that micro and small business have vital part to play in the economy of country. A small business owner is an individual who establish and manage for the principal purpose of furthering personal good. Most small firm is unlikely to be able to exert much influence on their market. They are price taker in classic sense and are likely to face significant competition with flexible organization they are more sensitive and response to market change (Burns and Hurt 1998). The owner of small business should -gather information regarding product, market condition as well as change take place in environment and act accordingly (Hodgetas 2007). The owner also understood his customer and treats politely and respectfully if the owner has managerial and his business activities perform smoothly and leads profit if business not lead to bankrupt.

As the researcher observe the case area there are some of research gap or problem which hinder and limit the development of entrepreneurs like, economic which is concerned with assessing financial benefits of cost associated with the entrepreneurs. Political which is the process of evaluating how key entrepreneurs and the organizational attitude the main which affect the effectiveness micro and small scale enterprise in Woikite town. On the other way, the growth of entrepreneurship task areas less as the attention given by the government.

1.3 Research question

1. What are the major factors that influence effectiveness of micro and small business in Wolkite town?
2. What are the factors that influence each firm to make product modification of micro and small scale business in Wolkite town?
3. How government imposed of the tax on each micro and small business and affects the effectiveness of micro and small business in Wolkite town?

1.4. Objective of the study

1.4.1 General objective of the study

The general objective of the study is to assess the factor that challenges the effectiveness of micro and small business in Wolkite town.

1.4.2 Specific objective

- ❖ To investigate the major factors that influences the effectiveness of micro and small business in Wolkite town.
- ❖ To examine factor that influence product modification of micro and small business in Wolkite town.
- ❖ To assess tax imposed by government on each micro and small business and how affects their business activities in Wolkite town.

1.5. Significance of the study

The study is focus on factors that challenge effectiveness of micro and small business. The outcome of this study is useful for the owner of micro and small business in identified area. Generally the study will be the following importance.

For the organization: -After conducting this research paper the organization will be beneficiary in that provide information concern with factor that influence the effectiveness of micro and small scale enterprises.

For the future researcher: - Other researchers can take this study as reference materials for further study. For the researcher: - The researcher is beneficiary on getting knowledge about the study and experience on conducting such assessment and get satisfaction when the study wills the solution for problem.

Other similar organizations: -The study can be used for other organizations which are similar by taking this study and they can check themselves with identify problem are originating on them they can take their corrective measure.

1.6. The scope of the study

The scope of this research paper can cover assessment of the factor that influence the effectiveness of micro and small business in Wolkite town such as managerial skill of owners ,financial problem, high taxation system impose on small business and lack of awareness of small business both product modification.

1.7. Limitation of the study

The researcher faced certain problems at the time of conducting the research. Some of them are given below. The first limitation encountered in this study faced difficulty in obtaining data for the research work. Another limitation is that, most of the respondents may be reluctant in responding to the question that posed to them. This is due to the fact that some of the respondents may be try to be secretive and concealed some vital information with the intention of protecting the image of their institution.

1.8. Organization of the study

The study consists of five chapters. The first includes introduction, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study. The second review of related literature, the third chapter deal with research methodology, and the fourth chapter is analyses and interpretation of the collected data and the last chapter (chapter five) can cover conclusion and recommendation of the study.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Entrepreneur and Entrepreneurship

Entrepreneurship:-It is the capability and willingness to develop, organize and manage a business venture along with any of its risk in order to make a profit. According to economist, entrepreneurship combined with land, natural resources and capital can profit and it characterized by innovation, risk taking and is an essential part of a nation ability to succeed in an even changing and increasingly competitive global market place, (Retrieved November 28, 1998).

The activity now a day from a job creation, the reason is that organizations cannot accommodate to hire all graduates are expected to create their own jobs to become entrepreneurs. Entrepreneurship is a dynamic process of creating incremental wealth. This wealth is created by an individual who assumes the major risk in terms of quality, time and career commitment of providing value for some product or service, (Hailey 2007).

Entrepreneurship can be defined in many ways, and four key elements found in most definitions are vision, risk taking, organizing skill, and innovation. Entrepreneurial vision encompasses the persistent quest for operational excellence innovation and being responsible to the needs of the market. The innovation could be process innovation, market innovation, product innovation, factor innovation, and even organizational innovation. These four elements are interrelated and form continuous process in business, (Petter, 1995).

Entrepreneur is one who detects and evaluate anew situation in his environment and directs the making of such adjustment in the economic system as deems necessary. An entrepreneur performs perceive opportunities for profitable investment, explores the prospects of starting such manufacturing enterprise, obtaining necessary industrial licenses, arranging initial capital, providing personal guarantees to the financial

institution, promises to meet the short falls in the capital and supplies technical things,(Desai Vasant, 1997).

An entrepreneur is someone who exercises initiative by organizing a venture to take benefits of an opportunity and, as the decision maker decides why, how and how much of goods and services will be produced. An entrepreneur supplies risk capital as a risk taker and controls the business activity. The entrepreneurs is also proprietor, a partner or the one who owns the majority of shares in a corporate venture and it is not necessarily motivated by profit, but it regard as a standards for measuring achievement or success,(Retrieved November, 28, 1998).

