



**ST, MARRY UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**FACTORS AFFECTING MICRO & SMALL BUSINESSES
PERFORMANCE IN THE CASE OF ADDIS ABABA**

By

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTER OF
ARTS IN BUSINESS ADMINISTRATION**

JUNE, 2023

ADDIS ABEBA, ETHIOPIA

ST. MARY'S UNIVERSITY
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(SGS/0409/2014A)

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Statement of certification

This is to certify that Tsega Birhanu has completed her research project entitled “**factors affecting micro & small businesses performance in the case of Addis Ababa**” successfully the project, done under my supervision is the original effect of the candidate and all materials used have been dully acknowledged and it is sufficient for submission for the partial fulfillment for the award of master degree of business administration.

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Date: **June, 2023**

Declaration

I, the undersigned, declare that this study entitled, Factors Affecting Micro & Small Businesses Performance in the Case of Addis Ababa is my own work. All information in this document has been obtained and presented in accordance with academic rules and ethical conduct. This study has not been submitted for award of any degree or diploma program in this or any other institution and, I have fully cited, acknowledged and referenced all material and results that are not original to this work.

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Date: **June, 2023**

Acknowledgements

A long journey, with many twists and turns, has now ended. The successful completion of any survey study of this kind is only possible through the invaluable support and guidance of a number of individuals. Therefore, I would like to thank my Almighty God for his will to reach to this stage; and express my heartfelt gratitude and appreciation to each and every person who enriched this journey of intellectual pursuit; in particular I would like to acknowledge:

My most sincere and heartfelt thanks goes for Yibeltal Nigussie (Assistant Professor), my thesis advisor, for his unreserved and timely support in checking, commenting and giving constructive advice all along my thesis work. He is truly an eminent intellectual to his profession.

I also would like, to thank my respondents from sample Micro & Small enterprises who were willing to devote their time to fill the survey questionnaire. Moreover, I want to extend my gratitude to Mr. Jemal, Hello Market management and staffs, who helped me on finding contacts of MSEs and facilitating the questionnaire filling during my study, Addis Ababa city administration industry development and job creation bureau MSE development & market promotion directorate members for their helpful treatment of the survey questionnaire, and for providing all the necessary documents needed to prepare this thesis.

Furthermore, my sincere gratitude should also go to my family for their mercy, moral and encouragement to pursue my study at higher education. Very special thanks to my mother and Husband; words can't express my gratitude.

Last but not least, I'm greatly indebted to all whose name is not listed here but contributed throughout my journey of master's study.

Thank you!

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List of Acronyms

AACIDJCB Addis Abeba City Industry development & Job Creation Bureau.

CSA Ethiopian Central Statistics Authority

MSEs Micro, and Small Enterprises

SD Standard Deviation

SPSS Statistical Package for Social Science

UNIDO United Nations Industrial Development Organizations

Abstract

This research aims to investigate factors affecting the performance of MSEs with a special emphasizes on product, price, promotion and distribution as a factor in the case of Addis Ababa. For the sake of achieving the objectives of this study, questionnaires were analyzed using statistical analysis such as descriptive and inferential analyses. The information gleaned through questionnaire from a sample of 60 MSEs and face-to-face interviews were conducted with 100% response collection rate. The respondent MSEs were selected using quota sampling technique. Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy. The empirical study elicited four factors which seem to affect performance of MSEs in Addis Ababa which include: product, price, promotion and distribution. 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. Based on findings, recommendations to government bodies, to MSEs and suggestions for other researchers are forwarded. Finding shows that price, promotion and distribution have positive influence but product didn't have that much of a significant effect on the performance of MSEs at the time of the study was conducted and further studies need to be done on these specific factors. Among independent variables, distribution was highly related to business performance.

CHAPTER ONE

1 Introduction

1.1. Background of the study

Micro and Small Enterprises (MSEs) are the main developing forces of marketing economies. They are getting the most important inducement of economic growth and provide substantive contribution to sustainability of economic development. Some writers argued that MSEs also play a significant role in the creations of employment opportunities and generations of income for quite a large proportion of population (MoUDC, 2016).

In developing countries, MSEs by virtue of their size, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and are reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology (ILO, 2008:56).

Richardson, Howarth and Finnegan (2004) also stated that while the MSE sector is expanding in the majority of countries throughout the world, in many cases, creating markets and quickly adapting to the ever-changing needs of global consumers. It is clear that these smaller enterprises face particularly severe competition as many of them operate at the margins of the formal economy with far less resources to hand than the larger global players.

Funding gaps for smaller firms are a major impediment to growth and wide variance in the profitability, survival and growth of MSEs compared to larger firms brings special financing problems. In addition, owners and managers of smaller firms often lack commercial experience and/or a track record as entrepreneurs. Early stages of growth are marked by uncertainty both in production and marketing. Smaller, innovative firms operate in environments of high complexity and rapid change and rely heavily on intangible assets (ILO, 2008:56).

The sector has potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (MoTI,

1997:9). In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, and enhance productivity and technical change and, through the combination of all of these measures, to stimulate economic development. This is not denying the importance of large industries and other enterprises for the growth of the Ethiopian economy, there is ample evidence to suggest that the labor absorptive capacity of the MSE sector is high, the average capital cost per job created is usually lower than in big business, and its role in technical and other innovative activities is vital for many of the challenges facing Ethiopia (MoTI, 1997:9)

Micro and small enterprise in Ethiopia are, however, confronted with several factors that affect their performance. The major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises, etc. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In addition there are also personal attitudes or internal factors that affect the performance of MSE, which are related to the person's individual attitude, training and technical know-how (Werotew, 2010:226-37). Generally, there are external (contextual) and internal factors which are still affecting the very performance of MSEs.

Taking these thoughts into consideration, the most important question addressed in this research are factors affecting performance of Micro & Small Enterprises (MSEs) in the case of Addis Abeba. The research will investigate the factors from different perspectives, such as product, price, promotion and distribution, and measures their impact on the performance of Micro & Small Enterprises (MSEs).

1.2. Statement of the Problem

In most developing countries, MSEs face constraints both at start up phases and after their establishment. In Africa, for example, the failure rate of MSEs is 85% out of 100 enterprises due to lack of skills and access to capital (Fedahunsi, 1997:170-186). It is typical of MSEs in Africa to be lacking in business skills and collateral to meet the existing lending criteria of financial institutions (World Bank, 2004:29). This, according to World Bank, has created finance gap in most markets. The MSEs are able to source and obtain finance mostly from

informal sectors like friends and relatives while medium or large enterprises obtain funds from banks. This unequal access to finance by MSEs and medium and large enterprises has undermined the role of MSEs in the economic development in African countries (World Bank, 2004:29).

In Addis Ababa, MSEs have a problem of finance when establishing the business most individual sources of finance come from personal savings and loans acquired from relatives, friends and moneylenders with high rate of interests (MoTI, 2005:13-14). After the business goes operational, the probability of becoming profitable and paying back debts along with accrued interest is less. Besides, MSEs do not conduct market research and develop/design a product or service as per the need of customers (Zelege Worku, 2009:2-9). For MSEs, lack of premises is unquestionably a serious problem in the city. Most informal operators do not get access to suitable locations where they can get easy access to markets (HLCLEP, 2006:17). Further, the problem of technical procedures and appropriate technology used by the firm are another factor associated with high technology of equipment and use of new technologies.

To address above problems, this study therefore aims to provide a holistic view of factors affecting the performance of MSEs through a comprehensive review of literature and empirical study available on the area. This resulted in the development of a theoretical framework for the initiation of policies and programmes for enterprise development. From the practical point of view, it serves not only to provide a self-check to current enterprise sector, but also to increase the involvement in business activities through a better understanding of the determinants of the performance of the enterprises.

In view of the problems, the central question of this study is to investigate the impact of product, price, promotion and distribution in the performance of MSEs in Addis Abeba.

1.3. Research Questions

The aim of the research question is to investigate factors affecting Micro & Small Enterprises performance and their level of influence.

The central question of this research study include:

- 1 What is the role of product on MSEs performance?

- 2 What is the role of price on MSEs performance?
- 3 What is the role of promotion on MSEs performance?
- 4 What is the role of distribution on MSEs performance?

1.4. Objectives of the Study

1.4.1. General Objective

The main aim of this study is to assess factors affecting MSEs performance of in the case of Addis Abeba.

1.4.2. Specific Objectives

The specific objectives of this study are:

- 1 To describe the role of product on MSEs performance
- 2 To analyze the role of price on MSEs performance
- 3 To identify the role of promotion on MSEs performance
- 4 To describe the role of distribution on MSEs performance

1.5. Significance of the Study

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

i. Micro and Small Enterprises

The findings of this study will help MSEs in Addis Abeba and others, within an insight into the benefits of using different factors studied in this research to predict the factors that affect the performance of MSEs.

ii. Governmental Policy Makers

The government can use the findings of this study to assist in policy formulation and development for a framework for product, price, promotion, and distribution factors that affect the performance of MSE. Moreover, the findings of this study will help the policy makers and local level institutions how to encourage establishing or expanding MSEs. It also enables them to know what kind(s) of policies & strategies should be framed.

iii. Academics/Researchers

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

1.6. Scope of the Study

Thematically, the scope of this research was focused its analysis on factors affecting micro & small enterprises business performance in Addis Abeba by providing empirical evidences from MSEs operating in Addis Ababa. Mainly focused on impacts of product, price, promotion and distribution on MSE business performances. Whereas geographically, this study was delimited to Addis Ababa by selecting MSE business operating enterprises.

