



**DILLA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**THE FACTOR THAT AFFECTING THE
PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISE: (THE CASE OF DILLA TOWN,
GEDEO ZONE)**

**BY
MENGISTU TAYE**

**ADVISOR: DR, NAVEN KUMAR
A THESIS SUBMITTED TO DILLA UNIVERSITY COLLEGE OF
BUSINESS AND ECONOMICS DEPARTMENT OF MANAGEMENT IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
MASTER OF BUSINESS ADMINISTRATION (MBA)**

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DECLARATIONS

I, Mengistu Taye, Registration Number MBAG-014/16 do here by declare that this Thesis is my original work and that it has not been submitted partially or in full by any other person for an award of a degree in any other University.

Name of Student Mengistu Taye Signature _____ Date _____

This Thesis has been submitted for examination with my approval as University Supervisor.

Name of Advisor Dr. Naveen Kumar Signature _____ Date _____

Approval

The undersigned certify that they have read and hereby recommend to the Dilla University to accept the thesis submitted by Mengistu Taye and entitled ‘Factors Influencing the Performance of Small and Medium Enterprises in Case of Dilla Town’ in partial fulfillment of the requirement for the award of Master of Arts Degree in Business Administration.

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Mengistu Taye

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Acronyms

| | |
|----------|--|
| ETB | Ethiopian birr |
| FeSMMIDA | Federal Small and Medium Manufacturing Industry Development Agency |
| GDP | Gross domestic product |
| GTP | Growth and Transformation Plan |
| MDGs | Millennium Development Goals |
| MOT | Ministry of Trade |
| MN | Mean |
| SD | Standard Deviation |
| MSE | Micro and Small enterprises |
| MSME | Micro, Small and Medium enterprises |
| MUDC | Ministry of Urban Development and Construction |
| SME | Small and Medium enterprises |
| SSA | Sub-Saharan Africa |
| SPSS | Software Package for Social Sciences |
| UNIDO | United Nations Industrial Development Organization |

Abstract

This research thesis aims to investigate factors influencing the performance of small and medium enterprises with a special emphasizes on manufacturing, construction, agriculture, service sectors in Gedeo zone, Dilla town. For the sake of achieving the objectives of this study, questionnaires were analyzed using statistical analysis such as descriptive analyses. The information gleaned through questionnaire from a sample of 228 operators was conducted of small and medium enterprises. The respondent operators were selected using stratified sampling technique. The empirical study elicited eight major challenges which seem to affect performance of small and medium enterprises in Dilla town which include: inadequate finance, lack of working premises, marketing problems, poor management practices, and technological. The findings further indicate that, there exists linear and positive significant ranging from substantial to strong relationship was found between independent variables and dependent variable. Moreover, the selected independent variables may significantly explain the variations in the dependent variable at 1% level of significance. Based on findings, recommendations to government bodies, to operators of small and medium enterprises and suggestions for other researchers are forwarded. The study examines the impact of five factors on performance of small and medium enterprises. The key finding of this study rejected the first and the third hypotheses. In the last, Provision of training on quality improvement and cost decline modalities, Provision of information on market opportunities, construction of display centers and Provision of advertising support, organize seminars and business drills for these SMEs, support to the SMEs by providing incentives to help them in implementing the corporate governance practices. SMEs, subsidize the interest which SMEs pay on borrowed funds, providing selling and display places in areas close to working area, and suggests some lines of enquiry for further research are some recommended by the thesis.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

In a contemporary highly competitive environment, most governments have seen increasing awareness and recognition of the role played by Small and Medium Enterprises (SMEs) and their contribution to the economy (Hlatshwako, 2012). Small and medium enterprises (SMEs) play significant role in the growth and development of world economy. The need for SMEs consider as a means of ensuring self-independent, jobs creation, import substitution, effective and efficient utilization of local raw materials and participation to the economic development (Ong, 2012). Small and medium enterprises are also important in many European countries. For instance in the US, also in other industrialized countries such as Japan, Australia, Germany, French and Canada, Micro, small and medium enterprises (MSMEs), and particularly small and medium enterprises (SMEs), are an important engine of economic growth and technological progress (Thornburg, 1993).

Not only industrialized countries Low-income countries in Sub-Saharan Africa (SSA) also are well aware of the positive role that small and medium-sized enterprises (SMEs) can play in their development. Small and medium enterprises can innovate, adopt new technology and know-how, create jobs, broaden the tax base, and diversify risk (Brixioval, 2009). It is estimated that small and medium enterprises employ 22% of the adult population in developing countries. United Nations Industrial Development Organization (UNIDO) estimates that small and medium enterprises represent over 90% of private business and contribute to more than 50% of employment and of gross domestic product (GDP) in most African countries (UNIDO, 1999).

SMEs have become important urban economic activities particularly in providing urban employment. In similar fashion, in cities and towns of Ethiopia, SMEs and the informal sector are the predominant income generating activities and thus they have a significant contribution to local economic development and used as the basic means of survival (Gebre egziabher&Demek

e, 2004). Currently Ethiopia implementing a five-year (2010/11-2014/15) Growth and Transformation Plan (GTP) in line with its long-term vision of achieving rapid, sustainable and equitable socio-economic growth and development, reducing poverty, and meeting the Millennium Development Goals (MDGs) within the framework of macroeconomic stability. In order to that, Small and Medium scale Enterprises (SMEs) are regarded as the engine of economic growth and equitable development in our country economies but, there is still a huge amount of failure in this sectors because of this and many reasons long term vision of our country may not be achieved easily however, the five year Growth and Transformation Plan (GTP) and long term visions will only be a reality if the necessary imperatives that meets the need of the present generation without compromising the ability of future generation to meet their need.

Micro and small-scale enterprises are important both to the individual and to the nation. To the individual, they provide employment and raise the standard of living of both employers and employees. To the nation, they complement large-scale modern sector enterprises, they utilize agricultural and other raw materials that warrant only small-scale production, they mobilize resources otherwise left out of the mainstream formal mobilization channels and they provide the necessary platform for takeoff into large-scale modern production by many indigenous Ethiopians (EshetuBekele&ZelegeWorku. 2008).

Micro and medium-scale enterprises play an important role in one country economy and it is increasingly viewed as an important engine for employment creation and economic growth.

Micro and medium-scale enterprises can also face many obstacles their limit their long-term survival and development that reduces the performance of the enterprises (Dyer *et al.*, 2014).

A study conducted by International Finance Corporation (IFC, 2013) based on responses of more than 45,000 firms in developing countries found that the top obstacles to the operations of Micro and medium-scale enterprises are a poor investment climate. Especially, the study found that red tape, high tax rates, and competition from the informal sector are main challenges and also inadequate infrastructure, especially an insufficient or unreliable power supply. Whereas informality is a major hindrance of Micro and medium-scale enterprises in middle income

countries are an inadequate power supply is the most important challenge for companies in low-income countries (IFC, 2013).

Typically, micro and medium-scale enterprises also face higher transaction costs than larger enterprises in obtaining credit (Saito and Villanueva, 1981). Poor managing and accounting practices have in a weak position to the ability of smaller enterprises to raise finance.

This leads to lack of adequate information which is associated with lending to micro and small-scale enterprise borrowers have restricted the flow of finance to smaller enterprises. In spite of the longstanding supply side credit policies, the share of credit flow to small enterprises appears to be deteriorating, as economic liberalization proceeds. For example, according to the ministry of finance of India, the cost and availability of credit is a major issue facing and challenging the small enterprises in India (Ministry of Finance, 2013).

According to aschenak also identified lack of access to external finance and weak capital base, inexperience in the field of business, particularly lack of technical knowledge plus inadequate managerial skills, lack of planning and lack of market research as causes of micro and small-scale enterprises failure (Murphy *et al.*, 1999). Sufficient financial resources are also required for the firms to make a continuous investment in terms of employee training and education, and to initiate any innovation process in an effort to sustain their competitive advantage (Dyer *et al.*, 2014).The contribution of micro and small-scale enterprise to development are generally acknowledged. It is said that the performance of enterprise depends on the type of industry and country it operates (Lampadarios, 2016).

Bloch and Bhattacharya (2016) conclude that small businesses tend to have a higher failure rate as compared to large organizations, although they are commonly perceived as an engine of a country's economy. For example, in Malaysia, it was found that higher number of small and medium-sized enterprises (SMEs) indicated a worse performance in the first quarter of 2016 as compared to 2015 (SME Corp, 2016). Many failure stories of SMEs reveal that their characteristics which include reactive, fire-fighting mentality, resource limitations, informal strategies, flexible structures, and lack of strategic planning processes may have contributed to their failures (Gnizy *et al.*, 2014).

Moreover, inadequate resources issue can often influence these firms to focus on short-term rather than long-term goals inhibit them from further development and exploitation of opportunities existing in the environment. There are also various empirical studies verifying strategic importance of technological usage is well acknowledged in the literature as a factor that could enhance business success (Chatzoudes *et al.*, 2015).

Firms that utilize the latest technology tend to capture customers more than their competitors (Valacich and Schneider, 2014). Specifically, small firms that have timely access to technical, industry knowledge, and insights into the latest technological breakthrough will be more successful. By adopting information and communication technologies, this can ease collaboration between small enterprises and their supply chain partners (Greene *et al.*, 2015). Chowdhury also shows that, scholars reported internal resources and capabilities including but not limited to management skills, marketing skills, and technological capabilities (Bouazza *et al.*, 2015).

According to Chen and Zhang (2015), mainly, technological factors were responsible for enterprise success. Again according to Chen and Zhang have also shown the significant role of government supports through policies, financial, market access, technical and infrastructure in enterprise success (Rantšo, 2016) and furthermore, a study conducted by Chowdhury *et al.* (2013) concludes that, lack of conducive business environment restricts the development and growth of enterprises. The solution for solving the problem of economic growth in developing countries often resides in the performance of micro and small-scale enterprise industries. Micro and small-scale enterprises are widely recognized for their role in social, political and economic development (Rantšo, 2016).

Their importance is apparent in its ability to provide reasonably priced goods, services, income and employment to the number of peoples. Consequently, the efficiency of Micro and medium-scale enterprises is closely associated with the efficiency of the country. The intention of this paper is also to scrutinize factors affecting the performance of micro and small-scale enterprises. Since, Micro and medium-scale enterprises in Ethiopia, in Gedeo zone also employ a huge population; there positive performance can bring hope to the problem of unemployment in the zone.

1.2 Statement of the problem

The study will be mainly focuses on the factors affect the performance of micro and medium enterprises. MSEs play dynamic role on the growth of country and were base of medium and large firms.

Since the studies focus on the medium and small enterprises sector importance and microfinance institutions' role in general. But the previous study intensively based on the role on the growth of micro, small and medium enterprise and the finance source in various financial institutions (Ageba and Amha, 2006; Gebreeyesus, 2007; Nigussie, 2012; Eshetu and Mammo, 2009; MoUDC, 2013).

Micro and medium enterprises are a basic issue, which are the sources of job possibility for labor force and great proportion income creation for society. Analyses of studies confirm that the aid of MSEs in this view have long been acknowledged all over the world (Liedholm, 2001; ILO, 2003a;

Mazumdar, 2003). Although, MSEs great contribution in countries enhancement and economic growth, their enlargement and progress in emerging countries were mainly influenced by right to use of finance, poor decision-making ability, and lack of training opportunities and increasing price of inputs (Cook, 2000). Supplementary studies executed recommend that finance is the most imperative requirement for the small and medium enterprises sector (Green *et al.*, 2002).

The small and medium enterprises have extremely narrow right to use financial services from formal financial institutions with jointly their operational and investment desires (Kessy and Temu, 2010).

Poor people have no access to get credit or money for self-employment and lack of access to financial support are some of the major problems that prevail in the urban areas of the developing countries. As a result they cannot take credit from financial sectors like governmental and private banks. This forces them to borrow money from urban money lenders at excessive interest rates. These factors include the unfavorable and very harsh economic conditions

resulting from unstable government policies; gross under capitalization, strained by the difficulty in accessing credit from banks and other financial institutions; inadequacies resulting from the highly dilapidated state of infrastructural facilities; astronomically high operating costs; lack of transparency and Corruption; and the lack of interest and lasting support for the small enterprises by government Authorities, to mention a few (Oboh 2002, Wale-Awe 2000).

All the above problems are manifestations of poverty in the developing countries including Ethiopia. Concerning these problems, various approaches and many innovative institutional mechanisms have been developed across the world in reducing poverty by providing credit and related services to enhance the access of house hold to financial service to poor (Gelfeto&Dr B. V. Prasada,2013),.

In view of this, the Ethiopia government, in order to make available supply of monetary services to different sectors, of the economy, particularly to micro and small businesses, has been encouraging the establishment of formal microfinance institutions both in the rural and urban area as an effective means of alleviating poverty and income disparity.

The study conducted by Ethiopian CSA discloses that the contribution of small enterprises in creating job opportunities and in the development of our economy is vital (FMSEDA, 2006). However, their contribution is very low in compared with that of other countries due to financial Problem, lack of qualified employees, lack of proper financial records, marketing problems, lack Of working premises and raw materials. Lack of information about market opportunities and standards and regulations are one of the underlying factors that hinder their performance (MuluGebreeyesus, 2009).

Research has shown that in order to achieve small enterprises contributions, these businesses have to overcome a series of challenges, which the international labor organization (2000) has identified as the following: legal constraints, technological constraints, infrastructural constraints, financial constraints, management constraints and marketing constraints. In addition to these factors, Marshall *et al* (2000) have also identified the following factors: high utility rates, particularly power, delays at the customs (ports of entry), high excise duties on supplies

and parts, high freight costs, limited access to raw materials and the high cost of capital and loans.

In Ethiopia specifically, small and medium enterprises have been confronted by many of these problems. According to the CSA Report (1994/1995), the major obstacles experienced by small enterprises were lack of access to finance, working premises (at affordable rent), lack of skills and managerial expertise, Infrastructure, information and technology. This problems result in failure of these businesses to expand and have the effect of preventing their expansion almost from the beginning of their Operations.

There is no researches has been undertaken on the issues of SMEs in Dilla town. Even researches on SMEs are very scant in Ethiopia. Among them, RahelFitane "Factors Affecting Sustainability of Small and Medium-Scale Enterprises: the Case of Addis Ababa, Ethiopia" in 2018, AdmasuAbera "Factors Affecting the Performance of Micro and Small Enterprises in Arada and Lideta Sub-Cities, Addis Ababa" in 2012, MeseretMeresa "Factors Affecting the performance of Small-Scale Enterprise (Restaurant and Hotels) InrayaAzeboWereda: The Case of Mohoni, Maychew and Korem" in 2018, and "Destaeleke Factors Affect the growth of Micro and Small Enterprises in Hossana Town SNNPR" in 2015 can be mentioned.

