



DEBREBERHAN UNIVERSITY

**COLLEGE OF SOCIAL SCIENCE AND HUMANITIES
DEPARTMENT OF URBAN DEVELOPMENT AND
MANAGEMENT**

**AFFECTING PRODUCTIVITY PERFORMANCE LEVEL OF
SMALL AND MICRO ENTERPRISE IN ANGOLELA TERA
WORDA NORTH SHEWA ZONE, ANRS**

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June 2020

DEBRE BERHAN, ETHIOPIA

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THESIS SUBMITTED TO THE DEPARTMENT OF URBAN DEVELOPMENT
AND MANAGEMENT

Presented in Partial fulfillment of the requirement for the Degree of Masters of Science in
urban Development and management

June 2020

DEBRE BERHAN, ETHIO

DEBREBERHAN UNIVERSITY
COLLEGE OF SOCIAL SCIENCE AND HUMANITIES
DEPARTMENT OF URBAN DEVELOPMENT AND MANAGEMENT

This is to certify that the thesis prepared by Dagim Esthete Geberyes entitled Affecting Productivity Performance Level of Small and Micro Enterprise in Angolana Tera Worda North Shewa Zone, Amhara Region, Ethiopia. And, submitted in partial fulfillment of the requirements for Degree of Masters of Science in urban Development and management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Acknowledgments

First, I would like to praise my heavenly father God and His Mother, St. Mary's, for their guidance and support throughout my life. I have received various forms of assistance from many people in the course of producing this thesis. I am glad to use this opportunity to express my indebtedness to all of them. First and for most, I want to convey my sincere gratitude to my thesis advisor, Dr. Getamesay Tefera for his overall responsible guidance, encouragement, and follow-up from the beginning to the end, provided an endless enthusiasm of the study.

My second gratitude goes to all staff members of the department of Geography and Environmental Studies, Debre Berhan University, for their encouragement and cooperation during my work. The cooperation from Dr, Eprame Tegahgn, Dr Adugn Endalw, Dr Gebra Taffer, and Dr. Aragaw Alemayehu in, guidance and encouragement was so great and memorable. And I would also like to express my appreciations to selected owners/managers of SMES and all selected representative from different sector in Angolelana Tera Woreda and gave responses during questionnaire and interview.

Finally, I would like to express my gratitude to all my friends, especially derje Araya and those people who have spent their time directly or indirectly to assist me in this work for their constant encouragement and cooperation.

First and foremost, "Glory to be God" who helped me to carry all the burdens throughout my study and reach completion.

Abstract

The main objective of this study was to assess internal and external factors affecting the performance of Micro and small enterprises of all sectors such as construction, manufacturing, urban agriculture, trade and service. Unlike the previous studies this study to identify the main factors that mostly used to reflect the performance of SMES in found in Angolelana tera Woreda north shewa zone Amahra region. The study was employed through descriptive and explanatory design in which stratified random sampling method was used to collect data from SMES owners/managers of five selected sectors according to the objective of the study with a total population of 988 and 132 samples. Questionnaires, Key Informant Interview (KII) and interviews tools of data collection were used in the study. Bivariate correlations were used to establish the relationship between variables; binary logistic regression analysis was used to test for the three variables. SPSS version 23 was used as a tool for data analysis. Correlation analysis revealed that the existence of negative and significant relationship between the productivity performance SMES and market related factor, management related factor, technological factor, and financial revealed that there was statistically significant difference between the means of the four independent variables $p < 0.05$ level. the findings indicate that the most common factors affects the productivity performance level of Angolela tera Worda lack of working premises, lack of working capital 70% and inadequate credit institution 90%, lack of market access 70%, inadequate availability of infrastructure, Power shortage (interruption) 80%, Insufficient transportation services) 80%, shortage of water supply 70%, lack of managerial training and experience 69%; lack of machinery 80%,. Imitation of this study using larger samples and a broader geographic base, longitudinal data collection and using more statistical tests is suggested for cross-validation purposes in future researches to identify the factors productivity performance level of SMES.