Entrepreneurs are action oriented highly motivated individual who take risks to achieve goals and a people who has the ability to see and evaluate business opportunity, the ability to gather the necessary to take advantage of them and ability to initiate appropriate actions to ensure achievement of goal and they are instrumental to change,(Hailey,2003).

2.1.1. Types of Entrepreneurship

There are different types of entrepreneurships

Skeptical Entrepreneurship: this type of entrepreneurship sees see success of others then immediately starts to question it. It assess that persons business they think that successful entrepreneurs received may be it is the new or previous life experience, but they are skeptical of success and do not believe it is possible without all the starts following into place. When you cannot see or believe success is possible, you will never get to a place in your mind that allows you to take action, (Retrieved, October 25, 1998).

Copycat Entrepreneurship: These types of entrepreneurs see that the success of others and then tries to copy them exactly. There is nothing wrong with modeling success it actually very smart. There is a line however, between modeling and coping. Modeling success means he or she see what works and figure out how to make it relevant to the business (Ibid).

Determined Entrepreneurship: These types of entrepreneurship haven't made it but they will not matter that. They see the value in entrepreneurship, they see that success is

possible without copying and they do everything they can to start or grow their business, (Retrieved November 28, 1998).

Private Entrepreneurship: It is a type of entrepreneurship that is carried out by an individual on the base of on property such as loan that is acquired and used on legal ground, (DawitAyalew and DawitArega, 2005).

Collective Entrepreneurship: It carried out by two or more entrepreneurs on the base of collective property that is capital contributed by the entrepreneurs, (DawitAyalew and DawitArega, 2005).

Technological Entrepreneurship: It invents new technology to produce new products or new process for producing new products, (DawitAyalew and DawitArega, 2005)

2.1.2. Characteristics of Entrepreneur and Entrepreneurship

Passion and Motivation: The word that describes the basic requirement for an entrepreneurship venture is passion. It is there something that you can work without getting bored. It is there something that to enjoy the most and want to continue doing for the rest of your life. The demonstration of passion and motivation will determine the success in any entrepreneurial venture, (Shobhit Seth, 2014).

Risk taking:-Entrepreneurs are risk takers ready to dive deep into a future of uncertainty. But not all risk takers are successful entrepreneurs. Successful entrepreneurs are keep and plan resource for dealing with unknown in future, (Shobhit Seth, 2014).

Self-belief and hard work:-Entrepreneurs are enjoying what they do. They believe in themselves and are confident on what they do, (Shobhit Seth, 2014).

Adaptability and Flexibility:-It is good to passionate or even knows about what to do. But being inflexible about client or market needs will lead to failure. Entrepreneurial venture is not simply about doing what you believe is good but also making successful business out of it, (Shobhit Seth, 2014).

Money Management:-It takes time to get to profitability for any entrepreneurial venture; capital is limited and needs to be used wisely. Successful entrepreneurs realize this mandatory money management requirement and plan for present and future financial

obligation. A Successful business man keeps a complete handle on cash flows, as it is the most important aspects of any business, (ShobhitSeth, 2014).

Locus of control:-Entrepreneurs have the degree to which a person believes to have control over the outcome of an event determined by outsiders and internal locus of control. Their action causes the outcome of event, (DawitArega and DawitAyalew, 2005).

Goal oriented:-Entrepreneurs have relentless drive to accomplish goal they understand what their priority are and continue to work hard towards those goals, (DawitArega and DawitAyalew, 2005).

Emotional stability:-Entrepreneurs have considerable amount of self-control and handle business pleasure. They are comfortable in stress situations and are challenged rather than discouraged by failure, (DawitArega and DawitAyalew, 2005).

2.1.3. The Entrepreneurial Process

Identify and Evaluating Opportunity:-This phase is the first and the most difficult since most business ideas do not suddenly appear. Identification and evaluation phase deals with the personal skills and goals of the entrepreneurs. Good business opportunity are often the result of the entrepreneurs being alter to their environment or extra effort in establishing opportunities identification mechanism. Generally, a new business opportunity may be the results of technological change, market shift, government regulation, or competition, (DawitArega and DawitAyalew, 2005).

Developing a Business plan:-A business plan is a document that the entrepreneur prepares before going to the implementation stage. It contains details of every business aspects. The entrepreneurs aspire to establish description of the business, marketing, financial, organizational, and operational plans necessary for the foundation of the business. The business plan is also useful to develop the opportunity and determine the resource required for the business and their source, (DawitAyalew and DawitArega, 2005).

Determining the required resources:-The entrepreneur needs to identify the business before embarking on the business opportunity entrepreneur start this phase with an assessment of their present resources, (DawitArega and DawitAyalew, 2005).

Managing the business:-After the required resource for the business have been acquired the entrepreneur with develop them through the implementation of the business plan. At this stage the entrepreneur's assesss and manage the operational problems of growing enterprise, (DawitArega and DawitAyalew, 2005).

2.1.4. Role of Entrepreneurship in the Economy

Entrepreneurship is catalyst that plays a crucial role in developing countries economy. The following are some contribution entrepreneurship and entrepreneurs.

Create new job:-Path breaking offered by entrepreneurs, in the form of new goods and services result in new employment, which can produce a good things for a business, (Hailey, 2003).

