ST. MARRYS UNIVERSITY
SCHOOL OF GRADUATE STUDIES

FACTOR AFFECTING THE PERFORMANCE OF MICERO AND SMALL ENTERPRISE: A CASE OF YEKA SUB CITY, ADDIS ABABA

By:

Yeabwork Sintayehu

ID.No. SGS/ 0093/2013B

MARCH 2023

FACTOR AFFECTING THE PERFORMANCE OF MICRO AND SMALL ENTERPRISE THE YEKA SUB CITY, ADDIS ABABA

A THESIS SUBMITTED TO ST. MARRYS UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF REQUIRMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION

PREPARED BY: YEABWORK SINTAYEHU

MARCH 2023

ADDIS ABABA ETHIOPIA

Declaration

I, the undersigned, declare that the study "Factors Affecting the Performance of Micro and Small Enterprises in Yeka Sub-city, Addis Ababa" is my own work. I conducted the research on my own, with the guidance and assistance of the research advisor. This research was not submitted for a degree or diploma program at this or any other institution, and all sources of materials used for the thesis were properly acknowledged.

Declared by

Name: Yeabwork Sintayehu

Signature: _____

Date: March 2023

Place: Addis Ababa, Ethiopia

Advisor: Ashenafi Haile (PHD)

Signature: _____

Date: _____

St. Marrys University

School of Graduate Studies

This is to certify that Yeabwork Sintayehu's thesis, entitled: Factors Affecting the Performance of Micro and Small Enterprises in Yeka Sub City, Addis Ababa, and submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration, complies with the University's regulations and meets the accepted standards in terms of originality and quality.

Signed by the Examining Committee:

Advisor: Ashenafi Haile (PhD) Signature _____ Date _____

Internal Examiner: Shoa Jemal (Ass Prof) Signature _____ Date _____

External Examiner: Yirgalem Tadele (PhD) Signature _____ Date _____

Table of Contents

List of Figures

List of Tables

List of Acronyms

CSA: central stastical authority

EF: Entrepreneur Factor

EMSEDS: Ethiopian micro and small enterprise development strategy

FF: Financial Factor

GTP: Growth and Transformation Plan

HASIDA: Handicraft and Small Scale Industries Development Agency

HLCLEP: High level commission on legal empowerment of the poor

IF: Infrastructure Factor

ME: Management Experience

MF: Market Factor

MFIs: Micro Finance Institutions

MSEs: Micro and small enterprises

MSEDA: micro and small enterprise development agency

MoTI: Ministry of trade and industry

MoWUD: Ministry of work and urban development

NMSEDPS: National micro and small enterprise development promotion strategy

SPSS: Statistical Package for Social Science

TF: Technological Factor

UNIDO: The United Nations Industrial Development Organizations

Acknowledgements

First and foremost, I thank Almighty God for keeping his eye on me and providing me with the health, strength, and stamina to continue and complete this study.

Next, I'd like to express my heartfelt gratitude to my academic advisor, Ashenafi Haile (PhD), for his constructive comments and exceptional assistance with this thesis, for giving me complete freedom to pursue this study, to work on my own initiative, and for encouraging me to use the potential that I have with confidence in my ability.

I'd like to thank many people who assisted me in writing the thesis, as well as the operators of MSEs involved in the study who assisted me in filling out questionnaires and providing vital information.

Abstract

The primary goal of this research was to look into the factors that affecting the performance of MSEs in the Yeka sub-city. A descriptive and explanatory research design, as well as a quantitative and qualitative (mixed) research approach, was used in this study. Primary and secondary data were used. The primary data collection instrument was a questionnaire. The random sampling technique was used to select 364 sample sizes. After gathering the data, it was analyzed using mean and standard deviation. To analyze the relationship between independent and dependent variables, descriptive and inferential statistical tools were used; Pearson correlation and multiple linear regressions were used. To analyze quantitative data from questionnaire questions, the Statistical Package for Social Science (SPSS) version 26 was used. Furthermore, the study found that among the independent variables, financial factors, management experience, technological factors, market factors, infrastructural factors, and the entrepreneur factor were the most important. Findings further indicated that Inadequate financial access, Poor management practices, difficulties in acquiring new technological equipment and instruments, market inadequacy, there is a significant shortage of physical infrastructure facilities and lack of entrepreneurial training, creativity, flexibility, and adaptability to new idea motivation. Based on the findings it was recommended that micro finances institutions should improve access to finance through offering a better lending terms and conditions and government to establish a centrally managed marketing sites that will equally give access to market in order to improve performance of MSEs in Addis Ababa

Key words: enterprise, performance, micro and small enterprise (MSE), factor, sector, yeka sub city

CHAPTER ONE

1.1 Background of the Study

There is no widely accepted definition of micro and small businesses (MSEs). Number of employees, asset value, sales and capital or amount of sales, investment capital, and overall balance sheet (asset, liability, and capital) are all common criteria. According to the Ethiopian micro and small enterprise development strategy (EMSEDS,1997), a micro and small enterprise (MSE) is a business enterprise with a paid-up capital of less than 20,000 Birr, excluding high-tech consulting enterprises and other high-tech institutions, and small and medium-sized enterprises are those enterprises. The paid-up capital is 20,000 birr or more, and 500,000 birr or less, excluding high-tech consultants and other high-tech institutions.

Recognizing the importance of this sector, the Ethiopian government announced its National micro and small enterprise development strategy in 1997, and the Federal micro and small enterprise development agency was established in 1998. MSEs were highlighted as an important tool for creating a productive and dynamic private sector and reducing poverty in urban populations in the country's industrial policy in 2003 and poverty reduction strategy in 2006. These documents, in particular, reaffirmed the significance of MSE and its promotion through the provision of financial, training, and infrastructure services.

According to the Ethiopian Micro and Small Enterprises Development Strategy (Seyoum et al., 2014), an MSE is a company with a paid-up capital of 20,000 Birr or less and less than 500,000 Birr, excluding high tech consultancy firms and other high-tech entities.

Micro and Small Enterprises (MSEs) are regarded as a key driver of global economic and social development. (Debela, 2014) discovered that MSEs are critical to the country's economic and industrial development. MSEs contribute significantly to the country's economic and social growth by stimulating large-scale-jobs, investment, promoting entrepreneurship and innovation, increasing exports, and establishing various industrial bases.

Recently Ethiopia has the most important development priorities were job creation for the increasing supply of labor force which contributed in reducing poverty(NPC, 2016; WBG,2018).hence, the implementation of the micro and small enterprise(MSEs) development

strategies given undue role to achieve these objectives (NPC, 2016). The revised MSE strategy focus on enhancing the competitiveness of MSE, ensuring continued rural development through sustainable growth of MSE, and making the subsector a foundation for industrial development (FMSEDA, 2011). During the growth and transformation plan (GTP)I implementation period (2010/2011- 2014/2015), construction sector was largest over other sector which accounts about 36.2%, followed by service with 20.8%, trade with 15.2%, manufacturing with 14.7% and urban agriculture accounts 13.1% employment through MSEs (EEA, 2015).

1.2 Statement of problem

There are numerous factors that influence MSE performance, which determines fate in a highly competitive business environment.

Many countries are now utilizing MSEs to encourage entrepreneurship, ease access, reduce administrative burden, and increase legal certainty. Similarly, the micro and small enterprise sector contributes to the country's economy by creating jobs, producing goods and services, and engaging in other value-added activities.

Given the importance of MSEs in the economy, the sector's survival, success, and performance are ongoing concerns. Many factors influence the fortunes of MSEs in a highly competitive business environment. As a result, research that can lead to the identification of these factors associated with MSE performance is critical for policymakers, owners, and managers.

Access to finance, competition, limited manufacturing/markets, a lack of markets for products or services, and other trade barriers are affect the performance small and micro enterprises, according to Evans (1987), are major external factors affecting MSE growth. Internal (company-specific) factors that impede MSE growth, on the other hand, include management capabilities, a lack of skilled workforce, insufficient marketing strategies, levels of innovation, and investment in technology. According to (1987), corporate growth increases and decreases with size and age. Others argue that small businesses are the most vulnerable, and that those that expand are less likely to fail than those that do not (stokes, 2000).

According to Evans (1987), access to finance, competition, limited manufacturing/markets, a lack of markets for products or services, and other trade barriers are major external factors influencing MSE growth. Internal (company-specific) factors impeding MSE growth, on the other hand, include management capabilities, a lack of skilled labor, insufficient marketing strategies, levels of innovation, and technological investment. Corporate growth increases and decreases with size and age, according to Evans (1987). Others argue that small businesses are particularly vulnerable, and that those that grow are less likely to fail than those that do not (stokes, 2000).

Yeka sub city administration planned 25% of micro and small enterprises for fiscal year to promote and graduate in to medium level enterprise

This study would like to show how internal and external factors affect the performance of micro and small enterprise. Because the internal and external factors are hinder the performance, productivity and growth of MSEs.

As a result, this study is linked to six independent variables (internal external factors) in the study area: financial factors, management experiences, technological factors, infrastructure factor, entrepreneurial factor, and marketing factors. As a result, this study focused on the factors that influence MSE performance.

1.3 Research questions

1. How does a financial factor affect MSE performance?
2. How does management experience influence MSE performance?
3. What is the connection between technological factors and MSE performance?
4. What marketing strategies influence MSE performance?
5. What type of infrastructure factor has the greatest impact on MSE performance?
6. How does the entrepreneurial factor influence MSE performance?

1.4 Objective of the study

1.4.1 General Objectives of the Study

The general objective of the study was to assess factors affecting the performance of MSE of Addis Ababa which is found in Yeka sub city.

1.4.2 Specific objective

1. To identify the financial factors that influence MSE performance.

2. Examine the management experience that influences MSE performance.

3. To ascertain the link between technological factors and MSE performance.

4. To evaluate the type of marketing strategy influencing MSE performance.

5. Investigate how infrastructure influences MSE performance.

6. To assess the entrepreneurial factor influencing MSE performance.

1.5 Scope of the Study

The scope of this study was limited to micro and small enterprises as defined by the Ethiopian Ministry of Trade and Industry (MoTI), and the sample of the study was drawn solely from these micro and small enterprises operating in the sectors of manufacturing, agriculture, trade, service sector, and construction in the Yeka subcity administration in Addis Abeba. There are various factors that influence the performance of MSEs, which are limited to financial factors, the owner's management experience, the economic condition, and the marketing strategy used in the business.