According to Gedeo Zone Trade and Industry department report of 2018, the performance of the Small and Medium Enterprises of Dilla town was poor. According to the report due to factors like Management factor, marketing factor, Technological factor, Finance factors and Work related factors in both areas or in manufacturing, construction, agriculture and services Dilla town was ranked last.

Therefore this research attempted to identify the specific factors that are responsible for influencing the performance of small enterprises in Gedeo zone, Dilla town and shade light on different mechanisms to avoid or control the effect of these factors. In reality, literature on micro and small enterprises in Ethiopia is scanty and most of the available studies were not conducted in line with performance aspects of the enterprises. However, this Research tried to assess factors influencing the performance of small enterprises in a holistic way by Targeting and deeply investigating those small enterprises owners/operators in Gedeo zone Dilla town. The purpose of

this paper is to examine factors influencing small and medium enterprises performance in Gedeo zone Dilla town to try to suggest ways of controlling or limiting the effect of these Factors.

1.4 Research Objectives

1.4.1. General Objective

The overall objective of this study is to investigate and identify the key factors influencing the performance of small and medium scale enterprises in Dilla town.

1.4.2. Specific objective

- To assess management factors in manufacturing, construction, and agriculture and services performance of medium scale enterprises in Dilla town.
- To assess marketing factors in manufacturing, construction, agriculture and services performance of medium scale enterprises in Dilla town.
- To assess technological factors in manufacturing, construction, agriculture and services performance of medium scale enterprises in Dilla town.
- To assess finance factors in the manufacturing, construction, agriculture and services performance of medium scale enterprises in Dilla town.
- To assess work related factors in the manufacturing, construction, agriculture and services performance of medium scale enterprises in Dilla town.

1.4.1 Hypothesis of the Study

With the help of sufficient and appropriate empirical data on the factors influencing the performance of SMEs, this study will be test the following hypothesizes:

Ha1 There is positive relationship between management factor and performance of small and medium enterprises in Gedeo zone, Dilla town.

Ha2 There is positive relationship between marketing factor and performance of small and medium enterprises in Gedeo zone, Dilla town.

Ha3There is positive relationship between Technological factor and performance of small and medium enterprises in Gedeo zone, Dilla town.

Ha4There is positive relationship between financial factor and performance of small and medium enterprises in Gedeo zone, Dilla town.

Ha5There is positive relationship between work-related factor and performance of small and medium enterprises in Gedeo zone, Dilla town.

1.5 Significance of the Study

The study should be helpful to small and medium business enterprises, consultants, policy planners and government agencies that need to gain a better understanding into the main challenges facing small and medium enterprises performance in these cities. It should also bring about insights into the needed support for the small and medium enterprises sector. This study also serve as a springboard for other studies, which may focus on similar topics and issues, related to factors influencing the performance of small and medium enterprises. In addition, the findings of this study will help small and medium enterprises in Gedeo zone, Dilla town and others, within an insight into the benefits of using different factors studied in this research to predict the factors that influencing the performance of small and medium enterprises.

Finally the study is expected to indicate theoretical solutions to current performance problem of SMEs in the city. The study may also provide some theoretical insights on this topic.

1.6 Delimitation/Scope of the Study

Conceptually the study confined to internal & external factors influencing the performance of small and medium-scale enterprises in Gedeo zone Dilla town. This geographic area is selected because it represents the second large number of small and medium enterprises in Gedeo Zone. The study will be focus only on four (manufacturing, construction, agriculture and service) sectors of Government organized small and medium enterprises in Gedeo zone, Dilla town. However, there are various private small and medium enterprises; the reason for excluding private small and medium enterprises is size and concentration of small and medium enterprises

and Researching in a wider geographical area will require more time and resources that are beyond the scope of this study.

1.7 Definition of terms

An Enterprise can be defined as an undertaking engaged in production and/or distribution of goods and services for commercial benefits, beyond household consumption at the household Level.

Factor - A factor is a contributory aspect such as access to finance, access to market, technology, working premises, ease of regulation and access to network that affect performance of small enterprises.

Respondents - respondents are those individuals who are owners, manager or operators of an enterprise.

Small Enterprises - means an enterprise with 6-30 employees (including the owner or family) and total asset is not less than 50,001 ETB and not exceeding from ETB 500,000 for service sectors other than high technology consultancy service institutions and not less than 100,001 ETB and not exceeding 1,500,000 ETB for industrial sectors.

1.8 Organization of the thesis

The first chapter comprised of introduction, background of the study, statement of the problem, objective of the study, research questions, and significance of the study, scope of the study and definition of important terms. The second chapter focuses on the literature review followed by the third chapter Research Methodology. The fourth chapter outlines the result and discussion of the study and chapter five concluded and suggested some recommendations

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

The purpose of the literature review is to provide insight into information from previous researches related to this study and the research questions which facilitated the research process (Rowley, 2012). This chapter reviews works on small and medium scale enterprises in Ethiopia and other countries in general. Concepts on sustainability and determinants of performance were also reviewed. This is of help to understand the state of small and medium scale enterprises and its determinants of sustainability. This chapter comprises of five sections. These are definitions of small and medium scale enterprises, the concept of business performance, empirical studies, the conceptual framework and Hypothesis of the study.

2.1 Definitions of Small and Medium Enterprises

There is no universally agreed definition for small and medium enterprises. The term small and medium scale enterprises covers a wide range of definitions and measures, varying from country to country and varying between the sources reporting small and medium scale enterprises definitions. Also, based on the economic activity sectors, the definitions are different (Salimzadeh, Courvisanos & Nayak, 2013). Some of the commonly used yardsticks are the number of employees, total net assets, sales and investment level, number of annual working hours, annual turnover, annual balance sheet or production volume, and independence of the company (Harjula, 2008). Among the various criteria, the number of employee and the annual turnover seem to be the most important criteria used to define small and medium scale enterprises (Peacock, 2004).

Therefore, there is no single small and medium scale enterprises definition uniformly accepted around the world. (Gibson & Vaart, 2008) state that no single definition of small and medium scale enterprises appears to be universally recognized, but it is found that small and medium scale enterprises are in general:

- ✚ Formally registered with government- or other registration bodies;
- ✚ Obligated to pay taxes and social security charges;

- ✚ Able to allow their employees to take sick- and annual leave while receiving compensation;
- ✚ Able to provide skills training for their employees
- ✚ Able to invest in capital with a payback of longer than twelve months;
- ✚ Able and inclined to contribute to the local community.

Some International Definitions of small and medium scale enterprises. The World Bank defines small and medium scale enterprises as follows: Small enterprise; have greater than 10 up to less or equal to 50 employees, total assets and total sales of up to US\$3 million; Medium enterprise have greater than 50 up to less or equal to 300 employees, total assets and total sales of up to US\$15 million (Ayyagari, Beck, & Demircu Kunt, 2007). This definition provides a general context for understanding all small and medium scale enterprises studies.

In Kenya, by referring the 1999 (MSE) small and medium enterprise in National Baseline Survey, MSEs defined as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting, gathering and forestry), whether in the formal or informal sector which employ 1-50 people (Ronge et al., 2002 cited in Mulugeta, 2011:15). More specifically, according to them, micro enterprises are those that employ 10 or fewer workers and small-scale enterprises are those that employ 11-50 workers. The same study argued that the above definitions are based on one of the three criteria mainly used in literature to define MSEs- number of employees.

The second criterion relies solely on the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, MSEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes and labor laws. The last criterion defines MSEs by their limited amounts of capital and skills per worker. The above indicated writers emphasized highlighted that the degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of MSEs is based; and lastly they claimed that the term MSE incorporates firms in both the formal and informal sectors.

Table 2.1 International definition of SME

| Types of employee | Country | | | | | | |
|-------------------|---------|------|------------|--------------|-----------|------------|--------------|
| | EU | USA | GHANA | RUSSIAN | INDIA | CHINA | SOUTH AFRICA |
| Small | <50 | <100 | 6-29 | 15-100 | 0 | <300 | 50-99 |
| Medium | <250 | <500 | 30-99 | 101-250 | 0 | 300-2000 | 100-200 |
| Turn over | | | | | | | |
| Small | \$13m | 0 | \$100k | 400m RUB max | Rs50- 60m | <Y30 | R1mR32m |
| Medium | \$67m | 0 | \$1million | 1B RUB max | Rs60- 99m | Y30- Y300M | R5mR64m |

(Source: Mahembe, 2011)

2.2 Definition of SMEs in Ethiopia

In 1997, Ethiopia has defined Micro Enterprises as enterprises with a total asset of less than 20,000 Birr (\$1200) and Small Enterprises as Enterprises with a total asset of Birr 500,000 (\$30,000) or less. In this definition, the only base used is the total asset unlike international organizations definition base. To align the definition with at least some countries and international organizations, the country has revised the definition of Micro and Small Enterprises in 2011. (EsubalewandRaghurama, 2017). But the new established definition only focus on Micro and Small Enterprises it does not put any demarcation between Small and Medium; and Medium and large Enterprises. According to ministry of trade and industry development bureau (MOTI) the new Small & Micro Enterprises Development Strategy of Ethiopia (published 2011) the working definition of small and medium scale enterprises is based on capital and Labor. The same as micro and small enterprises the definition of medium enterprises also defined based on capital and labor.

Table 2.2 SMEs definition of Ethiopia

| No | Enterprise level | Sector | Hired labor | Capital |
|----|------------------|----------|-------------|-----------------------|
| 1 | Small | Industry | 6-30 | 100,001-1,500,000 ETB |
| | | Service | 6-30 | 50,001-500,000 |
| 2 | Medium | Industry | 31-100 | 501,000-7,500,000 ETB |
| | | Service | 31-100 | 501,000-7,500,000 ETB |

(Source: MOT, 2011)

Currently the manufacturing sector is separated from the small and medium scale enterprises by containing small and medium manufacturing sector only. It has been established before only one year and the other sectors will call federal urban job creation and food security agency. Based on federal small and medium manufacturing industry development agency (FeSMMIDA), Small manufacturing industry means an industry having a total capital, excluding building, from birr 100,001 to birr 1,500,000 (One Hundred Thousand One Birr to One Million Five Hundred Thousand Birr) in the manufacturing sector and engages from 6 to workers including the owner, his family members and other employees. Medium manufacturing industry" means an industry having a total capital, excluding building. from Birr 1,500,001 to Birr 20,000,000 (One Million Five Hundred Thousand One Birr to Twenty Million Birr) in the manufacturing sector and engages from 31 to 100 workers including the owner, his family members and other employees; (Federal Negarit Gazette,2016 :4).

When we compare the Ethiopian current definition of Small and medium Enterprises with the above some international definitions, it has a very visible gap, In Ethiopia, an enterprise is said to be small, if it employees less than fifty employees and has a total asset of less than 1,500.000 or Birr 100,000 for Manufacturing sector. For example when we compare it with definition of EU approximately one and half times less for employees for both small and medium enterprises and its asset value is less by many times. This figure is very significant that make comparison between Ethiopian Enterprises and Enterprises labeled by international organizations (e.g. EU) difficult. To reduce the gap, forward move could be one solution for Ethiopia to increase the asset requirements of Enterprises.

2.3.The Role of Micro and Medium Scale Enterprises in Poverty Alleviation

By now, it is clear and agreeable that poverty, both in urban or rural areas, is all about lack of

basic needs, health care, clean water, sanitation, education and low or inadequate level of income and consumption, and poor command over resources. Before reaching in to such multifaceted understanding of the concept of poverty, poverty was viewed in terms of level of income in the late 1950s and 60s. Then onwards, however, the trend of defining it begun to incorporate other noneconomic aspects. Likewise, on the other hand, according to Green *et al* (2006), one important innovation, since the late 1980s and early 1990s, in development research and policy has been the refocusing of the goals of development strategy from an exclusive concern with economic growth to growth with poverty reduction“ through small and medium scale enterprises development. Again during these decades, the roleplay by small and medium scale enterprises, through the various socio-economic benefits emanating from the sector, was found to be eminent in the overall development effort and process of nations. In other words, by generating larger volumes of employment as well as higher levels of income, the small and medium scale enterprises will not only have contributed towards poverty reduction, but they will also have enhanced the welfare and standard of living of the many in the society (Mukras, 2003 cited in Mulugeta, 2011).

Hussmans and Meharan (2005), indicated that small-scale enterprise can spark of socio-economic revival as they need little capital to operate but can contribute much for they work with minimum simple and inexpensive equipments and management skills. They can be adapted quickly and create quick self employment and jobs much needed by the enumerable job seekers.

The health of micro and small business sectors enhance the overall economy of the country, since they utilize local resources, satisfying vital needs of large segment of the population with their products and services, serve as spheres of technological, marketing and management capacity and skill acquisition, and enable technological progress via adoption technologies (FeM SEDA, 2004).

The value of the small business sector is recognizing in economies worldwide, irrespective of the economies developmental stage. The contribution towards growth, job creation and social progress is valued highly and small business regarded as an essential element in a successful formula for achieving economic growth.

Small-scale enterprises are one of the priority areas of action among the Programs addressing African development (UN, 2008). It could see as a means of achieving smooth transition from tradition to modern industrial sector; and has a huge contribution to the growth and development of the country in terms of employment generation with a relative low capital cost (Stephen &Wasiu, 2013).

2.4. Empirical Review of Micro and Medium Scale Enterprise (MSEs) in Ethiopia

In Ethiopia, the small and medium scale enterprisessector has high capacity in absorbing high labor force; this is because the sector characterized by diversified activities. Due to its contribution for alleviating the poverty of the low income people and of course with a number of constraints micro and small enterprises, get the attention of many researchers. Accordingly, Daniel (2007) with having an objective to assess the impact of group-based small and medium scale enterprises on poverty alleviation conducted a research in Nekemte city of the Oromia Regional State of Ethiopia. According to this study, 48% of the surveyed respondents are of a view that their income has increased while 22.7 % said that their income has decreased because of their engagement in the studied small and medium scale enterprises.

The study further indicated that the studied respondents consumption expenditure has increased after they start to work in small and medium scale enterprises, which has resulted in the improvement of the operators consumption and ownership of water, housing, household assets, education and medication. The same study showed that small and medium scale enterpriseshave a protective role on averting vulnerability of their members to risks such as food shortage, unemployment and lack of income. Most importantly, the research pointed that small and medium scale enterpriseshave helped for the economic empowerment of women. Lastly, the study identified that Lack of market, stiff competition, lack of working capital, raw material shortage and poor managerial skills are among the problems that small and medium scale enterprisesare encountering.

