

1 Factors Affecting Performance of Micro and Small Enterprises in
2 South West Ethiopia: The Case of Bench Maji, Sheka, and Kefa
3 Zones

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7

8 **Abstract**

9 The aim of this study is to investigate the factors that affect the performance of SMEs in
10 Bench Maji, Sheka, and Kefa zone particular to manufacturing, trade and service sector. In
11 this study, mixed research methods were used. Stratified simple random sampling was used to
12 select proportional number of samples from the study area. Both primary and secondary
13 source of data were used. To obtain the primary data, questionnaires were distributed for 278
14 micro and small sized enterprises owners and managers to access the performance status of
15 their enterprises and also to examine factors affecting their performance. Secondary data were
16 collected from books, journals, past research works, official documents and the Internet.

17

18 **Index terms**— small and medium enterprises (SMEs); internal and external factors; and performance.

19 **1 Introduction**

20 The success of the government and a country, in regard to business development, is related to small business
21 sustainability (Carrasco-Davila, 2005). Local and federal authorities had been developing programs that promote
22 the creation of new jobs thru the small business (Plan Nacional de Desarrollo, 2007). The small and medium
23 business sectors are recognized as an integral component of economic development and a crucial element in the
24 effort to lift countries out of purveys. The dynamic role of micro and small enterprises (MSEs) in developing
25 countries as engines through which the growth objectives of developing countries can be achieved has long been
26 recognized. Small businesses play an important role in the development of a country and serve as a means to
27 sustain and grow economies (Ibrahim, Angelidis, & Parsa, 2008). Due to the ease in starting and simplicity
28 in operation, small businesses are initiated for various reasons depending upon entrepreneur motives and traits
29 (Kozan et al., 2006). Small businesses contribute to lowering unemployment as well as generate new sources of
30 employment.

31 Recent empirical studies show that MSEs contribute to over 60% of GDP and over 70% of total employment
32 in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-
33 income countries. Therefore, an important policy priority in developing countries is to reform the policies that
34 divide the informal and formal sectors, so as to enable the poor to participate in markets and to engage in higher
35 value added business activities (Ayyagari, Beck and Demirguc-Kunt, 2003).

36 Policies to promote the development of MSEs are common in both developed and developing countries (Storey,
37 1994; Levitsky, 1996; Hallberg, 2000). In the case of developed countries, it has become commonplace for
38 governments during the last two or three decades to implement policies or programs designed to promote
39 aspects of micro and small-sized enterprises (MSEs). This has coincided with an increase in the importance,
40 in terms of contribution to employment and GDP growth, of SMEs in most of the developed economies (Storey,
41 1994). In the case of developing economies, policies designed to assist MSEs have been an important aspect of
42 industrial policy and multilateral aid programs such as those of the United Nations since the 1950s (Levitsky,
43 1996). However, while there are wide variations across countries the traditional picture is one where the relative

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44 importance of SMEs tends to decline as a country moves up the developmental ladder (Hallberg, 2000; ??nd
45 Liedholm and Meade, 1999).

46 In addition, they also comprise a significant proportion of the business enterprises. It may therefore be
47 argued that, purely from the viewpoint of their significance in their economies, MSEs warrant attention from
48 governments. Storey (1994) has argued, in the UK context, that the increased importance of MSEs means
49 that public policies towards them cannot be considered in isolation from other influences in the economy and
50 cannot be left to those with a particular interest in MSEs. The significance of SMEs in their economies makes
51 it important for policymakers to ensure that these enterprises do not face impediment that hamper their ability
52 to operate efficiently and do not face tedious administrative compliance costs. As Lattimore et al. (1998) note,
53 while economic importance provides a strong basis for public policy consultation with small business, in itself it
54 provides little justification for specific interventions.

55 Despite a long history of development efforts, MSEs were perceived rather as a synthetic construction mainly
56 of "social and political" importance (Hallberg, 2000), especially throughout the 1980's and up to late 1990's.
57 Although domestic MSEs constituted most of what could be and what are still deemed as the private business
58 activity in most developing countries, private sector development strategies advocated for and implemented in
59 these countries were skewed towards the needs of large-scale business, including foreign invested ones. This type
60 of policy advice was partly motivated by the rather disappointing (Meyer-Stamer, Jörg and Frank Waltering,
61 2000) results achieved through extensive MSE support systems operated in developed countries since the 1970's.

62 While contributions of MSEs were recognize, many programs and policies were developed to support them,
63 their journey in many instances is short-lived with high rate of failure mostly in Africa due to several factors
64 (Michael and Jeffrey, 2009; Lussier, 1996; Honjo, 2000; ??LO, 2007; ??iboonchutikula, 2001; Zewde and Associates,
65 2002). There are many obstacles hindering their growth like competitions, lack of access to credit, cheap
66 imports, insecurity, debt collection, marketing problems, lack of enough working space, identical products
67 in the same market, change in demand and absence of market linkages, lack of raw material accessibilities
68 ??Wiboonchutikula, 2001).