The study analyses the relationship between product, price, promotion, and distribution (independent variable) and performance of micro & small enterprises business (dependent variable). and the relationship is shown in the logical framework.

Additionally, the target respondents for this research also delimited to owners/managers of the MSE. This is because, it's believed for them to give true and well considerate response regarding product, price, promotion, and distribution and its impact to the MSE performance.

1.7. Organization of the paper

The study organized in five chapters. Chapter one contains introduction. It is all about the Background of the study, statement of the problem, objective of the study, research questions, and significance of the study, scope of the study and organization of the study. The review of the related literature part: introduction, theoretical, empirical and conceptual frame work were presented on the second chapter of the study. Methodology of the research presented on third chapter which deals about research design, approach, target population, source of data, data collection technique, methods of data analysis, study variables, reliability, and validity. The fourth chapter concerned on data presentation, analysis & discussion. The last chapter ends with summary, conclusion and recommendation.

CHAPTER TWO

2 Review of Related Literature

2.1. Introduction

This chapter reviews works on MSEs in Ethiopia in general and Addis Ababa in particular. Works on performance and determinants of performance were also reviewed. This is of help to understand the state of MSEs and its determinants of the performance. This chapter comprises of Five sections. These are definitions of MSEs, Micro & Small Enterprises in Ethiopia, concept & factors affecting MSE business performance, empirical studies and the conceptual framework.

2.2.Theoretical Review

2.2.1. Definition of micro and small enterprises

The MSE sector everywhere is characterized by highly diversified activities which can create employment opportunities for a substantial segment of the population. This implies that the sector is a quick remedy for unemployment and poverty problem. The realization of a modest standard of living through curbing unemployment and facilitating the environment for new job seekers and self-employment requires a direct intervention and support of the government and other concerned stakeholders (Mulugeta, 2011:13). Hence, in order to channel all necessary support and facilities to this diversified sector, a definition is needed to categorize the sector accordingly.

Enterprises are the most important components of the economy representing organizations which consist of two or more persons, and which, by economic means, perform activities whose goal is to make profit. MSEs are part of these enterprises with unique characteristics and roles. MSE is an acronym that stands for micro and small enterprises. Though these enterprises play a vital role in many nations' economic growth and development, there is no generally accepted definition. Different countries, agencies and institutions have defined MSEs differently to suite their own concepts and operations.

However, there is no single and universally acceptable definition of a small enterprise (Kayanula and Quartey, 2000:35). This is so because the criteria and ways of categorizing enterprises as micro and small from institution to institution and from country to country

depending essentially on the country's level of development. Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations (Emma I. et al., 2009:1-9). Firms differ in their levels of capitalization, sales and employment. Hence, definitions that employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. The absence of such uniform definition of MSEs has created a difficulty. In line with this, Tegegne and Meheret (2010:11) argued that the absence of a single or globally applicable definition has made the task of counting the number of MSEs and assessing their impact extremely difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the desired levels of development of the sector.

United Nations Industrial Development Organizations (UNIDO) gives alternative definition for developing countries. Accordingly, it defines micro enterprises as the business firms with less than 5 employees and small enterprises as the business firms with 5-19 employees (UNIDO, 2002:53).

The United States of America, the Small Business Act issued in 1953 stated that, small business is one which is independently owned and operated and not dominant in its field of operation. The act also further stated that, number of employees and sales volume as guideline in defining small business Major L. C. & Radwan N. S., (2010:2-19). In the same country, a committee for economic development (CED) has explained that small business is characterized by at least two of the key features: management is independent (usually the managers are owners), capital is supplied and an individual or small group holds ownership and the area of operation is mainly local (workers and owners are in one home country).

Definition of MSEs in Ethiopia

In Ethiopia, two different definitions of micro and small enterprises were adopted, namely:

- The definition used in the 1997 (E.C. 2005) micro and small enterprises development strategy; and
- The definition used by the Central Statistics Authority.

The Definition Provided in the FDRE 1997 MSE Strategy

The formulation of the 1997 Micro and Small Enterprise Development Strategy (E.C. 2005) took into account the experiences of South Africa and other countries. During that time, the use of a single criterion, namely paid-up capital, was preferred as it was thought that there were difficulties in obtaining information on the numbers employed in MSEs as most of the enterprises were operated by family members. As a result, the definition had the following limitations:

- Given the fact that employment creation is one of the objectives of promoting MSEs, the absence of criteria related to employment creation in the definition meant that it was not possible to use it for comparing changes in employment creation. In addition, from the perspective of the international experience, it was difficult to estimate the amount of capital for the different categories of enterprises.
- The use of paid-up capital as a criteria in the existing definition does not take into account the realities on the ground. Since enterprises are established by paid up capital financed by own contributions and in most cases bank loans, the definition does not give a full picture of enterprises.
- The existing definition, it being more than 13 years since it was first adopted, is found now to be incompatible with current realities. For instance, significant foreign exchange rate and inflation related changes have taken place since the definition was set. The paid-up capital definition of MSEs, which was ETB 20,000 (about USD 2,300 in G.C. 2005), is incompatible with the current foreign exchange equivalent of about USD 925 (EUR 824). Similarly, the definition of small enterprises that was ETB 500,000 (USD 58,000) is about USD 23,800 (EUR 20,600) under the current exchange rate. Thus, the expected amount of paid-up capital in foreign exchange equivalent thirteen years ago is 250% higher in G.C. 2005 than in G.C. 2012.
- While the definition is based on paid up capital, the transition from micro to small and from small to medium were to be measured in terms of total assets.

- Although small enterprises also include high-tech and consulting enterprises the definition did not include them; this needs to be reconsidered in view of the current significance of the sector.

Thus, it becomes imperative to revise the existing definitions of MSEs, in light of the international experience as well as the significance of the sector in the country's current development endeavor. Table 1 shows the existing definitions of MSEs.

Table 1: The 1997 Definition of Micro and Small Enterprises in Ethiopia

Sector	Paid up capital
Micro enterprises	≤ ETB 20,000 (USD 1,200)
Small enterprise	≤ETB 500,000(USD 30,000)

The Central Statistics Agency's Definition

GoE's Central Statistics Agency definition of MSEs is based on the type of technology adopted and the size of manpower:

- i. Handicraft and cottage industries in which a single person or family members perform their activities mainly by hand and using non-power-driven machineries; and
- ii. Small scale manufacturing enterprises engaging less than 10 persons and using motor driven machinery.

The above-mentioned definitions adopted by the Central Statistical Agency have the following limitations:

- Focus on the manufacturing sector (i.e., it does not refer to other sectors); and
- No use of the amount of capital as criteria.

The Central Statistics Agency definition is also different from the one adopted by MoUDH in the 1997 MSE Strategy. In the absence of a standard definition, the Central Statistics Agency did not collect data and conduct surveys of micro, small and medium enterprises. The absence of a uniform definition also makes it difficult to conduct scientific studies to

evaluate the impact of the existing strategy as well as the frameworks put in place to provide support to MSEs.

The Revised Definition of Micro and Small Enterprises

After identifying the limitations of the existing definitions and reviewing international experience, the definition of MSEs is revised. A new set of definitions is provided that takes into consideration: the number of employed workers, total assets and two broad sectoral classifications (industry and service) as well as taking into account inflation and exchange rate related changes that might occur over the next five years.

The Revised Definition of Micro Enterprises

Enterprises employing up to 5 persons including the enterprise owners and family members, with total assets of not more than ETB 100,000 (USD 4,6303).

- For the industrial sector (including manufacturing, construction and mining): Enterprises employing a maximum of five persons, including the enterprise owners and family members, with a total asset of not more than ETB 100,000 (USD 4,630); and
- For the service sector (retail trade, transport, hotel, tourism, and information technology and maintenance services): Enterprises employing a maximum of five persons, including the enterprise owners and family members, with a total asset of not more than ETB 50,000 (USD 2,310).

The Revised Definition of Small Enterprises

- For the industrial sector (manufacturing, construction and mining): This refers to enterprises employing 6-30 persons and with a total asset of from ETB 100,001 up to ETB 1,500,000 (USD 4,630 up to USD 69,500); and 3 USD 1.00 = ETB 21.6000 as at 23 April 2016 (EX Currency Converter)
- For the service sector (retail trade, transport, hotel, tourism, and information technology and maintenance services): This refers to enterprises that are employing 6-30 persons, and with total asset of at least ETB 50,001 and up to ETB 500,000 (USD 2,310 up to USD 23,150).

Table 2: The Revised Definition of Micro and Small Enterprises

Level of enterprise	Sector	Head count staff	Total asset ETB	Total asset USD
Micro enterprise	Industry	≤ 5	$\leq 100,000$	$\leq 4,630$
	Service	≤ 5	$\leq 50,000$	$\leq 2,310$
Small enterprise	Industry	6 - 30	101,000 - 1,5000,000	4,630 - 69,500
	Service	6 - 30	50,000 - 1,500,000	2,310 - 23,150

In recognition of the vital role micro and small enterprises (MSEs) play in the country's economic and social development, much attention has been paid by government of the Federal Democratic Republic of Ethiopia (GoE) to the development of MSEs. The Micro and Small Enterprise Development Policy and Strategy is evidence of the focus given to MSE development.

