FACTORS THAT DETERMINE THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN ETHIOPIA WITH PARTICULAR REFERENCE TO AMHARA REGION MICRO AND SMALL ENTERPRISES

Asmamaw, Y. C.

Department of Accounting and Finance, College of Business and Economics, Bahir Dar University, Ethiopia

ABSTRACT

Micro and Small enterprises (MSEs) play a key role in economic growth and industrial development of a country. They make vital contributions in improving economic and social sectors of a country through stimulating large scale employment, investment, development of indigenous skill and technology, promotion of entrepreneurship and innovativeness, enhancing exports, and also building an industrial base at different scales. However, Ethiopian micro- and small enterprises (MSEs) still perform poorly as a result of a combination of factors ranging from internal to external factors. The study aims to investigate the growth determinants of MSEs based on a survey covering 45 randomly selected MSEs from Amhara regional state of Ethiopia through the test of three main hypotheses that are formulated concerning owner characteristics, firm characteristics and business environments (external factors) as a main determinants of growth of an enterprise. Questionnaires were used to collect data. The finding shows that there is a significant relationship between growth of MSEs and owner characteristics, firm characteristics and business environments.

Key words: Amhara Region, Determinants, Ethiopia, Growth, Micro and Small Enterprises.

INTRODUCTION

Socio-economic development of any country designates both qualitative and quantitative changes which contribute grossly to the improvement of people's life. This requires industrialization where micro and small enterprise comes into the centerpiece as one of the packages and instruments to help accelerate economic growth and then the overall socio-economic development of the nation. In this respect, the small-scale sectors, especially the MSEs have a vital role to play (Geleta, 2013).

MSEs make important contributions to economic and social development. In all economies they constitute the vast majority of business establishments, are usually responsible for the majority of jobs created. In many countries they have been the major engine of growth in employment and output over the last two decades (UNIDO, 2004). It is estimated that MSEs employ 22% of the adult population in developing countries including Ethiopia (Fisseha, 2006).

Similarly, Lara and Simeon (2009) found that the MSE sector generates substantial employment and economic output in many countries. Their share of overall employment tends to be higher in developing countries, which are typically more focused on small-scale production. 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).

In Ethiopia, MSEs sector is the second largest employment-generating sector following agriculture (CSA, 2005). A national survey conducted by Ethiopian Central Statistical Authority (CSA) in 2005 in 48 major towns indicates that nearly 585,000 and 3,000 operators engaged in micro and small scale manufacturing industries respectively, which absorb about 740,000 labour forces. Accordingly, the whole labor force engaged in the micro enterprises and small scale manufacturing industries is more than eight folds (740,000 persons) to that of the medium and large scale manufacturing industries (90,000 persons).

Governments in developing countries should give emphasis to the micro and small enterprise sector in order to halt the rising unemployment problem. Ethiopia is not unique in this regard. Considering the degree of unemployment as well as realizing the role of MSEs towards sustainable employment generation, the government has to give due attention in terms of promoting favourable MSE environment. In Ethiopia, MSEs have become the favourite of policy makers as it is commonly believed that they are as essential element of industrialization with forward and backward linkages to different sectors in the economy (Seyoum, 2013). However, policy makers and MSEs' operators should know the factors that influence the performance of these enterprises to improve performance and create jobs and thereby improve the standard of living. Thus, this study aims at identifying the factors that determine the performance of MSEs in Ethiopia with particular reference to Amhara region MSEs.

Statement of the Problem

The micro and small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2007). The dynamic role of micro and small enterprises (MSEs) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. It is estimated that MSEs employ 22% of the adult population in developing countries including Ethiopia (Fisseha, 2006).

Over the years, some of the MSE have grown extremely large and profitable and on the other hand, many others have failed or have not been as successful as they might have been. It is natural to say that every small business owner starts with high hopes of success, but it is a usual phenomenon that each year firms go out of businesses. Although failure is not the sole reason for enterprises to leave the business, many enterprises do fail each year (Tiruneh, 2011).

Over the last decade, the international community has channelled a large and growing amount of aid into subsidizing MSEs under the premise that MSE play a critical role in addressing both poverty reduction and

economic growth goals. Even if their enormous contribution to economic development and employment is undeniable, government's policy still fail to identify the determinants that are responsible for the failure of MSE (Seyoum, 2013).