Key word: productivity performance, factor, micro and, small enterprise (SMEs), respondents

List of Acronyms

| | |
|------------|--|
| ➤ ACSi- | Amhara Credit and Saving institution |
| ➤ BDS- | Business Development Service |
| ➤ CSA- | Central Statistics Authority |
| ➤ FeSMESDA | Federal Micro and Small Enterprise Development Agency |
| ➤ GDP | growth domestic product |
| ➤ Gtp | growth and transformation plane |
| ➤ ILO | International Labor Organization |
| ➤ MFI | Micro finance Institution |
| ➤ MoE | Ministry of Education |
| ➤ MoLSA | Ministry of Labour and Social Affairs |
| ➤ MOTI | Ministry of Trade and Industry |
| ➤ SMES | Micro and Small Enterprise |
| ➤ NGO | Non-Governmental Organization |
| ➤ RESMESDA | Regional Micro and Small Enterprise Development Agency |
| ➤ TITBs | Trade, Industry and Tourism Bureaus |
| ➤ TVET | Technical Vocational Educational Training |
| ➤ UNIDO | United Nation Industrial Development Organization |

OPERATIONAL DEFINITIONS OF TERMS

- Cooperatives: association of at least 10 individuals who are from the same area.
- Enterprise: It refers to a unit of economic organization or activity whether public or private engaged into the manufacturing of goods.
- Initial paid-up capital: is that part of the issued capital of an establishment that has been paid by the owners to start the operation.
- Micro enterprise: means commercial enterprise whose capital is not exceeding birr20, 000 other than high technology and consultancy services.
- Performance: in this paper performance defined in terms of profitability of the SMES.
- Partnership: involves two or more individuals who have a partnership agreement to operate a business and share the earnings and liabilities of the venture.
- Respondent: respondents are those individuals who are owner managers or operators of an enterprise

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

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, J. D. 2017). The dynamic role of micro and small enterprises (SMES) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. It is estimated that SMES employ 22% of the adult population in developing countries (Fisseha, 2016:43). Currently, SMES in both developed and developing countries are seen as the most important alternative sector in fostering socio-economic developments. Particularly, they make undoubtedly a huge contribution to employment in many developing countries where there is a challenge of high unemployment and poverty exists. Micro small enterprises development has the potential for wide reaching contribution on the sustainable development goals. Globally, the sustainable development goals are a universal plan for all countries to end poverty, protect the planet and ensure prosperity for all.

Most economies in both developed and developing countries acknowledge the importance of SMES in generating employment, stimulating growth and creating social cohesion (Muriithi, et al., 2017). The previous couple of decades have shown important growth within the African continent compared to the remainder of the globe. For instance, since in the ten years, while the rest of the world economies struggled with economic growth, African growth averaged more than five per cent far above America, Europe and South America (Muriithi, et al., 2017).

The SMEs Sector is seen as an essential catalyst for job creation, unemployment reduction and Social progress at large since it takes the lion share fast growing labor force in the world Significantly 48% in North Africa, 51% in Latin America, 65% in Asia and 72% in sub-Saharan Africa countries (Tefera, et al., 2013).For the last two decades, Ethiopia has experienced remarkable economic growth. SMES are believed on playing an increasing role in the growth process through employment creation, investment, and production, while at the same time

benefiting from expanded business opportunities arising from better growth performance of the overall economy. (MOTI, 2011). In Ethiopia, SMEs Sector is the second largest employment generating sector following agriculture. A national survey conducted by Ethiopian Central Statistical Authority (CSA) in 2009 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 labor 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). This is a contribution of 3.4 percent to GDP, 33 percent of the industrial sector's contribution and 52 percent of the manufacturing sector's contribution to the GDP of the year 2007 (CSA, 2010). SMES play a great role in bringing innovative products, techniques and new markets, dynamism and flexibility which is another virtue of smallness with possibility of meeting that they believe behaviorally to respond to customers' changing demand so as not to lose them and to win new ones by supplying better products and services. Practically, they invest relatively small amount in technology, equipment's, human resource etc. when compared with larger ones which invest large amount on expensive single purposed machines, hold large inventory and use costly technologies and tools. This allows them to change what they have been doing with far less. (FDRE and MoTI, 2012)SMES Serve as an entrepreneurial training ground in which tomorrow's business leaders can find success and gain valuable experiences. As SMES' role has become clearer, policy makers, donors and other organizations in developing countries have expended increasing amounts of scarce_resources on SMES by supporting, promoting and developing them (Allan and Fredah, 2009).