1.6 Limitations of the Study

Like all research, this study had limitations. The sources of difficulties encountered in this study were described as follows: most of the documents that are concerned with micro enterprises are written in Amharic. To translate in to the required instruction language (English) takes longer period. Another problem encountered in the study has to do with the operator’s reluctance to

cooperate due to suspicion that disclosing information may lead to negative effect on their business. It is very important to note that these limitations did not have any significant interference with the outcome of the study and also the study limited with the area of yeka sub city regards time limitation.

1.7 Significance of the study

This study has the following implications: understanding the factors influencing MSE performance can help management solve problems and owners of MSEs improve their performance to meet their business objectives. It also assists them in minimizing the factors that have a negative impact on the business.

The findings of this study assist MSEs in Yeka sub-city and others in gaining an understanding of the benefits of using different factors studied in this research to predict the factors that affect MSE performance. It may also consider important additions to existing knowledge and literature in the field for the general public.

1.8 Definition of terms

- ***Enterprise***: It refers to a unit of economic organization or activity whether public or private engaged into the manufacturing of goods.
- ***Factors***: A factor is a contributory aspect such as financial factor, management experience factor, technological factor, market factor, infrastructure factor and entrepreneur factor that affect performance of micro and small enterprises.
- ***Formal enterprises:*** are defined as establishments principally engaged in production of marketed goods and services but formally registered at respective government agencies to undertake the business and hence have licenses to operate
- ***Micro Enterprise:*** when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is ≤ 100,000 ETB for industrial sector and ≤ 50,000 ETB for service sector (MSEDS, 2011).
- ***Small Enterprise****:* means a business engaged in commercial activities whose capital is not exceeding birr 1.5million and 6-30 employees for industries and 500000 for service other than high technology and consultancy service institutions.

- ***Performance***: in this paper performance defined in terms of profitability of the MSEs.

1.9 Organization of the study

The research is divided into five major sections. The first section includes the study's background, problem statement, objectives, and significance of the study, scope and limitations of the study, and paper organization. The second section includes a review of related literature. The third section explains the research methodology used, as well as the research design and methods (data sources, target population, sampling techniques, and data collection methods).the fourth section includes data analysis and interpretation and the last section includes summery of finding, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

This chapter examines work on MSEs in Ethiopia, specifically in the Yeka sub-city of Addis Ababa. Performance works and performance influencing factors were also reviewed. This will aid in understanding the state of MSEs and the factors that influence their performance.

The components of the review of related literature are divided into three major sections, the first of which begins with a definition of micro and small enterprises in general and in Ethiopia in particular. The second section discusses relevant and sufficient theoretical perspectives on factors influencing MSE performance, the third section is an empirical literature review based on previous research evidence on MSE factors, and the fourth section is a conceptual framework.

2.1 Theoretical literature

2.1.1 Factors affecting business performance

Many constraints/or factors affect the business performance of Micro and Small Enterprises (MSEs), and they are well competitive in the market in which they operate. The following factors affect the business performance of MSEs: financial factors, infrastructural factors, and institutional coordination problems.

1. **Financial Factor**

Micro and small businesses are regarded as an important factor in both developed and developing countries' social and economic development. In general, some of these businesses fail within the first year of operation. Some workers grow quickly, while others grow slowly. As a result, it is critical to identify the cause of success (Alasadi and Abdelrahim, 2007), so that new entrants in the sector consider and use future factors in the business.

Because of economic, geographical, and cultural differences, these factors may differ from one country to the next. This kind of success factor is critical for developing countries like Ethiopia.

Because the conclusion may be useful not only to economic development planners, but also to individual entrepreneurs and business owners in neighboring countries.

Finance is one of the most important factors for a company's long-term growth and efficiency. Financial access is essential for acquiring capital and accessing necessary markets. According to several studies, small and medium-sized businesses began with investment and supplemented each other with loans from friends and parents. As a result, many operators/owners are impoverished and are barely surviving. The majority of them have gained financial access through unofficial credit mechanisms that exist in society, but they rarely receive formal sector institutions (sethu raman, 1997). The official corporate borrower is not only administered by government management, but is frequently administered by public sector rule, and regulated by bureaucrats who are hostile to poor people, who are uneducated or have a low level of education. It is frequently done. (Zelekew Shimel 2021)

2. Management Experience factor

Entrepreneurs with management experience can provide service to the market and market, as well as prior knowledge of customer problems. Zeleke (2009) conducts research on management efficiency, such as a micro Ethiopia and long-term survival determination in small and medium enterprises, and the focus of his research is high level management skill, long-term survival, and income. We found that gender is significantly related to the ability to generate profit on a long-term basis. Profitability has enabled successful companies to reach the next level of growth and the possibility of maintaining business competitiveness.

Inexperienced management is the primary cause of failure. Managers of bankrupt companies lack the necessary experience, knowledge, and vision to run their companies. It should come as no surprise that the management inefficiency of owner-managers is one of the root causes of small firm failure (Zeleke 2009).

Managerial effectiveness has an impact on all aspects of a business and is frequently cited as the most important factor contributing to small business failure. Business founders' management skills and management concepts are valued far more than their technical skills and concern for production, resulting in overall positive organizational performance (Lin and Yeh-Yun 1998).

The most important factor affecting all aspects of business and contributing to the failure of small and medium-sized enterprises is management effectiveness. The founder's management

skill and management concept are regarded as far more important as concerns about technical skill and production. Rose, Kumar, and yen (2006) research reports, on the other hand, demonstrate their management experience. It was apparently discovered that his success in a small medium-sized business did not depend on his previous commercial skills. Furthermore, its research ensures the long-term success of commercial companies through marketing functions such as company promotion and product and service promotion, market need, market analysis, and so on. (Zelekew Shimel 2021)

3. Technological factor

Another important factor influencing MSE growth is the choice of technology and innovative capacity. It is divided into three categories, according to Albu (2001: 16) in Moyi, E, and Njiraini, P (2005): production, investment, and innovative/adaptive capability. Production capability is the static knowledge and skill required to use existing technology. Technology development is the process of designing new machineries/equipment/processes/products, which is far less applicable to MSEs.

The appropriate technology paradigm views MSEs as beneficiaries rather than active participants in technology development and improvement. Technologies are resources that can only be adapted by MSEs to increase element productivity and reduce unit costs. Furthermore, the MSE's production and compatibility in the immature and large scale labor market, the low income consumption market and the low quality input environment, and the advanced selection and compatibility of useful technology for the environment from the market. I focused my attention. However, the appropriate technology paradigm has been criticized for its limited impact and inability to close the gap between MSEs and large corporations. Because the appropriate technical paradigm and the most innovative technologies are adopted from individual workshops, the goal is to improve MSE skills when using innovative technology. It has emerged as a result of insufficient results for the purpose of. To adapt these technologies to different climates, raw materials, and market demand, institutional, technical, and engineering skills are required. (2014) (Hailemichael Mulugeta)

4. Market factor

Marketing skills such as identifying new prospects, demonstrating effective corporate positioning, customer handling, finding ways to efficiently advertise, and the ability to come up with new ideas are critical for micro and small business enterprises to be successful in the long run. Temtime and Pansiri (2004) reported in their study of Small Business Critical Success/Failure Factors in Developing Economies, in Botswana, that marketing activities such as product marketing, market research, and demand forecasting, among others, have a greater impact on the performance of small businesses. Customer relationship was also mentioned as an important success factor for small business owners in this study. This study report demonstrates the importance of business owners' marketing skills in order for them to be successful in their competitive environment.

According to Pulendran, Speed, and Widing (2002), higher market orientation is associated with higher marketing plan quality. A better quality plan may assist managers who want to implement market orientation and achieve their goals, or market orientation may assist them in focusing on their planning efforts by providing clear goals. This study also discovered that MSE management functions are primarily focused on routine short-term activities, with little emphasis placed on long-term competitiveness, which impacts a company's long-term success and profitability.

5. Infrastructural factors

Infrastructure is one of the most important economic development factors because it plays a critical role in economic development through production processes, and changes in the quality of accessible production infrastructure will have a significant impact on an organization's output, income, profits, and job creation in the economy. The lack of infrastructure in our country has had a significant impact on manufacturing production processes, particularly the ability of MSEs to compete in the global market. The performance of micro and small businesses is hampered by inadequate infrastructure. If adequate infrastructures are available, the enterprise will have market access, access to electricity, technology, portable water, roads, and other infrastructures, and it will also help to increase their business performance. As a result, the purpose of this research is to investigate and address infrastructural gaps (problems that affect the performance of MSEs). (Zelekew, Shimels, 2021)

6. **Entrepreneurial factors**

According to Hailemichael Mulugeta, the 'big five' model advocated by Johnson, 1990, is widely used as a reliable predictor of personality traits. Extraversion, emotional stability, agreeableness, conscientiousness, and openness to experience are the five major personality traits or characteristics that are widely accepted. Researchers have classified entrepreneurial personality traits into five categories based on the big five model: need for achievement, locus of control, motivation, risk-taking proclivity, and self-efficacy. These characteristics are critical psychological factors that influence the success of microenterprises.

2.1.2 Role of Micro and Small Enterprises (MSEs)

Micro and small businesses (MSEs) have encouraged entrepreneurs to contribute to changes in traditional sectors, create jobs, and reduce urban migration in rural areas. It has played a significant role in a variety of social and economic interests. It also serves as a training ground for management skills (ASAOLU 2001 and 2004, parker 2004; van stel, strey and thurik 2007). Micro and small businesses are critical to long-term growth in almost all economies.

The higher failure rate of small and micro enterprises is not ideal for capital development and scarcity (Okpara and Wynn 2007). It is also suggested that the main issues confronting the poor in developing countries are a lack of resources, knowledge, and access to the state market, as well as vulnerabilities in regional social markets, which have been compounded by environmental degradation. More Alhaji and Muharram (2019)

Micro and small businesses are involved and dominate the economy in many developed countries. Many African countries have made them a priority in their development plans. Small businesses employ more than 93% of all entrepreneurs in developing countries, according to Eke (2007). Japanese MSEs accounted for 99.4% of all business institutions, employing 81.1% of the workforce and accounting for 51.8% of total exports (Cowdhury and Kazuh).

The micro, small, and medium-sized enterprises (MSMEs) sector is regarded as an important component of economic growth and a key component in efforts to lift countries out of poverty (Wolfenson, 2001). Small-scale businesses are at the heart of economic development, job creation, and poverty alleviation in developing countries. Small businesses have also been seen

as a source of supply for larger-scale industries (Fabayo, 2009). Ethiopia's MSE Development Program has received government attention in this regard since 2004/2005

2.1.3 Definition of Micro and Small Enterprises

The MSE sector is generally characterized by a wide range of activity that can provide employment for a significant portion of the workforce. This means that this industry can provide a quick solution to the unemployment and poverty issues. Achieving reasonable living standards by reducing unemployment and encouraging new job seekers and self-employment necessitates direct intervention and support from the government and other stakeholders (mulugeta, 2011:13). As a result, in order to provide all of the necessary support and equipment for this diverse sector, a definition to classify the sector is required.