Stimulating economic competition:-Many economists, beginning with Adam Smith expounded the values inherent in economic competition. In competitive business situation individuals are driven by self-interest to act in socially desirable manner. Computation acts as the regulatory that forms their selfishness into service, (Hailey, 2003).

Providing goods and services efficiently: - Common sense tells us that the efficiency size of a business varies with the industry that we can easily recognize. For example a big business is better in manufacturing automobiles but entrepreneurs is in leading them, (Hailey, 2003).

Increasing per capital income and output: - Entrepreneurial business activities result in increasing income for entrepreneurs, employees and other related business output. The supply of goods and services in the economy will also be increase. This increase eventually leads to an increase in per capital income and output in the economy, (DawitAyalew and DawitArega, 2005).

Improvement of business policies and procedures:-Entrepreneurs create a business that involves new transaction which don't in fit into the existing business regulatory system

and these requires the development of new business system, laws, rules and policies. Such business investigates the revision of the existing business policies and procedures and leads to the development of new ones which ultimately result better and good business environment, (DawitAyalew and DawitArega, 2005).

2.1.5. Challenges of Entrepreneurs

Entrepreneurs face many challenges in today's competitive business environment. Fortunately, contemporary times also blessed entrepreneurs with more resources for taking those problems that ever before.

Cash flow management:-Cash flow is essential to small business survival. Still many entrepreneurs struggle to pay the bill, while they are waiting for checks to arrive in part of problem systems from delayed, (Tanya Roberson, 2004).

Time management:-It is the biggest challenge faced by entrepreneurs. If they only had more times, to accomplish so much more activities, (Tanya Roberson, 2004).

Finance:-One of the biggest challenges for entrepreneurs is involving dealing with finance. For new entrepreneurs it is often difficult to raise enough capital to start up their companies even the business is established. Entrepreneurs have a hard time obtaining loans and lines of credit, (Tanya Roberson, 2004).

Self-motivation:-While many people's are used to having asset work schedule and routine they must adhere to things are little difference with entrepreneurs, while self-employed,(Tanya Roberson, 2004).

Entrepreneurs also face problems perhaps starting the day he or she identify the business idea. The challenges faced by entrepreneurs can be as internal and external. External problems are those that results from the factors that are beyond the direct control of entrepreneurs. The internal factors are choosing of business idea, inexperience, lack of skill, failing to plan, poor product quality and management problem, (DawitArega and DawitAyalew, 2005).

2.2. Micro and Small Scale Enterprise

The history of small business has been one of the most controversial stories in economic development in the world. It is not known when MSEs start. The role of small business in an economy has frequently been undermined and misinterpreted this is because that many governments emphasize on the attraction and promotion of large enterprises by thinking that most of the economic development or income comes from large industries.

2.2.1. Definition and classification of MSEs

What is stated or identified as micro and small enterprises in many industrialized countries may differ in other developing countries. In developed countries, micro enterprises can be labeled as small or medium in developing countries. This is because the amount of capital invested and the number of people employed in operating and implementing MSEs and the level of technology vary from one country to another. In some countries, MSEs labeled based in the number of employees and others on capital invested. The Central Statistical Authority (2002) of Ethiopia defined MSEs as household type establishment activity, which are mainly engaged in marketed production, are not registered companies or co-operatives, have no full written book of accounts, have less than 10 persons engaged in the activities and have no license.

Micro and small-scale enterprises are defined in several countries within their different purposes and intention. Thus, definitions depend on the government policies. There are different MSEs, which have different technological advancement or know how, the nature of the raw materials use and the market they have for their product. The different classes of MSEs are different with their developmental advantages and with respect to their impact of policy and policy change. Thus, it makes problematic to speak or define MSEs in universally accepted way, (Drik 1994, cited in Ephrem, 2005).

2.2.2. The quality of employment in MSEs

Employment growth in small enterprises does not necessarily reflect a successful development strategy. It is also important to consider the quality of employment, which can be broadly defined as the work-related factors that have an impact on the economic, social and psychological well-being as well as on the health of the employed persons. On

average, jobs in small enterprises are less productive, less remunerated, less secure and less unionized than jobs in larger enterprises, even after controlling for observable workers characteristics, such as education, sex and age, (Reinecke, G. 2000). For instance, the study by Soderborn (2001) estimates that in Ghana's manufacturing sector, a 10 percent rise in firm size is statistically associated with a 1.6 percent rise in earnings. For these reasons, many people concerned with employment quality and industrial relations view the growing emphasis on small enterprise employment as a threat rather than an opportunity. Moreover, as mentioned above, some people find work in small enterprises simply because they have no alternative. For these persons, it is a kind of survival strategy that is adopted despite low and possibly declining returns until something better comes along. As such, it is a reflection of economic failure rather than success. These enterprises can be very important in helping a large number of very poor people become a little less poor but they can generally not provide employment of high quality. Most studies considering employment quality in small enterprises largely focus on income levels (or profits for the enterprise owner in the case of very small enterprises). Obviously, income is indeed a crucial dimension of employment quality, especially in countries where many workers' incomes are insufficient to move the household they live in beyond the poverty line. However, other dimensions of employment quality, such as occupational health issues, job security and the degree of social protection are also crucial for the well-being of the employed persons in small enterprises and their household members. Employment quality is thus a multidimensional concept. In many developing countries, an improvement in the labor market performance may not directly be observed via decreasing rates of open unemployment or employment creation.