There are many obstacles hindering their growth like competitions, lack of access to credit, cheap imports, insecurity, debt collection, marketing problems, lack of enough working space, identical products in the same market, change in demand and absence of market linkages, lack of raw material accessibility. Study by Annette (2005), also indicates managerial skills, level of education and technical skills, ability to convert profit back into investment are other factors instilling or inhibiting the growth of SMES. With rapid growth in population, African countries have been experiencing the problem of large size of unemployment through its economic history since indeterminate time in the past (Behrman and Deolalikar 2011; Khan and Manopichetwattana, 2011).

According to Gebrehiwot and Wolday, (2010), CSA ,(2007), in Ethiopia more than 11, 000 SMES were surveyed and about 65 percent of them admitted having main performance factor like lack of working space for production and marketing, shortage of credit and finance, regulatory problems (licensing, organizing, illegal business),poor production techniques, in put access constraints, lack of information, inadequate management and business skill, absence of appropriate strategy, lack of skilled man power, low level of awareness of SMES's as job area, low level of provision and interest for trainings and workshops.

Ethiopia is one of the countries with this condition and relying upon SMES helped as an engine to drive to economic growth, elimination of unemployment and poverty and the failure rate of these businesses in Ethiopia indicates that they are in dire need of assistance. To provide assistance, it is necessary to identify the constraining factors of SMES' growth that they have faced. Currently, Ethiopian government has given priority and planned to work aggressively on SMES to complement with the objective of the 5 years of GTP II that is focused on industrial development in the country. The sector is expected to plays a significant role as an instrumental in curbing the challenges of unemployment, poverty and to accelerate economic growth.

In general promotion of SMES in the country is increasingly becoming more important due to the fact that they use what the country possesses and less of what it lacks as well as their role in employment creation for the majority work forces. Because of, the potential of SMES for economic development through creating market for local products, and utilization of local raw materials and knowledge more attention has given to the sector.

Although there are many contributions expected from these sectors for economic growth, they face different factors that affect the performance level and indirectly limit for the contributions they are expected. For the purpose of this study, particularly, according to the discussions made among SMES sectors and verve, many of SMES in Angolelana trea worda are not successful and stopping their operation in facing challenges making them not to continue their operation.

In addition to the researcher collected some data before starting the actual study and there was observation that more than 65 SMES stopped their operation because of different reasons.

Availability of this issue and information motivated the researcher to conduct actual study on SMES in Angolelana trea worda technique and vocational industry development office because of SMES is currently a fashionable agenda for Ethiopian government and unless and other wise these factor are minimized or solved, it is difficult to get contributions expected from these sector.

1.2 Statement of the Problem

Employment creation has been the major concern of several governments all over the world, both in developed and developing economies. This employment objective of governments especially in the developing world has become pressing and justified in view of the high levels of poverty affecting their economies. (Hailai et al., 2009) Micro and small enterprises (SMES) are believed to have a vital role in poverty reduction, employment generation as well as economic development in poor countries like Ethiopia, (Haftu, et, al, 2009). The Ethiopian SMES Sector includes a diverse set of operations ranging from petty traders to small restaurant owners; shoeshine boys to small shoemaking enterprises; peddler in the streets to grocery business operators, (Haftu, et, al, 2009).

In Ethiopia, support to SMES has been considered as a tool to employment creation and foundation to long-term development objectives. Even though some countries believed to be successful in fully utilizing the potentials in SMES to achieve better economic development, the voyage of SMES in Ethiopia has not been an easy ride and still it is behind in exploiting these huge potentials to meet its development objectives. However, micro and small enterprise sector face numerous constraints (Brhanue, 2012). Among this factor which affected the sector in general SMEs in particular in urban area include lack of sufficient initial and working capital, limited market, family responsibility.

Kappel, (2010) reveals, the factors hindering the potential growth of SMES in sub-Saharan countries are limited access to credit and market, business services like marketing information, networking, short-term training and these challenges account for the reasons why many SMES fail/cannot grow and productive. In Ethiopia specifically, SMES have been confronted in the past by many of these problems as little existing researches shows. These factors confirm with

other developing countries' especially experiences of Sub-Saharan countries in which the major common factor of SMES are lack of financial support, poor management, corruption, lack of training and experience, poor infrastructural availability, insufficient profits and low demand for product and services (; ILO, 2008 and Hailay, 2009). Even though in the past decades the focus of Ethiopian government was mainly on large organizations, the recent wave of private sector development initiatives however shifted the policy efforts to SMES. This new orientation has been possible because of poor performance in most state owned companies and the tension introduced by globalization and the increased need for competitiveness (Zewde, 2010).