However, there is no universally accepted definition of a small business (Kayanula and Quartey, 2000:35). This is because the criteria and methods used to classify companies as small vary from institution to institution, country to country, and country to country. In the same country, the definition shifts over time due to changes in price levels, technologies, or other factors (Emma I. et al, 2009;1-9).

Companies vary in terms of capital sales and employment. As a result, when applied to a sector, the definition that uses the measurement value of size (the number of employees, sales, profitability, net asset, etc.) is a small classification. If the definition of the same size is different, the outcome may differ. The lack of a unified definition of MSE has caused problems. In line with this, Tegegne and Meheret(2010:11) create a task with the MSE number and makes the effect in the country very difficult because there is no definition that can be applied uniquely or globally. The government has done such definition and classification primarily for functional and promotional purposes in order to achieve the desired level of development of the sector.

In developing countries, the United Nations Industrial Development Organizations (UNIDO) provides an alternative definition. As a result, a micro enterprise is defined as a business with fewer than five employees, while a small business has five to nineteen employees. (UNIDO, 2002:53).

Micro and Small Enterprises (MSEs) are promoting economic growth, according to policymakers, economists, and business experts. A healthy MSE sector generates more job opportunities, increases production volumes, boosts exports, and introduces innovation and entrepreneurship skills, all of which benefit the economy.

MSE characteristics, according to Gebreeyesus (2009) of Dababneh and Tukan (2007), reflect not only national economic patterns but also social and cultural aspects. These various patterns are strikingly reflected in the various definitions and standards of MSE adopted in various countries. Some people refer to the number of employees as MSE characteristic standards, while others refer to investment capital and employee combinations. Investment capital, sales, and industry type.

Strictly defining small and medium-sized businesses is always difficult and contentious. This term refers to a wide range of businesses, and most writers use it more loosely depending on the purpose of the investigation. MSEs are independent of property and operation, as adopted by Gebreyesus(2009) by Peterson, Albaum, and Kozmetskys(1986), and are not dominant in the field of operation. According to studies and other interested parties, they include added value, asset value, annual sales, and the number of employees to operate a small-scale business as components that follow specific standards. The last two criteria are primarily used to differentiate between categories.

2.1.4 The Micro and Small Enterprise Sector in Ethiopia

In the case of Ethiopia, unified definitions across the country are insufficient to deepen public understanding of the MSE sector. The ministry of trade and industry makes use of capital investment, whereas the central stastical authority (CSA) makes use of employment and support intensive capital technologies like yardstick.

According to MoTI, the definition used as a scale was developed in 997 to formulate small business development and business development strategies:

• Micro enterprises are formal and informal sector businesses with a salary capital of less than 20,000 Birr, excluding high tech consultants and other high tech facilities.

• Small enterprises have a salary capital of more than 20,000 Birr, but less than 500000 Birr, excluding high tech consultants and other high tech facilities.

Due to the size of the workforce and the nature of the equipment, CSA is classified as a scale of several operations. The CSA states:

- A small manufacturing enterprise is one that employs fewer than ten people and uses exercise operating equipment.
- Micro enterprises are divided into two types: informal sector operations and cottage industries. Cottage and handicraft industries are businesses that perform their tasks by

hand and without the use of power tools. The informal sector is defined as household type establishments or activities that are unregistered companies or cooperatives with fewer than ten employees. All businesses with ten or more employees are classified as medium and large enterprises.

In light of the preceding definitions, micro and small businesses (MSEs) can be defined as follows, taking Ethiopia into account.

- A micro enterprise is a business that is owned and operated independently, has some market share, is managed by the owner, and employs fewer than five people.
- Small businesses are defined as those with 6 to 49 employees. They have many of the same characteristics as micro enterprises.
- A medium-sized enterprise is one that has a relatively larger market share, is independently or jointly owned or managed by the owner or a designated executive, and employs 50 to 99 people.
- Businesses with more than 100 employees may be classified as large enterprises. Nonetheless, there is a lack of clarity, inconsistency, and organized information in Ethiopia, as well as a lack of consistent historical data.

Table 1 The improved definition of MSEs in Ethiopia

Level of enterprise	**Sector**	Human power	
Micro	Industry	**≤ 5**	≤Birr100,000($ 5000)
	Service	**≤ 5**	≤Birr 50000 ($ 2500)
Small	Industry	**6-30**	≤Birr1.5 mil($75000)
	Service	**6-30**	≤Birr500000($25000)

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

The five-year Growth and Transformation Plan (GTP) has prioritized the expansion and strengthening of micro and small-scale businesses (MoWUD, 2007:17-28).

According to MoWUD (2007:17-28), the sector is regarded as the primary source of employment and income for a larger segment of society. The primary goal of this program, which is to create and promote MSE in urban areas, is to reduce urban unemployment. In 2009/10, 176,543 MSEs were established, and 666,192 were hired. The number of established jobs increased by 141.6

and 25.6%, respectively, over the previous year.The total loan received from the microfinance institution during the review period was 814.1 million, which was 22.8% higher than the previous year.

2.1.5 Micro and Small Enterprise Development Strategy

Historically, Ethiopian enterprise promotion efforts have concentrated on urban-based and micro, small, and medium-sized enterprises (MSEs). In the 1960s and early 1970s, a department within the Ministry of Industry and Tourism was in charge of coordinating promotion activities such as business management training (United Nations, 2002:101-103).

According to a United Nations report (2002:101-103), in 1977, the Handicraft and Small Scale Industries Development Agency (HASIDA) primarily provided management and technical skill training, as well as serving as the coordinator of Government policy for micro and small enterprises. Inadequate funds for the private sector in the 1980s, combined with a detrimental government policy, made it difficult to influence the development of small and medium-sized local enterprises. Since mid-1999, the Ethiopian government has been rethinking the entire issue of small and medium enterprise promotion, focusing on micro and small enterprises. The main research was carried out, donated institutions were supported, and a national micro and small enterprises development promotion strategy (NMSEDPS) was prepared as a result.

The Ethiopian government unveiled its first development strategy in November 1997E.C. In addition to this primary goal of the MSEs national strategic framework, MoTI promotes economic growth, fosters fair development, creates long-term employment, strengthens MSE cooperation, and is medium and large. To provide the foundation, we have created a special purpose. Increase enterprise, promote exports, and balance the priority treatment of MSEs and large corporations (MoTI, 1997:8-27). This strategy provides an overview of the policy framework and institutional environments that can be used to promote MSE development and motivate national entrepreneurs.

2.1.6 The Implementation Structure of the Strategy

The two most important institutions that are directly involved in the promotion of MSEs are MoTI and the newly established MSEDA. The latter is envisaged to operate the federal and regional level of government (MoTI, 1997:8-27).

2.1.7 The Ministry of Trade and Industry

The ministry of trade and industry is in charge of promoting businesses and promoting support for MSE as federal government agencies in developing strategies. The ministry also has the responsibility of supporting and creating an auxiliary environment for the development of private promotional institutions. The regional trade and industry office was tasked with developing and promoting the local sector by coordinating local activities, forming business associations and networks, and improving the flow of information to the MSE (MoTI 1997: 8-27).

2.2 Empirical study

According to Mead and Lidholm (1998) and Swierczek and Ha (2003), the main factors influencing the performance of MSEs in developing countries are not their small size but their isolation, which limits access to markets, information, finance, and institutional support. The argument that small businesses in Africa are critical in terms of job creation and overall contribution to economic growth is not new. Although this is true, many new businesses are one-person operations (Mwega, 1991).

Several studies on the Ethiopian MSE have identified major constraints related to market and finance issues. The problems associated with the MSE market for metal and wood work are a lack of marketing skill, a lack of market information, a lack of sales, and a lack of subcontracting. Fmeseda (2006):34. Ethiopia's MSE activity has a relatively similar product line (Assegedechwoldelul, 2004: 1). As a result, she claims:

However, lack of product diversity is common, and as a result, similar products are overly confused in the market. Some micro enterprises have switched from one product to another in order to gain a better market opportunity. However, once the market is established, many more micro enterprises enter the same business, lowering the sale price quickly.

According to AssegedechWoldelul (2004:7), insufficient funds will prevent MSEs from operating smoothly and developing. Even if a credit line exists, some MSEs do not spend money for the intended purpose. They're preoccupied with other unintended nonproductive expenses. As a result, the company is unable to repay the loan on time. This can erode the dependability of obtaining loans on a regular basis.

According to HLCLEP (2006:17), entrepreneurial and managerial skills are insufficient, resulting in rapid technological change, a lack of production process adjustment, and a lack of shooting problems. MSE is an important issue that faces due to the unattractive lead to production problems for machinery and equipment. This is due to the fact that we cannot afford to hire field experts with expertise in planning, finance, management, quality control, and technical knowledge.

According to Terfasa et al. (2016), access to finance is a serious and major barrier for approximately 55% and 64% of micro and small business enterprises, respectively. Access to finance is a more serious issue for small businesses than for micro businesses. The latter is due to the fact that the loan requirements are within the capacity of micro finance institutions (MFIs), so it is frequently accessible to the micro finance institution (MFIs).

2.3 The conceptual framework

A conceptual framework denotes the use of related concepts to explain research problems. Because internal and contextual factors influence business performance, operators must understand what influences the business in order to achieve peak performance. Technology, marketing, management experience, financial, infrastructure, and legal and political factors are all context factors. The impact of these factors on firm performance is significant, but it is worth noting that management has no control over them (wanjiku, 2009:81-82). Nonetheless, the factors must be carefully monitored to capitalize on opportunities or combat threats found in the external environment to ensure that serve measures are implemented at the most appropriate time. Management and entrepreneurs are two internal factors that influence firm performance. Business performance is a dependent variable in the conceptual framework, but technological, marketing, financial, management experience, and infrastructure factors are independent variables. Figure 2 illustrates and expresses the relationship.

