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Abstract- The effects of firms' characteristics on the growth of medium and small business in developing country. This study is important to both academic research and policy development because of the significant contribution these businesses could make to economic development, the growth of employment and the generation of new innovations. For research design; cross-sectional, descriptive and inferential designs study were used in the study. The study used both primary and secondary data. Pertaining to data analysis the researchers used quantitative data analysis techniques mainly descriptive analysis using percentages, tables and mean were employed. While for inferential statistics like, chi-square and ANOVA were used to test the statistically significant difference (independency) of variables, and statistically significant mean difference among different business sectors. Hence, as per result of this study majority of small and medium enterprise were far from raw materials. The farness of the firms from raw material may negatively affect their growth of small and medium business Majority of the small and medium businesses in Ethiopia are either owned by a single individual or are family businesses.

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The Effects of Firms' Characteristics on the Growth of Medium and Small Business in Developing Country (Case Study Ethiopia)

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Abstract- The effects of firms' characteristics on the growth of medium and small business in developing country. This study is important to both academic research and policy development because of the significant contribution these businesses could make to economic development, the growth of employment and the generation of new innovations. For research design; cross-sectional, descriptive and inferential designs study were used in the study. The study used both primary and secondary data. Pertaining to data analysis the researchers used quantitative data analysis techniques mainly descriptive analysis using percentages, tables and mean were employed. While for inferential statistics like, chi-square and ANOVA were used to test the statistically significant difference (independency) of variables, and statistically significant mean difference among different business sectors. Hence, as per result of this study majority of small and medium enterprise were far from raw materials. The farness of the firms from raw material may negatively affect their growth of small and medium business Majority of the small and medium businesses in Ethiopia are either owned by a single individual or are family businesses. This may have negative effects on the growth of the business because the lack of team work and skill sharing. As per the one –way ANOVA test made ($F=0.046$, $DF=1$, $N=315$, $p>0.05$), there is no statistically significant mean difference of firm growth based on type of sectors of business they involved. This shows the sector in which the enterprise operates is can be not the determinants of enterprise growth. The ability to success of small and medium enterprises and their years of operations have no strong association ($X^2 = 60.83$, $DF=10$, $p=0.000$, $V=0.3110$,). In short, ability to growth of one firm does not strongly depend on its years of operations.

I. Back Ground of the Study and Statement Problem

Medium and small businesses are strategically important for entrepreneurship development because they curb the monopolistic power of large enterprises and increase the competitiveness of the market. They also act as the seed beds for entrepreneurial skill development (UN-ECE, 1997). The contribution of these businesses to innovation, economic growth, and job creation in most parts of the world is well documented. Thus, providing support to small businesses is a prudent approach to create new employment opportunities.

Despite the mentioned fact above, the growth of SMEs faces a number of constraints that hinders its rapid growth and development, which ultimately reduce the weight of its potential contribution to the national economy. Such factors are entrepreneurial characteristics, absence of BDS, social linkages, marketing problems, and absences of proper business plan due to knowledge or other reasons (Gurmeet & Rakesh, 2008: 120-136; Beyene, 2007: 25-27; Linda & Robert, 1998: 10-12). In addition, Werotew (2010: 226-237) also noted that 'environmental factors such as social, economic, cultural, political, legal and technologies along with, internal (personal) factors like individual attitudes, training and technical know-how are all the constraints that are challenging the success of Ethiopian SMEs. Entrepreneurship, which is recognized to be a change agent and the fourth factor of production that brings together land, labor and capital, makes a significant contribution to the pace of nation's economic development. However, this important factor of production is not being utilized properly in Ethiopia (ILO, 2003).