Ephraim (2010) indicated that small and medium scale enterprisesare contributing a lot for poverty alleviation but they are facing multi-dimensional problems both at start up and operational levels. Considering the main problems of the enterprises in different sectors, this researcher reveals that, startup capital; high interest rates, skilled personnel, production place,

unaffordable tax and /or rent, in adequate support from Government/NGO, lack of credit facilities, and lack of access for training were among the major impediments for operator/manager at the grass root level of MSEs activities. This study also revealed that, the severity of small and medium scale enterprises problem varies depending on the type of sector. I.e. Problems in one sector are different from the other.

Getahun (2009) carried out a research in Gullele sub-city of Addis Ababa city to assess the impact of MSE intervention on urban poverty reduction by examining the level of employment creation, change in income and living standard of the beneficiaries in terms of education, health, household assets and clothing. The study found out that the studied small and medium scale enterprises have created a permanent and temporary employment opportunity. The income and expenditure of the beneficiaries of the small and medium scale enterprises program has shown an increment, according to the study. The respondents believed that their engagement in the small and medium scale enterprises has resulted in an improved health and clothing, and increased ownership of basic household assets such as table, chair, bed, radio and tape recorder.

For instance, Workneh (2007) research undertaken in Kolfe Keraneo sub-city of Addis Ababa indicated that lack of capital, lack of market, unfavorable policy, and inadequate infrastructure, absence of adequate and relevant training, bureaucratic structure and procedures are among constraints faced by small and medium scale enterprises. The researcher suggested a sustainable and non politicized support to the studied small and medium scale enterprises i.e. block manufacturer enterprises. Similarly, Adils (2007) research carried out in Addis Ababa's two sub cities industrial zones showed that inappropriate government intervention, shortage of capital, location disadvantage, lack of market and lack of display room are the major challenges that obstruct small and medium scale enterprises.

Mulugeta (2011) in his study entitled the livelihoods reality of small enterprise operators identified and categorized the critical problems of the small and medium scale enterprises in to market-related problems, which are caused by poor market linkage. And also poor promotional efforts; institution related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of

training to executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior.

In addition to this lack of vision and commitment from the side of the operators; small and medium scale enterprises-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the small and medium scale enterprises; and finally society related problems such as its distorted attitude about the operators themselves and their products.

Eshetu and Zeleke (2008) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small 25 enterprises by using a random sample of 500 small and medium scale enterprises from 5 major cities in Ethiopia.

According to the study of Mulugeta (2011), the critical problems of small and medium scale enterprises has recognized and classified in to market related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives. Also poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; small and medium scale enterprises-related challenges including lack of selling place, weak accounting. In addition to this record keeping, lack of experience sharing, and lack of cooperation within and among the small and medium scale enterprises and finally society related problems such as its distorted attitude about the operators themselves and their products.

Micro and medium enterprises have massive contributions in reducing Poverty, creating employment opportunities, increasing income of individuals or improve standard of living of citizens especially in urban area and on the contrary many challenges have come across with the sector.

2.5. Rationale for Emphasizing Micro and Medium Scale Enterprise (MSEs) in Industrial Development

Fabayo (1989) observed that one major claim for focus on small and medium scale enterprises is that they are large employers of labor and this makes them vital in coping with the problems of unemployment and poverty.

According to him, strong evidences based on country and regional experiences exist to show that small firms are major source of employment opportunities for a wide cross-section of the workforce: the young, old part-time workers and the cyclically unemployed. Uzor (2004) opined that small scale enterprises (SSEs) contribute to national development by positively influencing the distribution of income in functional terms, wages and profits in nominal terms. Focus on SSEs help to decentralize industries thereby not only accelerating rural development but also stemming urban immigration and the consequent problems of congestion in the cities. Another rationale for focus on small-scale enterprises (SSEs) is its contribution to value added in the manufacturing sector and to the Gross Domestic Product (GDP) of the economy.

2.6. Factors Affecting Micro and Medium Scale Enterprise (MSEs)

African entrepreneurs face some unique challenges that hamper their ability to survive and grow, and Ethiopian start-ups are no different. The political, economic and bureaucratic landscapes in which most African entrepreneurs operate are generally similar even though there are unique challenges and opportunities prevailing in each nation, which must be take into account in formulating effective policies to promote entrepreneurship. The public service jobs, engaging in a business venture have not historically been consider a high status profession in Africa although entrepreneurs may become wellrespected citizens when they get rich. This has also been true in Ethiopia (Mersha, Sriram, and Hailu, 2010).

There are various challenges facing micro and small-scale enterprises; while some are financial, others are non-financial. The financial constraints include those factors that prevent small-scale enterprises from accessing funds easily, inadequate sources and supply of funds has been a major setback to the realization of many brilliant business ideas and outward expansion of existing business.

An industrial analysis recently observed that one of the reasons why small scale enterprises funds has not been invested, is the operator prefer to get the funds as loan, rather than as equity

contribution. To gain access to finance, small-scale enterprises owner should learn to put up realistic business plan supported with financial projections, which highlight the profitability of the enterprises before they seek for funds.

Even though Small enterprises have important roles in economic development, poverty alleviation, employment opportunity, they are critically challenged by certain impeding factors to sustain within the sector. The research conducted by Bowen, Morara and Mureithi (2009) in Kenya revealed that three out of five micro and small businesses failed within the first few months of operation due to competition, managerial inefficiency, insecurity, debt collection, lack of working capital, power interruptions, political uncertainty, cost of materials and low demand of the products.

The problem confronting SSEs appears to be similar in least developed or developing countries. However, the extent of the problems varies from country to country and industry to industry; and it depends on firms characteristics (Aremu&Adeyemi, 2011). Currently, there are many internal and external factors face SSEs in their operations and hinder their growth in Ethiopia (MUDC, 2013). A hard look at various studies has revealed a number of deterrents to the growth and survival of the Small and medium enterprises (SMEs).

2.6.1. Lack of Adequate Finance

Financial constraints such as inadequate investment capital, insufficient loan, and inefficient financial market are the major obstacles in doing business, and most MSE's are highly risky ventures involving excessive administrative costs and lack of experience in dealing with financial institutions (CLEP, 2006). According to Sacerdoti (2005) in Habtamu *et al.* (2013), financial institutions such as microfinance and the banking systems in Africa are not in a position in providing enough financial support to the expansion of micro and small businesses. MUDC (2013) also identified that financing has become a principal challenge to small scale enterprises in Ethiopia; except City administrations and regional microfinance institutions, their savings and family supports, bank in Ethiopia do not provide finance in the form of loan to small and medium scale enterprises due to collateral obligations and other requirement.

2.6.2. Lack of Working Premises

Working premises with least leasing price adjustment is the first requirement and taken as mandatory to the government (GFDRE, 1997 and 2011). According to the three years performance report of FMSEA (2005), the government has supplied 23,263,938 Sq. kilometers land to buildings, sheds and displaying places. Although these efforts have been made, it is the second ranked challenges in regional towns and the major ones in Addis Ababa (Habtamu, *et al.*, 2013; MUDC, 2013). Thus, the problem requires attention to gain SSEs expected benefit.

2.6.3. Lack of Managerial and Technical Skills

The problems of small and medium scale enterprises management arises from the limited knowledge and ability of the owner or shortage of competent staff to advise the owner on management policies (Stephen & Wasiu, 2013).

Decision-making skills, sound management and accounting practices are very low for small scale enterprises operators in developing countries (Aremu & Adeyemi, 2011). In addition, lack of managerial skills leads to problems in production due to lack of coordination of production process, and inability to troubleshoot failures on machinery and/or equipments and they cannot afford to employ specialists in the fields of planning, finance and administration (CLEP, 2006).

2.6.4. Lack of Adequate Market

marketing knowledge is important for the promotion, growth and development of small-Scale enterprises. In this regard, the Ethiopian government has formulated small and medium scale enterprises strategies to ease marketing challenges by creating inter-linkage mechanisms with other institutions, providing training on marketing, developing export support programs and marketing information center (MoTI, 1997). However, inability to sell the products and services; lack of adequate marketing channels, and lack of marketing skills are the problems to the starting of business and further growth of the sector (MUDC, 2013; MoFED, 2011).

2.6.5. Regulatory Constraints

Registration and licensing, and the extent of government official involvement and accessibility of rules and regulations have impacts on small and medium scale enterprises. According to Dlitso, K., and Peter Q. (2000), high startup costs for licensing and registration requirements, cost of settling legal claims and excessive delays in court proceedings can impose excessive and

unnecessary burdens on small and medium scale enterprises operations. Even though registration and licensing helps SSEs to have legality rights, and to reduce the prevalence of informality, more than 12% of small and medium scale enterprises in Addis Ababa did not have registration license (MUDC, 2013).

2.6.6. Capital Shortage

The author observes that small-scale enterprises have serious financial problem in at least three respect of:-

- a) Securing funds in small amount at rates comparable with those paid by large industries.
- b) Building and manufacturing adequate financial reserves
- c) Securing long term equity capital.

2.6.7. Inflation

Despite the fact that cost of capital is higher for the small-scale manufacturer, the effect is even compound by raising inflation rate.

2.6.8. Inadequate Education and Skills

Education and skills needed to run micro and small enterprises. Research shows that the majority of the carrying micro and small enterprises in Iran are not quite well equipped in terms of education and skills. The study suggests that those with more education and training are more likely to be successful in the small and medium scale enterprises sector (King and McGrath, 2002). As such, for small businesses to do well in Iran, people need to be well inform in terms of skills and management. Small and medium scale enterprises appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running small and medium scale enterprises have at least attained college level education.

2.6.9. Lack of Managerial Training and Experience

Many small and medium scale enterprises owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term

issues, and more opportunistic than strategic in its concept. Although this attitude is the key strength at the start-up stage of the enterprise, because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that small and medium scale enterprises owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. The majority of those who run small and medium scale enterprises are ordinary lot whose educational background is sadly lacking. Hence, they may not be well equipped to carry out managerial routines for their enterprises (King and McGrath, 2002).

2.7 Conceptual Frame Work

Conceptual framework means that concepts that relate to one another were used to explain the research problem. Since business performance is influenced by both internal and contextual factors, operators need to understand what influences businesses to reach peak performance. The contextual factors include politico-legal, working premises, technological, infrastructural, marketing and financial factors. The influence of these factors to the firm performance is very important but it is noteworthy that the management has no (little) control over them (Wanjiku, 2009:81-82). Nevertheless, the factors must be closely monitored to ensure that stringent measures are taken within the best time to either take advantage of the opportunities or combat the threats found in the external environment. The internal factors that influence the firm's performance can be classified as management and entrepreneurial factors. To align the conceptual framework with the research objectives, business performance is the dependent variable whereas politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial factors are all independent variables. The relationship can be expressed and shown in figure 2.1.

Figure 2.1 Conceptual framework

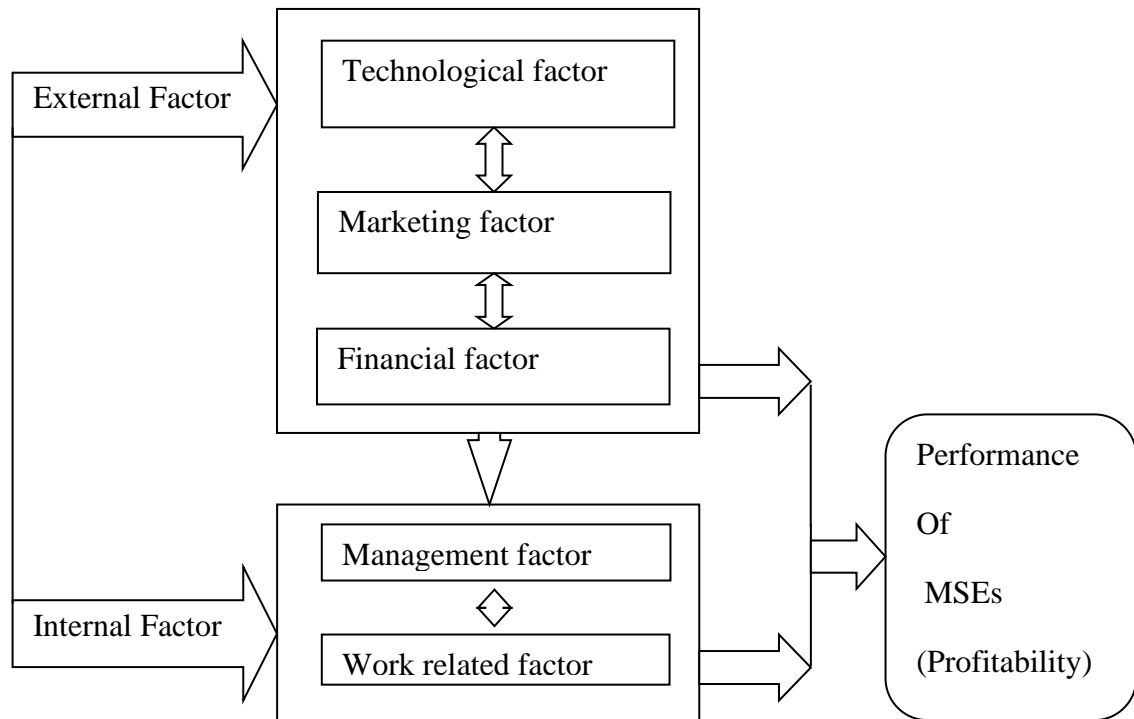


Figure 2.1 conceptual frame works (own model)

In this study profitability was opted to measure performance of these small and medium scale enterprises. This is mainly because of the following three reasons. First, as the pilot study clearly indicates these small and medium scale enterprises are more focusing on profitability than other modes of performance measures. Second, the small and medium scale enterprises were not applying balanced score card to measure their overall performance. Third, as recommended by Rami and Ahmed (2007:6) a profit has been widely adopted by most researchers and practitioners in business performance models.

2.8. Hypothesis of the Study

To sum up the constraints of the small and medium scale enterprises sector, it was also concluded by (Hussein, 2009) that small and medium scale enterprises are often confronted with problems that are uncommon to the larger companies and multi-national corporations. Many small and medium scale enterprises owners and managers lack managerial training and experience. They just lead the business through trial and error method because of that, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more

opportunistic than strategic in its concept (Hill, 1987). In order to examine the effect of this management factor the following alternative hypothesis is proposed:-

Hypothesis 1.There is positive relationship between management factor and performance of small and medium enterprises:-

Marketing is one of the most important functional areas and it is a concept of linking the product and service of a business to its customers intended getting the most competitive advantage Kotler and Armstrong (1999). Performance of small and medium scale enterprises may be affected by poor customer handling and lack of available information about the market. To examine this and other marketing issues the following hypothesis is developed:-

Hypothesis 2.There is positive relationship between marketing factor and performance of small and medium enterprises.