In Ethiopia various studies have been conducted on SMES. Contribution of SMES for poverty reduction and factors affecting performance level Ebiset al. (2013), Birhanu (2012) Ahemed and Barta(2011).in addition to this studies on the factors, nature and characteristics of SMES and their operators (Animaw, 2016) and (Teklehimanot, 2017) and the efficiency of micro finance institutions and other relevant bodies on SMEs.

As far as the researcher know there is little research conducted on factors affecting productivity performance level of small businesses enterprise in Ethiopia in general and in Amahar region, particularly North shewa zone, in Angolelana Tera Woreda none on this topic.

Study conducted by Birhanu (2017) in Assosa town on Challenges productivity of micro and small scale enterprises. The result showed that, factors such as environmental, financial, human resource, managerial and, market related factors constraining the growth of SMES. However, the study does not clearly indicate those of internal factors.

Therefore, the major focus of this research was internal and external factors affecting the performance of Micro and small enterprises of all sectors such as construction, manufacturing, urban agriculture, trade and service. Unlike the previous studies this study to identify the main factors that mostly used to reflect the peroductivty performance of SMES in found in Angolelana Tera Wored.

1.3 Objectives of the Study

1.3.1 General objective

The general objective of this study is to assess that affect the productivity performance level of SMEs Angolelana trea Woreda

1.3.2 Specific objectives

- To Examine the productivity performance level factor affecting in Angolelan tera Woreda
- To identify main external factors that affects the productivity performance level of SMEs in the study area.
- To identify the internal factors that affects the performance of SMEs in the Woreda.
- To suggest actions to be taken by concerned bodies to overcome constraints of SMES in the study area.

1.4 The key research questions:

- ❖ What is the status of the productivity performance level in Angolelan tera Woreda
- ❖ What are the internal factors that affect the productivity performance level of SMEs in Angolelana trea Woreda?
- ❖ What are the external factors that affect the productivity performance level of SMES in Angolelana trea in the study area?
- ❖ What actions are to be suggested to concerned bodies to overcome such constraining factors in order to make MSEs sustainable and improve their performance?

1.5 Significance of the Study

Understanding the affecting the productivity performance level of SMEs in Angolelana tera Woreda helps governments, SMEs, policy makers and other stakeholders to design beset policies and programs that actively stimulate innovation, as well as helping those policy makers to support, inspire, and promote SMEs for unemployment and poverty alleviation through minimizing the limitations hindering the productivity performance of the enterprises.

Findings of this study expected to be significant for the following reason

1.5.1 Micro and Small Enterprises

The findings of this study help SMEs in Angolelana trea Worda and others, within an insight into the benefits of using different factors studied in this research to expect the factors that affect the

productivity performance level micro and small enterprise. The study can also serve as baseline information for farther studies especially about the major constraint factor 'and their possible solution to concerned bodies to overcome such constraining factors in order to make SMEs sustainable and improve their performance

1.5.2 Governmental Policy Makers

The government can use the findings of this study to contribution in policy formulation and development for a framework for critical finance, marketing, work places, infrastructure, management and other factors that affect the performance of SMEs. Moreover, the findings of this study help the policy makers and financial institutions how to encourage establishing or expanding SMEs. It also enables them to know what kind(s) of policies should be framed.

1.5.3 Academics/Researchers

The finding in this study also beneficial to research and academics involved in productivity of SMEs research activities. A scientific publication that produced from the study would serve as a vital instrument to initiate an academic discourse between the research and academic community including students of higher learning institutions and providing a deeper understanding of the critical factors that affect the performance of SMEs.

1.6 Scope and limitation of the study

Even though the issue of SMES is currently hot and interesting throughout the county and there are possibility of using various tools, designs, wide geographical areas with many variables and large sample size, this study is delimited according to the variables mentioned in research objectives and assessed accordingly all over the study. The purpose of the study is to assess the affecting the productivity performance level of small and micro enterprise in three selected settlement type in Angolelana tera Woreda and simple randomly selected 132 sample households conducted the survey of the study of the Woreda.