69 Okpara & Wynn (2007) research on smallbusiness development has shown that the rate of failure of MSEs
70 in development countries is higher than the developed world. According to Geberhiwot and Wolday, (2006)
71 more than 11,000 MSEs were surveyed and about 5 percent of them admitted having main constraints like lack
72 of working space for production and marketing, shortage of credit and finance, regulatory problems (licensing,
73 organizing, illegal business), poor production techniques, input access constraints, lack of information, inadequate
74 management and business skill, absence of appropriate strategy, lack of skilled human resource, low level of
75 awareness of MSEs' as job area, low level of provision and interest for trainings and workshop. These constraints
76 confirm with other developing countries, especially poor management, corruption, lack of training and experience,
77 poor infrastructural development, insufficient profits and low demand for product and services.

78 Shiffer and Weder (2001) clearly show that there are size-based policy biases against MSEs, and more so against
79 smaller firms in the microeconomic environment. These biases cover all areas: legal and regulatory frameworks,
80 governance issues, such as bureaucracy and corruption, access to finance and property rights. Governmental
81 interventions on all fronts are required. The existence of such biases point out to either market or government
82 failure and is closely related to the capacity of the stakeholders involved. At times, markets may correct
83 these failures. However, in some cases, removal of failures in the business environment may require adopting
84 structuralist (selective intervention) approaches rather than market-friendly approaches, as market forces may
85 not be sufficient to remedy the capacity deficits in the system. The choices made will be political, but they should
86 be based on sound analyses (Lall, 2001).

87 Even though in the past decades the focus of Ethiopian government was mainly on large organizations,
88 particularly on manufacturing sector, the recent wave of private sector development initiatives however shifted
89 the policy efforts to MSEs and SMEs. This new orientation has been possible because of poor performance in
90 most state owed companies and the tension introduced by globalization and the increased need for competitiveness
91 (Zewde & Associates, 2002; Hamilton and Fox, 1998). Thus, the health of micro and small business sectors is
92 very important for the overall economic growth potential and future strength of an economy since they utilize
93 local resources, satisfying vital needs of large segment of the population with their products and services, serve
94 as sprees of technological, marketing and management capacity and skill acquisition, and enable technological
95 process via adoption technology ??FeMSEDA, 2004).

96 The south west region is endowed with ample natural resource. MSEs make productive use of resources and
97 improved the efficiency of domestic markets, thus facilitating long-term economic growth. MSEs also seem to have
98 advantages over other largescale competitors in that they are able to adapt more easily to market conditions and
99 utilize the ample resources. The sector has the potential to contribute towards creating employment opportunities
100 and reducing poverty. However, even if ample resource is available in the region they have not performed
101 creditably well and hence have not played the expected vital role in the economic growth and development of
102 the country. This situation has been of great concern to the government, citizenry, operators, practitioners and
103 the organized private sector groups.

104 Therefore, the basis for this study is that the government formulated some policies, and established many
105 institutions to promote the smooth functioning of SMEs. However, the sector is not performing up to the
106 expectations of many stakeholders as it has been suffering from several problems. Therefore, the study aims at

107 identifying the impact of the varied problems on the performance of MSEs in Bonga, Mizan-Aman, and Teppi
108 Towns.

109 **2 II.**

110 **3 Literature Review**

111 According to (Enock Nkonoki, 2010), the main factors/problems that limits small firm's success/growth into
112 two groups; first is the factors that originate from within the firm (in other words they are internal to the
113 firm) and the second group is factors that originate from outside the firm (these are external to the firm). The
114 Internal factors limiting small firm growth are the characteristics and attitude of the entrepreneur(s) and the
115 firm as a whole. These factors can be impacted by the decisions made in the firm either by the entrepreneur(s)
116 or the staff in the firm. These factors are, Lack of motivation and drive, Lack of background and experience
117 in the business, Capital constraint, Lack of a proper business plan/vision, Theft/cheating and lack of trust in
118 doing business, Poor management, Running informal/unregistered businesses, Lack of proper record keeping,
119 Inadequate education and training, People factor/lack of needed talent and Improper professional advice and
120 consultation. The External factors limiting small firm growth are the factors have to do with decisions, rules and
121 policies that affect a small firm directly, and in response the firm has not really control over the decisions made
122 but an influence to a change of their existence is possible. ??2006), more than 93 percent of MSEs replied that
123 they did not apply for bank loans for the reasons they considered themselves as discouraged potential borrowers,
124 need credit but are discouraged from applying by the perceived or real high collateral requirement, high cost of
125 borrowing, difficulty of processes, ineligibility, or concern about their repayment ability and uninformed (i.e. not
126 aware of the facility, or where and how to apply, etc.). The study done by Admasu. Abera (2012), the main
127 sources of startup and expansion finance or funds for most MSEs are personal savings followed by iqub/idir,
128 family and friends/relatives. The formal financial institutions have not been able to meet the credit needs of
129 the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the
130 informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet
131 the credit needs of the MSEs. In some cases this problems may be the inability of many operators to meet formal
132 financial institutions requirements for example business plan, governance systems and other accountability issues
133 which are linked to business risk. This shows that the studied operators accessed finance mainly from informal
134 sources.