2.2.3. Common Characteristic of MSEs

There are assumptions that are common characteristics of MSEs, These common characteristics are; they have few employees, give low income, not experience much growth and do not produce for markets outside their local environment, (Eversole, 2003). Employment Generation:-Available evidence suggests that micro enterprise do not show growth in terms of number of people employed. While small firms experience both high job creation and destruction rates, it appears that job destruction during recession is lower

in small enterprise than in large enterprises perhaps due to greater wage flexibility in small firms. In contrast, large firms offer better in terms of wages, fringe benefits, and good working conditions, opportunities for skill enhancement and job security, (Snodgrass & Biggs, 1998).

Efficiency and Innovation in MSEs:-Efficiency and innovation is one of the determinants in MSEs Survival. Snodgrass and Biggs (1998) stated that; there has been a substantial difference detected in economic efficiency among enterprise of varying sizes. It is often argue that small firms are more innovative, particularly when they follow “niche strategies” using high product quality flexibility and responsiveness to customer needs as a means of competing with large scale mass producers’.

Measures of enterprise efficiency vary greatly both within and across industries. Those that varies are labor productivities or total factor productivities. Among the total factor productivities; financial market, imperfections such as information asymmetries, transaction costs and contract enforcement costs are particularly affecting the poor who lack collateral and credit histories not to work efficiently.

Income generation:-While there are many exceptions to the basic pattern, the evidence suggests that larger employers offer better jobs in terms of wages, fringe benefits, working conditions and opportunities for skills enhancements as well as job security. In low-income countries, small enterprises have much lower productivity levels than larger firms, which lead to lower wages and nonwage benefits. There is some evidence that this divergence in labor productivity and wage rates between small and large firm’s narrows as countries become more developed in terms of industrialization, (Snodgrass and Biggs, 1998).

2.3. Factor affecting performance of MSEs

Many individual have difficulty in bringing their idea to the market and creating a new venture. Yet entrepreneurship and the actual entrepreneurial decision have resulted in several million new businesses throughout the world. Each of these companies is formed through a very personal process. Although unique have some common characteristics. Like all processes, it entails a movement from something to something. (a movement from a present life style to forming a new enterprise). The decision to start an entrepreneurial venture consists of several sequential sub decisions (Hisrich and peter, 1989:pp. 10-14) the decision to leave a present career, the decision that an entrepreneurial

venture desirable and the decision that both external and internal factors make the venture possible

2.3.1. Change from present life style

The decision to leave a present career and life style is not an easy one. It takes a great deal of energy to change and create something new. The two most important incentives to leave a present life style and start a business are work environment and disruption

2.3.1.1. Work Environment

While individual tend to start business in familiar area to work environments tend to be particularly good in spawning new enterprise: research and development and marketing, working in technology. Research and development) individual develop new product, ideas and processes and often leave to form new companies when the present employers do not accept the new ideas. Similarly, individuals in marketing become familiar with the market and unfilled customers' want and needs and frequently start new enterprise to fill these needs.

2.3.1.2. Disruptions

Perhaps even more incentive to leave a present life style and overcome the inertia by creating something new comes from a negative force (disruption). A significant number of companies are formed by people who have retired, who are relocated, or who have been fired. There is no greater force than person dislocation to galvanize a person in to action another cause of disruption and resulting company formation in the complementation of an education degree

2.7.2. Factors affecting to form new enterprise

Yet what causes change due to personal disruption result in new company being formed instead of something else. The decision to start a new company occurs when an individual perceives that it is both desirable and possible.

2.3.2.1. Desirability of starting a new business

The desirability of starting a new business is resulting from an individual's culture, sub culture, family, teachers and peers

2.3.2.2. Factors affecting possibility of starting new business

While the desire generated from the individuals culture, sub culture, family, and teachers and must be present before any action is taken, the second part of the question centers on the question: what makes it possible to form a new company? Several factors- government, background, marketing, role models and finance, contributes to the creation of new venture.

2.4 Empirical review of literature

According to this research, that lasted from (1996-2001), the factors that affect the long term survival of SMEs 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 Kirkos sub-cities of Addis Ababa, and aimed to investigate the constraints and key determinants of growth, particularly in employment expansion,(Paul and Rahel 2010) 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 SMSEs faced at their startup were lack of capital (52.8%), skills problem (17.9%) and