Some challenges had occurred while conducting this study. One of the main problems faced during the study was financial and time limitation by this reason the study relied on three Keble, some of the respondents were not willing to give timely and exact information and shortage of adequate secondary source of data.

1.7. Organization of the paper

This study is presented in five chapters as illustrated in the thesis organization include Chapter one presents general background to the study, presents the statement of the problem. Under investigation, objectives, research question, significance, scope and limitation of the studies, detailed and the organization of the study. Chapter two reviews literature on factor affecting the peroductivty performance level of SMEs. Chapter Three provides a detailed description of the study area, and general methods used in this study. Chapter four presents the results and discussions that start with socio economic demographic characteristics in the study area and the last chapter five concludes the major findings of the study while recommending some potential measures that should be undertaken by the different stakeholders in the study area in the future.

CHAPTER TWO

2. REVIEW OF LITERATURE

This chapter reviews the work of other researchers relating to affecting the productivity performance level small and micro enterprise as a component of the review of related literature have three major sections, the first part begins with conceptual literature like defining what micro and small business enterprises are in general and in Ethiopian context in particular. The second part discusses the relevant and enough theoretical perspective related to factors influencing SME performance, the third part empirical literature review based on previous research evidence regarding those factors and the fourth part Conceptual framework Research.

2.1. Definition of Micro and Small Enterprises

Although the boundaries between micro, small, medium and large enterprises are at best arbitrary, categorizing business enterprises by scale of operation is important for functional and promotional purposes to achieve the desired goals of development (Andu-Alem T. 1997; Kaibori2001; Solomon, 2005). It is for this reason that different countries adopt different working definitions for different scale levels of enterprises (Amyx, C., 2005; Amenu B., 2005). Definition is one of the fundamental issues related to Micro and Small Enterprises (SMES). Micro and Small Enterprises (SMES) has led to diverse definitions and unresolved debates. Generally, there is no universally agreed up on the definition of SMES (Amenu, 2005). Due to this, the meaning of SMES is necessary arbitrary because peoples, countries and organizations adopt different standards for different purposes according to their own working definition.

These individuals and organizations have been defining them in a variety of ways using different factors according to their country and organization perspectives. In recent times, there has been some degree of convergence in SMES Definitions particularly in Europe. The European Commission defines SMES using a combination of employee numbers, annual turnover or balance sheet total and ownership Amyx, C. (2005). Regardless of country and economic development, there are two approaches to define SMES i.e. quantitative and qualitative approach. In most cases number of employees, sales turn over and asset sizes are widely used as yardstick criteria to define SMES (Beck, 2005; Arinaitwe, 2006; Ayokunle, 2007). However, the

convergence does not in any way suggest a common agreement of the specific numbers in terms of these variables. Different governments and writers considerably differ in defining SMES because of the following two factors (ILO, 2007; Jining, 2008). The first factor is population and stage of a country's economic development. A definition of SMES in the developed world would differ from how SMES are defined in developing countries. For example SMES in USA and Europe if defined according to the number of employees and annual turnover of developing countries, it would be a definition adopted for medium or large enterprise. So, the acceptable figures of number of employees & annual sales turnover differ from country to country, depending on their economic development (Ali & Sims, 2001).

The second factor is industry within which the SMES is competing. The definition of SMES as perceived above does not take into account the fact that the SMES sector is diverse. As ILO, (2007) argues, while the convergence in SMES Definitions is certainly a welcome move for the standardization of data collection on enterprises (a major reason for defining SMES), it does little to help us understand the diversity of the sector. In fact, harmonizing definitions may obscure characteristics that more varied definitions try to draw out. A definition of SMES, even using the abovementioned variables should necessarily take into consideration the industry within which the firm is participating. When we come to SMEs Definition in Ethiopian context, two types of working definitions for Micro and Small Enterprises (SMES) were used. One was by the Ministry of Trade and Industry (MOTI) and the second was Central Statistics Authority (CSA). The definition used by MOTI in 1997 has been developed for formulating SMES. According to SMES Development Strategy in 1997/2005, cited in Hailay, (2007); micro enterprises are those business enterprises in the formal and informal sector, with a paid up capital of not exceeding birr 20,000 and excluding high tech. consultancy firms and other high tech. establishments. And small enterprises are those business with a paid up capital of above birr 20,000 and not exceeding birr 500,000 and excluding high tech consultancy firms and other high tech establishments. For the purpose of compiling statistical information, Central Statistics Authority (CSA) categorizes enterprises into different scales of operations on the size of employment and the nature of equipment. According to Central Statistics Authority (CSA ,2005), cited in Eshetu and Bekele, (2008), establishments employing less than ten persons and using motor operated equipments were considered as small-scale manufacturing enterprises.