In a competitive business environment the role of information technology (IT) and internet is significant in the process of providing effectively efficient services, products, and packages to achieve a competitive advantage over competitors (Hassen&Svensson, 2014). In order to know the extent to which technological factor affected the sustainability of small and medium enterprises of Addis Ababa the following hypothesis is developed:-

Hypothesis 3.There is positive relationship between technological factor and performance of small and medium enterprises.

Financial problem is almost universally indicated as a key problem of small and medium scale enterprises. Comparing small and large firms the World Bank finds that small firms face more challenges in obtaining formal financing than large firms; they are much more likely to be rejected for loans, and are less likely to have external financing (World Bank, 2015). (Nega&Hussein, 2016) also revealed that The constraints that Ethiopian small and medium enterprises encounter include access to land; tax rate and administration; labor constraints; and access to finance issues. Small and medium scale enterprises generally tend to be confronted with higher interest rates, as well as credit rationing due to shortage of collateral. In order to examine the effect of these variables on small and medium scale enterprises performance the following hypothesis is developed:-

Hypothesis 4. There is positive relationship between financial factor and performance of small and medium enterprises.

Beyond the financial problem internal work-related factor should be fixed. (Birley and Westhead, 1994) have identified seven different motives, namely, need for independence, need for approval, need for personal development, welfare considerations, perceived instrumentality of wealth, tax reduction, and following role models that people decide to be self-employed. (Block & Sandner, 2009) found that being an entrepreneur out of necessity or opportunity driven motives does not have significant impact on duration in self-employment. To assess the effect of motivation and other work related factors the following hypothesis is developed:-

Hypothesis 5. There is positive relationship between work-related factor and performance of small and medium enterprises.

Work-related factor are a major obstacle for small and medium scale enterprises as these firms tend to be poorly equipped to deal with the problems arising from regulations. Research by (Harper, 2004) observes that governments that are not concerned with the promotion of small enterprises should examine the impact of its policies and programs on the small businesses. Mann *et al* (1984) makes a similar observation that government regulation about wages, taxation, licensing and others are among the important reasons why the informal sector business develops

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Description of Dilla town

3.1.1 History of Dilla

Long before Dilla's emergence as a town, the area served as passage way of trade route that used to connect Shoa to the South (NUPI, 1998). Around the beginning of the 20th century, a small settlement emerged around the site of today's telecommunication office where a local governor (Aorro) named DejzmachBedechaUddo constructed his residence. Around Bedecha's residence some houses of his servants and tax collectors together with a small market (Qocii) developed. This settlement however did not develop until 1911. The establishment of a customs post, to tax the passing merchants by orderorDejzmachBalcha Aba Nefso, the then governor of Sidamo, caused the foundation of Dilla. The customs post which marked the birth of the town used to stand at the site of the old bus station (Shiferaw, 2008).

After the mid 1920's, importance as a market centre grew especially for its coffee market, resulting in an influx of merchants to the area. In the same period, the area got the attention of the state as the customs post took two additional duties as check- point of slave trading & ammunitions movement. This also resulted in the coming additional man power & frequent visits by officials.

Dilla was transformed in to a viable urban center during Italian occupation (1935-1941). Some important activities which helped the growth of the town including the highway that passes through the gown were undertaken during this period.

In 1945, Dilla was made the seat of DerassaAwraja, one of the six Awrajas under the then Sidamo province. This marked the establishment of different governmental offices & the coming of workers with their families to the town. The period between 1950's & 1960' was a time when the town exhibited a remarkable growth. Trade flourished in the town in this period which attracted different merchants as settles in the town. In addition, this period also witnessed the opening of some factories such as soft drinks, shoes, sacks, and liquor factories owned by both foreign and Ethiopian nationals (NUPI, 1998). Dilla was also among the 40 towns which selected

a national level to have master plan prepared. Thus, this clearly shows the level of development of Dilla as a significant urban centre in the period under discussion.

Around 1930, groups of Guji Oromo migrated into the area, and by the time a German ethnological expedition arrived, they had begun the process of becoming settled farmers. Shortly after the capture of Shashemene in May 1941, a mobile force, consisting of one company of the Natal Mounted Rifles and the 6th KAR, with light tanks and armored cars, moved forward towards Dilla. Almost to its own surprise, this scouting operation cut off the retreat of the 21st and 24th Italian Divisions, pinning them against the east side of Lake Abaya.(NAIW, 2007)

By 1958 Dilla was one of 27 places in Ethiopia ranked as First Class Township. The Imperial Railway Company of Ethiopia carried out surveys for extending the railway with a 310 km line from Adama to Dilla between 1960 and 1963. The government formed a Nazareth-Dilla Railway Development Corporation to support this new branch. Although the French government offered a loan to fund this new branch in 1965, and Yugoslav experts had studied and thought the project would be worthwhile, this project was never carried out.(Croze, 2017)

Until the completion in the early 1970s of the tarmac road to the Kenya border, Dilla had been located at the southern end of the all-weather road from Addis Ababa and thus became the major transfer and marketing point for coffee grown farther south, particularly of the much-prized YirgaCheffe varietal (see coffee varietals). It remains a major center of the coffee trade.

3.1.2 Population and Demography

Based on the 2007 Census conducted by the CSA, this town has a total population of 59,150 of whom 31,068 are men and 28,082 women. The majority of the inhabitants were practiced Ethiopian Orthodox Christianity, with 41.65% of the population reporting that belief, 39.2% were Protestants, 15.93% were Muslim, and 2.68% were Catholic.

The above figure of the population size is raised to about 64,000 if the population of the new holdings, Haroresa and Gola is included. According to CSA (2007), Population growth rate is 3.25%. Gedeogna is the main language in Dilla and more than half of dwellers communicate with it. This language is one of the branches of Kushitic language and more relation with Oromigna. In 2011, the number of population in Dilla estimated to 68,762 (i.e. by using the

0.0325%). This number does not include the population of the new holdings, Haroresa, Chichu and Gola is included. Because the CSA do not give the recognition as they included in a town.

3.1.3 Location

Dilla is located at the eastern edge of the rift valley; about 90 km from south of the regional capital Awassa and at about 365 km from Addis Ababa (NUPI, 1998). The town has a longitude and latitude of 6°24'30"N 38°18'30"E Coordinates: 6°24'30"N 38°18'30"E, with an elevation of 1570 meters above sea level. It is the capital of Gedeo Zone which is located between 5 and 7 degrees north latitude and 38 and 40 degrees east longitude in escarpments of the southern Ethiopian highlands overlooking the rift valley in the narrow strip of land running from north (Sidama Zone) to south (Oromia region). In altitude the area ranges from 1200 masl in the vicinity of Lake Abaya to 2993 masl at Haro Wolabu pond, Blue woreda (Ethiopian Mapping Authority 1988; cited in Kippie, 2002). Dilla is bounded by Odola in the north, Chichu River in the south, Gola ridge in the east and Walame and Haroresa peasant associations in the west. The town occupies an area of about 7.16 KM² (Dilla Town Administration Statistics and Demography Department, 2007). This figure excludes the newly embraced rural kebeles, Haroresa and Gola.

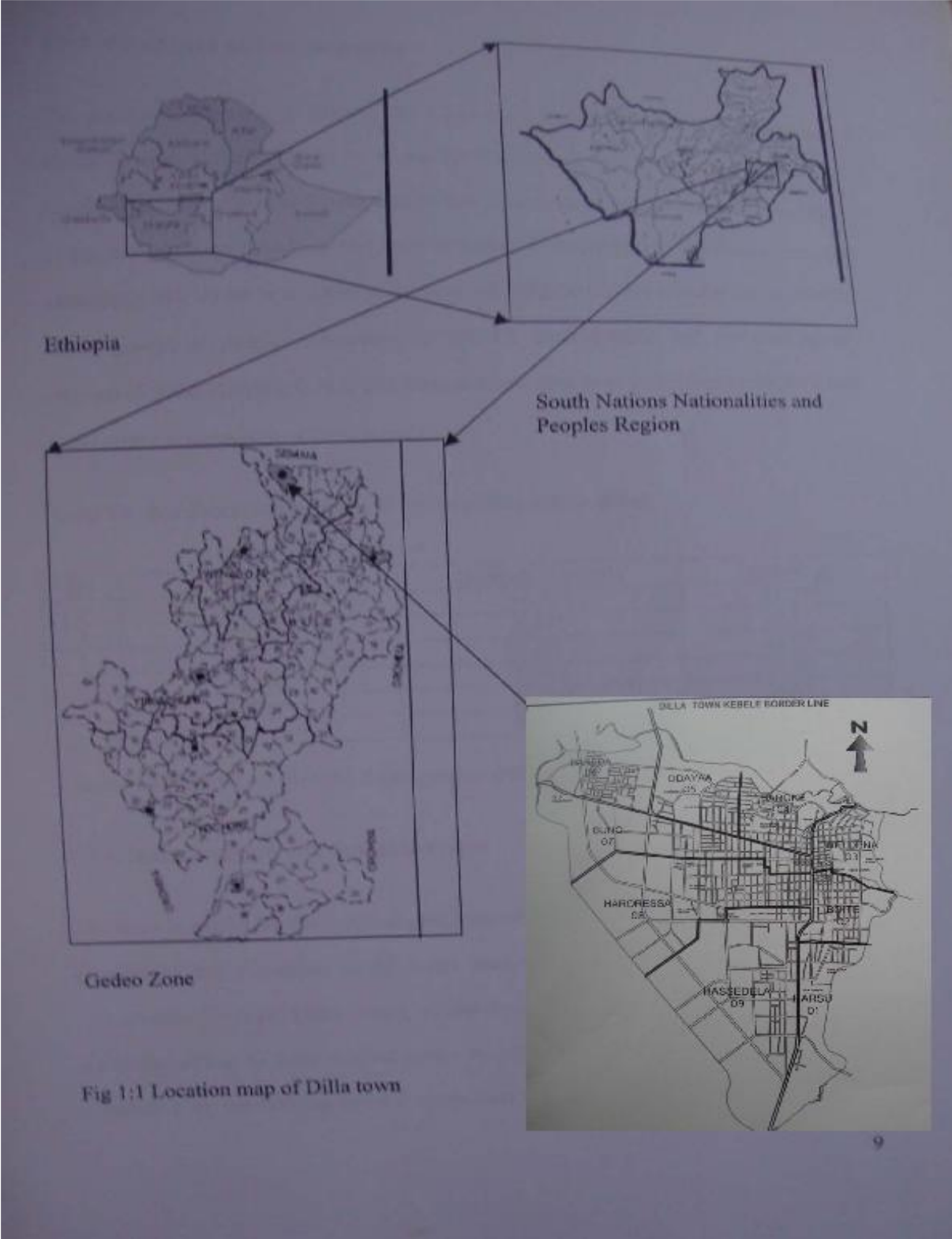


Figure 3.1: Location Map of Dilla Town

3.1.4. Infrastructure and Social Services

According to the SNNPR's Bureau of Finance and Economic Development, as of 2003 Dilla's amenities include digital telephone access, postal service, 24-hour electrical service, numerous banks, and a hospital(BFEDW, 2009). Dilla is the site of the Dilla College of Teachers' Education, which was founded in 1996 and was part of Debu University. The college became a full fledged University since 2007 and composed of more than 30 programs to Masters and bachelor's degree(OWDU). A number of archeologically significant state fields are in the surrounding area, the most notable groups being those at Tutu Fella and Tutiti.

3.1.5 Administrative Status of the Town

Dilla town was established in 1911. In 1945; it was made the seat of DerassaAwraja and has got municipal status. Dilla is currently one of the 22 reform towns in SNNPR and the second level town in the town hierarchy system of the region. It is administratively divided into 3 sub towns, 9 kebeles and 77 villages.

3.1.6 Economic situation

Dilla is a transit centre in southern Ethiopia. It is a commercial town on Ethio- Kenya high way. The economy of the town is based on trading. A considerable proportion of the town dweller is employee of public and private sector. The unemployment rate of the active population of Dilla is 20%. There are 68 investments registered for a several development and service sectors in the town. But only 26 of them are in production and service delivery (Gedeo Zone Trade and Investment Office, 2007).

Banking service

In 1966, Dilla town one branch of commercial bank of Ethiopian was inaugurated in the town. According to the sources, one of the push factors for the opening of the bank in Dilla town was due to the trade centers. The administrative role of the town being as a center for transportation and the availability of larded number of the merchants in the town were also additional factors for the inauguration of the bank in Dilla town. Currently, there are more than Fifteen namely government and private banks in the town.

3.2Research Design

Research methodology involves various tactics and approaches that are use to conduct the study. The research approaches and techniques help the researcher to achieve the research objectives. One of the most important things in research study is to understand the nature of the study and generalizing it as quantitative (Kothari, 2004).

According to Walsh and Wiggins (2003), research methodology is a detail plan that highlights the different activities that are essential in performing the entire process of data collection effectively. It is defined as a blueprint regarding the various steps to be following in performing the entire process of data collection. As indicated by Leedy (1999), it is essential that there should be a systematic approach in solving the research problem so that the solutions as obtained to the research problem have higher accuracy and validity. Research methodology is the specific science of research that follow to accomplish predetermined research (Aman, 2015). Hence, all specific methods that will employed in the course of accomplishing this thesis is presented in this chapter.

Research design is the blueprint for fulfilling research objectives and answering research questions (John A.H. *et al.*, 2007:20-84). In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It ensures that the study would be relevant to the problem and that it uses economical procedures.

The study was descriptive research design, whose purpose was, to examine Factors influencing of smalls and medium scale enterprise in the Gedeo zone Dilla town. The study was employ qualitative and quantitative research approach; particularly descriptive sample survey was select for the appropriateness with cross sectional of the study. After the data obtain from questionnaires, the research was analyzed. The target population of the study wassmall and medium enterprises. The research project is going to apply both primary and secondary data sources. The primary data was collect using survey questionnaire from the concerned bodies in Dilla town. In addition to this, secondary data was collect from different sources such as documents, other research findings, and reports, in order to support the primary data by some related theoretical concepts.

3.2.1The research method

The study used a survey-based research method to gather data. This data is collected from Government organized enterprises small and medium employees through questionnaires. Surveys are popular as they allow the collection of a large amount of data from a sizeable population in a highly economical way. In addition, the data collected using a survey strategy can be used to suggest possible reasons for particular relationships between variables and to produce models of these relationships (Saunders, Lewis and Thornhill, 2009). The research used survey method to study the data because, the study populations (small and medium enterprises) are found in Gedeo zone Dilla town and it was difficult to get the number and location of population of small and medium enterprise since this sector is very large in number.