135 According to Minster of Urban Development and Construction, (2013), the study also identified a number of
136 challenges and constraints hindering the growth of MSEs in Selected Major Cities of Ethiopia. These challenges
137 were manifested in terms of capital, technology and employment growth trends. Enterprises from the regional
138 cites indicated that shortage of finance (42 percent) to expand their business was their principal challenge,
139 followed by lack of working premise (28.3 percent); and lack of access to market or absence of linkage to market.
140 The study also showed that lack of access to land has been one of the most crucial bottlenecks (26.4 percent)
141 in Addis Ababa, problem of finance (25.6 percent) and access to market (25.1 percent) were among the strong
142 factors inhibiting the growth of these enterprises in the capital. The findings of Mulu (2007) also indicate that
143 banks and MFIs do not seem to support MSEs expansion. Due to this 85 percent of the respondents have never
144 received credit from these formal sources. The availability of other informal sources of finance, however, affects
145 growth positively and significantly. This shows that in the absence of formal source of credit, informal networks
146 appear more appealing for MSEs. Hence, firms with better network to borrow from informal sources such as,
147 relatives, friends, and suppliers better loosen credit constraints, and grow faster.

148 The other major constraints identified by various studies on MSEs in Ethiopia are associated with market and
149 finance problems. The causes of market-related problems of MSEs engaged in metal and wood work are shortage
150 or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market
151 information, shortage of selling places, and absence of sub-contracting (FMSEDA. 2006). The product line of
152 MSE activities in Ethiopia is relatively similar (Assegedech Woldelul. 2004 and cited in Admasu. Abera. 2012).
153 Accordingly she states that: lack of product diversity, however, is prevalent and as a result similar products are
154 over-crowding the market. Some micro enterprises shift from one product to another, and in doing so, capture
155 better market opportunities. Nevertheless, as soon as the market has established itself, a multitude of further
156 micro enterprises start off in the same business and this causes the selling price to fall immediately. According to
157 Mulugeta (2011 and cited in Admasu. Abera. 2012) has identified and categorized the critical problems of MSEs
158 in to marketrelated problems, which are caused by poor market linkage and poor promotional efforts; institution-
159 related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to
160 abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and followup;
161 operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and
162 lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling
163 place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among
164 the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and
165 their products.

166 4 III.

167 5 Materials and Methods

168 In order to analyze the potential impacts of factors on performance of MSEs, this study made use of a research
169 methodology. This section provides an overview of the study's research approach which lays within the mixed
170 methods strategies. The chapter discusses procedures and activities under taken, focusing on namely the study's
171 research design, questionnaire design, data collection, sampling strategy, data processing and analysis and
172 instrument development. Besides, the section deals with a discussion on the ethical issues.

173 6 a) Research Design

174 Research design is the blueprint for fulfilling research objectives and answering research questions ??John A.H.
175 et al., 2007:20-84). In other words, it is a master plan specifying the methods and procedures for collecting
176 and analyzing the needed information. It ensures that the study would be relevant to the problem and that
177 it uses economical procedures. The same authors discusses three types of research design, namely exploratory
178 (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which
179 an event occurs or relationship between variables) and explanatory (concerned with determining the cause and
180 effect relationships). The types of research employed under this study were descriptive and explanatory research.
181 The major purpose of descriptive research is description of the state of affairs as it exists at present. Then this
182 study describes and critically assesses the factors affecting the performance of MSEs in three towns of Bench
183 Maji, Sheka and Kefa Zones. Second, the study employs explanatory in that the relationship between variables
184 is correlated with an aim of estimating the integrated influence of the factors on performance.

185 Moreover, the study utilized cross-sectional in the sense that all relevant data was collected at a single point in
186 time. The reason for preferring a cross-sectional study is due to the vast nature of the study and the limitation
187 of time. And obtaining information from a cross-section of a population at a single point in time is a reasonable
188 strategy for pursuing many descriptive researches (Janet M. ??uane, 2006:94).

189 According to Mark et al. (2009:101) mixing qualitative and quantitative approaches gives the potential to cover
190 each method's weaknesses with strengths from the other method. In this study, a combination of qualitative and
191 quantitative approaches of doing research was employed, which has been practiced, as recommended by ??reswell
192 (2009:203-216).

193 7 b) Data Collection i. Sources of Data

194 The study employed both primary and secondary sources of data collection.

195 a. Primary Sources In order to realize the target, the study used well-designed questionnaire as best instrument.
196 This was completed by the owner managers/or operators of the enterprises.

197 b. Secondary Sources Secondary data from files, pamphlets, office manuals, circulars and policy papers
198 were used to provide additional information where appropriate. Besides, variety of books, published and/or
199 unpublished government documents, websites, reports and newsletters were reviewed to make the study fruitful.