lack of working space (17.1%). Moreover, Daniel (2007), identified that lack of raw material, stiff competition and shortage of working capital. Mainly relying on a sample survey of 557 operators and 200 SMSEs chosen from four major cities of Ethiopia namely Adama, Hawassa, Bahirdar and Mekelle, a research was conducted with the intention of assessing the contribution of the SMSE strategy to poverty reduction, job creation and business development. The raised causes for this dull prospect of business were not growing (33%), lack of finance (13%), lack of market (11%), and lack of working space (4%) Tegegne and Meheret's (2010) The major constraints identified by various studies on entrepreneur in Ethiopia are associated with market and finance problems. The causes of market-related problems of entrepreneur full of activity in manufacture, construction, urban agriculture, service and trade 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). According to Assegedech Woldelul (2004) Shortage of funds discourages the smooth operation and development of SMSEs. Even if there are credit facilities, some of the SMSEs 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 (2004), competition is also another problem that hinders the performance of SMSE. She explained it: As is mostly the case and common recognition, "Competition is Cruel", which implies that some larger companies in relation to SMSEs 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) studied the nature, characteristics, economic performance, opportunities and challenges of SMSEs in the construction sector based on 125 sample enterprises. The results of the study reveal that the main constraints of the SMSEs 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 SMSEs encounter. For instance, Workneh's (2007) 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 entrepreneur. Similarly, Adil's (2007) 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 hinder entrepreneurship. According to HLCLEP (2006), there is lack of entrepreneurial and managerial skills

2.5 Summary of literature reviews

Small business enterprises are entrepreneurs those have the capability and willingness to develop, organize and manage a business venture along with any of its risk in order to make a profit. In this chapter there are different concepts related with the subject matter such as concepts of entrepreneurship, types of entrepreneurship, characteristics entrepreneurship, processor entrepreneurship, role of entrepreneurship, challenges of entrepreneurship, concept of micro small business enterprises, factors affect small business enterprises and finally empirical review are the main aspects here.

CHAPTER THREE

3. RESEARCH METHDODOLOGY

3.1. Description of the study area

Wolkite is the capital town of Gurage zone, and also 158 km from Addis Ababa on the main road of Jimma and 430 km through southern nation's nationalities and peoples, regional state (SNNPRS) Hawass. This means that it could be reach from Addis Ababa to or via Hawass. It also Gubre sub-city is located in Estern Gurage zone 14km western direction of Wolkite town. In Wolkite works the intention of assessing the contribution of the SMSEs strategy to poverty reduction, job creation and business development interims of entrepreneurship development and unemployment reduction perspective. They work different activities toorganize different types of enterprise registered indifferent job creations. They mention in the Trade and IndustryDevelopment Bureau registered manufacture, construction, service, trade, and urban agriculture sectors, hoteland tourism, saving, technology, marketing but not all are activities and not intention to reduction of unemployment.

3.2. Research Design

In this study, descriptive type of research design based on survey can be employed. The reason for selecting descriptive type of research design is that it is clear that the researcher can simply describe the available data which already exist and also the study can describe characteristics of particular events.

3.3 Target Population

The target populations of this study were all entrepreneurs of selected micro and small-scale enterprise of Wolkite town. There are three entrepreneurial sectors in Wolkite town micro and small-scale enterprise office these are service, manufacturing, and trade with a total population of 139, 33, and 106 respectively. The total population is 278. So the

researcher used 278 as target population together and assesses information regards to the challenge of entrepreneurs.

3.4. Sampling Technique

In this study the researcher used stratified sampling technique to categorize the target population in to different group and can select respondents by using simple random sampling technique from each stratum. Questionnaires can be distributed for selected respondents. The reason for selecting stratified sampling technique is that homogeneous population, it is simple to categorize in to different groups, and it is systematic error free and reduce bias.

3.5. Sample size

Sample size refers to the number of sample unites selected from investigation. To determine the sample size Ronald Miweiers states that "because of the tremendous of time and money required for a complete census of large population a sample can actually be more accurate than a census in conducting real world study". When sample used there also sampling error, which occurs because of using sample. This sampling error can decrease by taking large number of sample size depending on this assumption the researcher would estimate 10% of sampling error at the time of sampling and used the following formulas to calculate sample size. The total population of the study is 278

Sample size (n) (Yemane formula)

Where N = Population size e =Sampling error

$$n = \frac{N}{1 + N(e)^2} \quad 278 / 1 + 278 \times (0.1)^2 = 74$$

Sample size (n) n = 74

The populations can be divided in to three strata depending on their sartorial activities. The sample size from all strata is 74. The populations were 139 of service, 33 of manufacturing, and 106 of trade. To take sample from each stratum the researcher can use stratified sampling technique based on sample size that is 74 selected from all stratum as follows.

Service $(139/278) \times 74 = 37$ Sample

Trade $(106/278) \times 74 = 28$ Sample

Manufacturing $(33/278) \times 74 = 9$ Sample

Total $= 37 + 28 + 9 = 74$ Sample size would be selected from the total population.

3.6. Source of Data and Method of Data Collection.

To have thick and valuable data, primary data is used for this study. The primary data collected from entrepreneurs in Wolkite by structured questioners. Both open-ended and close-ended questioners can distribute to entrepreneurs. Secondary data like assessing the documents related to the area of the study. These documents include government policies, reports, strategies, published and unpublished books, and other important material.

3.7 Method of Data Analysis and Interpretation

To analyze the data obtained from primary and secondary sources, the researcher used different data analyzing techniques. The technique is based on the nature of the collected data and the research questionnaires. The data obtained from the close-ended items of the questionnaires can be analyzed quantitatively by using frequency count and percentage. The data from the open-ended items of the questionnaires, and document is analyzed through tabulation and statement form.