3.2. 2 Method of Data collection

In this study, both primary and secondary sources of data were used as important sources of data. The study employed the use of questionnaires to collect primary data. Gall and Borg (1996) points out that, questionnaires are appropriate for studies since they collect information that is not directly observable as they inquire about feelings, motivations, attitudes, accomplishments as well as experiences of individuals. They consist of two parts. The first parts comprise of demographic, characteristic, and profile information of the respondents while the second part was consist of questions which were intend to of 5point Likert scale anchored by strongly agree to strongly disagree. And, finally ask question about possible solutions to minimize those factors. The questionnaire design and deliver in English languages to small and medium scale enterprises to create proper rapport. Besides, some of the questions in the questionnaire are adopt from other sources.

Secondary sources collect from dilla town offices reports, government documents, books, journals, published and/or unpublished research papers and statistical documents also used in this study. The study was used quantitative instrument so that, all factors/variables was treated in quantitative instrument.

3.2.3 Sampling methods

Sampling and Technique

Stratified random sampling was used to get information from different sizes of the small and medium scale enterprises. This technique is preferred because it is used to assist in minimizing

bias when dealing with the population. With this technique, the sampling frame can be organizing into relatively homogeneous groups (strata) before selecting elements for the sample. According to Janet (2006:94), this step increases the probability that the final sample was representative in terms of the stratified groups. The strata's are sectors including: manufacturing, agriculture, service and construction.

According to Catherine Dawson (2009:54), the correct sample size in a study is dependent on the nature of the population and the purpose of the study. Although there are no general rules, the sample size usually depends on the population to be sample. In this study to select sample size, a list of the population formally registered small and medium scale enterprises until May 2011 by the Dilla town Administration Trade and Industry Development Bureau was obtained. The total population of the study is 246 enterprises which includes manufacturing (36), agriculture (120), service (78) and construction (12). The sample size selected here is considered as representative of manufacturing, agriculture, service and construction and also large enough to allow for precision, confidence of the research findings.

Mathematically derived Yamane formula while determine the sample size of study, as simplified formula provided by Taro Yemane will be used to determine the minimum sample size at 95% level confidence level and an error limit of 5% results and 90% precision level.

$$n = \frac{N}{1+N(e)^2} \quad n = \frac{642}{1+642(0.05)^2} = 246$$

Where:

n = required responses

e² = error limit

N = sample size

Table 3.5 Proportionate sampling determination

| No | Dilla town sub city division | Total number of SMES | Proportion of sample |
|----|------------------------------|----------------------|----------------------|
| 1 | Harsu | 71 | 71/642*246= 27 |
| 2 | Boete | 74 | 74/642*246= 28 |

| | | | |
|---|-----------|------------|------------------|
| 3 | Hasedela | 70 | $70/642*246= 27$ |
| 4 | Haroressa | 72 | $72/642*246= 28$ |
| 5 | Buuno | 78 | $78/642*246= 30$ |
| 6 | Odayaa | 74 | $74/642*246= 28$ |
| 7 | Weldena | 67 | $67/642*246= 26$ |
| 8 | Bareda | 74 | $74/642*246= 28$ |
| 9 | Haroke | 62 | $62/642*246= 24$ |
| | Total | 642 | 246 |

Source :-(field surveys, 2019)

3.2.4 Data Source and Collection

I was visit the various micro and medium-scale enterprises, credit officers, and other concerned bodies to establish the relationship with them. And I was administering the questionnaire to the relevant respondents in an effort to achieve the necessary information. The entrepreneurs and officers of the enterprises sometimes feel reluctant to give vital information especially when it concerns the negative effects of the operations of the enterprise. The questionnaires was provide to the respondents to fill it either by themselves (if they could read and write in English) in case of micro and small-scale enterprises and staff or helped to do so.

The study was apply a series of data collection tactics that included, interview, observations and structured questionnaire with a closed and open-ended question that was used to collect primary data. Face to face interview was also applied to make observations. Secondary data was collect from journals, article, websites, and other relevant information.

3.2.5 Data Analysis Techniques

Analysis is the application of reasoning to understand and interpret the collected data, Kothari, (2004). Data analysis implies that the collect data should be condensing to the best manageable level of group for further analysis. Data analyses are a practice in which raw data is order and organize so that useful information can be extract from it. The process of organizing and thinking about data is a key to understand what the data does and does not contain. There are a variety of ways in which people can approach data analysis, and it is notoriously easy to manipulate data during the analysis phase to push certain conclusions or agendas. For this reason, it is important to pay attention when data analysis is present and to think critically about the data and the

conclusions, which are drawn. Once the fieldwork has been completed, the data must be converting into a format that will answer the research questions and. Analysis is the application of reasoning to understand and interpret the data that have been collect. The appropriate analytical technique is to be determining by the research design, and the nature of the data collected (Creswell, 2014).

Data analysis generally begins with the editing and coding of the data. The editing process corrects problems such as interviewer errors prior to the data are transfer to a computer. Editing is the process of checking and adjusting the data for omissions, legibility, and consistency. The purpose of editing is to ensure the completeness, consistency, and readability of the data to be transfer to data storage. The editor's task is to check for errors and omissions on the questionnaires or other data collection forms. The editor may have to reconstruct some data. Coding is the assignment of numerical scales or classifying symbols to previously edited data. Coding may be the assigning of numbers or symbols before it goes to the computer. Data was also being presented using tabular and graphic representation of data, which may take a number of forms, ranging from computer printouts to elaborate pictographs.

The purpose of each table or graph, however, is to facilitate the summarization and communication of the meaning of the data.

Moreover, the proliferation of computer technology in business and universities has greatly facilitated tabulation and statistical analysis. Commercial packages eliminate the need to write a new program every time you want to tabulate and analyze data with a computer. SAS, Statistical Package for the Social Sciences (SPSS), is commonly used statistical packages. These user-friendly packages emphasize statistical calculations and hypothesis testing for varied types of data. They also provide programs for entering and editing data (Kothari, 2000). Lastly data will be interpreted. Interpretation refers to making inferences pertinent to the meaning and implications of the research investigation and drawing conclusions. In order for interpretation, the data have to be meaningfully analyzed. In this study, inferential statistics will be used to analyze and interpret the findings. The data gathered from primary and secondary sources will be analyzed through statistical (inferential) techniques survey questionnaires will be use.

3.2.6 Specification of the Research Model

The analysis of the factors influencing performance of small and medium enterprises was examined by estimating a logistic regression model. Logistic regression is used to predict the binomial (Yes/No, 1/0 etc...) outcome of a response (dependent) variable using one or several predictor (independent) variables as seen below. The predictors can be binomial, categorical, or numerical. As in multiple linear regressions, we need a function that connects the independent variables to the dependent variable. However the main difference here is that the dependent variable can only Take on two values: Yes/No or 1/0. Variables are carefully selected in review of literature which needs to be specified.

The equation of logistic regressions on this study is generally built around two sets of variables, namely dependent variable (performance) and independent variables (Management, marketing, technology, finance, work related). The basic objective of using regression equation on this study is to make the study more effective at describing, understanding and predicting the stated variables.

Regress Performance on Selected Variables

$\log(p/1-p) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$ Where: $\log(p/1-p)$ is the response or dependent variable- sustainability X_1 =management, X_2 = marketing, X_3 = technology, X_4 =finance, X_5 =work related are the explanatory variables. β_0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0.

$\beta_1, \beta_2, \beta_3, \beta_4,$ and $\beta_5,$ are the coefficients associated with each independent variable.

3.2.7 Research Approach

Quantitative research approach his taken up to carry out this study. Quantitative research is applauded for the fact that “the research proposals are generalize and the data are objective” (Blanche *etal.*, 2006). It is hope that the findings from this study would help in reflecting what is happening in the Gedeo zone Dilla town. Quantitative data and statistical analysis would also help in testing relationships between dependent and independent variables and increase on the validity of the findings from this study.

3.2.8 Validity and Reliability of Instrument

Validity is defined as the extent to which a concept is accurately measured in a quantitative study. Construct validity refers to whether you can draw inferences about test scores related to the concept being studied (Roberta and Alison, 2015). Therefore the researcher tried to search different literatures and select performance variables and their measurement. For instance some of the variables taken from (Abera, 2012; Ugwushi, 2009; Mulugeta, 2014). Validity and reliability are interconnected concepts. This can be demonstrated by the fact that a measurement cannot be valid unless it is reliable (Sullivan & Feldman, 1979). Internal consistency is assessed using item-to-total correlation, split-half reliability, Kuder-Richardson coefficient and Cronbach's α (Roberta and Alison, 2015). In this test, Reliability was assessed using Cronbach's α ; it is the most commonly used test to determine the internal consistency of an instrument. Based on Roberta and Alison the Cronbach's α result is a number between 0 and 1. An acceptable reliability score is one that is 0.7 and higher. The validity and reliability of the instruments found in this research can confirm that these survey questionnaires can be used in their intact form in this city.

3.2.9 Ethical Consideration

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and consent was secure before the beginning of distributing questionnaire. Regarding the right to privacy of the respondents, the study maintain the confidentiality of the identity of each participant. Their privacy, identity and confidentiality were maintained by assigning them code numbers instead of names. The complete questionnaire was filed safely and were accessible only to me and my advisor. In all cases, names are kept confidential thus collective names like respondents will be used.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

This chapter deals with presentations, discussions and interpretations of the data collected through questionnaire analysis and findings of the study as set out in the research methodology. The study targeted 246 small and medium business enterprises employees within Dilla town. Out of these, 228 were completed and retrieved successfully and giving a response rate of 92%. This response rate was excellent and conformed to (Mugenda&Mugenda, 2003) argument that for generalization of findings to the whole population the least acceptable response rate should be 50% and a response rate of above 70% is excellent. So the study response rate was excellent. Among 246 completed questionnaires 228 (92%) of them are small and medium enterprises. Descriptive statistics such as mean and standard deviation were used to analyze the data. Regression analysis was used to test the relationship between the variables under study in relation to the objectives of the study. The data was analyzed using statistical package for social sciences (SPSS) version 20 and the analysis is given below.

Table 4.1 Response Rate

| Response rate | Frequency | Percentage |
|---------------|-----------|------------|
| Completed | 228 | 93% |
| Uncompleted | 18 | 7% |
| Total | 246 | 100% |

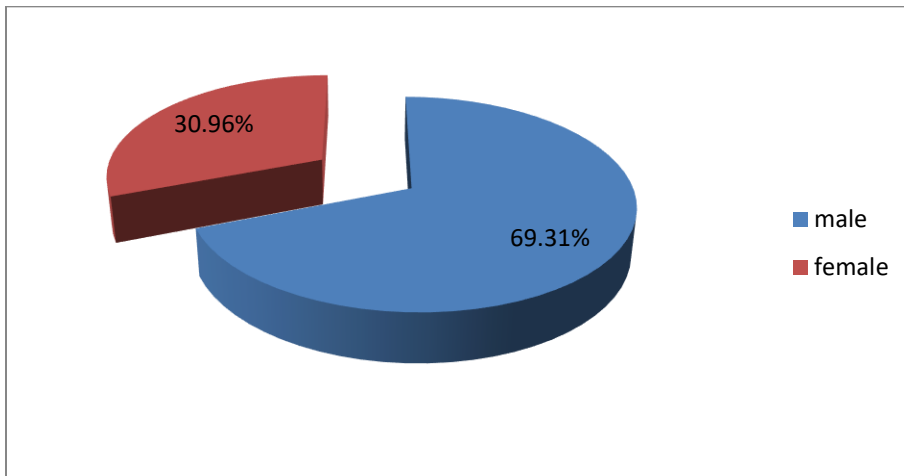
(Source, own survey,2019)

4.1 Demographic Composition of Respondents

Gender of the participants

The researcher sought and obtained the gender details of respondents who participated in the research. Like other country, in Ethiopia both females and males are operating in small and medium scale enterprises at different positions as owners, managers or employees. However the percentage of their involvement in such enterprises is not equal. Depending on Figure 4.1, 69.31% of total sample are males and the rest 30.96% are females. These shows majority of the government organized small and medium scale enterprises peoples are males.

Figure 4.1 Genders of Respondents



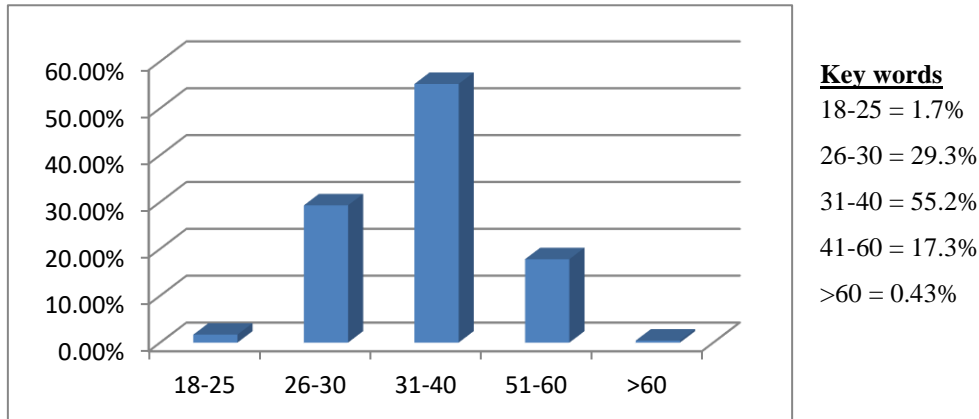
(Source; field survey, 2019)

Age of Respondents

When we see the age composition of the respondents in figure 3, the majority of the sampled respondent's age group falls between the ages of 31 up to 40 which accounts 55.2 % of the total number of sampled respondents. The percentage of ages between 18-25, 26-30, 51-60 and above 60 is 1.7%, 29.3%, 17.8% and 0.43% respectively. This shows the majority of respondents are between ages of 31 and 40 years in which they are active work force ready to act where there is

comfortable situation is prepared for them because of they are in adult age and have many responsibilities in the future. Also they are the age group expected to imitate and flexible according to the environment.