The Micro and Small Enterprise Development Policy and Strategy prepared by Ministry of Urban Development and Housing (MoUDH) takes into account the experience gained in the implementation of the MSE component of the Industry & Urban Development Package (2006) that formed part of the Ministry's contribution to GoE's Plan for Accelerated and Sustained Development to End Poverty (2005/06-2009/10), as well as analysis of best practices from other countries. The major aims of the Micro and Small Enterprise Development Policy and Strategy are to build further the gains achieved in MSE development to date, fulfil the objectives of next five year's Growth and Transformation Plan (GTP) as well as attain the MSE development targets set by GoE (MoUDH MSE Development Policy & Strategy).

The following MSE marketing related notes were taken from MSE Development Policy & Strategy of the federal democratic republic of Ethiopia (Second Edition March 2012, edit April 2016,)

2.2.2. The micro and small enterprise sector in Ethiopia

Micro and small enterprise development hold a strategic place within Ethiopia's Industrial Development Strategy. All the more so as MSEs are the key instruments of job creation in

urban centers, whilst job creation is the centerpiece of the country's development plan. The role of MSEs as the principal job creators is not only promoted in low-income countries like Ethiopia, but also in high income countries including the United States of America. Accordingly, because MSEs play a pivotal role in employment creation, stimulating and strengthening MSE development should be one of Ethiopia's top development priorities.

The importance of micro and small enterprises sector in Ethiopia is evident from their relatively large presence, share in employment and small capital requirement. Thus, at the level of strategy and policy, these roles of MSEs have received recognition. They are seen as means of providing employment, alleviating poverty, ensuring food security, and private sector development (Gebrehiwot & Wolday, 2006).

Experience shows that, while many MSE start-ups may survive, many others fail in a few years leaving only a small percentage to grow into medium and large enterprises. Nevertheless, MSE operators still serve as the most important pool of growth-oriented investors engaged in developing entrepreneurial attitudes and skills. For example, if there are half a million MSEs, and 99% are not able to develop into medium or large enterprises or fail completely, this still means that 1% - or 5,000 – become medium sized enterprises, and eventually may become large scale businesses. MSEs should be recognized as incubators of developmental investors. This rationale is not limited to low-income countries like Ethiopia, but also holds true in high income industrialized countries. (MoUDH MSE Development Policy & Strategy, 2016)

To increase the probability of these MSEs' survival, understanding why companies fail and succeed is vital for small business owners. According to Maya Demishkevich et al. (2015), some of the factors that contribute to business failures include lack of financial and technological resources, government support, marketing strategies, and entrepreneurial skills.

The market related constraints for MSEs' products and services are another area of concern. Among the factors that explain marketing-related challenges include examples of MSEs who have made products or provided services without first identifying customers' needs through a market surveys, use weak marketing strategies (i.e., quality and pricing) and are reluctant to take their own initiative to expand their market access. (MoUDH MSE Development Policy & Strategy, 2016). The study made notice of the fact that the Ethiopian MSE Development

Policy & Strategy document makes no mention of the requirement of adopting technology. It appears to be an ignored problem, and marketing is only focused on the conventional manner of doing things.

2.2.3. The concept & factors affecting MSE business performance

According to Martin (2010:67) performance is defined simply in terms of output terms such as quantified objectives or profitability. Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature Bidzakin K.J., (2009:31). The issues that remain unresolved are the goals against which performance should be assessed and from whose perspective the goals should be established (Etzioni, n.d:128). Rami Alasadi and Ahmed Abdelrahim (2007:6-13) on their study defined performance as follows.

The most commonly adopted definition of success [good performance] is financial growth with adequate profits. Other definitions of success [good performance] are equally applicable. For example, some entrepreneurs regard success [good performance] as the job satisfaction they derive from achieving desired goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.

Global Entrepreneurship Monitor (GEM) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it (GEM, 2004:10). However, performance seems to be conceptualized, operationalized and measured in different ways thus, making cross-comparison is difficult (Srinivasan et al., 1994:22). Among the most frequently used operationalization's are survival, growth in employees and profitability.

A business enterprise could measure its performance using the financial and non-financial measures. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting time and employees' turnover. Recognizing the limitations of relying solely on either the financial or non-financial measures, owners-managers of the modern small business has adopted a hybrid approach of using both the financial and non-financial measures (H Gin Chong, 2008:13).

Factors affecting MSE performance

H Gin Chong, (2008:13) states the basic theories and definitions of factors affecting MSE performance, as follows:

Price

When examining the performance of micro and small enterprises, price is a crucial factor to consider. The pricing strategy adopted by these businesses can significantly impact their overall performance. Here are a few key points to note:

- i. **Competitive Advantage:** Price plays a vital role in establishing a competitive advantage for micro and small enterprises. These businesses often operate in highly competitive markets, and setting the right price can help them differentiate themselves from competitors, attract customers, and drive sales.
- ii. **Profit Margins:** Determining the optimal price is crucial for achieving favorable profit margins. Micro and small enterprises must strike a balance between setting prices high enough to generate profits but not so high that they deter potential customers. Careful consideration of costs, market demand, and competitors' pricing strategies is essential in determining the most profitable price points.
- iii. **Value Perception:** Price is closely tied to the perceived value of a product or service. Micro and small enterprises need to demonstrate the value they offer to potential customers through their pricing. Setting prices too low may raise questions about product quality, while setting prices too high may deter price-sensitive customers. Finding the right balance is key.
- iv. **Market Positioning:** Price can also contribute to a business's overall market positioning. Micro and small enterprises can position themselves as premium providers, offering higher-priced products or services that cater to specific customer segments seeking premium quality. Conversely, they can adopt a cost leadership strategy, offering more affordable options to attract price-conscious customers.
- v. **Pricing Strategy Adaptation:** Given the dynamic nature of markets, micro and small enterprises should regularly review their pricing strategies. Factors such as changes in costs, customer preferences, or market conditions may necessitate adjustments to pricing strategies to maintain competitiveness and profitability.

Product

The product itself is a critical factor that directly impacts the performance of micro and small enterprises. Here are a few key points to note:

- i. **Product Differentiation:** In a competitive market, having a unique and differentiated product is essential for micro and small enterprises to stand out. A well-designed, innovative, or customized product can attract customers, create a distinct brand image, and contribute to increased sales and market share.
- ii. **Quality and Reliability:** The quality and reliability of the product are crucial for customer satisfaction and retention. Micro and small enterprises must strive to deliver products that meet or exceed customer expectations consistently. By ensuring high-quality standards, these businesses can build a positive reputation, gain customer trust, and generate repeat business.
- iii. **Market Fit:** Understanding the target market and tailoring the product to meet customer needs is crucial for success. Micro and small enterprises must conduct market research to identify customer preferences, pain points, and emerging trends. By aligning their product offerings with market demands, these businesses can effectively address customer needs and gain a competitive edge.
- iv. **Value Proposition:** A clear value proposition is essential for micro and small enterprises. The product should offer unique benefits or solve specific customer problems in a way that sets it apart from competitors. Communicating the value proposition effectively through marketing and branding efforts can attract customers and drive sales.
- v. **Adaptability and Innovation:** Micro and small enterprises need to be agile and adaptive in responding to market changes and customer feedback. Continuous product innovation, updates, and improvements are necessary to stay relevant, meet evolving customer expectations, and seize new market opportunities.
- vi. **Cost and Profitability:** Managing product costs is crucial for micro and small enterprises to maintain profitability. These businesses need to carefully balance the costs of production, materials, and labor with the market price and customer willingness to pay. Efficient cost management ensures competitiveness and sustainable business growth. Remember, the product is just one aspect of performance

for micro and small enterprises. Other factors such as pricing, marketing, customer service, and operational efficiency also play significant roles. Taking a comprehensive approach to optimizing these factors can contribute to overall business success.

Promotion

Promotion is a crucial factor that significantly impacts the performance of micro and small enterprises. Here are some key points to consider:

- i. **Brand Awareness:** Effective promotion helps build brand awareness for micro and small enterprises. By utilizing various promotional channels such as advertising, social media, public relations, and word-of-mouth marketing, these businesses can increase visibility and reach a wider audience. Building a strong brand presence creates recognition, credibility, and can lead to increased customer trust and loyalty.
- ii. **Targeted Marketing:** Promotional efforts should be tailored to reach the intended target market. Micro and small enterprises should identify their ideal customer segments and develop marketing strategies that resonate with those specific audiences. This includes understanding their preferences, behaviors, and communication channels to effectively reach and engage potential customers.
- iii. **Sales Generation:** Promotion plays a critical role in driving sales for micro and small enterprises. Promotional activities such as discounts, special offers, loyalty programs, or limited-time promotions can encourage customers to make a purchase. Well-executed promotional campaigns can create a sense of urgency, incentivize buying behavior, and boost revenue.
- iv. **Online Presence:** In today's digital age, having a strong online presence is vital for micro and small enterprises. Promoting products and services through websites, social media platforms, online advertising, and e-commerce channels can significantly expand their reach and tap into a broader customer base. Engaging with customers through online platforms allows for direct and targeted communication.
- v. **Customer Engagement:** Promotion is not only about generating sales but also fostering customer engagement and loyalty. Micro and small enterprises can use promotional activities to interact with customers, gather feedback, and build

relationships. This can include hosting events, providing educational content, responding to customer inquiries, or offering personalized experiences.

- vi. **Competitive Advantage:** Effective promotion can help micro and small enterprises differentiate themselves from competitors. By highlighting unique selling points, benefits, or value propositions, these businesses can position themselves favorably in the market. Promotional efforts that effectively communicate a business's strengths and advantages can attract customers away from competitors.