CHAPTER FOUR

4. DATA PERSENTATATION AND ANALYSIS

This chapter deals with the presentation and analysis of the collected data. The data was collected regarding to examine the factor that influences the effectiveness of micro and small business in Wolkite town. As indicated in the first chapter this research data were collected using questionnaire with concerned employees. A total of 74 questionnaires were distributed to the total employees of the organization. From these 74 questionnaires were collected and the analyses of the distributed and returned questionnaire which means 100 percent were returned .

The data gathered through questionnaires are analysis methods which have tabular representations for each of the close ended questions with their respective percentage value.

4.1 General characteristics of respondents

This section presents and interprets the general respondents of questionnaires by sex, age, educational background and marital status. The questionnaire was prepared in a way that can help to collect the required information, identification and classification.

Table 4.1.1 back ground of respondent

Description		Number proportion	in	% percentage
1. Sex	Female	22		29.73%
	Male.	52		70.27%
	Total	74		100%
2. Age	18-27	30		40.55%
	28-36	15		20.27%
	37-45	25		33.78%
	46-54	4		5.40%
	Above54	0		0
	Total	74		100%

3. Educational background	1-8	41	55.40%
	8-12	24	32.44%
	Diploma	9	12.16%
	Total	74	100%
4. Marital status	Married	36	48.65%
	Unmarried	26	35.13%
	Divorced	12	16.22%
	Windowed	-	-
	Total	74	100

(Source: own survey Questionnaire, 2013 E.C)

As indicated in the above table item no.1; 22(29.73) of respondents were female and the remaining of 52(70.27) were male. This data show that dominant of male over the small business sector.

As it is shown in the table above; 30(40.55) of the respondents are in the between the age level of 18-27, 15(20.27) of respondents are in the age level of 28-36, 25(33.78) of the respondents are in between the age level of 37-45, 4(5.40) of the respondents were in the age level of 45-54 and no respondents above age of 54. This data shows that most of the respondents are young age group.

As shown in the above table; 41(55.40%) of the respondent has 1 up to 8 grades, 24(32.44) of the respondents has 8 up to 12 grades and the remaining of 9(12.16) of respondents has Diploma holder. So the researchers conclude from the above data the educational back ground of the respondent is characterized by more primary and secondary school.

Marriage is another element of demographic characteristics variable which we can use to descry be small business number in the town. As indicated in the above table; 36(48.65%) of owners of micro and small business in the town is married, 26(35.13%) of

them were unmarried, 12(16.22%) of them were divorced and no respondent were widowed.so more than half of the owner of micro and small business were married.

4.2 Major questionnaire analysis

Table 4.2.1 Type of business you run

Small business	Number	Percentage
Trade	26	35.14
Service	31	41.89
Manufacturing	17	22.97
Total	74	100%

Source: (Source: May Questionnaire, 2011)

There are several micro and small business activities in Wolkite town. Among these three types of micro and small business sectors were selected. As indicated on the above table; 26(35.14%) were trade, 31(41.89%) service and 17(22.79%) were manufacturing. According to the table, micro and small business in the city is dominated by trade.

4.3. Initial capital to run the business

Table 4.3.1

1. What is your initial capital to run the business?		
	No	Percent
5000-10000	29	39.18%
10000-20000	18	24.33%
20000-30000	22	29.73%
Above 30000	5	6.75%

Total	74	100%
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Source: - own survey Questionnaire, 2011 E.C)

As indicated in the above table; 29(39.18%) of respondent were have initial capital of between 5000 -10000, 18(24.33%) of them were have initial capital between 10000 - 20000, 22(29.73%) of them were have initial capital between 20000-30000, and 5(6.75%) of them have initial capital above 30000. The above data show that the initial capital of most entrepreneur within the range of 5000 – 10000.

4.4. PROBLEM FACE TO START THE BUSINESS

Table 4.4.1.

2. What the problem face to start the business?	Number	Percent
Lack of ability and skill	34	45.95%
Lack of persons that can do the analysis	12	16.22%
Lack of awareness about its importance	22	29.73%
Lack of market and work place	6	8.10%
Total	74	100

Source: _ (Source: own survey Questionnaire, 2011 E.C)

Regarding the above table item no.2; 34(45.95%) of the respondent responded lack of ability and skill. 12(16.22%) respondent are responded lack of business analysis, 22(29.73%)of the respondent responds lack of awareness and other 6(78.10) respondents responded lack of market and work place (shed). Generally lack of ability and skill more problems of face to start the business.

4.5, Intention to start the business

Table 4.5.1

3. What was intention to start the business?	Number	Percent
Desire to work for one self	28	37.84%

Desire to earn for survival	12	16.21
Desire to accumulate wealth	34	45.95
Total	74	100%

(Source: own survey Questionnaire 2011 E.C)

This table indicates the respondents own intention for starting the business indicates desire to work for oneself shows 37.88% obtained from 28 respondents 12 gives information that 16.21% of the intention is from survival and the high intention obtained from 34 respondents which covers 45.95% is desire to accumulate wealth. So the researcher concludes most enterprise intention is desire to work one self.