Figure 4.2 Ages of Respondents

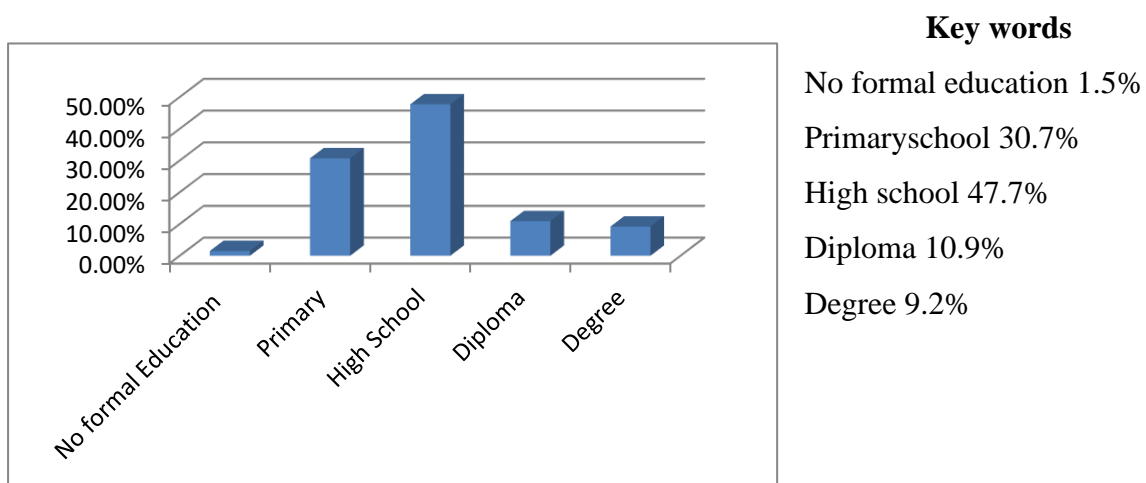


(Source; field survey, 2019)

Education Qualification of Respondents

According to figure 3below, the educational level of the sample respondents indicates that 47.7% of the respondents are high school and no formal education 1.5%,primary school while 30.7%. Diploma graduates while 10.9%, BA/BSc Degree are9.2%. These shows that the small and medium enterprises employees have lack of skilled man power.

Figure 4.3 Education Qualifications of Respondents



This result indicates most participants are relatively educated individuals reached high school level. Mostly, in Ethiopia participants of small and medium scale enterprises are individuals those who do not have job before joining the business and figure indicates the level of education of most participants is high school which implies students taking the National Examination of grade 10 and lost chance to join preparatory school are forced to seek the job. These groups do not have business course back grounds since Educational Curriculum Policy of Ethiopia starts business courses in preparatory. Even though educational qualification did not aimed to be assesses in the study, it implies lack of business knowledge have impact on owners business.

Category of Business Sector

The study sought to know the business activities of the respondents in city of Dilla. The study established that most (46%) of the respondents were engaged in manufacturing sector followed by 28% of the respondents who engaged in agriculture and then (23%) of the respondents were engaged in construction sector. Only (3.0%) the respondent who engaged in service sector.

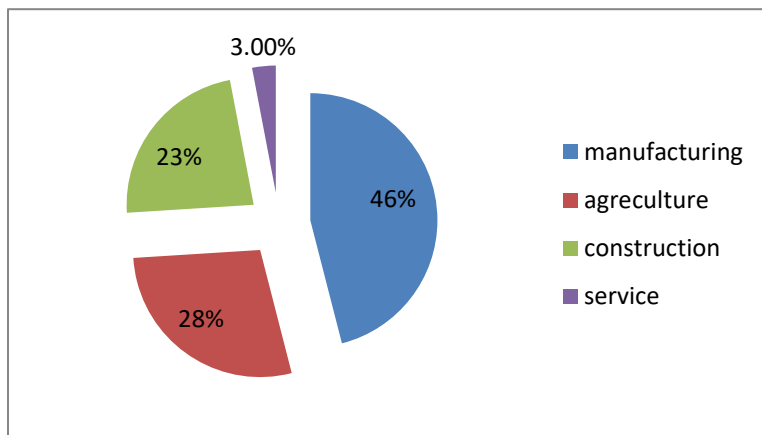


Figure 4.4 category of businesssector

Keyword

- Manufacturing 46%
- Agriculture 28%
- Construction 23%
- Service 3%

(Source; field survey, 2018)

This indicates that the study sought answers from respondents who engaged in different business activities. This division of small and medium enterprises by sector was believed to be helpful to study each sector critical factors that influence the performance of small and medium enterprises. This is because firms in different sectors of the economy face different types of problems.

Table 4.2 Respondents Profile

| | | Frequency | Percent | Valid present |
|---------------------------------|---------------------|-----------|---------|---------------|
| Gender | Male | 158 | 69.3 | 69.3 |
| | Female | 70 | 30.7 | 30.7 |
| Age | 18-25 | 4 | 1.7 | 1.7 |
| | 26-30 | 67 | 29.3 | 29.3 |
| | 31-40 | 126 | 55.2 | 55.2 |
| | 51-60 | 29 | 17.8 | 17.8 |
| | >60 | 1 | 0.43 | 0.43 |
| Educational qualification | No formal education | 1 | 0.43 | 0.43 |
| | Primary | 70 | 30.7 | 30.7 |
| | High school | 102 | 47.7 | 47.7 |
| | Diploma | 25 | 10.9 | 10.9 |
| | Degree | 21 | 9.2 | 9.2 |
| | MA/MSC | - | - | - |
| Main activity of the enterprise | Manufacturing | 105 | 46 | 46 |
| | Constriction | 53 | 23 | 23 |
| | Service | 7 | 3.0 | 3.0 |
| | Agriculture | 63 | 28 | 28 |

(Source, own survey, 2019)

4.2 Reliability Test

To test the reliability of the Likert scale used in this study, reliability analysis was done using Cronbach's Alpha as the measure. A reliability co-efficient of $\alpha \geq 0.7$ was considered adequate. In this case, a reliability co-efficient of 0.715 was registered indicating an Adequate level of internal consistency for the Likert scale used as shown in table 7 below.

Table 4.3 Reliability Test

| No | performance factor | Cronbach's alpha |
|----|------------------------------------|------------------|
| 1 | Management factor | 0.705 |
| 2 | Marketing factor | 0.718 |
| 3 | Technological factor | 0.686 |
| 4 | Finance factor | 0.769 |
| 5 | Work related factor | 0.697 |
| | Reliability statics of total scale | 0.715 |

(Source, own survey, SPSS V20 2019)

4.3 Comparison of Mean Scores by the Sample Enterprises

Table 4.4 Comparisons between Manufacturing, Construction, Agriculture and service

| Item | Manufacturing | | Construction | | Agricultur | | Service | | Grand | |
|---|---------------|------|--------------|------|------------|------|---------|------|-------|------|
| | MN | SD | MN | SD | MN | SD | MN | SD | MN | SD |
| Work related factor | | | | | | | | | | |
| Rent of house is high | 3.49 | .86 | 3.74 | .84 | 3.42 | .57 | 3.65 | .79 | 3.57 | .76 |
| Lack of motivation | 2.64 | 1.0 | 3.18 | 1.03 | 3.48 | .89 | 3.21 | .83 | 3.11 | .94 |
| Absence of own premises | 3.24 | .97 | 3.36 | .98 | 3.17 | 1.06 | 3.43 | .90 | 3.31 | .97 |
| Current working place is not convent | 3.63 | 1.08 | 3.54 | 1.13 | 3.21 | .98 | 3.74 | 1.02 | 3.53 | 1.05 |
| Mean/standard deviation | | | | | | | | | 3.38 | .93 |

(Source: Own Survey, SPSS V20, 2019)

The mean scores and standard deviations in table above shows, the premises factors that hinders their performance are absence of their own premises, the rent of house is high and the current working place is not convenient for their business. As the mean score of absence of own premises indicate, 3.43, 3.36, 3.24 and 3.17 with standard of 1.06, .90, .98 and .97 for respondents engaged in agriculture, construction, service and manufacturing.

With regard to high rent of house, the mean scores are 3.74, 3.65, 3.49 and 3.42 with standard of .57, .84, .79 and .86 for owner managers engaged in service, construction and manufacturing. The respondents of manufacturing and service agree with their current working place is not convenient to run business. Their mean scores are 3.74 and 3.63 and standard deviations are 1.02 and 1.08 respectively.

In an interview conducted with manufacturing and service it was confirmed that, they operated in rented house and high rental charges have impeded the performance of their businesses as some charges are higher than the capacity to pay. Similarly, in an interview conducted with the member of enterprise was confirmed this idea. According to them, this high rent of house is resulted from absence of own premises to run business.

Table 4.5 Comparisons between Manufacturing, Construction, Agriculture and service

| Item | Manufacturing | | Construction | | Agriculture | | Service | | Grand | |
|---|---------------|------|--------------|-----|-------------|-----|---------|-----|-------|-----|
| | MN | SD | MN | SD | MN | SD | MN | SD | MN | SD |
| Technological factor | | | | | | | | | | |
| Lack of skill to handle new technology | 3.02 | .77 | 2.94 | .86 | 2.69 | .79 | 2.62 | .75 | 2.82 | .79 |
| Lack of appropriate machinery | 2.79 | 1.03 | 3.81 | .55 | 2.64 | .57 | 2.87 | .89 | 3.02 | .76 |
| Unable to select new technology | 2.69 | .75 | 2.76 | .83 | 2.82 | .81 | 2.64 | .71 | 2.73 | .77 |
| Lack of money to acquire new technology | 3.38 | .76 | 3.75 | .61 | 3.56 | .72 | 3.51 | .69 | 3.41 | .69 |
| Mean/standard deviation | | | | | | | | | 2.99 | .75 |

(Source: Own Survey, SPSS V20, 2019)

As it can be seen in table above, technological factor is not the main problem of small and medium enterprises engaged in the whole sample sectors. Lack of appropriate machinery and equipment is the main problem of small and medium enterprises engaged in construction. The mean scores and standard deviations are 3.81 and .55 respectively. This is followed by lack of money to acquire new technology. The mean score and standard deviation are 3.75 and .61 respectively. According to table 4.5, for operators engaged in construction and service, lack of appropriate machinery and equipment is moderately affects their performance. That is standard deviations of 3.81 and 2.87 with .55 and .89 respectively. With regard to lack of money to acquire new technology, the mean scores and standard deviations are 3.75 and 3.56 with .61 and .69 for operators of construction and agriculture respectively.

On the other hand, the mean and standard deviation for lack of skills to handle new and proper technology, the table above shows that the respondents' agreement scale is more than undecided, indeed less than agreed. That is the mean ranged between 3.02 and 3.23 for lack of skills to handle new technology and .77 and .86 for unable to select proper technology.

According to the interview with the operators, the loan to purchase equipments and materials were obtained from both formal and informal sources. Welding machine, singer, grinder, stove, drill machine, screw driver, hammer, chisel and clamps are some of the work related machines and equipments owned by the studied small and medium enterprises. The operators indicated that

the presence of these machines, tools and equipments has allowed the operators to produce products. In contrast to this, according to some interviewees of construction and service sector, they lack money to acquire new technology (equipment, machinery, tools, etc). Moreover, respondents replied that, if new and appropriate technologies obtained, the presence of them will result in performance improvement.

Table 4.6 Comparisons between Manufacturing, Construction, Agriculture and service

| Item | Manufacturing | | Construction | | Agriculture | | Service | | Grand | |
|--|---------------|------|--------------|------|-------------|------|---------|------|-------|-----|
| | MN | SD | MN | SD | MN | SD | MN | SD | MN | SD |
| Marketing factor | | | | | | | | | | |
| Poor customer handling system | 2.68 | .89 | 2.56 | 1.03 | 2.70 | 1.07 | 2.85 | .93 | 2.69 | .98 |
| Searching new market is so difficult | 3.62 | .59 | 3.65 | .62 | 3.83 | .45 | 3.51 | .69 | 3.65 | .58 |
| Lack of create awareness about product/promotion | 3.01 | 1.05 | 4.05 | .66 | 3.18 | 1.1 | 3.57 | 1.06 | 3.45 | .96 |
| Lack of demand forecasting | 3.51 | .58 | 3.67 | .74 | 3.79 | .57 | 3.73 | .58 | 3.67 | .62 |
| Lack of market information | 4.03 | .89 | 4.15 | .79 | 4.28 | .58 | 4.15 | .75 | 4.15 | .75 |
| Mean/standard deviation | | | | | | | | | 3.52 | .77 |

(Source: Own Survey, SPSS V20, 2019)

The above tables shown, marketing factor is consisted of five items. From these factors inadequacies of market, lack of create awareness about product/promotion, lack of demand forecasting, lack of market information and searching new market is difficult that conduct marketing research are critical factors that affect the performance of small and medium enterprises engaged in all sectors.

The mean scores and standard deviations clearly show respondents agreement on the variables. That is mean scores of poor customer handling system are 2.85, 2.70, 2.68 and 2.56 with standard deviations of .93, 1.0, .89 and .66 for small and medium enterprises engaged in respectively. The respondents of agriculture, construction, manufacturing and service agree with a mean of 3.83, 3.65, 3.62 and 3.51 with standard deviation of .45, .62, .59 and .69 that there is difficulty of searching new market respectively.

In table 4.5 it can be seen that, lack of demand forecasting is another marketing factor that affect the performance of small and medium enterprises. The arithmetic mean of 3.79, 3.73, 3.67 and 3.51 with standard deviation of .57, .58, .74, .58 and .61 for small and medium enterprises engaged in agriculture, service, construction and manufacturing respectively. Moreover, the table shows that lack of market information hinders businesses performance. The mean scores are 4.28, 4.15, 4.15 and 4.03 and standard deviations are .59, .79, .69 and .89 for business enterprises engaged in agriculture, construction, Service and manufacturing respectively.

Similarly, majority of respondents agreed with they have no relationship with an organization and association that conduct marketing research. On the other hand, the table above shows that respondents of all sectors are neither 'agreed' nor 'disagreed' with poor customer relationship and handling that affect their performance with mean of 2.85, 2.70, 2.68 and 2.56 and standard deviation of .93, 1.07, 1.03, .83 and 1.03 for respondents engaged in service, agriculture, manufacturing and construction respectively. Likewise, in relation to lack of promotion to attract potential users, the respondents of construction and service are do not like to decide on it. This is justified by the mean score of 4.05 and 3.57 with standard deviation of .66 and 1.06 respectively. But, as the table above shows, lack of promotion to attract potential users is the main factor that affects the performance of small and medium enterprises engaged food processing sector. As the mean score 4.05 and standard .66 clearly depicts, the respondent operators agree on their inability to promote potential users.

In an interview conducted with an operator of the sectors, it was confirmed that absence of selling place has aggravated the already existing 'inadequacy and crowdedness' of the internal working space of the shades. The operators intelligently argued that lack of selling place is a direct contributor for their inadequate market hence low income of the studied small and medium enterprises. Absence of selling place obviously narrows the chance to access new Customers. The recently price ceiling on commodities by the government of Ethiopia is warmly welcomed by the respondents. The operators indicated that the continuously increasing price of inputs has been checked by the government action. They also indicated that the materialization of this ceiling has also saved them from being 'exploited' by illegal merchants, who always increase prices of basic commodities unreasonably.