Distribution

Distribution is a critical factor that greatly influences the performance of micro and small enterprises. Here are some key points to note:

- i. **Market Reach:** Effective distribution strategies ensure that micro and small enterprises can reach their target markets efficiently. Establishing a well-defined distribution network, whether through direct sales, retail partnerships, or online platforms, allows these businesses to make their products easily accessible to customers. The broader the reach, the higher the potential for sales and growth.
- ii. **Logistics and Supply Chain Management:** Efficient logistics and supply chain management are essential for micro and small enterprises. Timely delivery, inventory management, and order fulfillment are crucial to meet customer expectations and maintain satisfaction. Streamlining these processes, optimizing transportation, and managing inventory levels can result in cost savings and improved overall business performance.
- iii. **Channel Selection:** Micro and small enterprises must carefully choose the distribution channels that align with their target market and product characteristics. This could involve direct sales, partnering with retailers or distributors, utilizing e-commerce platforms, or a combination of these approaches. Understanding customer preferences and behaviors helps determine the most effective distribution channels for reaching the intended audience.
- iv. **Customer Convenience:** Distribution strategies should prioritize customer convenience. Micro and small enterprises can offer multiple delivery options, such as home delivery, pick-up points, or partnerships with local stores, to ensure ease and

flexibility for customers. Providing a seamless and convenient buying experience can contribute to customer satisfaction, repeat business, and positive word-of-mouth.

- v. **Competitive Advantage:** Effective distribution can be a source of competitive advantage for micro and small enterprises. By ensuring their products are readily available and easily accessible to customers, these businesses can stand out from competitors. This can include aspects like faster delivery times, unique distribution partnerships, or value-added services that enhance the overall customer experience.
- vi. **Scalability and Growth:** Distribution strategies should support the scalability and growth ambitions of micro and small enterprises. As these businesses expand, it's important to evaluate and adapt distribution channels and processes to meet increasing demands efficiently. This may involve exploring new markets, expanding online presence, or establishing additional distribution partnerships to accommodate growth.

Remember, price, product, promotion and distribution are just some aspects of performance for micro and small enterprises. Other factors such as product quality, customer service, and operational efficiency are also play significant roles. Taking a comprehensive approach to optimizing these factors can contribute to overall business success.

2.3. Empirical Study

According to Mead & Liedholm (1998:69) and Swierczek and Ha (2003:46-58), the main factors that affect the performance of MSEs in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new. Although this may be true, the vast majority of new enterprises tend to be one-person establishments (Mwega, 1991:33-36). This has tended to ensure that the journey of the MSE entrepreneur in many instances is short-lived, with the statistic of MSE failure rate in Africa being put at 99 per cent (Rogerson, 2000:41). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick 1998:26-27), intense competition with replication of micro-businesses (Manning & Mashego, 1993:59-61); manager characteristics including lack of skills and experience (Katwalo & Madichie, 2008:337-348 and Verhees, F. M., & Meulenbergh, M. G., 2004:134-154).

Roy and Wheeler (2006:452-464) identified that the level of training of micro entrepreneurs (both formal and informal); experience and number of years in operation; knowledge of the market; level of differentiation (in terms of price, quality or other) and diversification of products; access to the necessary resources and/or technologies; level of planning; vision for the future; and the entrepreneur's level of poverty are among the factors contributing to success of MSEs while lack of market knowledge and training, limited access to capital, and lack of co-operation among possible business partners are some of the factors inhibiting the growth and development of the micro enterprise sector.

2.3.1. Previous Studies on Ethiopian Micro and Small Enterprises

Eshetu and Zeleke (2008:2-9) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises by using a random sample of 500 MSMEs from 5 major cities in Ethiopia. According to this research, that lasted from 1996-2001, the factors that affect the long-term survival of MSMEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment. This is so because the findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%). The study further indicated that participation in social capital and networking schemes such as Iqub3 was critically helpful for long-term survival of the enterprises. Businesses that did not participate in Iqub schemes regularly were found to be 3.25 times more likely to fail in comparison with businesses that did, according to the study.

Paul and Rahel (2010:89-92) found out that the studied enterprises registered 25% increment in the number of total employments they created since their establishment with an average annual employment rate of 11.72%. With regard to the sources of initial capital of the studied enterprises, the study indicated that, the main ones were loan from MFI (66.7%), personal savings/Iqub (17.5%), and loan from family/friends (17.1%). Moreover, the concrete problems that the targeted MSEs faced at their startup were lack of capital (52.8%), skills

problem (17.9%) and lack of working space (17.1%). Moreover, Daniel (2007:49), identified that lack of raw material, stiff competition and shortage of working capital.

Mainly relying on a sample survey of 557 operators and 200 MSEs chosen from four major cities of Ethiopia namely Adama, Hawassa, Bahirdar and Mekelle, Tegegne and Meheret's research (2010:40-72) was conducted with the intention of assessing the contribution of the MSE strategy to poverty reduction, job creation and business development. The raised causes for this gloomy prospect of business were not growing (33%), lack of finance (13%), lack of market (11%), and lack of working space (4%).

The major constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. The causes of market-related problems of MSEs engaged in metal and wood work are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting (FMSEDA, 2006:34). The product line of MSE activities in Ethiopia is relatively similar (Assegedech Woldelul, 2004:1).

2.4. Conceptual Framework

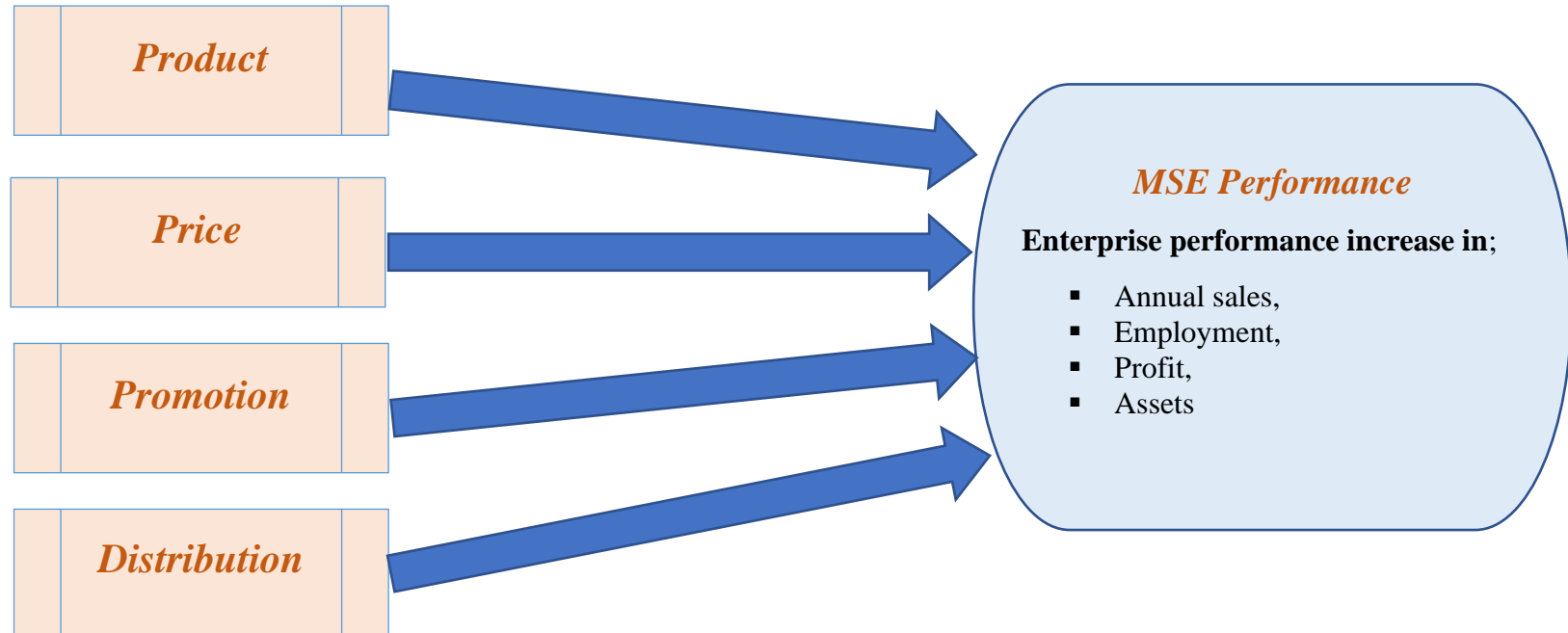


Figure 1: Conceptual Framework

Source: Own Model

CHAPTER THREE

3 Research Method

3.1. Introduction

This chapter deals with the brief description of the study area and discusses the sources and methods of data collection as well as the analytical model employed and the estimation procedure followed during the analysis. It describes just what is to be done, how it is to be done, what data will be used, what data-gathering devices will be employed, how sources of data will be selected, and how the data will be analyzed and drawing a conclusion.

3.2. Research Approach

Research approach is either qualitative or quantitative. The qualitative and quantitative approaches refer to the means through which one chooses to discuss and analyze selected data (patel and Davidson, 2003). Both approaches have their own strengths and drawbacks and neither one of the approaches can be held better than the other one. The best research method to use for a study depends on a study's research purpose and the accompanying research questions (yin 2014). Therefore, in order to achieve the objectives of this study and thereby provide answers to its problems, quantitative research approach is used by the researcher. There are compelling reasons why the researcher opted to use qualitative methods. The adoption of positivist paradigm entails that measurement remains an essential element since its basic assumption is that social phenomenon can be measured. Therefore, quantitative method gains deeper insights on the issue, to significantly strengthen the analyses and thus enhance confidence in the conclusions.