Enterprises in the micro enterprise category were subdivided into informal sector operations and cottage industries: cottage and handicraft industries are those establishments performing their activities by hand and using non-power driven machines. The informal sector is defined as household type establishments or activities, which are non-registered companies or cooperatives operating with less than 10 persons. This un uniform definition is also the current issue because according to Zeleke, (2008), there is a need to have agreed national definition not only for research purposes but also for consistency of legislation and for focusing discussions of policy makers as well as financial and enterprise promotion agencies to tailor appropriate measures to particular sectors.

In light of the above definitions and taking into consideration the Ethiopian situation, micro and small scale enterprises (SMEs) were defined in previous periods in the following ways. Micro enterprises are business activities that are: independently owned and operated, have a small share of the market, are managed by the owner and employing five or less employees. (This has also revised to include employment until 10 workers and capital reaching up to 20,000 birr) and small businesses are those enterprises that employ 6-49 employees and sharing the similar characteristics with micro-enterprises. However, since Feb.2011, Ministry of Trade and Industry (MOTI) has adopted official definition of SMES which is different from previous years. The current definition of SMES in Ethiopia focused on the number of employees that the enterprises hire and size of the capital they own are mainly used as a yardstick to define SMES and accordingly, each micro and small enterprise is categorized in to industry and service sector.

Micro-enterprise is the business enterprise found in all sectors of the Ethiopian economy hiring up to five man power and 100,000 birr capital for industry and up to five man power and capital of 50,000 birr for service sector and small scale enterprise category, the industry sector includes 6-30 man power and maximum of 1.5 million birr capital and the service sector involves 6-30 man power and capital of 500,000 birr. Under the industry sector there are Manufacturing, Construction, and Mining and under the service includes Retail, Transport, Hotel and Tourism, Recreation, Information Technology and Maintenance are included.

2.2. Micro and Small Enterprises Development in Ethiopian

Although Ethiopia has a long history of artisan manufacturing activity, the development of modern manufacturing enterprises took place mainly in the post-World War II period. The evolution of the sector falls into three broad phases: the import-substitution period which lasted from the early 1950s to 1974; the centrally planned economic system from 1974/1975 to 1991; and liberalization and market-orientation since 1991. During the second period, private sector industrial activities, consisting mainly SMEs, were openly discouraged through restrictive policies, including regulations and direct controls that prevented access to credit and imported inputs by private enterprises. During this phase, the number of officially registered small-scale manufacturing enterprises was reduced (Andu-Alem T., 1997; FSMESDS, 1997; Zewde & Associates, 2002).

When the current Ethiopian government came to power in 1991, it inherited a centrally planned economy and faced some challenges similar to transition economies, including private sector development. So far, however, hopes that the economy would transition from being dominated by low-productive jobs in the state sector to more productive ones in the private sector remain unfulfilled. This lack of good (productive and well-paid) jobs discourages workers from acquiring skills, out of fear that such asset would not be utilized (Assegedech Woldelul, 2014).

Since 1991, there has been significant improvement in the incentive system and the macroeconomic environment with positive implications for manufacturing activities. A liberal investment code has been introduced. Domestic price controls have been removed. The financial system has been partially liberalized. Tariffs have been reduced and nontariff barriers have been removed. A public sector reform programmed has also been introduced and one of its main objectives to privatize SMEs that were nationalized in the 1970s. All these reforms have immensely improved the domestic policy environment for SMEs. Gradually, the government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development for SMEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country.

To this effect, the government has formulated a National Micro and Small Enterprises Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of SMES. Government has gone a step further in its support

for small enterprises by formulating strategy by refinements of micro-policies and incentive schemes aimed at promoting learning and technical change at the enterprise level (Assegedech Woldelul, 2004; Amenu B., 2005).