The challenges of youth entrepreneurs globally are remarkably similar; and this necessitates investigation into the financial and non-financial support required to enable their success. Schoof (2006) argues that there exist five key constraints and barriers to entrepreneurship development in general: social and cultural attitude towards entrepreneurship, entrepreneurship education, access to finance/start-up financing, administrative and regulatory framework, and business assistance and support. Llisterri et al (2006; 5) also note that lack of experience and resources causes early failure of business. Similarly, Ethiopian entrepreneurs have largely the same combination of difficulties, in the main access to capital for starting or scaling up projects, lack of business and technical skills, unavailability of operational space, non-existence of mentors and limited access to markets (Beyene, 2007). Prior research documented that SMEs play a significant role in the economy of a country. Consequently, the performance of the SME sector is closely associated with the performance of the nation. There has been more written about small business growth in recent

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years than any other aspect of management. One of the main reasons is the contribution of expanding enterprises to economic development and unemployment reduction, which generally has attracted the attention of researchers and policy makers in many countries (Bernice & Meredith, 1997: 37-64). However, access to finance and managerial skill are problem becomes a challenge to small and medium enterprises in developing country (ILO, 2003).

But as finding of Beyene (2007), internal attributers (personal and business related) and external attributers (governmental, access to market, infrastructure) factors were affected the success of the small and medium enterprises. In addition, SMEs in Ethiopia are constrained and failed to succeed by a number of factors (Washiun & Paul, 2011: 233-246; Gurmeet & Rakesh, 2008: 120-136) such as unfavorable legal and regulation condition, lack of access to market, poor access to quality business infrastructure, problems of raw materials and lack of working capital are among many factors

Even though scholars note that, the safe way is to have comprehensive measures of success than relying on a single indicator in dealing with the growth of small and medium enterprises, studies (Gebreeyesus, 2009: 46; Solomon, 2004: 51) conducted so far in line with this issue give more emphasis to *single measurement criteria of growth as methodology*. And even special focus is given to the determinants of performance of manufacturing enterprise, but such assessment do not guarantee to conclude about determinant factors of growth /success of SMEs in whole sector. In addition, though there are some studies which directly or indirectly assessed the growth determinants of SMEs, they have reached to different conclusions for similar research issue for example concerning the effect of education of the business owner (Garoma, 2012: 177; Tiruneh, 2011: 12) which is necessitated to have further study. It implies that the studies conducted in other specific area do not guarantee to conclude about the picture of the rest parts of the world, especially at country level.

II. Literature Review

a) A Perspective on Entrepreneurship

Entrepreneurship is more than the mere creation of business. The characteristics of seeking opportunities, taking risks beyond security, and having the tenacity to push an idea through a reality combine into a perspective that permeates entrepreneurs. An entrepreneurial perspective can be developed in individuals. This perspective can be exhibited inside or outside an organization, in profit or not-for-profit enterprises, and in business or non-business activities for the purpose of bringing forth creative ideas. Thus, entrepreneurship is an integrated concept that permeates an individual's business in an innovative manner. It is this perspective that has revolutionized the way business is conducted at every level and in every country (Kuratiko & Hodgetts, 2004:3). The symbol of business tenacity and achievement is entrepreneurship. Entrepreneurs were the pioneers of today's business successes. Their sense of opportunity, their drive to innovate, and their capacity for accomplishment have become the standard by which free enterprise is now measured. The standard has been held throughout the entire world.

Entrepreneurs will continue to be critical contributors to economic growth through their leadership, management, innovation, research and development effectiveness, job creation, competitiveness, productivity, and the formation of new industries (Kuratiko & Hodgetts, 2004:3; Sexton & Kasarda, 1992:48, 53-54 cited in Stanislous, 2008)

b) Characteristics of firms of Small and Medium Businesses

It is widely acknowledged that small and medium businesses are different from large businesses. The nature of small and medium businesses affects the way they operate (Carson & Cromie, 1989). Compared to large businesses, small and medium businesses are non-bureaucratic and more flexible (Carson, Cromie, McGowan, & Hill, 1995; Dobbs & Hamilton, 2007; Eirich, 2004 cited in Kodicara 2008). Small businesses gather information mostly through secondary data using the owner-manager's formal and informal contacts (Gibb and Davies, 1993).

In the absence of functional specialists, small businesses perform their business activities with less expertise than large businesses (Freel, 2000). Past research has also found that only a few small businesses have the potential to grow (Hall, 1995).Small businesses cannot offer the challenging careers and the attractive remuneration packages offered by large companies (Koppar, 2003). Nor can they offer the same opportunities for training and skill development (Koppar, 2003, Webster, Walker, & Barrett, 2005 cited in Kodicara 2008). Despite these distinct disadvantages, employees in small and medium businesses claim more personal satisfaction from the freedom, flexibility and the more congenial work environment that is found in such businesses (Shuster, 2000).