In Africa a key issue for policy development regarding micro and small enterprises (MSE) concerns the determinants of successful MSE. Evidence from a range of international studies points to the fact that while entrepreneurs are generally not in short supply in most African countries, only a small fraction of new enterprises will 'graduate' from birth to become small enterprise (Mead et al., 1998). A critical issue for policy making is to understand the factors which will cause some firms to become successful small enterprises, thus creating sustainable or long-term employment opportunities. In this regard, virtually no study has been made to identify the factors that determine the performance of MSEs in Ethiopia particularly in Amhara region. Studies done on MSEs were not conducted in line with performance aspects of MSEs, analyzed using descriptive statistics, are not all-inclusive sector wise and focus on MSEs in Addis Ababa. Thus, this study aims at identifying the factors that determine the performance of MSEs in Ethiopia with particular reference to Amhara region MSEs (Bahir Dar, Gondar and Deberatabor).

Objectives of the Study

The main objective of this study is to identify the factors that determine the performance of Micro and Small Enterprises in Ethiopia with particular reference to Amhara region MSEs. More specifically, this study will:

- Examine the impact of owner characteristics on MSE performance.
- Identify whether firm characteristics determine MSE performance.
- Assess the effect of selected external variables on MSE performance.

Research Hypotheses

The objective of the study is to fill the gap in the current debate on the determinants of performance in MSE. The analysis is based on cross-sectional data of a set of micro and small enterprises in Amhara region in particular reference of Dassie, Gondar and Deberatabor. The following sections clearly puts hypotheses based on the existing theoretical and empirical literature. This paper explores whether and to what extent the main finding of the research literature – that is performance in MSEs can be explained by those variables. To answer this question the following research hypotheses are developed and with the help of sufficient and appropriate empirical data on the factors affecting the performance of MSEs, this study is testing the following three hypotheses:

- H_1: *There is significant relationship between owner characteristics and MSEs'* performance.
- H_2: *There is significant relationship between* firm *characteristics and MSEs'* performance.
- H_3: *Certain selected external factors including infrastructure, market,* Government Support,*Working place and financial factors significantly affects MSEs'* performance.

LITERATURE REVIEW

Firm growth is regarded as the most important, reliable and easily accessible measure of a firm's performance (Delmar, 1997) given that badly managed growth may lead to bankruptcy. Even though growth is a complex and multidimensional phenomenon, it goes without saying that a purely internal approach, limited to the impact of the resources and in particular to the determinant factors linked to the manager, neglects the effect of potential variables linked to firm, strategy, environment and interactions between these variables (Janssen, 2002). Firms that grow in their employment size are few and most others unable to grow and struggling to survive. To analyze the factors that make this difference a lot of studies were carried out (Cheng, 2006; Hasnu & Amjam, 2007; McPherson, 1996; Mead & Liedholm, 1998; Parker, 1995; Wasihun & Paul, 2010) but no theory has been developed specifically to measure the MSEs growth in developing countries. Nevertheless, it is important to review the existing theories on firm growth in order to guide the analysis and to point-out the way in which more complete and appropriate theories can be developed.

The definition of employment includes working owners (entrepreneurs) because of job creation for owners may be equally valuable as jobs created for others from a social welfare point of view. Workers on external contracts are also included. It also includes paid part-time and full time family members. On the other hand, unpaid family helpers and apprentices are excluded, because their relationship is more frequently part time and casual and because they cannot be reliably measured in all years (USAID, 2002).

Definition of Micro and Small enterprises

One major problem that arises while dealing with MSEs is lack of clear cut and universally accepted definition. Attempts to define MSEs have led to a remarkable diversity of conceptions that actually generated debate as to the different approaches of defining MSE. Depending on the prevailing realties and objectives, each country has its own definitions. According to the World Bank (1976) firms with fixed assets less than US 250,000 in value are small enterprises. According to USAID, firms with less than 50 employees are small.