Table 4.7 Comparisons between Manufacturing, Construction, Agriculture and service

| Item | Manufacturing | | Construction | | Agriculture | | Service | | Grand | |
|--|---------------|-----|--------------|------|-------------|------|---------|------|-------|------|
| | MN | SD | MN | SD | MN | SD | MN | SD | MN | SD |
| Lack of access to finance | 3.34 | .70 | 3.32 | .74 | 3.67 | .72 | 3.42 | .73 | 3.43 | .72 |
| Book keeping and accounting is not available | 4.31 | .82 | 4.36 | .62 | 4.21 | .69 | 4.35 | .67 | 4.31 | .71 |
| High interest rate | 3.72 | .75 | 3.78 | .71 | 3.86 | .67 | 3.78 | .75 | 3.78 | .72 |
| Shortage of working capital | 3.80 | .75 | 3.86 | .57 | 3.87 | .57 | 3.85 | .58 | 3.84 | .61 |
| Inadequacy of credit institution | 2.89 | .97 | 3.04 | 1.02 | 2.79 | 1.12 | 2.91 | 1.01 | 2.91 | 1.03 |
| Mean/standard deviation | | | | | | | | | 3.65 | .76 |

(Source: Own Survey, SPSS V20, 2019)

This factor seems the highest influencing factor comparing to other factors for all small and medium enterprises sectors.

The mean scores of 4.36, 4.35, 4.31 and 4.21 with standard deviation of .62, .67, .82 and .69 of the respondents in table 4.7 shows that those operators engaged in construction, service, manufacturing and agriculture have faced the problem related to book keeping and accounting is not available respectively. Regarding inadequacy of credit institutions, the mean scores depicts that the respondents' of the three sectors agreement scale is more of undecided. The results show that the means ranged between 2.91 and 3.04. This shows that the respondents of the three sectors are in dilemma to say that the credit institutions are adequately available or not.

With regard to shortage of working capital the mean score of 3.87, 3.86, 3.85 and 3.80 with standard deviation of .57, .57, .58, .75 for entrepreneurs engaged in agriculture, construction, service, manufacturing respectively. Similarly, interest rate charged by banks and other lending institutions is high with a mean score of 3.86, 3.75, 3.75 and 3.72 with standard deviation of .67, .75, .71, .75 for operators of agriculture, service, construction and manufacturing respectively.

By the same, respondents of the three sectors agreed with the complexity of lack of finance access. This is justified by the mean scores 3.67, 3.42, 3.34 and 3.32 with a deviation of .72, .73,

.70 and .72 for operators engaged in agriculture, service, manufacturing and construction respectively.

According to Rakodi (2002:2-22) financial issues are more salient in urban areas due to the highly monetized nature of urban economies. Operators were interviewed to give their opinion on the nature of problem related to financial factors. It was found that, mainly ensuing from low market, the operators usually suffer of shortage of cash leading to their inability to cover their daily needs adequately. The other cause of this low cash presence at the disposal of the operators could be the increasing expense incurred by their respective small and medium enterprises in relation to purchase of raw materials and services such as transportation, in addition to cost of utilities consumed both at home and work place. The operators frequently mitigate this problem of cash shortage through borrowing and lending each other. The other mechanism of easing such cash shortage is through diversification of income generating activities.

The presence of affordable credit is essential for enterprise growth. With regard to credit access and availability, there are both formal and informal sources serving the operators in the studied area. The informal sources are consisted of loan from other fellow operators, family, relatives and friends. According to responses from the operators, the credit generated from such sources, along with a loan secured from micro finance institution (MFI) and own savings constitutes a portion of the start-up capital of the small and medium enterprises. Omo MFI is the formal source of credit used by operators, though there are other financial service providers like state-owned and private commercial banks.

Respondents were also interviewed to give their opinion regarding saving, majority of them had a prior saving, though incomparable with their current level. The operators indicated that they have saving account opened at Omomicro finance institution, and Commercial Bank of Ethiopia (CBE) in their own name.

To wind up, the operators had better level of cash possession in comparison with the past but it is declining as time passes because of the inflation, increasing price of inputs, basic commodities and services such as transportation.

Table 4.8 Comparisons between Manufacturing, Construction, Agriculture and service

| Item | Manufacturing | | Constructio n | | Agricultur e | | Service | | Grand | |
|---|---------------|-----|------------------|-----|-----------------|-----|---------|-----|-------|-----|
| | MN | SD | MN | SD | MN | SD | MN | SD | MN | SD |
| Management factor | | | | | | | | | | |
| Poor organization and in effective communication | 2.85 | .86 | 2.49 | .95 | 2.59 | .82 | 2.61 | .90 | 2.63 | .88 |
| Lack of strategic business planning | 3.47 | .70 | 3.55 | .68 | 3.51 | .59 | 3.52 | .66 | 3.49 | .65 |
| Lack of clear mission and vision | 2.76 | .77 | 2.80 | .80 | 2.73 | .74 | 2.77 | .85 | 2.61 | .79 |
| Poor selection of business partner | 3.65 | .71 | 3.74 | .69 | 3.78 | .68 | 3.73 | .68 | 3.39 | .69 |
| Lack of clear division of duties and responsibilities among employees | 2.76 | .77 | 2.80 | .80 | 2.73 | .74 | 2.78 | .85 | 2.77 | .79 |
| Mean/standard deviation | | | | | | | | | 2.98 | .76 |

(Source: Own Survey, SPSS V20, 2019)

As shown in table 4.8 above, poor selection of business partner is the main problems that hinder the performance of small and medium enterprises. It shows a mean score of 3.78, 3.74, 3.73, and 3.65 with a standard deviation of .68, .69, .68, and .71 for MSEs engaged in agriculture, construction, service, and manufacturing respectively. Therefore, the average score of the respondents with regard to poor selection of associates indicates their agreement with little deviations among them.

With regard to strategic business planning the mean scores are 3.55, 3.52, 3.51 and 3.47 with standard deviation of .68, .66, .59, and .70 for operators engaged in construction, service, agriculture, and manufacturing respectively. This shows that small and medium enterprises have a problem with developing and implementing the strategic planning activities successfully. The table also shows lack of clear mission and vision is the problem of operators engaged in construction and service with mean score of 2.80 and 2.77 with standard deviations of .80 and .85 respectively. But as the table above shows, the problem of lack of mission and vision for operators engaged in agriculture is moderate with a mean of 2.73 and standard deviation of .74

To the contrary, the respondent of all sectors are neither 'agree' nor 'disagree' with the issue of poor organization and ineffective communication.

The mean scores and standard deviations clearly show that they are almost undecided. That is means of 2.85, 2.61, 2.59, and 2.49 with standard deviations of .86, .90, .82, and .95 for small and medium enterprises engaged in manufacturing, service, agriculture and construction respectively. Similarly, the mean scores and standard deviations of lack of clear division of duties among employees are 2.80, 2.78, 2.76 and 2.73 and .80, .85, .77 and .74 for small and medium enterprises employed in construction, service, manufacturing and agriculture respectively.

It is argued from a theoretical perspective that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship (Enock N., 2010:43). With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and forecasting under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals.

In this regard in an interview conducted with operators of small and medium enterprises, it was confirmed that they had many management problems which stem from factors such as poor record keeping, insufficient training and lack of relevant qualifications. Furthermore, most of these enterprises operate without systems in line with good management practice in which the owner manager is the sole decision maker and his/her absence leads to a halt (temporarily stop) in decision making. Similarly, interviewees unanimously indicated that, inability (low technical skills) to troubleshoot failures on machinery and/or equipments is a critical problem. Since the operators of small and medium enterprises cannot afford to employ specialists in the fields of maintenance with technical knowledge.

Coming down to the matter of lack of a proper business plan for the business, in an interview conducted with operators, it was confirmed that operators of small and medium enterprises have no proper business plans at start faces the most challenges during the course of their lives.

According to operators, lack of trust in doing business on the other hand seems to have prevailed in most of the cooperative and partnership business (mistrust between business associates).

To conclude, all these managerial constraints were confirmed by the respondents in this survey who indicated that their businesses were constrained by poor management practice, mistrust among business associates, insufficient training, lack of proper business plan and lack of relevant qualifications among employees. Generally next to financial problem and marketing factor is highly affect performance of small and medium enterprises.

4.4 Binary Logistic Regression

Binary logistic regression is a type of regression analysis where the dependent variable is a dummy variable (Saroje&Sohel, 2013). They mention that It is a variation of ordinary linear regression which is used when the response variable is a dichotomous variable and the independent variables are continuous, categorical, or both. Unlike ordinary linear regression, logistic regression does not assume that the relationship between the independent variables and the dependent variable is linear (Saroje&Sohel, 2013). And also the regression coefficients are estimated using maximum likelihood (Bian, 2013). According to Bian Maximum likelihood estimation (MLE) it is more appropriate for logistic regression model, it maximizes the log likelihood. And the log likelihood indicates how likely the observed grouping can be predicted from observed values of predictors.

Logistic regression does not make many of the key assumptions of linear regression and general linear model that are based on ordinary least square algorithms. Homogeneity of variance and normality of errors are not assumed, but it requires: Absence of multi co linearity and No specification errors: all relevant predictors are included and irrelevant predictors are excluded (Bian, 2013).

4.4.1 Multi-Co Linearity

According to (Pallant, 2007), there is no formal way in the logistic regression procedure of SPSS to test multi-co linearity. But, she suggested that we can use the procedure of linear regression and focus only co linearity statistics which contain tolerance value and variance inflation factor (VIF). Tolerance value that are very low (less than .1) indicates that the variable has high correlation with other variables in the model (pallant, 2007).

The variance inflation factor (VIF) measures how much the variance of an estimated regression coefficient increases if your predictors are correlated (Ringle *et al.*, 2015). More variation is bad; we are looking for precise estimates. If the variance of the coefficients increases, our model is not going to be as reliable. Some papers argue that a VIF less than 10 is acceptable (Hair *et al.*, 1995), but others say that the limit value is 5 (Ringle *et al.*, 2015).

As it can be seen in the table below; the result did not violate any of the above assumptions. Tolerance value of all variables is very far from .1 and VIF is closer to 1, then the model is seems much stronger and the factors are not impacted by correlation with other factors.

Table 4.9 Colinearity Statistics

| No | Factors | Colinearity Statistics | |
|----|----------------------|------------------------|-------|
| | | Tolerance | VIF |
| 1 | Management factor | .595 | 1.139 |
| 2 | Marketing factor | .500 | 1.354 |
| 3 | Technological factor | .564 | 1.199 |
| 4 | Finance factor | .523 | 1.293 |
| 5 | Work related factor | .591 | 1.213 |

(Source: Own Survey, SPSS 2019)

We can also test this assumption using correlation matrix table. When predictor variables are very highly correlated, we have to wonder whether they are not in fact measuring the same thing and would be better combined into one new variable (Muijs, 2010).

In table 4.9 there is no strong pair-wise correlation between performances (Independent Variables). As a rule of thumb, Bryman and Cramer (1999,) stated that the independent variables that show a relationship in excess of 0.80 suspected of exhibiting multicollinearity. In this study

as shown in there is no relationship that equals or exceeds spearman correlation coefficients of 0.80.

Table 4.10 indicates that the correlation coefficients for the relationships between independent variables are linear and positive ranging from substantial to minimum correlation coefficients.

Table 4.10 the Relationship between Independent Variables and performance

| | | Performance |
|----------------------|-------------------------|-------------|
| Management factor | Correlation coefficient | .665** |
| | Sig. | .000 |
| | N | 228 |
| Marketing factor | Correlation coefficient | .778** |
| | Sig. | .000 |
| | N | 228 |
| Technological factor | Correlation coefficient | .613** |
| | Sig. | .000 |
| | N | 228 |
| Financial factor | Correlation coefficient | .771** |
| | Sig. | .000 |
| | N | 228 |
| Work related factor | Correlation coefficient | .784** |
| | Sig. | .000 |
| | N | 228 |

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

(Source: Own Survey, SPSS 2019)

As it is clearly indicated in the above table 4.10, a strong positive relationship was found between workrelated factor and performance ($r = .784$, $p < .01$), marketing and performance ($r = .778$, $p < .01$), and finance and performance ($r = .771$, $p < .01$), which are statistically significant at 99% confidence level. This implies that at a 1% level of significance it was discovered that the workrelated factor, marketing and finance plays a significant role in determining the performance of small and medium enterprises in the selected cities.

Moreover, the table presents the association between the selected variables and performance of small and medium enterprises for a sample of 228 operators in Dilla town. The result on table above further indicates that, there is a substantial positive correlation between management and performance ($r = .665$, $p < 0.01$), and technological factor and performance of small and medium enterprises ($r = .613$, $p < 0.01$), which are statistically significant at 99% confidence level.

4.4.2 Regression Analysis

Logistic regression is used to predict the presence or absence of a characteristic or outcome based on values of a set of predictor variables. It is similar to a linear regression model, but suited to models where the dependent variable is dichotomous (Bian, 2013). For the purposes of determining the extent to which the descriptive variables explain the variance in the explained variable, Logistic regression analysis was employed. The results of such analysis are narrated under.

Table 4.11 omnibus test and model summary

| Omnibus test of model coefficient | | | |
|---|-------------------|----------------------|----------------------|
| | Chi-square | Df | Sig. |
| Model | 15.013 | 5 | .005 |
| Model summary | | | |
| | -2 Log likelihood | Cox & Snell R Square | Cox & Snell R Square |
| | 148.193 | .102 | .210 |
| Dependent variable: performance | | | |
| Predictors: (constant), MGMTF, MRKF, TECF, FINF, WORF | | | |

(Source: Own Survey, SPSS 2019)

This is the table 4.11 that shows the output of Omnibus test and model summary. Omnibus test of mode coefficient shows the result of X^2 test to determine whether performance has significant relationship with predictors. Can write in the form of; $X^2 (5, N=228) = 15.013$, $P < 0.005$. As it shows in the above table this X^2 produce significance value of 0.005(i.e., $P = .005$), which is below 0.05 making our performance model significant. Model summary part shows how much of the variation in performance is explained by the model. Cox & Snell and Nagelkerke, R Square

indicated that between 10.2% and 21% of the variation in performance is explained by management factor, marketing factor, technological factor, financial factor and work related factor.

Table 4.12 Variables in the Equation

| | B | S.E. | Wald | Df | Sig. | Exp(B) |
|----------|-------|-------|-------|----|------|--------|
| MGMTF | .250 | -.223 | 1.037 | 1 | .215 | 1.116 |
| MRKF | .536 | -.196 | 3.229 | 1 | .039 | 1.572 |
| TECF | .118 | -.210 | .258 | 1 | .473 | .712 |
| FINF | .529 | -.311 | 2.368 | 1 | .024 | 2.204 |
| WORF | .390 | -.202 | 3.057 | 1 | .003 | 1.321 |
| Constant | 3.308 | 1.124 | 7.125 | 1 | .002 | 45.828 |

Variable(s) entered on step 1: MGMTF, MARF, TECF, FINF and WORF.
(Source: Own Survey, SPSS 2019)

When we see direction of relationship dependent variables to independent variable performance, three out of five variables have positive and statistically significant relationship with the dependent variable; marketing factor ($\beta = .536$, $p = .039$), financial factor ($\beta = .529$, $p = .024$), work related factor ($\beta = .390$, $p = .003$). And the remaining two variables have insignificant relation with the dependent variable; management factor ($\beta = .250$, $p = .215$) and technological factor ($\beta = .118$, $p = .473$).