200 8 c) Target Population

201 In this study the target populations is all MSEs operating within three twons (Mizan-Aman, Bonga and Tepi).
202 According to Federal Micro & Small Development Agency of Ethiopia there are 973 MSEs operating within
203 Mizan-Aman, Bonga and Tepi (FMSAE, 2014). The study targets those enterprises within the three towns
204 because the towns have a concentration of various MSE types and can thus be representative of most enterprise
205 sectors in Benchi-Maji, Kaffa and Sheka zones.

206 9 d) Sample Size Determination and Sampling

207 Techniques Stratified simple random sampling was used to get information from different sectors of the MSEs.
208 This technique is preferred because it is used to assist in minimizing bias when dealing with the population. With
209 this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting
210 elements for the sample. According to Janet (2006:94), this step increases the probability that the final sample
211 is representative in terms of the stratified groups.

212 The strata's are sectors including: manufacturing, trade and service.

213 According to Catherine ??awson (2009:54), the correct sample size in a study is dependent on the nature of the
214 population and the purpose of the study. Although there are no general rules, the sample size usually depends
215 on the population to be sampled.

216 According to Federal Micro & Small Development Agency of Ethiopia (FMSAE, 2013) MSEs operating within
217 the three twons are 973 which includes Trade (434), Manufacturing (355) and Service (184). The sample size
218 selected here is considered as representative of trade, manufacturing and service and also large enough to allow
219 for precision, confidence and generalability of the research findings.

220 In order to determine sample size Yemane (1967) finite and large population sample size formula with 95%
221 confidence level is employed. The formula used to obtain this sample size is presented bellow. So, according to
222 the above table, the following sample size was determined for this particular study. increases and so does the

223 other one), or negative (when one variable increases and the other one decreases (Pallant, 2010). The test also
224 indicates the strength of a relationship between variables by a value that can range from -1.00 to 1.00; when 0
225 indicates no relationship, -1.00 indicates a negative correlation, and 1.00 indicates a perfect positive correlation
226 (Pallant, 2010). For the rest of the values is used the following guideline:-

227 **10 ??**

228 ? small correlation for value 0.1 to 0.29 ? medium correlation for 0.3 to 0.49 ? Large correlation for 0.50 to 1.0
229 (Pallant, 2010).

230 Like the demographic factors, the scale typed questionnaire entered to the SPSS software version16.00, to
231 process correlation analysis. Based on the questionnaire which was filled by the SME members, the following
232 correlation analysis was made. in the above, the values of correlation are also used for checking multicollinearity.
233 The correlation between each of the independent variables is not too high, meaning that the correlation is not
234 above value 0.5. It can be concluded that in this study there is no problem with multicollinearity. The strongest
235 relationship between the independent variables is 0.497 between politics, entrepreneurial and marketing.

236 **11 b) Correlation Analysis of Production, Trade and Service 237 Sector and SMEs Performance**

238 The Pearson correlations between independent variables management factor, social, marketing factors, infrastruc-
239 tural factor, political, financial factor, technological factor, land availability and the dependent variable SMEs
240 performance are depicted in Figure ?? The values of correlation are also used for checking multicollinearity. The
241 correlation between each of the independent variables is not too high, meaning that the correlation is not above
242 value 0.5. It can be concluded that in this study is no problem with multicollinearity.

243 The Pearson correlations between independent variables management factor, social, marketing factors,
244 infrastructural factor, political, financial factor, technological factor, land availability and the dependent variable
245 SMEs performance in the Trade sector of SME in Teppi town, Bonga town and Mizan-Aman town are depicted
246 in Fig. ??2 below.

247 **12 ? Correlation Analysis between Infrastructural factor and 248 SMEs performance**

249 Pearson correlation test was also conducted for these variables and the results are shown in Fig. ?? The values of
250 correlation are also used for checking multicollinearity. The correlation between each of the independent variables
251 is not too high, meaning that the correlation is not above value 0.5. It can be concluded that in this study is no
252 problem with multicollinearity.

253 The Pearson correlations between independent variables management factor, social, marketing factors,
254 infrastructural factor, political, financial factor, technological factor, land availability and the dependent variable
255 SMEs performance in the Trade sector of SME in Teppi town, Bonga town and mizan Aman town are depicted
256 in Fig. ??

257 **13 c) Regression Analysis**

258 The multiple regression analysis is "an analysis of association in which the effects of two or more independent
259 variables on a single, interval scaled dependent variable are investigated simultaneously" (Zikmund et al., 2010).
260 The results of this analysis indicate how well a set of variables is able to predict the dependent variable.
261 Furthermore, it shows how much unique variance in the dependent variable is explained by each of independent
262 variables (Pallant, 2010).

263 Regression analysis was conducted to know by how much the independent variable explains the dependent
264 variable. It is also used to understand by how much each independent variable (management factor, social,
265 marketing factors, infrastructural factor, political, financial factor, technological factor, land availability) explains
266 the dependent variable.