In our country two different definitions of MSE are used so far. These are: The 1998 definition of MSE development strategy, and Definition given by the central statistics agency (CSA). The CSA of Ethiopia (2003) based its definition of MSEs on the size of employment and extent of automation for small scale enterprises and used a combination of these criteria for defining such enterprises. However, as indicated in the national Micro and Small Enterprises Development Strategy, published by the Ministry of Trade and Industry (MTI 1997) short comings in the drafting of these definitions may have meant that some capital intensive establishments which should belong to medium or large scale enterprises, may possibly have come within the scope of the definition for the MSE sector. Therefore, in order to exclude those capital-intensive enterprises the MSE Development Strategy adopted a definition that is based on capital and which takes the level of technical and technological capacities into consideration. The following table will conclude the whole demarcation between micro and small enterprises currently in use in our country, Ethiopia.

Level of the enterprise	Sector	Employees	Total asset
Micro enterprise	Industry	= < 5	= < Br.100,000
	Service	= < 5	= < Br.50,00
Small enterprise	Industry	6-30	= < Br.1,500,000
	Service	6-30	= < Br.500,000

Source: - Micro and Small Enterprise Development Strategy (2011)

Performance *Determinants of* micro and small enterprises

Owner Characteristic and their influence on performance of MSE
Available theoretical discussion explaining the influence of the age of the owner/manager advocates for the younger owner/manager; the argument here rests on the fact that the younger owner/manager has the necessary motivation, energy and commitment to work and is more inclined to take risks (Federico et. al.,2011, Evangelia and Bassima, 2002). The logic is that the older owner/manager is likely to have reached his/her initial aspiration. It is also suggested in the literature that younger individuals may be more willing to assume risks and grow their business. Following Federico et.al argument, a younger individual may have a higher need for additional income and one could expect a negative relationship between age and performance MSE.

Previous analysis suggested that male-headed MSEs are likely to expand more rapidly than ones operated by females. The survey results indicated that female- headed MSEs generally grew at an average rate of only about 7% per year, while those headed by males grew at approximately 11%. Females may be more risk-averse than their male counterparts, reflecting their responsibilities for maintaining the welfare and perhaps even the survival of the household. This may lead them to use any available funds for diversification into new activities rather than for an expansion of existing ones (mead et al.,1998, Brown et al, 2004, Akoten et al, 2006). In addition, women commonly have unequal access to markets. Studies have shown that men travel farther geographically than women to buy inputs, enabling them to enjoy lower prices and higher quality. Men also sell in multiple markets more frequently than

women, allowing them additional growth opportunities. As a result of such factors, women frequently focus their MSEs on a relatively narrow range of industries. It has been proposed in the literature that women may have fewer opportunities to develop relevant experiences may have fewer networks to get assistance and may have greater difficulty in assembling resources (Mcpherson et al., 2008).

Another variable is educational background of owners. There is no question as to the fact that basic education enhances the overall quality of the owner/manager by providing him/her with basic numeric and literacy skills, thus increasing the chance of survival (Tiruneh, (2011), Nor hafiz et. al.(2011), Christian,(2010)). Literature's discussion on the educational level of the owner/manager tends to be split into two schools of thought. Some studies state that the fact that a manager has a higher education degree or even a postgraduate degree seems to stimulate the growth of the firm, thus having an impact on both survival and growth. The converse argument is that owner/managers of MSEs who had degrees generally achieved lower rates of growth than those less well educated Reid and Xu, (2009).

The link between owner-managers' education and firms' performance as well as growth is addressed in the economic literature. One among the categories of human capital effects on firms'competitiveness is allocative effect. This effect is related to owner-managers' education, in that those with a relatively higher level of education have a greater ability to efficiently allocate resources to more productive lines of business and to select profit maximizing inputs/combinations (Mateev and Anastasov, 2010). Evaliina and Labinot, (2011), emphasize the role of entrepreneurial/business education in the growth/performance of the firm. They argue that a firm whose management has business/entrepreneurial education is likely to perform better than those without managers with these types of education. Loan providers use owner-managers' education levels as an indication of the latter's ability to utilize resources to generate profit and be able to meet their obligations. Thus, firms with relatively more educated owners are likely to have more access to external finance.