4.6. Major source of capital

Table 4.6.1

4. What was your major source of capital?	Number	Percent
Own saving	25	33.79%
Loan from bank	21	28.38%
Sale of asset	23	31.08
Inheritance	5	6.75%
Total	78	100%

Source: - (Source: own survey Questionnaire, 2011 E.C)

The above table shows the major source of capital for micro and small business own saving cover 33.79% from 25 respondent's response, Loan from Bank shows 28.38% as indicated by 21 respondents, the other source as 23(31.08) of respondent shows sale of asset were source of capital and the remaining of 5(6.75) of respondents were replied inheritance is their major source of business. The information given by respondent's shows that highest source of capital is from own saving.

4.7 Experience before starting the business

Table 4.7.1

5. Do you have any experience before starting the business?		Number	Percent
	Yes	52	70.27%

	No	22	29.73%
	Total	74	100%

Source: (Source: own survey Questionnaire, 2011 E.C)

This table indicates 52(70.27) of the respondent's shows having experience and the remaining members 22(29.73) of the respondents shows having no experience. Generally most of micro and small business owner have experience before starting business.

4.8 Intention to employ workers for your business

Table 4.8.1

6.Do you have an intention to employ workers in your business		Number	Percent
	Yes	60	81.08%
	No	14	18.92
	Total	74	100%

Source: (Source: own survey Questionnaire, 2011 E.C)

This Table indicates intention to employ workers for the business; 60(81.08%) of them have an intention to employ workers for their business and the remaining 14(18.92%) were not have intention to employ worker. So majority respondents have intention to employ worker.

4.9 Choose of particular activity

Table 4.9.1

7. Why did you choose this particular activity?	Number	Percent
A, It was family run business	24	32.43%
B, Due to lack of money	29	39.19%
C, The other are highly competitive	21	28.38%

Total	74	100
		100

(Source: own survey Questionnaire, 2011 E.C)

There are several reasons that people choose particular activity. As indicated in the above table; 24(32.43%) choose this particular activity due to family run business, 29(39.19) choose this activity due to lack of money and the remaining 21(28.38) of them are choose this activity due to others are highly competitive

4.10. Factors that influence to make product modification

Table 4.10.1

8.What factors influence you to make product modification	Number	Percent
A, Climate	11	14.87%
B, Low level education	39	52.70%
C, Use habit about the product	24	32.43%
Total	74	100%

Source: May Questionnaire, 2011 E.C)

As indicated in the above table; 11(14.87%) of respondent were respond for factor influence the product modification is the climate condition, 39(52.70%) of them respond low level of education, and 24(32.43%) of them respond use habit about the product. Generally we can understand from the table the factors that most influence the product modification was low level of education

4.11. Improvements of quality and design

Table 4.11.1

9. Does the quality and design of products/manufacturing/service get improved from time to time?	Respondents	Percentage
Yes	47	63.51%
No	27	36.49%
Total	74	100%

Source own survey 2011 E.C

Regarding the above table; 47(63.51) of respondents replied “Yes” and the remaining of 27(36.49) of the respondents replied “No”. So researcher conclude majority of responses show that their product and service get modification.

4.11 Capital to continue the operation

Table 4.12.1

10. Is there enough capital to continue the operation?		Number	Percent
	Yes	19	21.63%
	No	55	74.32%
	Total	74	100%

Source: _ (Source: Own Survey Questionnaire, 2011 E.C)

The above table shows that, 19(21.63%) of the respondents responded that they have enough capital that would help to continue the operation in micro and small enterprise and 55(74.32%) of the respondent responded have no enough capital to continue their business. Generally, in micro and small business sector have lack of capital to operate business.

4.12 Fairness of government tax

Table 4.12.1

Is tax imposed by government is fair?	Respondent	
	No	Percent
Yes	22	29.73%
No	52	70.27%
Total	74	100%

Source: own Survey Questionnaire, 2011 E.C

As indicated in the above table; 22(29.73%) of the respondents respond yes and the remaining 52(70.27%) of them respond no. Therefore, most of micro and small business owners respond unfairness of the government tax.

CHAPTER FIVE

Summary, Conclusion and Recommendation

This chapter summarizes the main findings of the study and forwarded recommendation based on the conclusions.

5.1. Summary of findings

This part revealed the major findings from the study on factor that challenge the effectiveness of micro and small business enterprises in case of Wolkite town. To conduct this research unstructured questionnaires, primary and secondary data were used. The survey indicates that male participation is far better than females.

Most of the owners of this enterprises were completed their primary and secondary education. The number of these enterprises is increasing from time to time. This is particularly because of the prospect of the sector and the attention given for the growth and development of these enterprises by the government.

- Owners of the enterprises started their business with the intention of desire to work for one, desire to accumulate wealth, to earn for survival. In addition to the above reasons the respondent's reasons out it, the future prospect of this sector initiates them to start.
- The finding would indicates that there is a lot of problem about entrepreneur to mention them, lack of management skill, financial problem, Lack of manufacturing skill, myth results from lack of research on entrepreneurship.
- The study was shows that the type, quality and design of products, services and manufacturing of these enterprises do not satisfy the needs of consumers the reasons for this were provided by the owner.
- The study revealed that the government was provided and support micro and SSE's through organizing, training, Technology and integration. But these supports are not sufficient so it has strategic plan for future supports.
- This sub sectors faces different problems almost similar to the country side at the time of establishment up to conducting and achieving the objective of the business.