The CSA survey revealed that the number of people earning their livelihood from the micro and small scale manufacturing industries is eight times larger than those engaged in the medium and large scale industrial establishments (CSA, 2005). There are the policies and strategies developed in the past years to create an enabling environment and targeted support for the development of the private sector in general and the SMES sector in particular.

Currently, according to the discussions of Ethiopian New Micro, Small-Enterprises Development Package Design of 2011 national conference held in Addis Ababa , the overall objective of SMES sub-sector is to play a vital role in national development particularly in the creation of employment opportunities and poverty reduction with complementary of objective of the 5 years GTP. In another way to address the challenges of unemployment in the country by giving special emphasis to widely develop SMES sector to ensure accelerated industrial development which is serving as foundation for the country's economic growth. As the conference, this be achieved by providing the comprehensive and accessible support for the enterprises and the government has given priority to the sub-sector in the next five year industrial development plan with a firm believe that the sector is an instrumental curbing urban unemployment problems.

Although it was obvious that as there are various challenges hindering the growth and development of SMES reported, there were proposed strategic directions to tackle challenges in the sector by providing human, technological and financial resources as well as manufacturing and market access, clustering SMES and delivering industrial extension services were other strategic directions. In addition to these government is aggressively working on developing the attitude and skill of entrepreneurs in realizing the sector's objective through enhancing demand oriented human resources development and technological transformation(CSA, 2005).

2.3. The Roles of Micro and Small Enterprises

In most fast developing countries, SMEs by asset of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high level of

training, much capital and sophisticated technology. The micro and small enterprise sector is also described as the national home of entrepreneurship. It has the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (Carree and Thurik, 2009; Etsegenet A., 2010; Ali and Sims, 2008). In all successful economies, SMES are seen as an essential spring board for growth, job creation and social progress. The small business sector is also seen as an important force to: generate employment and more equitable income distribution; activate competition; exploit niche markets; enhance productivity and technical change and through the combination of all of these measures, to stimulate economic development (Zewde 2010 and Nuno and Santos; 2013).

For Ethiopia, while the importance of large industrial and other enterprises for the growth of the economy cannot be denied, there is a sufficient evidence that the labor absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation activities is vital for many of the challenges facing the country (; ILO, 2009; Freel and Robson, 2011; Gebrehiwot and Wolday, 2010).

The rationale behind such an approach is that small industries provide substantial scope for increasing employment as they are labor-intensive, and they require comparatively less capital.

They have lesser gestation period and can easily be set up in rural areas or in backward areas. They need relatively smaller markets to be economical and hence they have advantage in being set up as ancillary units. They stimulate growth of entrepreneurship and promote a more decentralized pattern of ownership and location (Bhatia & Batra, 2013). The most significant aspect of small industry development is that this sector has stimulated economic activity of a far reaching magnitude and has created a sense of confidence among a huge number of small entrepreneurs about their strength and vitality (Bhatia & Batra, 2013). According to Beck, (2005) the small industries have been growing during the last three decades on account of their significant role in attaining the major objectives as under: removal of economic backwardness, attainment of self-reliance, reduction of regional imbalance, reduction in disparities in income, wealth and consumption standards facilitate mobilization of resources, capital and skills and their optimum utilization, create greater employment opportunities and raise levels of output, income

and standard of living; and meet substantial part of the economy's requirement of consumer goods and simple producer goods.

2.4. THE CONCEPT OF BUSINESS PERFORMANCE

According to Martin (2010:67) performance is defined simply in terms of output terms such as quantified objectives or profitability. Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (Bidzakin K.J., 2009:31). Ahmed (2012:6-13) on their study defined performance as follows. The most commonly adopted definition of success [good performance] is financial growth with adequate profits. Other definitions of success [good performance] are equally applicable. For example, some entrepreneurs regard success [good performance] as the job satisfaction they derive from achieving desired goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.

Global Entrepreneurship Monitor (GEM) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it (GEM, 2014:10). However, performance seems to be conceptualized, operationalized and measured in different ways thus, making cross comparison is difficult. Among the most frequently used operationalization' is growth in employees and profitability.