Coad, (2008) discusses the importance of the entrepreneur's family background in instilling the need for achievement, the need for independence and control of an unstructured environment, and patterning later modes of behaviour. One important dimension of family background, which seems to affect entrepreneurial outcomes, is business history. Entrepreneurs born into business families are more likely to have positive attitudes toward risks, be prepared in part by the family's accumulated business experience and have links with the family's business networks. A family's business background is also a source of previous work experience, another influential personal life experience. This characteristic is probably more critical in developing countries like Ethiopia, given the relative strength and cohesiveness of the family unit in such countries. Therefore, family business history is expected to be related to higher levels of entrepreneurial orientation. Approximately three-quarters of MSE owners have some family connection with business ownership. According to Davidsson et al.2002, spouses of micro or small business owner are more likely to be business owners themselves than those who have employed spouses. There is indeed some empirical evidence to suggest that coming from an entrepreneurial family background increases the likelihood of survival (Eveliina and Labinot,2011).

Other Internal and External Determinants of micro and small enterprises performance
A study by Hall (1992) has identified two primary causes of small business failure appear to be a lack of appropriate management skills and inadequate capital (both at start-up and on a continuing basis). The research undertaken in Tanzania by surveying 160 micro enterprises showed that high tax rates, corruption, and regulation in the form of licenses and permits, are found to be the most important constraints to 24 business operations of micro enterprises (Fjeldstad et al, 2006 cited in Mulugeta, 2011).

According to Mead & Liedholm (1998) and Swierczek and Ha (2003), 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). 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). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick 1998), intense competition with replication of micro-businesses (Manning & Mashego, 1993); manager characteristics including lack of skills and experience (Katwalo & Madichie, 2008 and Verhees & Meulenberg, 2004).

Previous evidence suggests that, although endogenous factors were the main cause of failure, exogenous factors had a significant effect in approximately one third of small business failures (Peterson et al., 1983). Roy and Wheeler (2006) 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.

Previous Studies on Ethiopian Micro and Small Enterprises
In their study, based on the survey covering 123 businesses units in four *Kebeles* of *Nifas Silk- Lafto* and *Kirkos* sub-cities of Addis Ababa, and aimed to investigate the constraints and key determinants of growth, particularly in employment expansion, Paul and Rahel (2010) found out that 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), identified that lack of raw material, stiff competition and shortage of working capital are also important factors.

Eshetu and Zeleke (2008) conducted a study to assess the impact of influential factors that affect the long-term survival and viability of MSMEs from 5 major cities in Ethiopia. According to this research, 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 *Iqub* was critically helpful for long-term survival of the enterprises.

The product line of MSE activities in Ethiopia is relatively similar (Assegedech Woldelul, 2004) and as a result similar products are over-crowding the market. Some micro enterprises shift from one product to another, and in doing so, capture better market opportunities. Nevertheless, as soon as the market has established itself, a multitude of further micro enterprises start off in the same business and this causes the selling price to fall immediately. According to her shortage of funds also discourages the smooth operation and development of MSEs. Even if there are credit facilities, some of the MSEs do not use the money for the intended purpose. They rather divert it for other unintended and non-productive expenditures. Consequently, the enterprises fail to return the money back to the lender on time. This can result in a loss of credibility to get repeated loans when needed. Competition is also another problem that hinders the performance of MSE. She explained that some larger companies in relation to MSEs have advantages due to: selling at reduced price without reducing product quality using economies of scale, customer targeting capacity, proper and intensified product/service advertising capacity, good personal contacts and networks, sound industry reputation and sufficient information regarding existing market and capacity to exploit more market opportunities.