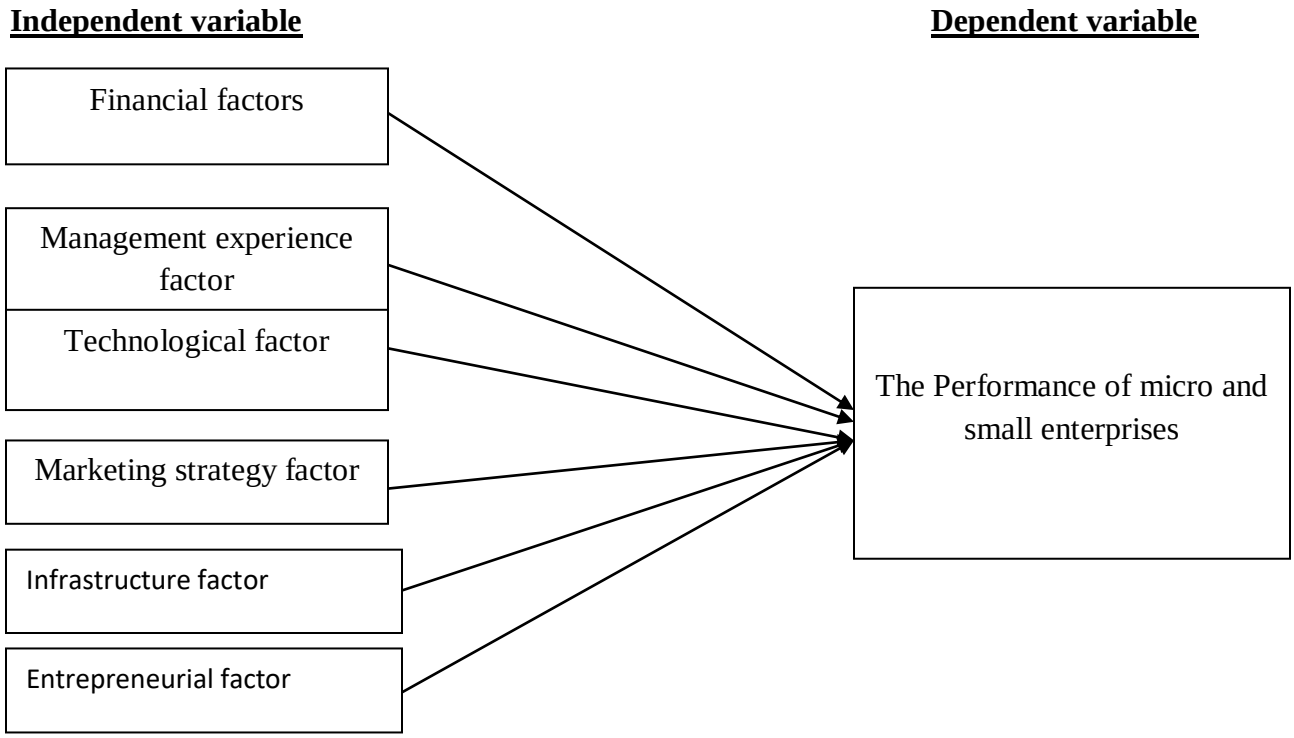


Figure 1conceptual frame works

Source: - Adapted from International Journal of Science and Research publication, volume 4, Issue 12, December 2014

2.4 Research hypothesis

This study tested the following hypothesis with the help of sufficient and appropriate empirical data on the factors influencing the performance of MSEs and Pearson correlation analysis to determine the relationship between variables.

H1: there is no significant relationship between financial factor and MSEs performance found in yeka sub city

H2: there is significant relationship between management experience and MSEs performance found in yeka sub city

H3: there is no significant relationship between technological factor and MSEs performance found in yeka sub city

H4: there is significant relationship between market factor and MSEs performance found in yeka sub city

H5: there is significant relationship between infrastructure factor and MSEs performance found in yeka sub city

H6: there is significant relationship between entrepreneurial factor and MSEs performance found in yeka sub city

CHAPTER THREE

RESEARCH METHODOLOGY

The study attempted to discuss the research methodology in this chapter, which includes the research design, research approach, research methods, data sources, sampling design and techniques, data analysis methods, and ethical consideration.

3.1 Research approach

According to Mark et al. (2009:101), combining qualitative and quantitative approaches has the potential to compensate for the weaknesses of one method with the strengths of the other. In this study, a combination of qualitative and quantitative research methods will be used, as recommended by Creswell (2009:203-216).

According to (Kothari, 2004) a quantitative research approach was used to describe the numerical aspects and quantitative data was collected and analyzed in an integrated manner. And Qualitative data was associated with the opinions of the respondent and different scholars regarding the influence of various factors to business performance.

3.2 Research design

A research design is a road map for achieving research goals and answering research questions. Research design, according to (Kothari, 2004), is the arrangement and structure used to regulate research, achieve research objectives, and answer research questions.

This study's researcher conducted descriptive and explanatory research. The primary goal of descriptive research is to explain the current state of affairs. The study then explains and evaluates the factors influencing MSE performance in Addis Ababa's Yeka sub-city. Second, this study employs explanatory variables by correlating relationships between variables in order to estimate the integrated influence of factors on MSE performance.

3.3 Sample Size and Sampling Techniques

3.3.1 Sample Size

The optimal sample size in a study, according to Dawsons (2013), is determined by the characteristics of the population and the purpose of the study. There are no hard and fast rules, but sample size is typically determined by the sample population. There are several methods for determining sample size. We know the number based on the total population. Using Yamane's (1967) formula, we calculate a sample size of 364 MSE owners in Yeka's five sectors of urban agriculture, manufacturing, service, trade, and construction from 4000 MSEs. The sample size was calculated using this figure. For this equation, a 95% confidence level and p=0.05 were deemed appropriate.

The formula used to calculate the sample size of the study (Yamane, 1967)

$$n = \frac{N}{1+N(e)^2}$$

$$n = \frac{\mathbf{4000}}{\mathbf{1+(4000)(0.05)^2}} = \frac{\mathbf{4000}}{11} = \mathbf{363.63} = \underline{\mathbf{364}}$$

Where n = the sample size,

N= population size, and

e = level of precision.

The sample size for the study was **364** MSEs.

3.3.2 Sampling technique

The researcher used probability sampling method for the purpose of the study, which may have resulted in more reliable and detailed information and also helps to draw sample representative from the population of the study that does not constitute homogeneous group. The researcher used the stated enterprise categories and followed the proportional allocation method from each stratum to form stratum. Based on the number of MSE enterprise in each category the researcher

purposely selected from the five sectors respectively, construction 72, manufacturing 111, trade 84, service 66 and urban agriculture 31.

3.4 Source of data

3.4.1. Primary data

The study used both primary and secondary data sources to achieve the research objective.

Primary data were gathered from MSE operators via questionnaire and interview.

These were completed by the enterprise's owner, managers, or operators. The survey questionnaire in this study had a five-point rating scale ranging from (1) strongly disagrees to strongly agree (5). These continuous scales are used to weigh the objects/measurements on the instrument.

3.4.2 Secondary Data

Secondary data was gathered from both published and unpublished sources, including SME reports and the trade and industry bureau of Yeka Sub City. Literature, research papers, circulars, and policy papers were also reviewed to provide additional information where necessary.

3.5 Methods of data collection

To achieve the research goal, the researcher used a quantitative survey method via a questionnaire to reach a larger group of MSEs. The questionnaires that were accepted were created using 5-pointLikert-scale approaches. It was written in the English language. As an attachment to the questionnaire, respondents were given a letter of verification to ensure the confidentiality of the information.

3.6 Reliability and validity

Kothari defines validity as the degree to which an instrument measures what it is designed to measure (2004). It refers to the extent to which differences discovered using a measuring device reflects genuine differences between individuals being tested. So long as it measures what it's supposed to measure and achieves the goal for which it was designed. This investigation took validity into account. Because this study used questionnaires based on a literature review and

previous studies on a relevant theme that addressed factors affecting MSE performance. The questioner was revised with the thesis advisor's recommendation for another validity test to be used in this study.

In contrast, reliability refers to the consistency of data obtained. Cronbachs alpha is a measure of reliability. As a result, a reliability analysis was performed to determine the reliability of the instruments in this study, yielding the following results.

Table 2 Coefficients of reliability

Reliability Statistics	
Cronbach's Alpha	N of Items
.844	35

Source: own survey data 2022

Table 4.17 shows that the coefficient of reliability for the data collection device for all 35 items is 0.844. Items with an alpha coefficient greater than 0.70 are considered extremely reliable (Zikmund, 2009 and Said Taan, 2010). The instrument received an acceptable cronbachs alpha as a result of the aforementioned test result and was deemed reliable. According to the findings, the cronbach alpha values for total are 0.844, financial factor 0.717, management experience 0.729, technological 0.665, market 0.753, infrastructure 0.883, political-legal 0.515, entrepreneur 0.733, and MSEs performance is 0.759. As a result, individual instrument items received adequate cronbachs alpha. And, as shown in table 3.2, the instrument's item was deemed reliable.

Table 3 Coefficient of reliability for each item

No	**Individual variables**	**Item in number**	**Alpha value**
1	Financial factor	5	.717
2	Management experience	5	.729
3	Technological factor	4	.665
4	Market factor	4	.753
5	Infrastructure factor	5	.883
6	Entrepreneur factor	5	.733
7	Performance of MSEs	7	.759

Source: own survey data 2022

3.7 method of data analysis

The quantitative analysis method was used by the researchers to analyze the data, such as percentage, tabulation representation, and description method. Statistical Package for Social Science (SPSS) version 26 was used to organize, analyze, interpret, and discuss the data collected. Descriptive statistics such as frequency and percentage were used to analyze all quantitative data. In contrast, statistics (Pearson correlation and multiple linear regression) were used to demonstrate the relationship between the dependent and independent variables. Multiple linear regressions were also used to demonstrate the effect of the independent variable on the dependent variable.

To determine the relationship between variables, the study used the following functional specification and linear regression model.

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3\ X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \beta 7X7 + \beta 8X8$$

Where:

Y is the response or dependent variable- performance

X1= financial factor, X2= management experience, X3= technology factor, X4= market factor, X5= infrastructure factor, X6=political-legal factor and X7=entrepreneur factor are the explanatory variables.

β0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0. β1, β2, β3, β4, β5, β6 and β7 are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables.

3.8 Ethical Consideration

The goal of ethics is to ensure that research activities do not cause harm or disadvantage to anyone. All survey data was gathered by sending an official letter to the operators of the relevant MSEs. Before distributing the questioners, the researcher explained and informed the respondents about the importance of the study and their willingness and obligation to agree. Respondents have the option to refuse or terminate their participation at any time. Participants were not forced to write their names on the questioner and confirmed that the answer had nothing to do with them in terms of anonymity and confidentiality.

Chapter Four

Data analysis and Interpretation

4.1 Response rate

This chapter contains the findings derived from survey questionnaire responses, interviews, observations, and secondary data. Using the SPSS software programmer, the collected data is presented, analyzed, and interpreted. Descriptive statistics, such as frequency, percentage, mean and standard deviation are used to describe survey data.