- Among this problem; absence of market, shortage and backwardness of materials for production, skill, training, inputs, finance, competition in free market and information are the majors. So that the government and other concerned bodies has to have a plan to alleviate and reduce this problem for the development of micro and SSE's in the town

5.2. Conclusion

- Own saving, loan from bank, family and sales of asset was the main to less source of capital to the sample of micro and small business owner.
- To determine factor that influence each firm to make product modification of micro and small business in Wolkite town.
- The samples SSE's was recently founded increased 2001 onwards which shows the establishment of the SSE's is increasing in every year.
- Customer and existing business was the main source of new ideas to establish the new business for most of the sample of micro and small business owners.
- More than half of the owners assured as they were not get support from governmental bodies at sufficient level.
- The participation of males is greater on the micro and small business compared to females.

5.3. Recommendations

Conclusion on the problem identified from the sample respondents of micro and small business owners, the following recommendation suggested to improving the efficiency of the research process.

- Since most of the owners were under twelve grade it constraint to go far on the creativity process, so it is better to upgrade their educational level, and participating on training which is given for awareness creation of the micro and small business operation.
- Even if the newly opened micro and small business is increasing from time to time there was a problem on the owner to start the new business which is basically financial problem, so the owner has to look alternative source of income and the government too should support them to be competitive and creative in their business activity.
- Those micro and small business which are managed by a single manager is better to consult and share with other on the decision regarding the business activity.

If the above listed supports are provided in sufficient manner the capacity of the entrepreneurs can improve and by that they can play a great role and contribution for entrepreneurship activity and reduction of unemployment in the town. By that it is possible to increase the overall economic contribution of entrepreneurial activity in the town.

The other problem is non – productivity of this enterprises to satisfy the need and wants of consumers. Most consumers are not satisfied by the type /quality/ design of products /services/trade of micro and Small business in the town, failure of these enterprises to be competitive in identifying better products when compared to exported products and difficulty in identifying the needs of consumers and other problem are existed in addition to this products /services/trade those needed by consumers some time not available so to solve the problem the following measures are recommended as a solution.

- Small – scale enterprises especially in small – industry areas should adopt, search and use different technologies those helps to be productive.
- Owners of this enterprises should seek information from clients, suppliers or competitors and do research how to provide product /service merchandize with best quality /type/ design.
- They should determine the need and want/ demand of consumers and potential customers to deliver products and services effectively and efficiently.

They should strive to keep consumers satisfied and place long – term good will and short – term gain.

The government should encourage the coordination of government institutions, chamber of trade and industry, micro and small enterprises agency and other NGO's for supporting this enterprise and on alleviating problems encounter them like absence of market, and shortage and backwardness of materials for production skill, training, input, finance and information are the majors.

In general if the factor that hinder the growth and development of small – scale enterprises mentioned above and pointed by the owners and government were solved these enterprises can play a greater role and can have attractive future in reduction of unemployment and the like problem of the town.

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**APPENDIX
WOLKITE UNIVERSITY**

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

The general purpose of this questionnaire is to conduct a research on the factor affecting the effectiveness of micro and small-scale enterprise in wolkite town. Your responses are very much important for the success of the study and you are expected to be confidential, you are kindly requested to fill the questionnaire

Instruction:

You do not need to write your name and address, only write the necessary information in the space provided and put an (X) mark in the box.

Thank you for your cooperation!

Part I: Personal information

1. Sex

Male Female

2. Age

18-25 26-40 41-60 above 45

3. Educational level?

1-8 8-12 Diploma >Other _____

Part II: questions related to the study

1. Type of business you are running

Manufacturing

Service

Trade

2. What is your initial capital to run the business?

5000- 10000

20000-30000

10000-20000

Above 30000

3. What is the problem you face to start the business?

Financial problem for conducting

Lack of ability and skill

Lack of persons that can do the analysis

Lack of awareness about its importance

Other mention

4, what was your intention for starting the business? (More than one answer is possible)

Desire to work for oneself

Desire to accumulate wealth

To earn for survival

an opportunity presented it self

Others Mention

5. What is the form of your business?

Solely by one individual

By one individual having consultation from other

By two or more individuals

6. Do the type quality and design of your products /manufacturing/ service get improved from time to time?

Yes

No

7. If you yes for the above question, how?

8. Do the type, quality; design of your product/ Manufacturing /service is satisfying the customers need?

Yes

No

9. What was the major source of your capital?

- Own saving Sale of asset
Loan from bank Inheritance Others

10. If you say no for the above question, what do you comment the dissatisfaction of customers?

11. what type of advantage you get from governmental bodies? (More than one answer is possible)

- By creating opportunity to promote your product and service
By creating opportunity to be competitive in the market
By facilitating you to participate in innovative activities
Other, mention _____

12. If you respond No for the above question, what kind of support you need from government bodies? _____

13. Do you have an intention to employ workers in your business?

- Yes No

14. Did you have any business experience before starting this business?

- Yes No

15. Why did you choose this particular activity?

- I could not choose any other Due to lack of money
It was family run business the other are highly competitive
Relevant prior work experiences

16. Is the taxation system is fair

- Yes No