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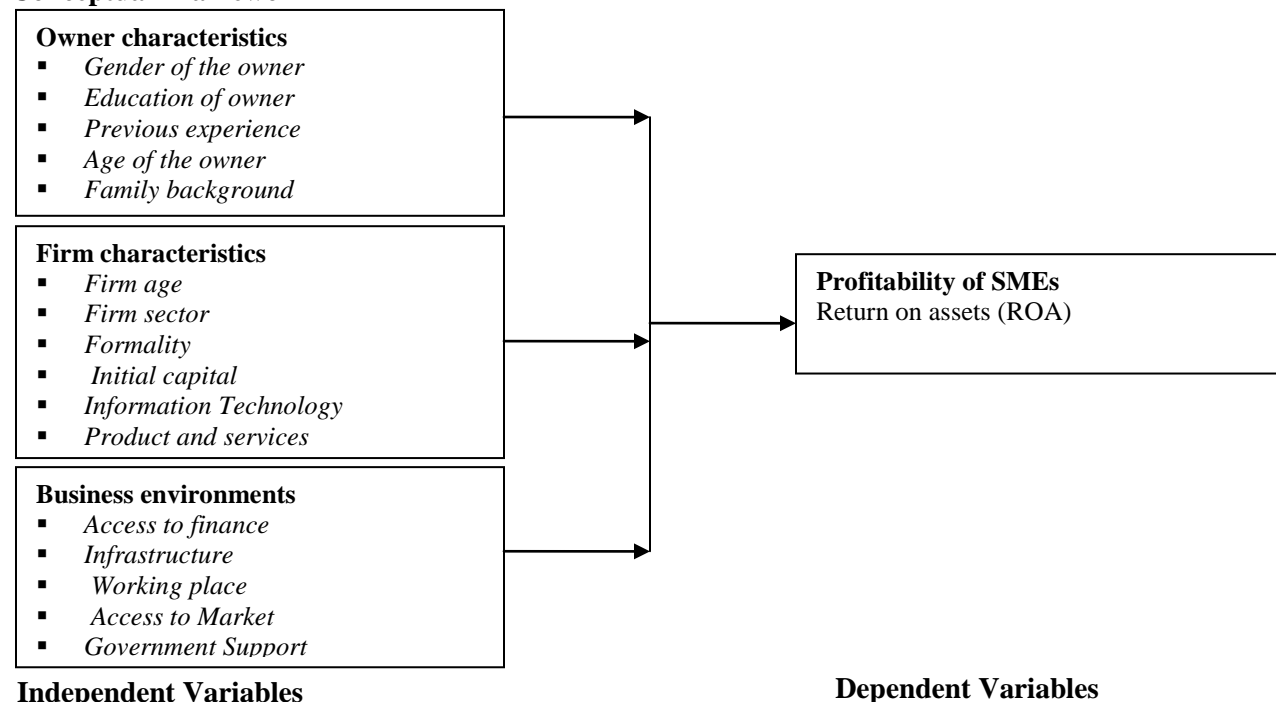
experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products.

In his research, Dereje (2008) studied the nature, characteristics, economic performance, opportunities and challenges of MSEs in the construction sector based on 125 sample enterprises. The results of the study revealed that the main constraints of the MSEs were shortage of capital, lack of raw materials, absence of government support, lack of market, lack of credit facilities and high interest rate. Studies were also conducted specifically with a purpose of identifying the problems that MSEs encounter. For instance, Workneh's (2007) research undertaken in *Kolfe Keraneo* sub-city of Addis Ababa indicated that lack of capital, lack of market, unfavorable policy, and inadequate infrastructure, absence of adequate and relevant training, bureaucratic structure and procedures are among constraints faced by MSEs. Similarly, Adil's (2007) research carried out in Addis Ababa shows that inappropriate government intervention, shortage of capital, location disadvantage, lack of market and lack of display room are the major challenges that obstruct MSEs.

Abera (2012) also studied factors affecting the performance of MSEs with a special emphasizes on textile and garment, food processing and wood and metal work sectors in Arada and Lideta sub-cities, Addis Ababa. The empirical study revealed that challenges which affect performance of MSEs in sub-cities include inadequate finance, lack of working premises, marketing problems, inadequate infrastructures, poor management practices, and technological, entrepreneurial and politico-legal problems including bureaucratic bottlenecks system.

In summary, literature on MSEs in Ethiopia is scanty and most of the available studies were not conducted in line with performance aspects of MSEs, analyzed using descriptive statistics, are not all-inclusive sector wise and were confined to a specific sub-city within Addis Ababa. Thus, this paper will try to identify factors determining the performance of MSEs in Amhara region by taking a sample of MSEs from eight sectors including textile, wood and metal, food and related, hand craft, construction, service, trade and urban agriculture.