3.3. Research Design

Research design is the logic that links the data to be collected and the conclusions to be drawn to the initial questions of a study. It is a plan through which a strategy is to be carried out. It specifies the method and procedures for the collection, measurement and analysis of data (yin et al. 2014).

This study is an exploratory type of research focused on a cross-sectional/ a one-time survey conducted among micro & small enterprise business operating enterprises in Addis Ababa. In this research study quantitative research approach is solely employed. The rationale for selecting a quantitative study was that it allows testing of hypothesis as well as for replication of the research procedure thus enhancing validity of research findings.

3.4. Target Population

According to Banerjee and Chaudhry (2010) population/universe is a group which the researcher is interested in gaining information for the purpose of making generalization and conclusions. As (Mugenda & Mugenda, 2003) population of the study is the first step upon which to build population validity of the study.

3.5. Sampling technique

Purposive sampling technique was used in this study. This purposive sampling technique also known as judgement sampling, involves the researcher using their expertise to select a sample that is most useful to the purposes of the research. An effective purposive sample must have clear criteria and rationale for inclusion, accordingly being a legally registered MSE, based in Addis Abeba, and running their business for more than three years was our criteria for selection of MSE respondents.

All of the selected target MSEs were first contacted Via telephone to know their willingness to participate in the study. After getting their willingness the researcher distributed the questionnaire for those who positively replied through sharing link of google form (developed to collect responses), and in a hard copy depending on their preference. The analyses in this study are, therefore, based on the responses obtained from those who fill and return the questionnaire.

3.6. Sample Size

Secondary data related to factors affecting MSEs performance was collected from Addis Abeba City Industry development & Job Creation Bureau and from other academic sources.

Hence, the study is concerned about MSEs businesses performance in all sub-sectors of Addis Abeba city.

Using a formula is quite difficult since there is no readily available recorded data of total number of MSEs, therefore the researchers decided to select 60 MSE enterprises using quota sampling technics with even distribution between the major sectors identified by federal government of Ethiopia MSE development strategy document. Quota sampling is used for several reasons. Firstly, it allows researchers to ensure that their sample represents the different segments of a population. By setting quotas for specific criteria, such as age, gender, or occupation, researchers can capture the diversity within the population and avoid any bias that might arise from random sampling. Secondly, quota sampling is often more practical and cost-effective than other sampling methods, such as random sampling. And a total of 60 MSEs respondents were selected randomly.

Table 3: Distribution of respondents

Respondents' category	Total number of respondents per sector						
	Service	Manufacturing	Trade	Construction	Urban Agriculture	Other	Total
Total Number of MSEs	10	10	10	10	10	10	60

3.7. Data Types and Sources

There are two kinds of data normally used in researches: primary and secondary data. Primary data is recognized as data that is gathered for specific research, especially in response to a particular problem for the first time where secondary (historical) data is the data that already exists, like literature studies, which has been previously collected and assembled for some studies other than the one at hand. Hence, the source of primary data was structure questionnaire while that of secondary data were journals, articles, and websites, working manuals, MSEs laws and regulations of the federal and regional government, books and other research studies. It may be useful for the purpose of specific survey (Zikmud, 2003). This study is mainly base on primary data which provided us with high quality, reliable and acknowledged data.

3.8. Data Collection Method

The questionnaire was accompanied with a cover letter where we decided to what purpose the survey is conducted. The disposition of the questionnaire was designed to entail three different parts. The first part is background of respondents concerning personal profile designed to get information on business condition of the respondent. In the second part, views and attitudes about their enterprises to identify respondents' business position as to withstanding challenges arise from product, price, promotion and distribution perspectives. In the third part, respondents were given answer about challenges and benefits of their enterprises. In other words, to what extent each factor of marketing has effect on performance of MSEs.

The task of writing a questionnaire, determining the list of questionnaires and designing the format of printed or written questionnaire was an essential aspect of the development of survey research design. There are two basic requirements for the questionnaire: the relevancy and the accuracy. For a questionnaire to be relevant, only needed information is collected. ie. only information that is necessary to solve the question at stake is collected. Accuracy is obtained by having as high validity and reliability as possible (Zikmund et al. 2003).

Furthermore, according to chisnall et al. (2004), as the likert scale is regarded to have reliability and simple construct it is found to be suitable for the questionnaires. Therefore, in this research, the key challenges that affect the MSEs were identified and measured using 5-point Likert scales questions ranging from strongly disagree, denoted by 1, to strongly agree denoted by 5. This scale tests the extent to which MSEs Operators perceived the challenges as being very extensive or critical on their marketing operations. The questionnaire was prepared in English and translated into Amharic language, and back to English to ensure understandability and reliability of information.

3.9. Data Analysis Techniques

The ultimate goal of analyzing data is to treat evidence fairly, to produce compelling analytical conclusions and to rule out alternative interpretations. According to Denscombe (2003) data analysis means that the researcher is deciding what and which meaning can be attributed to the collected data and what are the implications to that effect and how does it relate to the topic being investigated. Accordingly, overall analysis of data is organized as follows:

First part describes the personal data of the respondent, including sex, age, educational status and experience. The second part involves factors affecting MSE business performance, it was composed of item ratings based on its level of impact and importance to the MSEs. This was computed using descriptive statistics and rating scales according the nature of the questions. Third part was explained to measure the implications on performances of MSEs toward the development of their business; it is composed of items distributed on four dimensions; and was examined the implication on the performance of Micro & Small Enterprises (like: sale, profit, asset and employment) by comparing for the last three years.

Then finally, Validations of the items was conducted by using exploratory factor analysis. Reliability of the items under each predictor was tested by using Cronbach's Alpha. Finally, detail results for this research were presented in tables, figures and reaching at conclusions by evaluating the implications of the data.

3.10. Validity and reliability

While doing research, we may get no response or inaccurate response because of respondents' error, ambiguous of both questions and answers or errors in formulating questionnaires. In order to reduce the possibility of getting higher errors, attention was given. Hence, validity and reliability tests, which help to detect the presence or absence of those errors, was conducted to reduce the problems. These two factors are further discussed below:

3.10.1. Validity

According to (Field,2009) validity evidence that a study allows correct inferences about the question it was aimed to answer or that a test measures what it set out to measure conceptually. (Saunders, 2003) also defined validity as the extent to which data collection method or methods accurately measure what they were intended to measure. Which means it is to check that the questions evaluate what it is planned to measures. This study was utilized content validity that is the extent to which the measurement device, which is the questioner, provides adequate coverage of the investigative questions (Saunders et. al., 2009) as per a literature reviewed related to the subject. To this concern the validity was checked by my advisor.

3.10.2. Reliability

Reliability is concerned whether the procedures of data collection and analysis will generate the same results on other occasions or will other observers make similar observations and arrive at same conclusions from the raw data (chisnall et al. 2003). In order to measure the

consistency of the questionnaire and the overall reliability of constructs that it is measuring, the reliability test was carried out based on Cronbach's Alpha coefficient. Cronbach's Alpha can be interpreted like a correlation coefficient. Its coefficient range lay on the value from 0 to 1. A reliability coefficient (alpha) is resulted 0.832, which means the result is higher than or equal to 0.7 which is considered as acceptable. That means the targeted questions raised in the questionnaires are capable to meet the objective of the study.

The study used a questionnaire to analysis factors affecting MSEs Business performance. Then there assess the model fit the reliability and validity of the questionnaire to get confidence in comparing the sample with the help of SPSS V-26 the most frequently used Cronbach's alpha. The reliability of the item is presented in the table below.

Table 4 Reliability analysis (Cronbach's alpha)

Variables	Cronbach's alpha	No. of Item
Product	0.708	6
Price	0.719	3
Promotion	0.723	3
Distribution	0.762	4
Performance of MSE	0.711	4
Aggregate	0.857	20

Source: own survey, computed in SPSS 2023.

According to Walsh's guideline from 1995, Cronbach's alpha should be at least 70%. As a result, the accuracy of the response could be verified and the data that was gathered was accurate. In some cases, following analysis, the Cronbach's alpha value did not meet this minimum value, but the best way to address this issue was to carefully design the questionnaire, seek the advice of an expert, maintain good communication with the advisor, and gather pilot data. In this case the Cronbach's alpha value for each variable and also the overall Cronbach's alpha value meets the requirements so that it's easy to conclude that the response of the respondents is reliable

3.11. Ethical Considerations

This study was entirely devoted to identify factors affecting MSEs business performance in Addis Abeba and determine how these factors significantly affecting the performance of their businesses so as to forward possible recommendation for future improvements and maintain marketing efficiency. It was not be interested to defame or abuse or expose secrets (if any) in any way to the public. To realize this fact, formal letter was collected from St. Marry University, School of Graduate Study, Department of Marketing for permission of the agencies and enterprises from which the information is required. The study participants were informed about the purpose of the study and verbal consent were obtained from each participant before data collection. Factors affecting performance of MSEs was measured objectively, based on information collected from respondents. Finally, confidentiality was assured and the data made to be kept by avoiding personal identifiers.