For this study, a total of 364 questionnaires were distributed to the individuals/members/ currently working in stated MSE which found in yeka sub city those grouped Operating in construction, manufacturing, tread, service and urban agriculture type of business to assess impact of factors affect success of MSE. Out of total questionnaires distributed 99% returned.

4.2 Descriptive analysis of respondents

The demographic characteristics of respondents are summarized in the table below by gender, age, education level, and enterprise category.

Table 4 Descriptive characteristics of respondents

		Frequency	Percentage
Gender	Male	197	54.4
	Female	166	45.6
Age of respondents	Under 20	30	8.2
	21_30	85	23.6
	31_40	99	27.2
	41_50	81	22.3
	Above 51	68	18.7
Education level	Read and write	21	5.8
	Elementary complete	53	14.8
	Secondary complete	92	25.3
	Diploma	103	28.3

	Degree and above	94	25.8
Enterprise category	Construction	72	19.8
	Manufacturing	111	30.5
	Trade	84	23.1
	Service	66	18.1
	Urban agriculture	30	8.5

Source: own survey data 2022

As shown in the table above, the following fact can be deduced. Males account for 198 (54.4%) of all respondents. The remaining 166 (45.6%) respondents are females. It indicates that the vast majority of respondents are men.

According to the above table, 8.2% of respondents were under the age of 20, 23.6% were between the ages of 21 and 30, 27.2% were between the ages of 31 and 40, 22.3% were between the ages of 41 and 50, and 18.7% were over the age of 51. This indicates that the majority of respondents were young and capable of meeting business challenges and conducting business effectively in a highly competitive market.

In terms of education level, 21(5.8%) of respondents could read and write, while 54(14.8%) completed elementary school. The majority of respondents are in this grade level, with 92.3% having completed high school, 103.3% having a diploma, and 94.8% having a degree or higher. These findings indicate that the respondents had varying levels of education.

According to the above table, 72(19.8%) of respondents work in the construction enterprise category, 111(30.5%) work in manufacturing, 84(23.1%) work in trade, 66(18.1%) work in service, and the remaining 31(8.5%) work in urban agriculture. This indicates that respondents were drawn from a variety of business types, making it more appropriate for determining the factors influencing market performance.

According to the above table the education level and age of the respondents has effect on the performance micro and small enterprise because the operators are directly involves in the production process and in the overall activity of the enterprise and their age is also important for the productivity and growth of enterprise.

4.3 Descriptive analysis of study variables

4.3.1 Financial factors

There are five questions about cash management skill, satisfaction, bank requirement, financial source, and bank or lending institution interest rate that are related to financial factor and are listed below with their mean and standard deviation.

Table 5 Financial factor

No	Item	Mean	Standard deviation	N
1	Cash management skill is affecting the performance of MSEs	3.90	0.887	363
2	I'm satisfied with financial access given by micro finance and other lending institution	2.79	1.160	363
3	High collateral requirement from bank to other lending institution	3.44	1.281	363
4	Source of finance has effect on growth of by business	4.13	0.846	363
5	Interest rate charged by bank or other lending institution is reasonable	3.02	1.291	363
Grand mean and standard deviation		3.456	1.093	

Source: own survey data 2022

Table 4.2.2 on financial factors shows that descriptive statically analyzing performance MSEs, which is lack of cash flow management skill, has the mean value of 3.90 and standard deviation of 0.887 When asked if they are satisfied with financial access provided by microfinance and other lending institutions, the mean value is 279, with 1.167 standard deviation disagreeing, implying that financial access provided by microfinance and other lending institutions is not satisfactory. High collateral requirements from banks or other lending institutions are disagreed by 3.44 mean with a standard deviation of 1.281 It suggests that high collateral requirements from banks and other lending institutions are not a good thing. The effect of finance on business growth has mean value of 4.13 and 46.4 standard deviation, respectively, and the interest rate

charged by banks or other lending institutions is reasonable with 3.02 mean value, the most respondents disagreed with the standard deviation of 1.291. It indicates that the interest rate charged by banks or other lending institutions is excessive. In response to this question, a study conducted by (Shimels Abera 2021) factors influencing the performance of micro and small enterprises in Addis Abeba city administration reached a similar conclusion regarding financial factors influencing the performance of MSEs. Generally, MSEs faced financial difficulties.

In a recent interview, It implies that MSE owners faced financial constraints both during the start-up phase and after their establishment, as indicated by an average mean difference of related problems found full of disagreements among operators' formal and informal sources of finance.

4.3.2. Management experience

There are five questions related to management experience factor, which include questions about the performance of trained and experienced managers, the importance of managerial skills, the division of responsibility and duties, strategic business plan related questions, and organizational communication related questions, which are listed below with their mean and standard deviation.

Table 6 Management experience

No	Item	Mean	Standard deviation	N
1	Well trained employee and experienced manager increase the performance of MSEs	2.90	1.338	363
2	Managerial skill the most important constraint faced while enhancing business performance of MSEs	2.25	1.001	363
3	There is clear division of responsibility and duties among staff members	2.31	1.231	363
4	There is good strategic business plan of my business	2.26	1.111	363
5	Good organization and effective communication	2.20	1.174	363
Grand mean and standard deviation		2.384	1.171	

Source: own survey data 2022

According to table 4.2.3, well-trained employees and experienced managers boost MSE performance. Manager experience is the most important in business because managers are involved in decision making and training that helps MSEs perform better. The most significant constraint encountered while improving MSE business performance is managerial skill. Respondents disagreed about a good strategic business plan because there was no good strategic plan and clear responsibility and duties among staff members. There is a lack of organizational skills and effective communication among staff members.

In this regard, it was confirmed in an interview with MSE operators that the majority started their business by trial, without prior planning of the material requirement and usage, practice doing by learning, misallocation of financial and material resources, lack of cost benefit analysis, and poor record keeping. From this, it is clear that financial, human, and material management are critical management factors.

4.3.3. Technological factor

There are four questions related to technological factors, which include skill and knowledge related, finance to acquire technology, machinery and equipment related, and technology selection related questions, which are listed below with their mean and standard deviation.

Table 7 Technological factor

No	Item	Mean	Standard deviation	N
1	I have skill and knowledge to handle new technology	2.32	.829	363
2	I have finance to acquire new technology	2.38	.726	363
3	Good selection of proper technology facilitate the performance	2.38	.753	363
4	I have appropriate machinery and equipment to use new technology	2.42	.811	363
Grand mean and standard deviation		2.375	1.04	

Source: own survey data 2022

According to table 4.2.3, the major technological factors affecting the performance of MSEs are skill, knowledge, finance, and appropriate machinery and equipment to acquire and handle new technology, with the mean value of 2.32, 2.38, 2.38 and 2.42 and standard deviation of 0.829,

0.726, 0.753 and 0.811, respectively. It is possible to conclude that there is a lack of skill, knowledge, and financial resources to acquire machinery and equipment. However, proper technology selection facilitates MSE performance. It implies that it has had a direct impact on the enterprise's performance.

Loans to purchase equipment and materials were obtained from both personal and informal sources, according to interview responses, and the cost of machines was also very high for microenterprises at both start-up and expansion. It can be concluded that almost all enterprises used machines, tools, and equipment, and there is a high demand to have the necessary technology to produce quality products, but the demand is greater in the W&M and FP sectors, and this demand is severely constrained by a lack of capital to purchase.

4.3.4. Market factor

There are four questions related to market factors, which include market information, promotion use, market networks, and customer relationship related questions, which are listed below with their mean and standard deviation.

Table 8 Market factor

No	Item	Mean	Standard deviation	N
1	Lack of market information	1.85	.962	363
2	Use of promotion	1.95	1.008	363
3	There is high market network	2.07	.869	363
4	Good customer relation ship	1.82	.867	363
Grand mean and standard deviation		1.9225	0.9265	

Source: own survey data 2022

According to the above market factor tables, there is 1.85 mean value of relevant market information with 0.962 of standard deviation are agreeing, implying that relevant market information is very low. Regarding the use of promotion to attract potential customers, the mean value is 1.95, with 1.008 standard deviation respondents strongly disagreeing, indicating that the

use of promotion to attract potential and new customers is very low, and that promotion is sometimes ineffective. There is a high market network with 2.07 mean values, but 0.869 standard deviation of respondent disagree, indicating a low market network. In terms of good customer relationship and handling, 1.82 mean value with standard deviation of 0.867 of respondents agreed, indicating that customer relationship and handling are low and poor.

The results show that MSEs have a low level of market information, use of promotion to attract potential customers, market network, and customer relationship and handling. And it has a direct impact on the performance of MSEs.

According to an interview with the operator, the lack of a sales location has exacerbated the already existing shortage and clutter of the shadow's internal work place. The lack of a distinct selling point reduces the likelihood of reaching new customers. Respondents applauded the Ethiopian government's recent commodity price increase. Executives point out that government intervention has kept input prices from rising further. They also claim that implementing this limit has kept them from being exploited by illegal traders, who routinely raise the price of goods unreasonably.

4.3.5. Infrastructure factor

There are five infrastructure-related questions, including access to transportation, electric supply, power, water supply, and affordability of electricity cost, which are listed below with their mean and standard deviation.

Table 9 Infrastructure factor

No	Item	Mean	Standard deviation	N
1	There is sufficient and quick access to transport in my business area	2.08	.853	363
2	There is sufficient electric supply in my business area	2.09	.844	363
3	There is sufficient power without any power interruption	2.00	.822	363
4	There is water supply in my business	2.10	.830	363

	area			
5	The cost of electricity and water supply is affordable to my business	2.02	.883	363
Grand mean and standard deviation		2.058	0.8464	

Source: own survey data 2022

According to the above tables, descriptive statistical analyzing MSEs owners of respondents indicated that access to transportation has a mean value of 2.08 with 0.853 standard deviation, electric city supply has a mean value of 2.09 with 0.844 standard deviation, power interruption has a mean value of 2.00 with 0.822 standard deviation, water supply has a mean value of 2.10 with 0.830 standard deviation, and cost of electricity and water has a mean value of 2.02 with 0.883 standard deviation. It indicates that there is limited transportation access, inadequate electricity and water supply, and the cost of electricity and water supply is prohibitively expensive for MSEs.

This result indicates that infrastructure factors are the main factors that affected their business performance. In general, the finding of the study shows that there is a higher problem of physical infrastructure facilities that are not adequately established and expanded in the study area to meet the growing demand for MSEs activities. Research done by (shimels zelekew, 2021) has similar conclusion.

According to the interview, the poor condition of the local road has hampered existing and potential customers' access to their working site. Furthermore, it has compelled the operators to incur high transportation service costs. The operators attribute the high cost of transportation to the unsuitability of the road facility.