Conceptual Framework

Owner characteristics
- *Gender of the owner*
- *Education of owner*
- *Previous experience*
- *Age of the owner*
- *Family background*

Firm characteristics
- *Firm age*
- *Firm sector*
- *Formality*
- *Initial capital*
- *Information Technology*
- *Product and services*

Business environments
- *Access to finance*
- *Infrastructure*
- *Working place*
- *Access to Market*
- *Government Support*

Profitability of SMEs
Return on assets (ROA)

 Independent Variables   **Dependent Variables**

Figure 1: Conceptual framework

RESEARCH METHODOLOGY

The type of research design employed under this study was explanatory research. The study utilized cross-sectional data in the sense that all relevant data was collected at a single point in time. For the purpose of this research the population from which samples was drawn was all MSEs in Amhara region which are 100,000 MSEs in number. To get a representative usable response, a sample of 45 MSEs was considered. In this study simple random sampling was employed. In this case first from the 11 zones, three main cities namely Dassie, Gonder and Deberatabor were considered based on judgmental sampling since most of the MSEs reside in those cities. Second, the MSEs in those cities were stratified into Micro enterprises and small enterprises then third in each category enterprises were stratified into eight sectors namely textile, wood and metal, food and related, hand craft, construction, service, trade and urban agriculture. Finally, a proportionate number of MSEs were chosen using convenience sampling.

In this study the primary data was collected using questionnaire. The questionnaire was distributed to 45 MSEs.

It is important to note that the ROA depended upon Owner characteristics (OC), Firm characteristics (FC) and Business environments (BE). The following model was formulated to measure the impact of those variables on profitability. According to previous studies the firm's profitability is modeled as a function of the above core variables. The effects of such variables on the firm's profitability are modeled using the following equations to obtain the estimates:

$ROA = f(OC;FC;BE)$

In the OLS regression, the following base line model was used to estimate the regression parameters:

$$ROA = \beta_o + \beta_1 GO + \beta_2 EO + \beta_3 PE + \beta_4 AO + \beta_5 FB + \beta_6 FA + \beta_7 FS + \beta_8 IC + \beta_9 IT + \beta_{10} FO + \beta_{11} AC + \beta_{12} IF + \beta_{13} WP + \beta_{14} AM + \beta_{15} GS + \acute{\epsilon}$$

Where ROA is MSEs' performance or profitability which is the dependent variable .Whereas GO is *Gender of the owner*; EO is *Education of owner*, PE is *Previous experience of owners* ; AO is *Age of the owner* ; FB= *Family background of the owner*; FA= *Firm age* ; FS= *Firm sector* ; FO= *Formality*; IC= *Initial capital*; IT= *Information Technology*; AC= *Access to finance* ; IF= *Infrastructure*; WP= *Working place* ; AM= *Access to Market* and GS= Government Support factors as independent variables.

RESULTS

Table 1 below depicted explanation of the variables included in the model and the descriptive statistics (Minimum, Maximum, Means and standard deviations) related to owner characteristics. As table 1 below shows, the overwhelming majority of the variables related to owner characteristics were rated fairly high (mean values range between 4.71 and 4.97 on a-5 point scale), which in turn signals the magnitude of the challenges and factors that affect SMEs performance.

Table 1:- Explanation of owner characteristics related Variables and Descriptive Statistics

Variables	Min.	Max.	Mean	Std. Deviation
Gender of the owner	4	5	4.82	.387
Education of owner	4	5	4.73	.447
Previous experience	4	5	4.97	.149
Age of the owner	4	5	4.71	.458
Family background	3	5	4.76	.484

Source: - Survey (2015)

Table 2 below depicted explanation of the variables included in the model and the descriptive statistics (Minimum, Maximum, Means and standard deviations) related to firm characteristics. As table 1 below shows, the overwhelming majority of the variables related to firm characteristics were rated fairly high (mean values range between 4.27 and 4.78 on a-5 point scale), which in turn signals the magnitude of the challenges and factors that affect SMEs performance.

Table 2:- Explanation of firm characteristics related Variables and Descriptive Statistics

Variables	Min.	Max.	Mean	Std. Deviation
Firm age	3	5	4.44	.69
Firm sector	3	5	4.78	.47
Formality	3	5	4.62	.65
Initial capital	4	5	4.51	.51
Information Technology	3	5	4.27	.72

Source: - Survey (2015)

Table 3 below depicted explanation of the variables included in the model and the descriptive statistics (Minimum, Maximum, Means and standard deviations) related to external or environmental factors. The overwhelming majority of the variables related to external or environmental factors were rated fairly high (mean values range between 4.62 and 5.00 on a-5 point scale), which in turn signals the magnitude of the challenges and factors that affect SMEs performance.