Gopalan (2003), highlighted the critical importance of selecting the right location when starting a business, as it significantly influences success and failure. Past studies that examined the influence of urban and rural locations on small business performance have agreed that resources required for growth such as specialist production factors, specialist managers, or sub-contractors are easier to find in urban areas than in rural areas (Dahlquist et al., 1999; Kean et al., 1998; O'Farrell & Hitchens, 1988 cite in Kodicara, 2008). The

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higher population density in urban areas also provides a relatively larger market potential as compared to rural areas. Thus it is expected that small businesses located in urban areas would have a greater opportunity to grow. However, some studies have found small and medium businesses in rural locations generate higher employment growth rates (Heinonen, Nummela, & Pukkinen, 2004). The other drawbacks of location areas are the distance to buyers, suppliers, services and the lack of training providers (Wickham, 2004).

III. Research Methodology

a) Research Design

The cross-sectional was used in the study. Furthermore, to achieve the objective, the study manipulated both descriptive and inferential statistics were employed.

b) Sampling Method and Sampling size

To select the sample of respondents, the combination of non-probability (convenience) and probability (stratified) sampling methods was employed one after the other. Five industrial zones (towns) were selected as samples of population by convenience sampling method. The sample selected zones were: Mojo, Sebata, Gelan, Adama and Dire Dawa are taken.

Then after, researchers had taken stratified random sampling technique. The criterion for creation of strata was type of sectors respondents. Three strata namely workers in manufacturing, service and trade sectors in selected area in Ethiopia was used as respondents. All respondents from all stratums were chosen using simple random sampling method.

Sample Size Determination Formula:

$$n = \frac{z^2 pq}{E^2} = \frac{(1.96)^2 (.50)(.50)}{(.05)^2} = 386$$

Description:

N = required sample size

z = confidence level at 95% (standard value of 1.96)
E = margin of error (maximum error tolerable) to within .05

p =population proportion at which the sample size is maximum (at p=0.5 and q=0.5, p*q=0.25) Where q=1-p

Hence, to identify the necessary information, more than or equal 386 samples of respondents must be selected. Since, 386 samples were selected by simple random from all selected sample of enterprises. A well-structured questionnaire for survey was used as tools of data collections from selected respondents.

IV. Result and Discussion

To identify the how firms' characteristics affect small and medium enterprise in Ethiopia, the open-ended question was used and finding was analyzed as follow

a) Descriptive Analysis

Under this topic, provincial location and firms' ownership are discussed in table1 and table2 respectively.

Table-1 : Firms' location

		Near to raw material		Near to market (customers)	
		Frequency	Percent	Frequency	Percent
Valid	yes	77	23.9	245	76.1
	no	238	73.9	70	21.7
Missing	System	7	2.2	7	2.2
Total		322	100.0	322	100

As table-1 shows percentage of the 73.9 % of firms were not near to raw material while 23.9% were near to raw material. And 76.1% of firms were near to market while 21.7% were not near to market. From this it possible to conclude that farness of the firms from raw material may negatively affect their growth of small and medium business.

Table 2 : Types of ownership

Types of ownership	Frequency	Percent
Sole Proprietor	273	84.8
Private Limited Liability Company	7	2.2
Public company	14	4.3
Partnership	28	8.7
Total	322	100.0

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As per table 2 above the majority of businesses were sole proprietorships (84.8%). The remainders were fairly evenly divided among partnership (8.7%), public quoted firms (4.3%), and private limited liability enterprises (2.2%). Where there were partnerships, in most cases, the partners were members of the same family (93.5%). This indicates that an overwhelming majority of the small and medium businesses in Ethiopia are either owned by a single individual or are family businesses. This may have negative effects on the growth of the business because the lack of team work and skill sharing. In addition, Westhead, (1995) the findings of a number of studies show a positive association between diverse or diluted ownership and levels of employment growth (Birley & Westhead, 1990; Westhead & Birley, 1995). Small and medium businesses owned by several people are more inclined to grow than the businesses owned by a single person (Shuster, 2000). This difference in growth, Heinonen, Nummela, & Pukkinen, (2004) explained, is due to the greater variety, balance and synergy of skills provided by the team of owner-managers.

b) Inferential Statistics Analysis

In inferential statistics chi-square and one –way ANOVA were used. Chi-square was used to test for independence or association of some variables. While ANOVA used to test the mean difference (variation) of among different sectors of enterprises.