4.3.6. Entrepreneur factor

There are five questions about the entrepreneur factor that are related to creativity and flexibility of the entrepreneur, entrepreneurship training, motivation and drive, exploitation of business opportunity, and entrepreneur readiness that are listed below with their mean and standard deviation.

Table 10 Entrepreneur factor

No	Item	Mean	Standard deviation	N
1	There is creativity, flexibility and adaptability to new idea and technology with entrepreneur	2.25	.955	363
2	Giving entrepreneurship training to increase the performance	2.25	.943	363
3	There is motivation and drive	2.23	.953	363
4	There is information to exploit business opportunity	2.26	.930	363
5	Readiness of entrepreneur to learn, to improve and to change	2.13	1.037	363
Grand mean and standard deviation		2.224	0.9636	

Source: own survey data 2022

In the above table, creativity, flexibility, and adaptability to new ideas and technology scored the mean value of 2.25 with 0.955 standard deviation respondents are disagreed, while motivation and drive of the entrepreneur scored the second mean value of 2.25 with 0.943 standard deviation respondents are disagreed. In addition, the entrepreneur's unwillingness to learn, improve, and change has an impact on performance. Giving entrepreneurship training and collecting information to exploit business opportunities, on the other hand, provides an advantage to improve and increase the performance of MSEs. It implies that it has had a direct impact on the enterprise's performance.

According to the findings of the study (Hailemichael Mulugeta, 2014), MSEs are self-starting businesses with a lack of readiness to learn, improve, and change, a lack of creativity, flexibility, and adaptability to new ideas, a lack of entrepreneur training, and a lack of information to exploit business opportunities, because the majority of them are survival driven enterprises.

According to an interview with an operator, another factor affecting MSE performance is a lack of tolerance for hard work and a lack of initiative to assess one's own strengths and weaknesses. Operators throughout the study area mentioned a lack of entrepreneurial training. According to interviewees, it was identified as a major issue in all sectors.

4.4. Performances of MSEs

The dependent variable is the performance of micro and small enterprises, and it has seven directly related questions with MSEs performance to show the enterprise's performance level.

Table 11 Performance of MSEs

No	Item	Mean	Standard deviation	N
1	My business profit is in a good position	2.15	.923	363
2	My business profit is increased from time to time	2.15	.891	363
3	My business has sustainable profit	2.24	.853	363
4	The level of my business productivity is increased from time to time	2.16	.903	363
5	I am satisfied with the growth of my business productivity	1.98	.860	363
6	my business has good market share and good market location	1.89	.892	363
7	my business has a good sales turn over	2.08	1.014	363
Grand mean and standard deviation		2.092	0.905	

Source: own survey data 2022

According to the study table descriptive statistics analyzing the performance of MSEs in Yeka sub city, the profitability, productivity, market share, and sales turnover found lower has the mean value of 2.15 , 2.15, 2.24, 2.16 , 1.98 , 1,89 , and 2.08 respectively and standard deviation of 0.923, 0.891, 0.853, 0.903, 0.860, 0.892, and 1.014 respectively. It indicates that the frequency of disagreement was high, and their profitability, productivity, market share, and sales turnover were low. This was primarily due to a variety of factors influencing MSE performance, including financial factors, management experience, technological factors, market factors, infrastructure factors, and entrepreneur factors.

4.5. Inferential Analysis

4.5.1 Correlation analysis

Correlation analysis is used to investigate the strength and direct relationship between the study's independent variables of financial factor, management experience, technological factor, market factor, infrastructure factor, and entrepreneur factor and the dependent variable of micro and small enterprise performance.

Pearson product moment correlation coefficient was used in this study to determine whether there is a significant relationship between performance and financial factor, management experience, technological factor, market factor, infrastructure factor, and entrepreneur factor. The section that follows presents the Pearson product moment correlation coefficient results for the relationship between the dependent variable and the independent variable. The table below shows the correlation coefficient for the relationship between performance and its independent variable linier and positive, ranging from significant to strong.

Table 12 Measurements of association and descriptive adjective

Measurements of association	Descriptive adjectives
0.0- 0.20	Very weak
0.20-0.40	Weak
0.40-0.60	Moderate
0.60-0.80	Strong
0.80-1.0	Very strong

Source: (Maceachron, 1982

Table 13 Pearson correlation

		FF	ME	TF	MF	IF	EF	MSEs
FF	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	364						
ME	Pearson Correlation	.081	1					
	Sig. (2-tailed)	.123		.				
	N	364	364					
TF	Pearson Correlation	.383**	.063	1				
	Sig. (2-tailed)	.000	.229					
	N	364	364	364				
MF	Pearson Correlation	.085	.073	.174**	1			
	Sig. (2-tailed)	.104	.162	.001				
	N	364	364	364	364			
IF	Pearson Correlation	.537**	.155**	.436**	.139**	1		.
	Sig. (2-tailed)	.000	.003	.000	.008			
	N	364	364	364	364	364		
EF	Pearson Correlation	.204**	.016	.201**	.117*	.189**	1	
	Sig. (2-tailed)	.000	.760	.000	.026	.000		
	N	364	364	364	364	364	364	
MSEs	Pearson Correlation	.261**	.163**	.166**	.058	.339**	.091	1
	Sig. (2-tailed)	.000	.002	.001	.273	.000	.084	
	N	364	364	364	364	364	364	364

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS output of the survey, 2022

Indicates all independent variables have got positive correlation with dependent variables. Based on the survey result, financial factor have weak relation with performance of MSEs($r=0.261$, $p>0.01$). Management experience found to have weak relationship with performance of MSEs($r=0.163$, $p<0.01$). Technological factor found to have weak relation with performance of MSEs($r=0.166$, $p<0.01$). Marketing factor has very weak positive relation with performance of MSEs($r=0.058$, $p<0.01$). Infrastructure factor has moderate relation with performance of MSEs($r=0.339$, $p<0.01$). Entrepreneur factor have found a weak relationship and significant effect with performance of MSEs ($r=0.091$, $p<0.01$).

4.5.2 Regression analysis

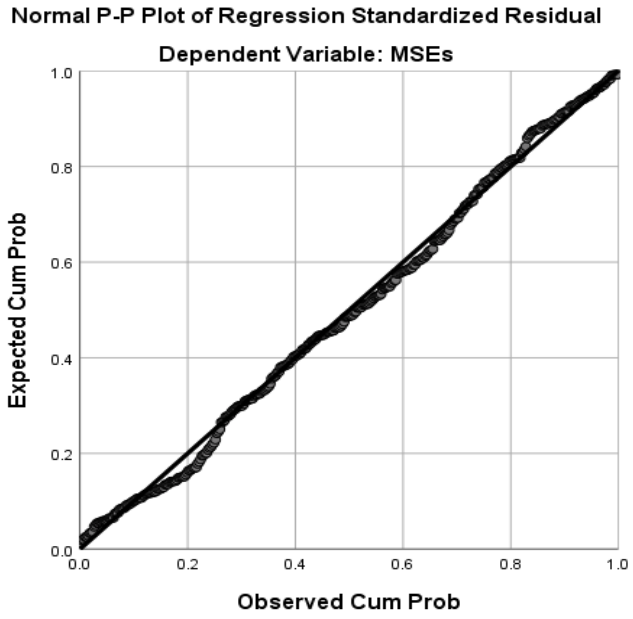
To determine the relationship between one dependent variable and a number of independent variables, a regression analysis was used (pallant, 2005). Regression also indicates how much variance in the dependent variable can be explained by independent variables.

4.5.2.1 Assumptions of regression analysis

- **Linearity test**

To perform a linier regression analysis, the relationship between the dependent and independent variables should be a linear function, according to (Hayes et al., 2012). As a result, the SPSS V26 software was used to test the linearity of the relationship between the independent and dependent variables, and his scatter plot of the residuals shows that the points are roughly on a straight line from the lower left to the upper right. As a result, it exhibits linearity. The assumption that the relationships between variables are linear is a key assumption in regression analysis. That is, the points on a straight line must form a pattern that a straight line can approximate.

Figure 2 linearity test



Source: own survey data 2022

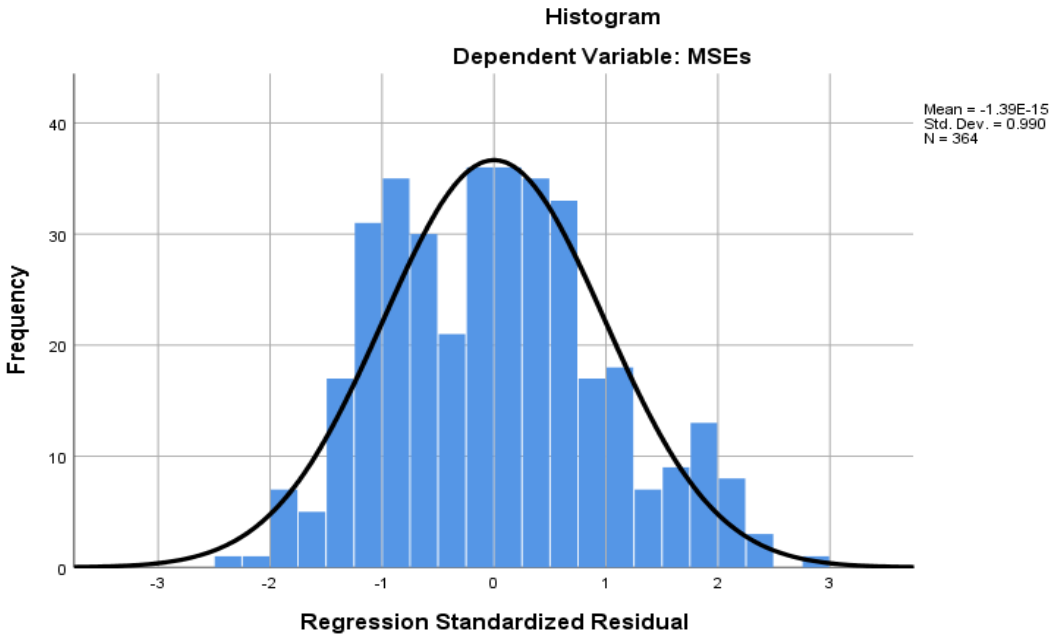
The residual plot in the figure above shows a straight line from bottom left to top right. It demonstrates linearity, and regression analysis demonstrates that the relationship between variables is linear.