Table 3:- Explanation of environmental related Variables and Descriptive Statistics

Variables	Min.	Max.	Mean	Std. Deviation
Access to finance	4	5	4.62	.490
Infrastructure	3	5	4.76	.484
Working place	4	5	4.70	.462
Access to Market	3	5	4.64	.529
Government Support	4	5	4.56	.503
High tax rate	5	5	5.00	.000
Corruption	4	5	4.87	.344

Source: - Survey (2015)

In Table 4 shown below, regression analysis was conducted to test the extent to which the variables included in the model explain the change in perceived corruption. Before the regression analysis was performed, the researcher examined the variables for outliers, multicollinearity, and fit between their distributions and the assumptions of regression. No potentially problematic outliers were found, as Cook"s distance was well below 1.0 for all cases (Tabachnick & Fidell, 2007). Inspection of the correlation matrix indicates no problems with multicollinearity, as all correlations are well below .90 (Tabachnick & Fidell, 2007). In addition, residuals were distributed normally and did not display heteroscedasticity when plotted against the predicted values. As shown in Table 4 below, while the variables identified in the model positively influence the performance of SMEs., all of them (owner characteristics related Variables, firm characteristics related Variables and environmental related Variables) show a statistically significant positive impact in explaining the change in the perceived corruption and are greater than or equal to ß = .023. In addition, all variables altogether explain about 37 percent change in the performance of SMEs (R^2 = .37).

Table 4:- Model Results Analysis

Variables	Model Results
Gender of the owner	.135
Education of owner	.105
Previous experience	.1055
Age of the owner	.238
Family background	.109
Firm age	.100

Firm sector	.279
Formality	.365
Initial capital	.343
Information Technology	.123
Access to finance	.138
Infrastructure	.123
Working place	.130
Access to Market	.230
Government Support	.130
F	72.9
R	61
R2	37

Source: - Survey (2015)

CONCLUSIONS AND RECOMMENDATIONS

The small and medium enterprises have been believed as very important in accelerating the economic development of a country. That is why its role is becoming increasingly prominent throughout the world. This study examined the factors which are exclusively contributing their role in the performance of small and medium enterprises. These factors were financial resources, marketing strategy, technological resources and government support and entrepreneurial skill. This study also measured the relationship between SMEs performance and its determinants. The study concluded that financial resources, technological resources, government support, marketing strategies and entrepreneurial skills have positive and significant impact on business performance.

This paper also found that financial resources are most important factor that affects the SMEs performance. Financial resources are the key factor on which the whole business is depending upon. Due to less Government financial support to entrepreneurs they are facing a lot of problems. Due to less financial resources entrepreneurs are not happy with the marketing activities of their product. First of all this is due to fact that SMEs have very small capital as compared to corporate sectors or large business enterprises. Secondly SMEs have to face global competition. It has been seen in the research that technology plays vital role in the productivity of the firms. The efficiency of production sector can be increased by using new technology. It is also cost saving. Business success is directly dependent upon technological factors. Ethiopian entrepreneurs are satisfied with the present technology but one thing that is being conceived here is that they usually have very less information related to new technology. Also the SMEs owners who are doing traditional business are less adaptive to change. The research also conclude that leadership skills , decision making skills, management skills and professional affiliation with the business is also very important in achieving success of the business. If an entrepreneur is expert in above mentioned functions only then he can avail the opportunities in better way.

SMEs owners are not satisfied with the government support. Keeping in view the prevailing and foreseeable economic conditions of the country, existing practices and other aspects of the SME sector, there are some of the recommendations based on findings of the study, Government should play a vital role by giving them favorable environment and creating favorable policies which lead to success of SMEs i.e. easiness to get business permit, funding scheme from government. Now the world environment is rapidly changing due to technological change so businesses and manufacturers should be more innovative and creative in delivering product and service. SMEs owners should adapt new technology system in their business. Government should start training program at free of cost especially for SMEs owners.

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