Logit(performance) = 3.308 + (.250 management factor) + (.536 marketing factor) + (.118 technological factor) + (.529 financial factor) + (.390 work related factor).

4.4.3 Hypothesis Testing Result

On the above binary logistic result, summary of hypothesis testing is drawn. The first hypothesis result shows unexpected result in relation with many studies. For instance (dun and Bradstreet, 1969) mentioned that, Irrespective of the size of any business large, medium or small, several researches and statistics appear to have ranked poor management and technology inability the main cause of business failure. Hill, 1987 also stated that many small and medium

enterprises owners and managers lack managerial training and experience. But this study revealed that there is no significant problem concerning management factor.

Other many studies agreed with the financial and marketing problems of small and medium enterprises. Ademola& Michael also identified key challenges of small and medium enterprises among them poor accounting method and practices have been mentioned (Ademola& Michael, 2012). (Nega& Hussein, 2016) also revealed that the constraints that Ethiopian small and medium enterprises encounter include access to land; tax rate and administration; labor constraints; and access to finance issues.

Table4.13. Hypothesis Summary

| | Hypothesis | Result |
|-----|---|----------|
| Ha1 | There is positive relationship between management factor and performance of SMEs | Rejected |
| Ha2 | There is positive relationship between marketing factor and performance of SMEs | Accepted |
| Ha3 | There is positive relationship between Technological factor and performance of SMEs | Rejected |
| Ha4 | There is positive relationship between financial factor and performance of SMEs | Accepted |
| Ha5 | There is positive relationship between work-related factor and performance of SMEs | Accepted |

(Source: Hypothesis testing result, 2019)

4.5 Ways of Improving/Minimizing Enterprises Failure

Finally, the study sought to know the various ways through which the respondents idea to improve or minimized the problems of performance. Majority (65.6%) of the respondents‘ suggested access to finance as the greatest way of improving performance of enterprises while 34.4% work related factors.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.1 Summary of Findings

This research was conducted in Dilla town of Gedeo zone with the prime intent of critically assessing the factors affecting the performance of small and medium enterprises; four sectors from small and medium businesses were included in the study. These are manufacturing, construction, agriculture and service. In addition, the study uses a survey based strategy to approach the objective and stratified random sampling technique was used. The analysis was done using statistical software SPSS using tools such as descriptive statistics and binary logistic regression.

From the descriptive statistics findings revealed that majority of the variables such as; marketing factor, financial factor and work-related factor have a mean value of greater than the cut-point three. And the rest two management and technological factors have a mean value of less than the

cut-point. Which indicates that majority of small and medium enterprises believed that marketing issues, finance and work-related factors are their main obstacles to become performance.

To test significance of the model omnibus test and model summary was performed; from it can be observed from the table on the above (table 4:11 omnibus test of the model as whole is significant. $X^2 (5, N=228) = 15.013, P<0.005$. And the model summary Cox & Snell and Nagelkerke R Square indicated 10.2% and 21% of the variation in performance is explained by independent variables.

Binary logistic regression analysis was used to test five hypothesized as shown in table 4.12. Based on that Management factor ($\beta = .250, p= .215$) and technological factor ($\beta = -.118, p= .473$) have insignificant relationship with performance. The remaining factors; marketing ($\beta = .536, p= .039$), finance ($\beta = .529, p= .024$) and work related factor ($\beta = .390, p= .003$) have positive and significant relationship with dependent variable sustainability.

5.2 Conclusions

This research was conducted in Gedeo zone, Dilla town with the first interest of critically assessing the factors influencing performance of small and medium enterprise operators engaged in manufacturing, construction, and agriculture and service sectors. Based on the objectives and findings of the study, the following conclusions are worth drawn.

The study examines the impact of five factors on performance of small and medium enterprises. The key finding of this study rejected the first and the third hypotheses. In reverse to this result, poor management was considered the most crucial factor influencing small and medium enterprise failure in the UK (as suggested Day 2000; Dewhurst and Burns 1993) and Proper planning will help small business owners to prepare for seasonality because planning helped businesses to sustain operations (Box, 2011).

Due to the nature of the SMME sector, access to finance remains vital because projects can get delayed in cases where contractors fail to raise adequate working capital for the project being done. Since they are expected to utilize initial capital before claiming for work done, the extent to which they are able to access financial backing is fundamental. Under financial constraints, small and small and medium-sized enterprises are likely to perform poorly on a contract.

Among the findings of the study indicated no significant support of the Government to most small and medium business owners in Dilla town. This finding agrees with the conclusions in the work of (Oyelola, 2013) who stated government supported initiatives had not contributed meaningfully to reducing the rate of failure of small businesses in Nigeria.

Finally the research clearly illustrates that, even if the degree of those critical factors in each of manufacturing, construction, trade and service sectors, most of the factors are considerably common for three sectors. It has been noted that financial and work related factors had very high effects on the performance of small and medium enterprises compared to other factors in the research area.

5.3 Recommendations

5.3.1. Marketing factor

With regard to marketing support, the following measures need to encourage by the government. These are linking MSE's with medium and large firms to serve as market outlets, Provision of training on quality improvement and cost decline modalities, Provision of information on market opportunities, Construction of display centers and provision of advertising support. Moreover, to make them competitive and profitable, increasing the capacity, knowledge, and skill or attitude that enables operators to prepare for production activities, through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy should be crucial.

Also problem of Poor customer handling system, Searching new market difficulty, Lack of create awareness about product/promotion, Lack of demand forecasting could be filled with persistent and continued trainings and advices.

There is scarcity of business information in Dilla town market. The administrators of the town in collaboration with the government should organize seminars and business drills for these SMEs. Other development partners like banks and Saving and credit organizations should also educate these SMEs so that they may perform better to make small and medium enterprise competitive and profitable, increasing the capacity and Skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial. Moreover, improved provision of necessary infrastructure and enabling the environment for business operations is generally an imperative. Uninterrupted power supply and quick transportations are basic to effective performance of these enterprises.

5.3.2. Financial factor

On access to Finance, the study recommends that the Government of Et should adopt ways on how to finance SMEs. This has been promoted to some extent by the creation of several funds like the Youth Development Fund and Women Development Fund. This would promote accessibility to pre-requisite capital necessary for the growth and development of SMEs in the study area.

The study recommends that the government of Et be supportive to the SMEs by providing incentives to help them in implementing the corporate governance practices. SMEs are also encouraged to embrace corporate governance to the fullest to achieve better financial performance.

Interest rates: affect the performance of SMEs since they make the cost of borrowing expensive. Which has a negative effect on the growth and development of SMEs, Therefore, an increase in the rate of interest is not desirable in SMEs as this might lead to the poor performance of SMEs. The government of Ethiopia must, therefore, subsidize the interest which SMEs pay on borrowed funds. In addition, SMEs should also search for alternative sources of finance which are less expensive than the financing offered by the banking sector to reduce their costs of production. Instead of making use of bank loans, SMEs must use family funds from savings; also they must form partnerships and cooperatives in order to pool their financial resources together.

On access to Finance, the study recommends that the Government of should adopt ways on how to finance SMEs. This has been promoted to some extent by the creation of several funds like the Youth Development Fund and Women Development Fund. This would promote accessibility to pre-requisite capital necessary for the growth and development of SMEs.

After analysis, the study has established that access to finance is a very important ingredient instarting and sustaining success of the business. Most of the people interviewed had excess to capital. A frequent excess to capital exposes businesses in Dilla town to better opportunities to a great extent while it also leads to improved business performance. The study also found out that access to capital for businesses is very challenging to a great extent, not all the relatives are willing to loan them out. Overall, access to finance affects the performance of business and this exposes them to the dangers of closing down businesses. SMEs owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges. So the government should facilitate strategic way for SMEs to get the access of capital. Also the study therefore recommends that banks and other credit giving financial institutions should come up with creative policies that make it easy for the SMEs to access financing.

To make them more achiever and maximizing their performances of MSEs, the concerned bodies like Region, Zone, Dilla town administrators and etc... Should motivate by giving rewards and recognition. Also continued follow up and encouragement should be held persistently.

5.3.3. Work related factor

It is very difficult renting houses directly from the investors because the payment might be beyond their capacity. The government should ensure their affordability of kebele houses. There are a number of kebele houses in Dilla town which are occupied by those who have excess houses in a town. It is unlawful to dwell in government house for those who have their own houses. So taking action the government have full right to give those houses for small and medium enterprises in place of those illegal's. This is the best solution for mitigating the cost of house renting.

Providing selling and display places in areas close to working area. - Linking the MSEs with other private contractors working within or around ... so that the operators are able to secure market opportunity. - Changing the perception of the general public through extensive awareness creation mechanisms, since private individuals are envisaged to be the main buyers of the products manufactured by MSEs in the long run.

5.3.4. Areas for further research

The research work suggests some lines of enquiry for further research.

Areas for Further Research Arising from this study, the following directions for future research should be carried out. This research only covered micro and small enterprises Dilla Town Market. However, there are other enterprises that are medium and large firms in the same town. Researchers are encouraged to research on them. In future, other SMEs in other towns should be involved to enable the researcher to make adequate conclusions. This research didn't concern itself with the challenges and possible solutions hindering SMEs from accessing financing by credit giving institutions. In future, a research should be instituted to establish the challenges and the possible solutions. In future, a comparison should be done between the financial performance of SMEs that have received microcredit and the ones that have not received the financing. This will help in shedding light on whether accessing microcredit helps the SMEs to perform better than other businesses.

Further studies can be carried on strategies of small and medium business performance. This study had limited time and financial resources to cover a larger participant sample size and a larger geographical area. Therefore, further research involving a larger participant sample size from a larger geographical area is recommended.

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APPENDEX A
QUESTIONNAIRE
DILLA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT
MBA PROGRA

SECTION 1: INTRODUCTION

Dear respondent,

I am a graduate student in the department of management, Dilla University. Currently, I am undertaking a research entitled '*Factors influencing the Performance of Micro and Small Enterprises in gedeo zone yirgachefe town.*' You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of the factors affecting the performance of Micro and Small enterprises in gedeo zone yirgachefe town. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be use for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Sincerely,

MengistuTaye

Instruction

- ✓ No need of writing your name.
- ✓ For multiple choice questions indicate (✓) sign in the appropriate block.
- ✓ For likert scale type statements mark (✓) sign only once for the given variables depending on your level of agreement.

SECTION 2: GENERAL INFORMATION ON THE BUSINESS ENTERPRISES AND PARTICIPANTS

1. Gender

A. Female B. Men

2. Age

A. 18-25 B. 26-30 C. 31-40 D. 51-60 E. > 60

3. Educational qualification.

A. No formal education B. Primary C. High School D. Diploma

E. Degree F. MA/MSc G. PhDS

4. Main activity of the enterprise?

A. Manufacturing B. Construction C. Trade D. Agriculture E. s e F. Others

5. Current Status of the enterprise?

A. existing B. ed

6. Which one of the following aspect is the most important for the success of your business venture?

A. A business plan C. An entrepreneurial team

B. Business opportunities D. Training in business skills

SECTION 3: FACTORS AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISE

The major factors that influencing performance of MSEs are listed below. Please indicate the degree to which these factors are affecting the performance of your business enterprise.

1. Please indicate the degree to which you agree with the following statements concerning management factors. (1.Strongly disagree (SD), 2.disAgree (D), 3.Neutral (N), 4. agree (A), 5. Strongly agree (SA))

| S.NO | Management Factor | 1 | 2 | 3 | 4 | 5 |
|------|---|---|---|---|---|---|
| 1.1 | Poor organization and in effective communication | | | | | |
| 1.2 | Lack of strategic business planning | | | | | |
| 1.3 | Lack of clear mission and vision | | | | | |
| 1.4 | Poor management skill | | | | | |
| 1.5 | Poor selection of business partner | | | | | |
| 1.6 | Lack of clear division of duties and responsibilities among employees | | | | | |

2. Please indicate the degree to which you agree with the following statements concerning marketing factors. 1. Strongly disagree (SD), 2.disAgree (D), 3.Neutral (N), 4. Agree (A), 5. Strongly agree (SA))

| S.NO | Marketing factor | 1 | 2 | 3 | 4 | 5 |
|------|---|---|---|---|---|---|
| 2.1 | Poor customer relationship and handling system | | | | | |
| 2.2 | Searching new market is so difficult | | | | | |
| 2.3 | Luck of available market information | | | | | |
| 2.4 | Luck of demand forecasting | | | | | |
| 2.5 | Luck of create awareness about the product/ promotion | | | | | |

3. Please indicate your opinion regarding following statements (1.Strongly disagree (SD), 2.disAgree (D), 3.Neutral (N), 4. agree (A), 5. Strongly agree (SA))

| S.NO | Technological factor | 1 | 2 | 3 | 4 | 5 |
|------|---|---|---|---|---|---|
| 3.1 | Lack of skill to handle new technology | | | | | |
| 3.2 | Lack of appropriate machinery and equipment | | | | | |
| 3.3 | Unable to select proper new technology | | | | | |
| 3.4 | Lack of money to acquire new technology | | | | | |

4. Please indicate the degree to which you agree with the following statements concerning financial factors. (1.Strongly disagree (SD), 2.disAgree (D), 3.Neutral (N), 4. agree (A), 5. Strongly agree (SA))

| S.NO | Financial factor | 1 | 2 | 3 | 4 | 5 |
|------|--|---|---|---|---|---|
| 4.1 | Lack of access to finance | | | | | |
| 4.2 | Book keeping and accounting in not available | | | | | |
| 4.3 | High interest rate | | | | | |
| 4.4 | Shortage of working capital | | | | | |
| 4.5 | Inadequacy of credit institution | | | | | |

5. Please indicate the degree to which you agree with the following statements concerning work related factors. (1.Strongly disagree (SD), 2.disAgree (D), 3.Neutral (N), 4. agree (A), 5. Strongly agree (SA))

| S.NO | Work related factor | 1 | 2 | 3 | 4 | 5 |
|------|--|---|---|---|---|---|
| 5.1 | Absence of harmonious relationship among employees/team work | | | | | |
| 5.2 | Lack of motivation | | | | | |
| 5.3 | Absence of own premises | | | | | |
| 5.4 | Current working place is not convenient | | | | | |

8. What possible actions should be undertaken to minimize the problem of small and medium enterprises sustainability/failure?

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

Working Premises factors

2. What are other problem(s) did you faced regarding the overall functioning of your activity?