267 When a small sample is involved the Adjusted R square value in the sample tends to be a rather optimistic
268 overestimation of the true value in the population. The adjusted R square statistic corrects this value to provide
269 a better estimation of the true population value, rather than the normal R square value (Pallant, 2010).

270 So, for the whole regression analysis of this study the adjusted R square were considered to provide a better
271 estimation of the true population than the normal R square. The results of the regression analysis are as following.

272 For the purposes of determining the extent to which the explanatory variables explain the variance in the
273 explained variable, regression analysis was employed. The results of such analysis for production, trade and
274 service sector were narrated under.

276 14 . Regression Analysis of the Manufacturing sector and SMEs 277 performance

278 The model summary in table 4.1 presents how much of the variance in the dependent variable is explained by
279 the model. The multiple coefficient of determination denoted as R square is 0.695. The value of the R square
280 indicates that 69.5 percent of variance in the dependent variable was explained by the model. By looking at the
281 Sig.-value in table 4.1, it is possible to interpret whether the particular independent variable has a significant
282 relationship with the dependent variable. The relationship is significant if the Sig. value is not larger than 0.05.
283 The results show that there is a significant relationship for political (0.000), social (0.002), land available (0.001),
284 Technological factor (0.003), Infrastructural factor (0.002), Marketing factors (0.002), Financial factor (0.003)
285 and Management factor (0.00). This means that all the variables are good predictors of the dependent variable.
286 The multiple regression result table 4.1 indicates that, all the internal and external factors that used in this study
287 have positive and significant influence on the explained variable. The value of (?= .640, .285, .716, .530, .844,
288 .383, .508, and 0.174) for political, social, land availability, technology, infrastructure, marketing, financial, and
289 management factors respectively. Furthermore, the study aims to identify which of the variables contributed the
290 most to prediction of the dependent variable. This information can be investigated via Standardized coefficient
291 Beta in table ??table 4.1. In this study the highest Beta value is 0.844 for infrastructure factor, and second highest
292 is 0.716 for land availability. The independent variables management factor (.174), social (.285), technology factor
293 (.530), financial factor (.508), and political factors (.640) are also good predictors. These results indicate that
294 the variables infrastructure factor and political factor make the strongest unique contribution in explaining the
295 dependent variable SMEs performance.

296 These results enable to conclude that the model explains 69.50 percent of the variance in SMEs performance.
297 The largest unique contribution is provided by the variables infrastructure factor, Land availability, and political
298 factor. Thus, these variables represent good predictors of the dependent variable.

299 15 ii. Regression Analysis of Trade sector

300 The model summary in table 4.2 presents how much of the variance in the dependent variable entrepreneur
301 performance in trade sector is explained by the model.

302 The Results of regression analysis against SMEs performance can be seen in table 4.2. The result shows that
303 explanatory variables have the power to explain SMEs performance. In this case the results of correlation of
304 explanatory variables and SMEs performance and adjusted R Square (.631) were taken into consideration. The
305 regression analysis model summary indicates that an explanatory variable which is entered into the regression
306 model on SPSS has relationship with SMEs performance with correlation coefficient of 0.471. The adjusted
307 coefficient of determination (R 2) 0.631 indicates the highest effect/variability of explanatory variables on SMEs
308 performance.

309 Therefore, it is pointed out that 63.1 percent of explanatory variables can explain the dependent variable that
310 is SMEs performance. As it is indicated in the ANOVA table, the total explanatory variables is considered as
311 predictors of SMEs performance and reported high level of significance p<0.01. And also the adjusted R square
312 value of 0.631 confirming that, 63.1 percent of the variation in SMEs performance is explained by explanatory
313 variables. Explanatory variables as used for prediction were found to be significantly related to SMEs performance
314 as the p-value is less than 0.01.

315 By looking at the Sig.-value in Table 4.2, it is possible to interpret whether the particular independent variable
316 has a significant impact on the dependent variable. The relationship is significant if the Sig.-value is not larger than
317 0.05. The results show that there is a significant relationship for political (0.001), social (0.000), land availability
318 (0.032), technological (0.027), infrastructural (0.002), market (0.002), motivational (0.000), management (0.04).
319 This means that the variables political, social, land available, technology, infrastructure, market, financial and
320 management factors are good predictors of the dependent variable which is SMEs performance, are a good
321 predictors.

322 The multiple regression result table 4.13 indicates that the explanatory variables have positive and significant
323 influence on entrepreneurial performance. The value of (?= 0.572, .496, 0.643, 0.542, 0.526, 0.391, 0.322, 0.158,
324 & 0.419,) for political, social, land availability, technology, infrastructural, marketing, financial, management and
325 entrepreneurial factors respectively show that there is a positive direction and its influence is significant at p<
326 0.05 the dependent variable and these are good predictors.