CHAPTER FOUR

4 Data Presentation, Analysis, and Interpretation

4.1. Introduction

Data analysis, study findings, and comments related to those findings are covered under this chapter. This study's objectives were to identify, examine, and make suggestions based on the ideas from the literature review and its empirical findings about the factors affecting the performance of MSEs. Price, product, promotion and distribution were some of the factors examined. Tables, charts, frequencies, and percentages were used to analyze and present the data that was gathered from the respondents. The researcher also used inferential analysis like correlation and regression.

4.2. Demographic Characteristics of the Respondents

The following table generalizes the demographic characteristics of respondents by gender, age, and educational status.

4.2.1. Gender of Respondents

Table 5: Gender of respondents

Gender of respondent				
		Frequency	Percent	Valid Percent
Valid	Male	31	51.7	51.7
	Female	29	48.3	48.3
	Total	60	100.0	100.0

Source own survey: 2023

As shown the above table 4 the distribution of male and female working at MSEs was almost equal. Male was 31(51.7%) followed by female 29(48.3%).

4.2.2. Work experience of MSEs

Table 6: Work experience

Age of enterprise					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-1	1	1.7	1.7	1.7
	1-3	16	26.7	26.7	28.3
	3-5	18	30.0	30.0	58.3
	more than 5 years	25	41.7	41.7	100.0
	Total	60	100.0	100.0	

Source: own survey: 2023

As shown the above table 5, the work experience of micro and small enterprise. According to the respondent micro enterprise work more than five years was 25(41.7%), followed by work experience 3-5 years with 18(30%), 1-3 years was 16(26.7%), and one and less than one year was 1.7% of the respondents. The result of the study shows that many of micro and small enterprise work more than five years, so they know how product, price, promotion and distribution affects the performance of MSEs. As the result the respondents give correct information to the researcher.

4.2.3. Educational Status of Respondents

Table 7: Educational status of respondents

Respondents highest educational level					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High school	10	16.7	16.7	16.7
	TVET certified	22	36.7	36.7	53.3
	Diploma	3	5.0	5.0	58.3
	First Degree	18	30.0	30.0	88.3
	Masters & above	7	11.7	11.7	100.0
	Total	60	100.0	100.0	

Source: Own survey, 2023

As shown from above table 6, the educational level of the respondents the result shows that majority of the respondent was TVET certified, 22(36.7%) followed by degree holder, 18(30%) and high school complete i.e., 10(16.7%), and master holder was 7(11.7%). the result

of the study indicate that the respondent was educated so, they can understand the questionnaire and give proper response for the researcher.

4.3. Descriptive Statistics Analysis

The table below displays the means and standard deviations of the various variables used and these indicate the extent to which the respondents disagreed or agreed with the statements in the questionnaire. The mean results of the variables indicate how each statement performed from the respondents 'points of view. Descriptive statistics (mean and standard deviations) of the respondent scores have computed. A five-point Likert scale is used where 1-2.4 negative attitude of the respondent, 2.5-3.4 neutral, and 3.5-5 was positive attitude.

Table 8: Descriptive statistics of product

Description of items	N	Mean	St. deviation
We provide a wide range of product/service by using marketing	60	3.13	1.23
The marketing product or service portfolio of our enterprise is up to the customers' expectations.	60	3.05	1.20
Providing better quality marketing products/services helps us to meet our customers' needs.	60	3.85	0.94
We employ the most advanced marketing technology than our competitors.	60	4.02	.83
We introduce and develop new marketing products/services based on customers' needs.	60	3.98	0.89
We build our brand reputation by providing a distinctive service quality.	60	3.58	1.17
Grand mean =	60	3.60	1.04

Source: own survey, 2023

According to Table 8 Descriptive statistics on marketing of a product, we provide a wide range of product/service by using marketing the respondent response was with a mean 3.13 and St. Deviation of 1.23. The result indicates that MSEs owner or employee neutrally argue to provision of wide range of product/service by using marketing. The marketing product or service portfolio of our enterprise is up to the customers' expectations, The respondent response was with a mean of 3.05 and St. Deviation of 1.20. The result of the respondent to marketing product or service portfolio indicates that many of MSEs marketing product or service portfolio is not up to the customers' expectations even if considering customer expectation was very important to increase the profile of the MSE. Providing better quality marketing products/services helps us to meet our customers' needs. with a mean of 3.85 and St. Deviation of 0.94 this result indicates that MSEs are providing quality product/service to meet customers' need.

We employ the most advanced marketing technology than our competitors, according to the respondent with a mean of 4.02 and St. Deviation of 0.83 the result indicates that MSEs have good practice to use of most advanced marketing technologies than their customers. We introduce and develop new marketing products/services based on customers' needs. with a mean of 3.98 and St. Deviation of 0.89 the result indicates that the MSEs were introduced and developed new marketing products/services based on customer's needs.

Regarding building the MSEs brand reputation by providing a distinctive service quality, the respondent argues with a mean of 3.58 and St. Deviation of 1.17. The result indicates that the MSEs has positive attitude on building brand reputation by providing service quality.

From table 8 we conclude that product with grand mean of 3.60. according to the response of the respondents MSEs employee's and owners have good product of marketing.

Table 9: Descriptive statistics on price strategy

Description of items	N	Mean	St. deviation
There is no new product pricing strategy encourages customers willing to try new products easily.	60	3.45	1.17

The prices are not well communicated and easily understandable.	60	3.50	1.03
Our pricing strategy not helps us in maximizing our profit.	60	3.42	1.18
Grand mean =	60	3.46	1.13

Source: own survey, 2023

According to table 9 Descriptive statistics on price of marketing. There is no new products pricing strategy encourages customers willing to try new products easily, with a mean of 3.45 and St. Deviation of 1.17 this result indicates that many of the MSEs employee and owners have neutral attitude on new products pricing strategy to encourage customers willingness to try new products easily. Communication of the price to make it easily understandable is having a mean of 3.50 and St. Deviation of 1.03. this result implies that the communication of price was low. Our pricing strategy contribution on maximizing our profit is low with the mean of 3.42 and 1.18, this indicate that there was a problem of pricing strategy. In general, from the above table, we conclude that MSEs owners have price related limitations to run their business.

Table 10: Descriptive statistics on promotion strategy

Description of items	N	Mean	St. deviation
We use different marketing strategies to promote us products/services.	60	3.33	1.15
Use of social media for promotion help us to sell and promote the products and/services.	60	3.60	1.08
Use of marketing more than other forms of marketing strategies	60	3.08	1.15
Grand mean =	60	3.34	1.13

Source: own survey, 2023

Table 10 Descriptive statistics on promotion strategy of marketing, the result was discussed as follow. Regarding use of different marketing strategies to promote our product/service the

respondents give response with the mean of 3.33 and St. Deviation of 1.15, this indicate that the respondent has neutral attitude on use of different marketing strategies to promote products/services. For use of social media for promotion help us to sell and promote the products and/services., the respondents argue with a mean of 3.60 and St. Deviation of 1.08, the response of the respondents was positive attitude. Use of marketing more than other forms of marketing strategies is very low, with a mean of 3.08 and St. Deviation of 1.15, the result implies that they have neutral attitude to promotion issues. The grand mean of promotion strategy of marketing was 3.34 it implies that the owner of MSEs need to improve promotion strategies to run marketing.

Table 11: Descriptive statistics on distribution

Description of items	N	Mean	Rank Order
Distribution strategy improves accessibility towards the customers.	60	3.47	1.11
Distribution strategy is able to serve our customers well in time.	60	3.07	1.19
The distribution strategy matches the demand and supply to functions well.	60	3.57	1.02
Distribution strategy is able to give location benefits to customers.	60	3.42	1.01
Grand mean=	60	3.38	1.08

Source: own survey, 2023

According to table 11 Descriptive statistics on distribution, the result was discussed as follow. Distribution strategy improves accessibility towards the customers, the respondent's response was a mean of 3.47 and St. Deviation of 1.11, they have positive attitude to distribution strategy impact on accessibility towards to the customer. For Distribution strategy is able to serve our customers well in time. the respondents give a response with a mean of 3.07 and St. Deviation of 1.19 the result implies that they have neutral attitude for this issue. The distribution strategy matches the demand and supply to functions well, for this question the respondents positively argue with a mean of 3.57 and St. Deviation of 1.02. the result indicates

that the distribution strategy matches the demand and supply to functions was positive. Distribution strategy is able to give location benefits to customers, with a mean of 3.42 and St. Deviation of 1.01, they had neutral attitude for this idea.

Table 12 Descriptive statistics of MSE performance

MSEs Performance	N	Mean	St. deviation
I have seen the changes in this enterprise's annual sales within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019?	60	3.43	1.03
I have seen see the changes in this enterprise's number of employees within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019?	60	3.73	0.92
I have seen the changes in this enterprise's profit within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019?	60	3.55	1.13
I have seen the changes in this enterprise's total assets within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019?	60	4.17	0.67
Grand mean =	60	3.72	0.94

Source: own survey, 2023

According to Table 11 Descriptive statistics of MSE performance, the result was discussed as follow. I have seen the changes in this enterprise's annual sales within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019, according to the respondent's response the mean was 3.43 and St. Deviation was 1.03. This result indicates that the annual sales of MSEs were increase with in the last three years. I have seen the changes in this enterprise's number of employees within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019, was the mean of 3.73 and St. Deviation of 0.92, this implies that MSEs employer were increased with in the last three years. I have seen the changes in this enterprise's profit within the last three years (April 2020 - April 2023) as

compared to the previous fiscal year 2019, according to the respondents the profit of the enterprise was increased with in the last three years, since the mean of the respondents was 3.55 and St. Deviation was 1.13. I have seen the changes in this enterprise's total assets within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019, was the mean of 4.17 and St. Deviation of 0.67, this implies that the total asset of the enterprise was increased. In general, from the above analysis, we conclude that MSEs performance were increased from the last three years.