The following hypotheses were tested as follows.

HO (1): There is no significant mean difference on SMEs growth in relation to the difference in sector type.

HO (2): There is no strong significant relationship between the ability success of SMEs and firms years of operations.

Table 3 : One way ANOVA Test: Variation in mean difference of SMSs growth based on type of sectors of business

ANOVA					
Types of sectors					
	Sum of Squares	df	Mean Square	F	Sig.
Among Groups	.030	1	.030	.045	.831
Within Groups	209.919	313	.671		
Total	209.949	314			

As per the one –way ANOVA test made ($F=0.045$, $DF=1$, $N=315$, $p>0.05$), there is no statistically significant mean difference of firm growth based on type of sectors of business they involved.

The hypothesis (1): There is no significant mean difference on MSEs growth in relation to the difference in sector type. **Was accepted**.

This shows the sector in which the enterprise operates is can be not the determinants of enterprise growth. But this finding contradict with Cabal (1995) stated, services sector enterprises were growing less rapidly and manufacturing were growing more rapidly than trading.

Table 4 : Chi-Square Test: independency of ability to success and firms' years of operations

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	60.826[a]	10	.000
Likelihood Ratio	58.933	10	.000
Linear-by-Linear Association	24.696	1	.000
N of Valid Cases	315		

a. 2 cells (15.6%) have expected count less than 5. The minimum expected count is .16.

Table 5 : Symmetric Measures strength of association desire success and firms' years of operations

		Value	Approx. Sig.
Nominal by Nominal	Phi	.439	.000
	Cramer's V	.311	.000
N of Valid Cases		315	

As a result of table 4 show, chi-square test made ($X^2 = 60.83$, $DF=10$, $p=0.000$), there is statistically significant difference between ability to growth and firms' years of operations. In addition, as Cramer's V test in table 5 indicates ($V=0.3110$) the strength of association between two variables is low. Event though, there is statistically significant difference between ability to success and firms' years of operations the association between two variables is not strong.

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Here, hypothesis2. There is no strong significant relationship between the ability success of MSEs and firms years of operations is *accepted.*

Therefore, the ability to success of small and medium enterprises and their years of operations have no strong association. In short, ability to success of one firm does not strongly depend on its years of operations.

V. Conclusion

The main objective of this study was to determine how firms' characteristics affects the growth of medium and small business in developing country. Hence, as per result of this study majority of small and medium enterprise were far from raw materials. The farness of the firms from raw material may negatively affect their growth of small and medium business Majority of the small and medium businesses in Ethiopia are either owned by a single individual or are family businesses. This may have negative effects on the growth of the business because the lack of team work and skill sharing. As per the one –way ANOVA test made ($F=0.046$, $DF=1$, $N=315$, $p>0.05$), there is no statistically significant mean difference of firm growth based on type of sectors of business they involved. This shows the sector in which the enterprise operates is can be not the determinants of enterprise growth. The ability to success of small and medium enterprises and their years of operations have no strong association ($X^2 = 60.83$, $DF=10$, $p=0.000$, $V=0.3110$,). In short, ability to growth of one firm does not strongly depend on its years of operations.

VI. Limitations and Further Research Recommendation

Several limitations were considered when interpreting the results of this research project. Accordingly, some firms' characteristics affects small and medium business growth are multidimensional. The influence of some of these factors on small and medium business growth could be either independent or interdependent. For further study it is possible to study the correlation of different variables but this study did not test the correlation variables.

The data was collected from different sites as well as from different types of business sectors. This is difficult to specifically determine the internal factors affect the growth of each sectors and one site. Further studies should specifically study variable affects the growth of each sectors. Due to resource constraints, the cross-sectional study conducted did not examine the variables that impact the growth small and medium businesses as they move from one stage to another. To see change growth or live cycle of the small and medium business longitudinal studies is needed.

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