327 Furthermore, the study aims at identifying which of the variables contributed the most to prediction of the
328 dependent variable. This information can be investigated via Standardized coefficient Beta in table 4.2. The
329 standardized coefficients mean that "values for each of the different variables have been converted to the same
330 scale so they can be compared ??Pallant, 2010). In this study the highest Beta value is 0.643 for land availability,
331 0.572 political and 0.526 for infrastructure. Both independent variables are statistically significant since the Sig.
332 value is less than 0.05. These results indicate that the variables land availability, political and infrastructure
333 makes the strongest unique contribution in explaining the dependent variable SMEs performance.

334 These results enable to conclude that the model explains 63.1 percent of the variance in SMEs performance.
335 The largest unique contribution is provided by the variables land availability, political and infrastructure. Thus,
336 these variables represent good predictors of the dependent variable.

337 iii. Regression Analysis of Service sector Again here the researcher analyzes the conceptual framework
338 of independent variables were entered into the multiple regression equation: (management factor, social,
339 marketing factors, infrastructural factor, political, financial factor, technological factor, land availability and
340 entrepreneurial). The model summary in table ??3 presents how much of the variance in the dependent variable
341 is explained by the model. The multiple coefficient of determination denoted as adjusted R square is 0.562. The
342 value of the adjusted R square indicates that 56.2 percent of variance in the dependent variable was explained by
343 the model. By looking at the Sig.-value in table 4.3, it is possible to interpret whether the particular independent
344 variable has a significant impact on the dependent variable. The relationship is significant if the Sig.-value is not
345 larger than 0.05. The results show that there is a significant relationship for political (0.000), social (0.002), land
346 available (0.001), Technological factor (0.003), Infrastructural factor (0.002), Marketing factors (0.002), Financial
347 factor (0.003), management factor, motivational factor (000) and entrepreneurial factor (000). This means that
348 all the variables are good predictors of the dependent variable of the service sector.

349 The multiple regression result table 4.3 indicates that the explanatory variables have positive and significant
350 influence on SMEs performance. The value of (=?= 0.405., 0.199, 0.591, 0.564, 0.349, 0.371, 0.355, 0.214, &
351 0.419,) for political, social, land availability, technology, infrastructural, marketing, financial, management and
352 entrepreneurial factors respectively show that there is a positive direction and its influence is significant at p<
353 0.05 the dependent variable and these are good predictors.

354 Furthermore, the study aims to identify which of the variables contributed the most to prediction of the
355 dependent variable. This information can be investigated via Standardized coefficient Beta in table According to
356 Minster of Urban Development and Construction, (2013), the study also identified a number of challenges and
357 constraints hindering the growth of MSEs in Selected Major Cities of Ethiopia. These challenges were manifested
358 in terms of capital, technology and employment growth trends. Enterprises from the regional cites indicated that
359 shortage of finance (42 percent) to expand their business was their principal challenge, followed by lack of working
360 premise (28.3 percent); and lack of access to market or absence of linkage to market. The study also showed that
361 lack of access to land has been one of the most crucial bottlenecks (26.4 percent) in Addis Ababa, problem of
362 finance (25.6 percent) and access to market (25.1 percent) were among the strong factors inhibiting the growth of
363 these enterprises in the capital. The findings of Mulu (??007) also indicate that banks and MFIs do not seem to
364 support MSEs expansion. Due to this 85 percent of the respondents have never received credit from these formal
365 sources. The availability of other informal sources of finance, however, affects growth positively and significantly.
366 This shows that in the absence of formal source of credit, informal networks appear more appealing for MSEs.
367 Hence, firms with better network to borrow from informal sources such as, relatives, friends, and suppliers better
368 loosen credit constraints, and grow faster.

369 Generally, in line with Poor (2006), Mulu (2007), and Minster of Urban Development and Construction (2013),
370 our finding also shows that MSEs that operate in Bench Maji, Sheka & Kefa Zone suffer from lack of access to
371 finance, working premises, infrastructure, social and cultural, Political and legal factors.

372 16 V. Conclusions and Recommendations a) Conclusions

373 This research was conducted in Bench Maji, Sheka and Kefa Zone capital towns (Mizan-Aman, Tepi and Bong)
374 respectively with the prime intent of critically assessing the factors affecting the performance of MSE operators
375 engaged in production, trade and service activities. Specifically, the study attempted to examine the internal
376 and external factors that affect the performance of MSEs, to describe the characteristics of small enterprises
377 operating in the study area and to recommend possible solution to alleviate the problem of MSEs. Based on the
378 objectives and findings of the study, the following conclusions are worth drawn.

379 According to (Enock Nkonoki, 2010), the main factors/problems that limits small firm's success/growth into
380 two groups; first is the factors that originate from within the firm (in other words they are internal to the firm)
381 and the second group is factors that originate from outside the firm (these are external to the firm). Lack
382 of a proper business plan/vision, Poor management, and lack of needed talent are among the internal factors.
383 The External factors limiting small firm growth are Corruption, Competition, Government policy, Technological
384 barrier, in access to finances/funding, Bureaucratic processes and Unfavorable economic factors.