Normality test

When the curve passes neither the left nor the right side, the normality test can be confirmed using variance data (Ghasemi & Zahediasl, 2012). This indicates that the data output was distributed normally. SPSS V26 was used to check the kurtosis and skewness values to determine the data's normality. Skewness is a measure of how many cases are clustered toward one end of an asymmetric distribution. In general, the greater the skewness value deviates from zero, the less likely the data are normally distributed (Field, 2016). Kurtosis is a measure of the histogram's peak level. Positive kurtosis is found in high peaks, while negative kurtosis is found in flat distributions. A histogram is a straightforward graph that depicts the frequency distribution of data for a single variable. The x axis shows the variable's value, and the y axis shows the frequency (number of data points with that value). Histograms are an excellent tool for

determining whether your data is evenly distributed. The normal distribution describes how data is distributed around its mean.

Figure 3 Normality test



Source: own survey data 2022

The above graph indicates plots frequency distribution of data for variables is normally or regularly distributed.

- **Multi Collinearity**

According to (McClelland et al., 2017), most regression programs can compute the variance inflations factor (VIF) for each variable, and a VIF greater than 5.0 indicates problems with the Multicollinearity test.

Erik Mool (2014) emphasizes that value for "Tolerance" less than 0.1 indicate serious problems, though several statisticians believe that values less than 0.2 are cause for concern. The multi co-linearity of the regression analysis refers to how closely the independent variables in a model are related.

Table 14 Test of multicollinearity

Model constant	Collinearity stastics	
	Tolerance	VIF
FF	.675	1.480
ME	.943	1.060
TF	.739	1.353
MF	.950	1.053
IF	.587	1.705
EF	.897	1.114

a. Dependent Variable: MSEs

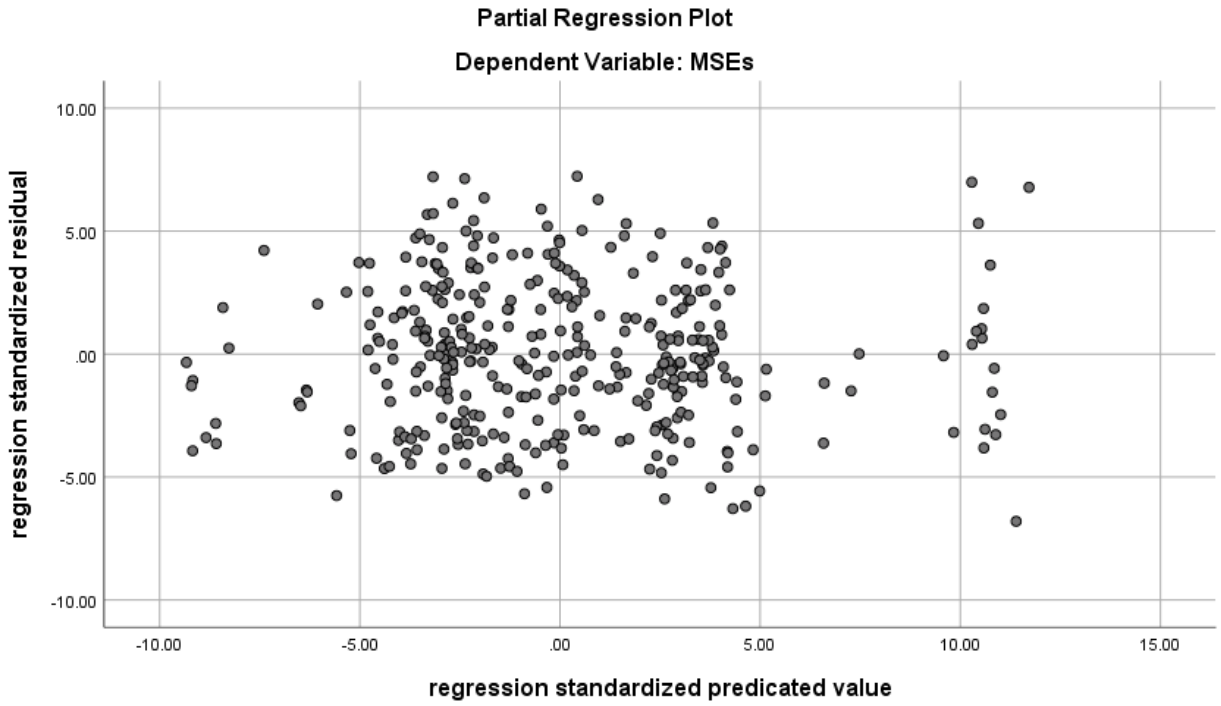
Source: own survey data 2022

As we can see in the above table tolerance values are 0.65, 0.943, 0.739, 0.950, 0.587,824 and 0.897 for each independent variable (financial factor, management experience, technological factor, market factor, infrastructure factor, entrepreneur factor) respectively which are above 0.10 and variance inflation factor(VIF) value are also 1.48,1.06, 1.353, 1.053, 1.705, 1.114 respectively. All VIF result is below 5. There for in this study the above table shows variance inflation factor (VIF) and tolerance fall within the acceptable range so there is no multico linearity problem.

- **Homoscedasticity test**

The degree to which the data values for the dependent and independent variables have equal variances is referred to as homoscedasticity (Olvera&Zumbo, 2019). The variance of the residuals should have the same variance at each level of the predictor. As a result, it is useful to test this assumption for regression model fit. According to Erik(2014), in order to present the homoscedasticity test, the researcher places the standardized residual or error (ZPRESID) on his Y axis and the model-based dependent variable plots the standardized predictions (ZPRED). On the Xaxis, the result is as follows:

Figure 4 Homoscedasticity test



Source: own survey data 2022

4.5.2.2 Multiple linear regressions

Model summery

Table 15 Model summery

Model Summary[b]								
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Durbin-Watson
					df1	df2	Sig.	
1	.801[a]	.642	.625	.406	7	356	.000	1.587

a. Predictors: (Constant), EF, TF, IF, ME, FF, MF

b. Dependent Variable: MSEs

In the model summery the multiple coefficient R, indicates a very strong correlation of 0.801 between the performance of MSEs and seven independent variables. Adjusted R2 = .625 revels that the independent variable contributed for under presentation of performance of MSEs with 62.5% explained by other variables.

ANOVA result

Table 16 ANOVAa

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	29.861	7	4.977	30.318	.000[b]
	Residual	21.811	356	.164		
	Total	51.672	363			

a. Dependent Variable: MSEs

b. Predictors: (Constant), EF, TF, IF, ME, FF, MF

Source; SPSS output of the survey, 2022

ANOVA analysis is typically used to compare the mean score of multiple variables. It is also known as variance analysis because it compares the variance between variables (pallant, 2005). According to table 4.15 of this study, the value R and R square found from the model summery is statically significant at (F=30.318), (p0.001), and the regression model can be said to predict the outcome variable statically significantly.

Coefficients[a]

Table 17 coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
	(Constant)	.754	.232		3.252	.001
	FF	.041	.063	.043	.649	.000
	ME	.120	.068	.081	1.272	.001
	TF	.058	.046	.185	1.766	.000
	MF	.325	.053	.429	6.173	.000
	IF	.233	.039	.399	5.983	.000
	EF	.021	.059	.027	.365	.003

a. Dependent Variable: MSEs

Source: SPSS output of the survey, 2022

As a result, the estimated regression model of this study for yeka sub city small and micro enterprise is presented below, based on the results in the regression coefficients table 4.16 and the above general mathematical equation:

MSEs Performance= 0.754+0.41FF+0.058ME+0.120TF+0.325MF+0.066IF+0.21EF

WHERE; MSEs performance of micro and small enterprise

FF_ financial factor

ME _management experience

TF _technological factor

MF_ market factor

IF_ infrastructure factor

EF _entrepreneur factor

The intercept (β) is the vertical axis point where the regression intersects the x axis. When all variables are set to zero, the value of is 0.754. The regression result also shows that when finance increases by 1%, MSE performance increases by 4% when all other factors remain constant, and when management experience increases by 1%, MSE performance increases by 12%. When the technological factor increases by 1%, the performance of MSEs increases by 5% when the other factor remains constant, when the market factor increases by 1%, the performance of MSEs increases by 32% when the other factor remains constant, when the infrastructure increases by 1%, the performance of MSEs increases by 23% when the other factor remains constant, and when the entrepreneur increases by 1%, the performance of MSEs increases by 2% when the other factor remains constant. Additionally all variables has no serious collinearity problem.

4.6 Hypothesis testing

The most important method for identifying the relationship between independent and dependent variables in a research study is correlation analysis, but it does not assess the effect of the two variables. Most commonly used in regression analysis to assess the impact of independent variables (FF, ME, TF, MF, IF, AND ER) on the dependent variable, which is MSE performance. The unstandardized coefficient beta and P-value were used to test each hypothesis (the hypothesis rejected or accepted). Correlation coefficients range from 0.00 to 0.29 weak, 0.30 to 0.49 low, 0.50 to 0.69 moderate, and above 0.70 is highly correlated (Asuero et al., 2006).

Financial factor

Hypotheses 1

H0: There is no significant relationship between financial factor and MSE performances.

H1: There is significant relationship between financial factor and MSE performance.

From the result there is a positive relationship between financial factor and MSE performance. It is because finance and MSE performance have a positive value of correlation coefficient. Variable of financial factor has unstandardized coefficient beta 0.041 and p-value 0.000 Correlation with MSE performance variable. Therefore, when financial factors are comfortable, MSE business performance are high.

The value of correlation coefficient 0.041 is fall under coefficient range from ±0.00 to ±0.29.

According to Rules of Thumb Person Correlation Coefficient; it has weak correlation with dependent variable. Thus, the relationship between financial factor and MSE performance is positive and weak.

Management experience

Hypotheses 2

H0: There is no significant relationship between management experience and MSE performance.

H1: There is significant relationship between management experience and MSE performance.

The result shows that the positive relationship between management experience and MSE performance. Because of the positive value for correlation coefficient. Management experience variable has a 0.120 beta coefficient and at level of 0.001(P=0.001) correlation with the

performance MSEs. Therefore, when management experience is high, MSE performance is increase.

The value of correlation coefficient 0.120 is fall under coefficient range from ±0.00 to ±0.29.

According to Rules of Thumb Person Correlation Coefficient; ±0.00to ± 0.29 has a weak positive relation

Technological factor

Hypotheses 3

H0: There is no significant relationship between technological factor and MSE performances.

H1: There is significant relationship between technological factor and MSE performance.

From the result there is a positive relationship between technological factor and MSE performance. It is because technological and MSE performances have a positive value of correlation coefficient. Variable of financial factor has un standardized coefficient beta 0.058 and p-value 0.000 Correlation with MSE performance variable. Therefore, when technological factors are comfortable, MSE business performance are high.