4.4. Inferential Analysis

4.4.1. Correlation analysis

Correlation analysis determines to explore the strength as well as the direction of the relationship between the study variables. The researcher used Pearson's production movement correlation coefficient- Pearson's r. According to (Chee & Queen, 2016) Pearson's r is a measure of the linear relationship between two interval or ratio variables and can have a value between -1 and 1. The benefit of using Pearson's r is, it is a simple way to assess the association between two variables. Whether they share valiance, if the relationship is positive or negative, and the degree to which they correlate. In this study, Pearson's product-moment correlation coefficient- Pearson's r was used to determine the independent and dependent variables.

Table 13: Correlation between dependent and independent variables /N=60/

Correlations						
		Performance of MSE	Product	Price	Promotion	Distribution
Performance of MSE	Pearson Correlation	1				
	Sig. (2-tailed)					
Product	Pearson Correlation	.454**	1	.		
Price	Pearson Correlation	.551**	.541**	1		
Promotion	Pearson Correlation	.460**	.308*	.365**	1	

Distribution	Pearson Correlation	.542**	.381**	.486**	.357**	1
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

Source: own survey, 2023

The above table shows the correlation between independent variables and dependent variables. The correlate matrix indicated that there is a positive relationship performance of MSEs business and product, price, promotion and distribution. which is $r = 0.454^{**}$, 0.551^{**} , 0.460^{**} , and 0.542^{**} and ($P = 0.00$) respectively.

According to Hutcheson (2011) and Daniel (2014), if r is close to 1, the two variables have a strong association. This indicates whether changes in one variable are strongly correlated with changes in the other variable or whether the problem of multicollinearity exists. As we have seen from the above table, price was found highly correlate with the performance of MSEs business in the study area numerically by ($r = 0.551^{**}$), this number is close to 1, or there is a strong relationship between an independent variable and dependent variables.

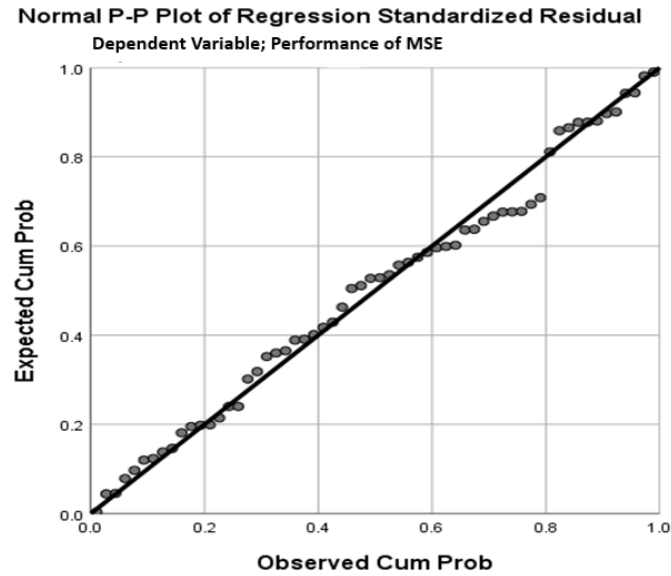
4.5. Diagnostics Tests

According to (Field, 2013), to run linear regression, checking critical assumptions is essential and it is helpful to conclude the population under study. In this regard, the following preliminary analysis (Regression diagnostics) was conducted to verify the assumptions like linearity, Multicollinearity, and homoscedasticity test or assumptions.

4.5.1. Assumption1: Linearity test

Hayes et al., (2012) the relationship between the independent and dependent variables needs to be a linear function to conduct linear regression analysis. As a result, the linearity of the relationship between independent and dependent variables was tested using SPSS V26 software and scatter plots showing the relationship between the two variables (IV and DV). The scatter plot of residuals indicates that the points lay in a reasonably straight line from bottom left to top right. Therefore, it shows linearity. An underlining assumption of regression analysis is that the relationship between the variables is linear which means the points in the straight-line plot must form a pattern that can be approximated with a straight line.

Figure 2: Linearity Test



4.5.2. Assumption 2: Multicollinearity Test

According to McClelland et al., (2017), most regression programs can compute the variance inflations factor (VIF) for each variable, and as a rule of thumb; VIF above 5.0 shows problems with the Multicollinearity test. Erik Mool (2014), also underline that values for “Tolerance” below 0.1 indicate serious problems, although several statisticians suggest that value for “Tolerance” below 0.2 are worthy of concern. Multi co-linearity of the regression analysis refers to how strongly interrelated the independent variables in a model are.

Table 14: Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	product	.681	1.469
	price	.598	1.671
	Promotion	.814	1.228
	Distribution	.714	1.400

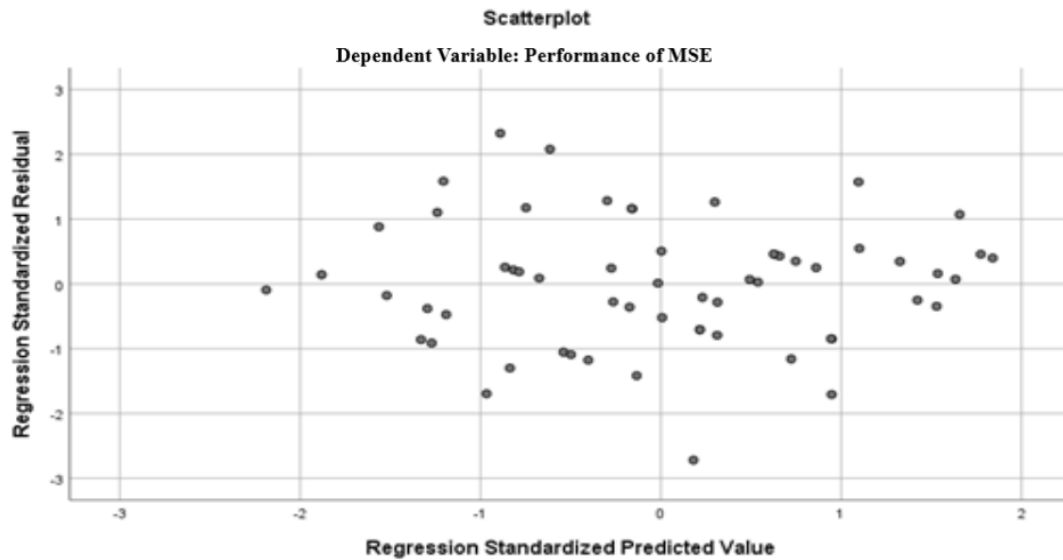
Source: own survey, 2023

Therefore, in this study, the table above shows that the Variance Inflation Factors (VIF) and tolerance fall within the acceptance range ($VIF = <5$, $\text{tolerance} = >0.2$). Therefore, there is no multicollinearity.

4.5.3. Assumption 3: Homoscedasticity Test

Homoscedasticity is the extent to which the data values for the dependent and independent variables have equal variances Olvera & Zumba, (2019). At each level of the predictor variables, the variance of the residual terms should be constant. It means that the residuals at each level of the predictors should have the same variance; therefore, checking for this assumption is helpful for the fitness of the regression model. In this regard, to plot the homoscedasticity test, as supported by Erik (2014), the researcher plots the standardized residuals, or error (ZRESID) on the Y-axis and the standardized predicted value of the dependent variable based on the model (ZPRED) on the X-axis and the result is presented as follows.

Figure 3: Homoscedasticity Test



Source: own survey, 2023

Thus, the scatter plot shows that the majority of the point are concentrated around zero (0) which shows that no violation of homoscedasticity.

4.6. Multiple Regressions

In this study, a multiple regression analysis was conducted to test the relationship among independent variables and dependent variable. Coefficient of determination - R² is the measure of the proportion of the variance of a dependent variable about its mean that is explained by the independent or predictor variables (Hair et al., 2014). A higher value of R² represents the greater explanatory power of the regression equation. as shown the below table 4.12 (46.1%) shows that the dependent variable MSE performance explained by the independent variable (product, price, promotion, and distribution). The remaining 0.539 (53.9%) of the MSE performance not explained by those determinant factors used for this study. Therefore, it fit the regression model but still needs elaboration in the future studies.

Table 15: Model Summary ^b

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.679 ^a	.461	.421	.48940	1.952
a. Predictors: (Constant), product, price, promotion, distribution					
b. Dependent Variable: Performance of MSE					

Source: own survey, 2023

Table 16: Coefficients ^a

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.968	.445		2.175	.034
	Product	.151	.131	.138	1.148	.256
	Price	.213	.107	.256	2.000	.050
	Promotion	.161	.079	.222	2.023	.048
	Distribution	.269	.110	.286	2.442	.018
a. Dependent Variable: MSE Performance						

Source: own survey, 2023

Multiple regressions were indicated a significant correlation independent variable with dependent variables. The multiple regression model used was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e.$$

The unstandardized coefficients of the determination under the B column in the above table was used to substitute the unknown x values of the regression model. The beta values indicated the direction of the relationship. A positive or negative sign indicates the nature of the relationship. The significant values (p-value) under the significance column indicate the statistical significance of the relationship of the probability of the model giving a wrong prediction. A p-value of less than 0.05 is recommended as it signifies a high degree of confidence.