385 In line with the Enock, 2010 findings, the regression result of this particular study showed, all the internal and
386 external variables (factors) included in this particular study were statistically significant and therefore, affects
387 the performance of SMEs in the study area was affected by both variables.

388 The finding of this research shows that, most of the MSEs operators have no efficient experience and
389 management knowhow to perform their activities effectively and efficiently. These lead to them unsuccessful
390 because they run their business activities without having adequate knowledge about the business environment.
391 Lack of managerial know-how places significant constraints on SME development.

392 Regarding infrastructural facilities, most of MSEs operators had no adequate infrastructural facilities at the
393 given study area, specially insufficient and interrupted electric power and water supply. These lead to them,
394 unable to generate adequate profit by satisfying the needs of the customers. Infrastructural problem is not only
395 the problem of the study area problem it is a country wide problem, therefore this problem is not solved by the
396 MSEs operators rather than by the government of the country.

397 The result of the finding shows that majority of MSEs operators in the study area does not have enough working
398 premises. Because of this, the MSEs operators are not perform their business related activities effectively and

17 B) RECOMMENDATIONS

399 efficiently. And also, the location of the working premises is not suitable for attracting the new customers that
400 means, the working premises have no access to market.

401 Regarding other external environmental factors, majority of MSEs operators activities are affected by external
402 related problem such as technological related problems i.e. the MSEs operators are did not have the opportunity
403 to get modernized technology at the given study area which made them unsuccessful. And the other external
404 problem is, there was a problem of market linkage with the external parties such as vendor, suppliers and
405 customers. Because of there was a problem of marketing linkage through external parties, most of the time the
406 MSEs operators are kept their products in the store. It is true that, finance, working place, infrastructural,
407 marketing factors are factors that affect the performance of MSEs, this does not mean that all factors are equally
408 affect the performance of the business enterprises. As compared with the other factors, technological factors,
409 lack of infrastructural facilities, shortage of working premises and shortage of finances for start-up and expansion
410 purposes are the top most factors that affect the growth and success of MSEs activities at Bench Maji, Sheka
411 and Kefa Zone.

412 17 b) Recommendations

413 As one can observe from this study, both internal and external factors determine Small and Medium Enterprises
414 performance in South Western part of the SNNP regional state of the country. Thus, Small and Medium
415 Enterprise managers, directors, governmental bodies and all stakeholders should not only be concerned about
416 internal structures and policies, but also must consider the external environment together in designing out
417 strategies to improve their performance.

418 Regarding the internal factors (management and entrepreneurial skills), enterprises owned by individuals with
419 previous management experience have better performance as compared with those MSEs operators who have
420 no previous management experience. Therefore, Bench maji, Sheka and Kefa Zone micro and small enterprise
421 agency in cooperation with Mizan Tepi University and other government bodies are better to work on preparing
422 training programs on management issues and creating experience sharing opportunities especially to those enter
423 into the sector without any previous business background.

424 In relation to the external factors (politico-legal, social, working premises, technology, infrastructure, marketing
425 and finance) the following possible recommendations were forwarded; ? The MSEs operators are better to enhance
426 their marketing skills through proper training and experience sharing with other successful medium and large
427 scale enterprises. In addition to this marketing skills, such as setting competitive price for their products, creating
428 good interpersonal relationship with customers and the way of promoting their outputs to the customers in an
429 effective manner. Moreover, the government bodies such as Bench maji, Sheka and Kefa Zone micro and small
430 enterprise agency and the other stakeholders are better to assist them by searching market for their products
431 which is produced by the MSEs operators, by doing this, they are try to save them from losses. ? To overcome
432 the problems related to establishing and starting the MSEs businesses, it is needed primarily to conduct market
433 assessment. This can identify and prioritize the type of MSE business, to pin point the sources of inputs to identify
434 the working place and other premises to establish and to start the type of business. Moreover, it is required
435 to train and council the MSEs in developing saving culture and to generating initial capital by themselves. ?
436 Concerning to the source of finance, the major sources of finance or funds for most of MSEs operators at the study
437 area are by borrowing money from microfinance institutions. The reason for emphasizing on informal sector is
438 that the requirement of collateral/guaranty is relatively rare as compared with formal sectors like banks but the
439 informal sectors like MFIs are unable to provide/supply enough credit to them as they want. Therefore, Bench
440 Maji, Sheka and Kefa Zone micro and small enterprise agency in cooperation with other government bodies
441 have to develop comfortable source of finance for MSEs by organizing and supporting the performance of MFIs
442 and other source of finance. This can be done by communicating with the banks and other credit institutions
443 to minimize their requirements to provide fund. By doing so, the MSEs can get enough access to finance for
444 their business activities. ? There are infrastructural facility problems in the study area, like power interruption,
445 inadequate supply of water, and transportation problems. Therefore, the government and the other concerned
446 body have to give attention to minimize such kind of problems to improve the performance of MSEs. ? Finally,
447 the study sought to investigate the internal and external factors that influence performance of SMEs that operates
448 in Bench Maji, Sheka and Kefa Zone. However, the variables used in the statistical analysis did not include all
449 factors that can affect SMEs performance in the area. Thus, future researchers could incorporate external factors
450 such as corruption, size of the enterprise and inflation rate.