The value of correlation coefficient 0.058 is fall under coefficient range from ±0.00 to ±0.29.

According to Rules of Thumb Person Correlation Coefficient; it has weak correlation with dependent variable. Thus, the relationship between technological factor and MSE performance is positive and weak.

Market factor

Hypotheses 4

H0: There is no significant relationship between market factor and MSE performance.

H1: There is significant relationship between market factor and MSE performance.

From the result there is a positive relationship between market factor and MSE performance. It is because market factor and MSE performance have a positive value of correlation coefficient. Variable of market factor has a 0.325 unstandardized coefficient beta value and p- value of 0.000 correlations with MSE performance variable. Therefore, when market factor applied accordingly, MSE business performance is increase.

The value of correlation coefficient 0.325 is fall under coefficient range from ±0.30 to ±0.49. According to Rules of Thumb Person Correlation Coefficient. Thus, the relationship between market factor and MSE performance is low.

Infrastructure factor

Hypotheses 5

H0: There is no significant relationship between infrastructure factor and MSE performance.

H1: There is significant relationship between infrastructure factor and MSE performance.

The result shows that the positive relationship between infrastructure factor and MSE performance. Because of the positive value for correlation coefficient. infrastructure factor variable has a 0.233 beta coefficient and at level of 0.000(P=0.001) correlation with the performance MSEs. Therefore, when infrastructure factor is high, MSE performance is increase.
The value of correlation coefficient 0.233 is fall under coefficient range from ±0.0 to ±0.29.
According to Rules of Thumb Person Correlation Coefficient; ±0.00to ± 0.29 has a weak positive relation

Entrepreneurial factor

Hypotheses 6

H0: There is no significant relationship between entrepreneurial factor and MSE performances.

H1: There is significant relationship between entrepreneurial factor and MSE performance.

From the result there is a positive relationship between entrepreneurial factor and MSE performance. It is because entrepreneurial and MSE performances have a positive value of correlation coefficient. Variable of entrepreneurial factor has un standardized coefficient beta 0.021 and p-value 0.003 Correlation with MSE performance variable. Therefore, when entrepreneurial are comfortable, MSE business performance are high.
The value of correlation coefficient 0.021 is fall under coefficient range from ±0.00 to ±0.29.
According to Rules of Thumb Person Correlation Coefficient; it has weak correlation with dependent variable. Thus, the relationship between technological factor and MSE performance is positive and weak.

- **There for there is no evidence to reject the hypothesis so the financial factor, management experience, technological factor, market factor, infrastructure factor and the entrepreneur factor has effect on the performance of micro and small enterprise. Since the hypothesis is accepted**

Chapter Five

Summery, Conclusion and Recommendation

In this chapter, the results of the analysis were summarized, a conclusion was reached based on the findings, and possible recommendations were made based on the findings.

5.1 Summary of major findings

- In terms of financial factors, this study confirms that the availability of finance to MSE owners plays an important role in their business because it allows the enterprises to change their business performance. According to (Ayele, 2018), adequate financing access has a significant positive impact on MSE, and if there is insufficient access to finance, micro and small enterprises will struggle to survive. Similarly, Admasu Abera's (2012) argument supported the study's conclusion that access to finance is critical for job creation and overall economic growth.
- The availability of management experience has influenced MSE performance. Managerial experience is critical in any business because it determines the quality of decisions made and how they impact the organization's performance (MSEs). The respondents' most significant constraint is their managerial ability. These findings are backed up by (Mizan Sibhatu, 2018).
- When compared to other variables, the technological factor has the least impact on the performance of MSEs. MSEs encountered financial difficulties in acquiring new technological equipment and instruments.
- Marketing factors that influence MSE performance include market inadequacy, difficulty in finding new markets, a lack of demand forecasting, and a lack of market information.

- Concerning infrastructure, it is the most influential factor in MSE performance. According to the study, there is a significant shortage of physical infrastructure facilities. Infrastructure availability is important to their business performance. Having adequate access to infrastructure allows them to improve profitability, productivity, and market competitiveness.

- ❖ Entrepreneurial factor is the second most important influencing factor of MSE performance, and a lack of entrepreneurial training, creativity, flexibility, and adaptability to new idea motivation and drive is a major issue in the sector.

Even though all financial factors, management experience, technological factors, marketing factors, infrastructure factors, and entrepreneur factors influence MSE performance, this does not imply that all factors have equal impact. The most important factors influencing MSE performance are infrastructure, entrepreneurial factor, and management experience, followed by financial factor, market factor, and technological factor.

5.2 Conclusions

This study sought to assess the relationship between MSEs and the factors influencing the performance of MSEs in the construction, manufacturing, service, trade, and urban agriculture sectors in Addis Ababa's Yeka sub city. The study specifically attempted to investigate the relationship between financial factors, management experience, technological factors, market factors, infrastructure factors, political-legal factors, and entrepreneur factors and MSE performance. The following conclusions were reached based on the study's findings:

External factors identified as major influencing factors of MSEs performance include financial factor, technological factor, market factor, infrastructure factor, and political-legal factor, all of which have a moderate positive correlation with MSE performance. The infrastructure factor (0.487) has the greatest influence on MSE performance (0. 280). When compared to other variables, market factor (0. 033) and technological factor (0. 037) are the least predictive of performance.

Internal management experience and entrepreneurial factor had a positive relationship with business performance. Management experience has been shown to have a positive correlation with performance (0. 319). Well-trained employees with skilled and experienced managers, clear division of responsibility and duties, good strategic business, good organization, and effective communication are identified as important performance factors. The most important entrepreneur factor (0. 368) identified in affecting performance was a lack of readiness to learn, improve, and change, as well as a lack of creativity, flexibility, and adaptability to new ideas.

5.3 Recommendations

- ✓ Concerning financial factors, the research suggests that the Addis Ababa City Administration MSEs office should facilitate and support MSEs owners (entrepreneurs) by focusing on financial funds, adequate loan facilities, and financial training. As a result, the MSE office of the Addis Ababa City Administration, in collaboration with other government bodies, should develop adequate sources of finance for MSEs by organizing and supporting the performance of micro and small enterprise finance and other sources.
- ✓ Regarding the factor of management experience, MSE enterprises and other government bodies should focus on developing management training programs and creating opportunities for experience sharing, particularly for those who enter the sector with no prior business background.
- ✓ Concerning the technological factor, provide appropriate machinery and equipment for the use of new technology, as well as increasing the capacity and skill of the operators through training on new technologies.
- ✓ In terms of market factors, providing selling and display areas near working areas, developing good interpersonal relationships with customers, and effectively promoting their product to customers are all important.
- ✓ In terms of infrastructure, providing access to transportation, an electric city with no power outages and an affordable price for electrical and water supply are all important considerations.
- ✓ In terms of the entrepreneur factor, increase the entrepreneur's capacity, knowledge, and skill by providing entrepreneurship training and sharing experience from successful businesses in order to improve creativity and capitalize on business opportunities.

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APPENDIX A Questionnaire

St. Marry University

School of graduate study

Department of MBA

I. Introduction

I am a graduate student in the department of MBA in management at St. Marry University. Currently, I am undertaking research entitled **factors affecting the performance of Micro and Small Enterprises in yeka sub-city of Addis Ababa City Administration.** The main purpose of this questionnaire is to gather information about the performance of micro and small enterprises and also the outcome of this study will be used for academic purposes only. Therefore your genuine response to the questions is vital for the quality and successful completion of the study. The accuracy of the information you provide highly determines the reliability of the study.

Thank you in advance for your kind cooperation.

Instructions

- No need of writing your name
- For multiple choice questions indicate your answers with a circling in the appropriate choice.

Part I: Demographic profile of respondents.

1. **Gender**

A. Male B. Female

2. **Age**

A. Under 20 years B. 21- 30 years C. 31-40 years D. 41-50 years

E. over 51 years

3. **Educational Status**

A. Read and write B. Elementary complete C. High school complete

D. Certificate Diploma E. Degree and above

4. **Work experience**

A. 0-5 B. 6-10 C. 11-20 D. 21 and above

4. **Type of business you involved in**

A. Construction B. manufacturing C. Trade D. urban agriculture E. service

Part 2: factor affecting the performance of small and micro enterprise

The major factors that affect performance of MSEs are listed below. Please indicate the degree to which these factors are affecting the performance of your business enterprise. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (√) under the choices below. Where, **5** = strongly agree, **4** = agree, **3** = neutral, **2** = disagree and **1**= strongly disagree.

No	**Financial factor**	**5**	**4**	**3**	**2**	**1**
1	cash management skill is affect the performance of MSEs					
2	I am satisfied with the financial access given by microfinance and other lending institutions					
3	High collateral requirement from banks to other lending institution					
4	Source of finance has effect on the growth of my business					

5	The interest rate charged by banks or other lending institution is reasonable					
Management experience						
1	well trained employee and experienced manager increase the performance of MSEs					
2	Managerial skills as the most important constraint faced while enhancing business Performance of SME.					
3	There is clear division of responsibility and duties among staff members					
4	good strategic business plan is important in improving					
5	good organization and effective communication					
Technological factor						
1	Lack of skill and knowledge to handle new technology					
2	I have enough money to access new technology					
3	good selection of proper technology facilitate the performance					
4	I have appropriate machinery and equipment to use new technology					
Market factor						
1	Lack of market information					
2	Use of promotion to attract potential customers					
3	The difficulty to searching new market					
4	Lack of establishing a market network					
5	Poor customer relationship and handling					
Infrastructure factor						

1	There is sufficient and quick access to transport in my business area					
2	There is sufficient electricity supply in my business area					
3	There is sufficient power without any power interruption					
4	There is sufficient water supply in my business area					
5	The cost of electricity and water supply is affordable to my business.					
Entrepreneur factors						
1	There is creativity, flexibility and adaptability to new idea and technology with entrepreneur					
2	Giving entrepreneurship training to increase the performance					
3	There is motivation and drive					
4	There is information to exploit business opportunity					
5	Readiness of entrepreneur to learn, to improve and to change					
MSEs performance factor						
1	My business profit is in a good position					
2	My business profit is increased from timed to time					
3	My business has sustainable profit					
4	The level of my business productivity is increased from time to time.					
5	I am satisfied with the growth of my business productivity.					
6	My business has good Market share and good market location					
7	My business have a good Sales turnover					

APPENDIX B Interview Questions

Interview questions with MSE operators

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

A. external factors

- Technology factors
- Infrastructure (power, transportation, water supply and like)
- Marketing factors (relationship with suppliers, customers and others)
- financial factors (interest rates, collateral requirements, etc)

B. Internal factors

- Management and related factors
- Entrepreneurial factors