From the above table the constant value was that $\beta_0=0.968$, $x_1=0.151$, $x_2=0.213$, $x_3=0.161$, and $x_4=0.269$

Therefore, the multiple linear regression result was as follow:

$$Y = 0.968 + 0.151\beta_1 + 0.213\beta_2 + 0.161\beta_3 + 0.269\beta_4$$

product result shows that beta coefficient=0.151 and p-value= 0.256, since p-value greater than 0.05, the study reveal that product have no any influence on the performance of MSEs at the time of the study was conducted.

On the other hand, concerning, price this study indicates that price have positive relationship with the performance of MSEs. The result of the study was beta coefficient of 0.23 and p-value 0.05, this result shows that price have positive influence on the performance of MSEs.

The finding of this research concerning promotion, the result of the study shows that promotion have positive influence on the performance of MSEs. The beta coefficient of promotion was 0.161 and p-value 0.048. This implies that when promotion change by one, the performance of micro and small enterprise change by beta time one.

The research also confirmed that distribution have positive influence on the performance of MSEs. The result of study indicates that distribution have beta value 0.269 and p-value 0.18, this shows that among independent variable distribution highly related to business performance.

CHAPTER FIVE

5.1. Introduction

This chapter includes a summary of the research's findings, conclusions pertaining to the research's goals, ideas or recommendations on the variables influencing the MSEs performance in Addis Abeba. The purpose of the study was to evaluate the variables influencing MSEs performance. Data pertaining to the study's goals was gathered and examined, and the results are reported in chapter 4.

5.2. Summary of Finding

The research's objectives included the evaluation of factors affecting MSEs performance in the case of Addis Abeba as well as the formulation of recommendations based on the concepts from the literature review and empirical findings from the study.

This research paper had a main objective and based on that there are 4 specific objectives to be addressed by the result. Depending on the study, 4 variables/factors had been identified and believed to have an impact on MSE performance. These are;- product, price, promotion and distribution.

Product result shows that product have no any influence on the performance of MSEs at the time of the study was conducted. On the other hand, concerning, price this study indicates that price have positive relationship and positive influence on the performance of MSEs. The finding of this research concerning promotion, the result of the study shows that promotion have positive influence on the performance of MSEs. The research also confirmed that distribution have positive influence on the performance of MSEs.

In general, the finding shows that price, promotion and distribution have positive influence but product didn't have that much of a significant effect on the performance of MSEs at the time of the study was conducted and further studies needs to be done on this specific factors. Among independent variable distribution was highly related to business performance.

5.3. Conclusion

This research was conducted in Addis Ababa with the prime intent of critically assessing the factors affecting the performance of MSE operator. Specifically, the study attempted to examine impacts of product, price, promotion, and distribution to the performance of MSEs business.

Based on the findings of the study, the researcher concluded that price have significant impact on the MSEs performance. It explains that the majority of respondents believed that there is new product pricing strategy encourages customers willing to try new products easily and their pricing strategy helps them in maximizing their profit. The study also concluded that change on pricing strategy of the MSE has positive effect on their performance. The MSEs need to update and communicate their price clearly with their customers in order to maximize their sales. On the other hand, promotion have also significant impact on the MSEs performance. The response revealed that majority of MSEs use different marketing strategies to promote their products/services, for example use of social media for promotion help them to sell and promote their products and/services. In here the researcher concluded that promotion of goods/services using various forms of marketing strategies will impact the performance of MSEs. The study indicate distribution have a positive influence on MSEs performance, and the responses lead us to conclude that appropriate distribution strategy will improves accessibility towards the customers, and help to be able to give location benefits to customers.

With these overall results, it is possible and right decision to conclude that price, promotion and distribution had significant effect on MSEs performance. The researcher also concludes product didn't have that much of a significant effect on the performance of MSEs at the time of the study was conducted and further studies needs to be done on this specific factors.

5.4. Recommendation

Based on the results of the findings, the following are recommendations for future implementation.

- ❖ MSE operators who is doing business in Addis Abeba:
 - Should design appropriate distribution strategy that improves accessibility towards the

customers. This should also give location benefits to customers.

- Price of the product should be well communicated to the customers and in an easily understandable way.
- Use different types of promotion (marketing strategies) to promote their products/services, and use different form of marketing strategies.
- ❖ MSEs operators advised to commit more resources to distribution & promotion (marketing).
- ❖ MSEs should solve the challenge of distribution & promotion (marketing) by communicating with responsible governmental bodies.
- ❖ It is important to create conditions that are in favor of promotion (marketing) tools and to eliminate barriers that prevent people from participating in it.

5.5. Future direction

The study explored only the impact on MSEs business performance, using product, price, promotion and distribution as a factor. Therefore, other researchers should conduct studies in other factors or town including those located in the country.

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Annex 1: Questionnaire



School of Graduate Program

Masters of Business Administration Program

(Questionnaire to MSE operators)

Dear Respondent,

First of all, I would like to thank you for your willingness to participate in this study. The questionnaire is designed to collect the necessary information to undertake research on the topic "factors affecting Micro & Small Enterprises business performance in the case of Addis Ababa" for the partial fulfillment of the requirements for the degree of Masters in Business Administration (MBA) at St. Mary's University. The main objective of this research is to investigate the factors affecting MSE business performance in the case of Addis Ababa by providing empirical evidences from micro & small business enterprises situated in Addis Ababa.

Please answer each question by making a tick mark (✓) to the option that you choose inside the given box or write your answer on the blank space provided. Your genuine responses are quite vital for the success of this study. Finally, I would like to confirm you that all the information you provide in this questionnaire will be strictly confidential and will exclusively be used for this research purpose only.

NB. No need of writing your name.

Thank you very much ahead for your cooperation!!!

Researchers' Name: Tsega Birhanu, MA student at St. Mary's University.

Address: Cellphone: +251-922-454149 / +251-911-137298

E-mail: tsegabirhanu2021@yahoo.com or zedoo1020@yahoo.com

I. Part- I: General information of the respondent

1 Sex:

A. Male ☐

B. Female ☐

2 Age: Years.

A. 0 - 1 year

B. 1 - 3 years

C. 3 - 5 years

D. More than 5 years

3 What is the highest educational level you attained?

A. Elementary (Grade 1-8)

B. High School (Grade 9-12)

C. TVET Certified

D. Diploma

E. First Degree

F. Masters and above

G. Any other

II. Part- II: Questions on product, price, promotion and distribution of MSEs

4 The following questions focus on the product delivered by your enterprise. You are kindly requested to rate each of the statements in the table below by using the following ratings:

1= Strongly disagree 2=Disagree 3= Moderately agree/ disagree

4= Agree 5=Strongly agree

Sr. No.	Product	Rating Scale				
		1	2	3	4	5
4.1.	We provide a wide range of product/service by using different marketing strategies.					
4.2.	The marketing product or service portfolio of our enterprise is up to the customers' expectations.					
4.3.	Providing better quality marketing products/services helps us to meet our customers' needs.					
4.4.	We employ the most advanced marketing technology than our competitors.					
4.5.	We introduce and develop new products/services based on customers' needs.					
4.6	We build our brand reputation by providing a distinctive service quality.					

5 The questions under this section focus on the to what extent do you agree that pricing system/price of your Micro & Small Enterprise business? Please rate each of the statements by using a rating scale of 1 - 5.

1= Strongly disagree 2=Disagree 3= Moderately agree/ disagree

4= Agree 5=Strongly agree

No.	Price	Rank Order
5.1.	There is no new product pricing strategy encourages customers willing to try new products easily.	
5.2.	The prices are not well communicated and easily understandable.	
5.3.	Our pricing strategy not helps us in maximizing our profit.	

- 6 The questions under this section focus on the to what extent do you agree that promotion strategy, of your Micro & Small Enterprise business? Please rate each of the statements by using a rating scale of 1 - 5.

1= Strongly disagree 2=Disagree 3= Moderately agree/ disagree

4= Agree 5=Strongly agree

No.	Promotion	Rank Order
6.1.	We use different marketing strategies to promote us products/services.	
6.2.	Use of social media for promotion help us to sell and promote the products and/services.	
6.3.	Use of marketing more than other forms of marketing strategies	

- 7 The questions under this section focus on the to what extent do you agree that distribution strategy, of your Micro & Small Enterprise business? Please rate each of the statements by using a rating scale of 1 - 5.

1= Strongly disagree 2=Disagree 3= Moderately agree/ disagree

4= Agree 5=Strongly agree

No.	Distribution	Rank Order
7.1.	Distribution strategy improves accessibility towards the customers.	
7.2.	Distribution strategy is able to serve our customers well in time.	
7.3.	The distribution strategy matches the demand and supply to functions well.	
7.4.	Distribution strategy is able to give location benefits to customers.	

III. Part- III: Questions on performance of the Micro & Small Enterprise as rated by respondents

Sr. No.	MSE Performance	Rating Scale				
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	I have seen the changes in this enterprise's annual sales within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019?					
2	I have seen see the changes in this enterprise's number of employees within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019?					
3	I have seen the changes in this enterprise's profit within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019?					
4	I have seen the changes in this enterprise's total assets within the last three years (April 2020 - April 2023) as compared to the previous fiscal year 2019?					

Thank you!