1 2 3

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²Factors Affecting Performance of Micro and Small Enterprises in South West Ethiopia: The Case of Bench Maji, Sheka, and Kefa Zones

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$$\begin{array}{rcl}
 & = & ?? \\
 & & ?? \\
 & & + \\
 & & ??(??) \\
 & & ?? \\
 \end{array}$$

Where:

n = Number of sample taken

N = Population size

e = sampling error /level of precision.

Accordingly the target population results, the following samples.

$$\begin{array}{rcl}
 n = & 973 & 1 + 973(0.05)2 = \\
 & & 278
 \end{array}$$

[Note: (Source: Zelalem, *Issues and Challenges of Rural WaterScheme*, 2005)]

Figure 1: Table 1 :

31

IV.

Data Presentation, Analysis and Discussion of Results

a) Pearson Correlation Analysis

This research is investigating the strength of

relationships between the studied variables. The study employs the Pearson correlation which "measures the linear association between two metric variables" (Hair et

al., 2008). The Pearson correlations were calculated as

measures of relationships between the independent variables and dependent variables. This test gives an indication of both directions, positive (when one variable

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Figure 2: Table 3 . 1 :

shown in figure		
Political Factor	0.652	
Social Factor	.367	
Land Available		
0.561		
Technological Factor	.331	SMEs
	.889	Performance
Infrastructural Factor	.462	
Marketing Factors	.411	
Financial Factor	.396	
	.738	
Management Factor		
Entrepreneurship Factor		.1

above.

? Correlation Analysis between Political factor and SMEs performance

Pearson correlation test was conducted to see the degree of relationship between the independent variable i.e. political factor and SMEs performance. The results of the correlation between these variables are

Figure 3:

Political Factor ? Correlation Analysis between Marketing factors and

SMEs performance

Pearson correlation test was conducted to see

.356 the degree of relationship between the independent Social Factor variable i.e. marketing factor and entr

these variables are shown in Fig. 4.2 above. As it is

indicated in the Fig. 4.2, there is significant correlation Land Available .691 between marketing factor and S

Technological Factor Infrastructural Factor other Political factor and SMEs performance have strong relation

As it is shown in the Fig. 4.2, there is significant .524 correlation between financial factor and SMEs

Marketing Factors Financial Factor Management Factor performance. In other words Financial factor and S

Entrepreneurship Factor	Land Available	.35344
	Technological Factor	.362
	Infrastructural Factor	.595
	Marketing Factors	.380
	Financial Factor	.376
	Management Factor	.689

41

Model	R	R Square	Model Summary		Std. Error of the Estimate	Durbin-Watson
			Adjusted R Square	R		
1		.892796	.695		.521	2.158
a						
Model	Coefficients		Unstandardized Coefficients	Standardized Coefficients	T	Sig.
	B	Std. Error		Beta		
1	(Constant)	5.815	1.083		5.369	.000
	Political	.675	.112	.640	.199	.000
	Social	.362	.164	.285	2.215	.002
	Land availability	.729	.101	.716	1.278	.001
	Technological factor	.605	.102	.530	3.986	.000
	Infrastructural factor	.982	.177	.844	2.729	.003
	Marketing factors	.451	.104	.383	1.445	.002
	Financial factor	.549	.121	.508	2.049	.003
	Management factor	.207	.101	.174	1.460	.000

a. Dependent Variable: SMEs measurement

[Note: a. Predictors: (Constant), management factor, social, marketing factors, infrastructural factor, political, financial factor, technological factor, land availability b. Dependent Variable: performance measurement]

Figure 5: Table 4 . 1 :

3: Regression Analysis of Service sector

Model	R	R Square	Model Sum-			Durbin-
			Adjusted R Square	R	Std. Error of the Estimate	
1	.789 a	.622	.562	.513		2.165
Dependent variable: performance measurement.						
Coefficients						
Model	Unstandardized Coefficients			Standardized Coefficients	t	Sig.
	B	Std. Error	Beta			
1	(Constant)	5.284	1.204		4.387	.000
	Poetical	.542	.115	.405	.368	.004
	Social	.255	.181	.199	1.413	.005
	Land available	.647	.117	.591	1.248	.003
	technological factor	.658	.111	.564	3.578	.001
	Infrastructural factor	.469	.184	.349	2.558	.002
	Marketing factors	.402	.105	.371	1.336	.000
	Financial factor	.277	.136	.355	2.038	.004
	Management factor	.286	.107	.214	1.555	.003
	Entrepreneurial factor	.541	.173	.419	1.413	.000

Figure 6: Table 4 .

17 B) RECOMMENDATIONS

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