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

2.5. Factors affecting productivity performance level of Micro and Small Enterprises (SMES)

In most developing countries small businesses face a wider range of limitations and they are unable to address the problems they face on their own, even in effectively functioning in market economies. Several prior studies' theoretical framework for this type of study was based on classifying the types of decisions needed to start and maintain a successful business and

analyzing common problems faced by small business owners. Although (SMES) are recognized as a major source of innovation, flexibility and growth in the country, on the other hand different surveys and reports indicates there are many challenges facing them and result in hindering their growth and productivity (CSA; 2009, Okpara(2011)).Most of the time the common factor indicated by different researchers are: attitude of the society towards the enterprises, financial support constraints and lack of access to loans, skills problem to run the business and meet the objectives, lack of smooth supply and availability of raw materials, lack of less working premises, unavailability of markets, insufficient infrasrurction unfamiliarity with technology, risk of being vulnerable than big companies and threatened by scarce resources, fierce and increased competition from different dimensions are the major bottlenecks holding back the growth of SMES

2.5.1. Marketing factor

Today it is widely accepted that small businesses are not just “little big” businesses. Rather it is acknowledged that they have their own peculiar characteristics, which affect the way they function and largely determine their preoccupation and concerns. For SMES, marketing is that an intuitive approach exists among them and found largely on traditional practices and experiences, where it entirely dependent on the depth of experience and knowledge of owners/managers. Often, planning of marketing activities is limited to planning for “selling” within a narrow industry perspective (Honjo, 2010).

Due to lack of resources and expertise, many small firms do not conduct marketing research, keep customer records, make follow up on their customers and study customers’ characteristics and preferences. The first few years of small firms require aggressive marketing of products and services. But, lack of understanding the strategic importance of marketing in achieving competitive advantage, startup firms does not sufficiently market their products and services (Bergin and seers, 2000).Even though marketing has been widely accredited as one of the most important of all activities and critical for the performance of SMES), many studies found owner/managers of SMES as having a very limited understanding of the marketing concept generally to be little more than advertising and public relations and lacking adequate marketing skills. Specifically, problems in promotion and marketing research were frequently encountered by SMES. These problems include the selection of promotional media, difficulty in getting

customers to pay, low purchasing power of customers, advertising, content design and format of the promotional materials, market size, Location and addresses of potential customers as Becchetti and Trovato ,(2012).

Studies show the problems of SMES on marketing side with lack of linkage between SMES operators, information in the market, available technologies, existing opportunities, etc. Due to lack of market related knowledge SMES face serious problems because of they are unable to meet the visible growth due to lack of information where the best market areas are located, inability to analyze their respective market, lack of skills to set competitive prices, inability to effectively promote products (Etsegenet, 2010; Mambula, 2012; Carpenter and Petersen, 2010).

They have limitations in using marketing strategy which helps to develop good marketing mix to sell the products through which selected target client/market, studying the client with respect to his/her buying motive and behavior, segmentation of the market using relevant bases, evaluating each of the segments, reaching the target market (Adam 2006). Since the business line of SMES activities in Ethiopia is relatively similar, a lack of product diversity, however, is prevalent and as a result similar products are over-crowding the market.

In most cases, SMES have limited means in obtaining effective and relevant data as well as information on market availability that can be obtained from Chambers of Commerce, SMES Development Agencies, associations as well as Trade, Industry offices. Nevertheless, SMES have difficulties in getting their hands on adequate data and information, one of the reasons for this deficit is that many of the centers are not within the reach of most SMES (Adil 2010).

Problems related to the promotion of many SMES are plan on their products. However, their budget is mostly tight and they refrain from undertaking such promotional activities to use the money for other urgent matters even though some enterprises understand that issuing flyers, posters and business cards have promotional values,

The other marketing problem of SMES is concerning competition between the SMEs lves and from middle and large companies , which implies that some larger companies in relation to SMES 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, sufficient

information regarding existing market and capacity to exploit more market opportunities. The place or SMES' business location and channel of distribution most of the time face difficult to reach the market and the chosen potential customers.

2.5.2. Management factors

These problems are usually labeled as critical success/failure factors as they are internal to the organization and within its control. These problems need immediate managerial actions and include human resources management, business planning, organizing, and directing. The future of small firms depends on the development and maintenance of human resources in which few highly competent people dedicated to the task, driven by it, working full time and very hard are the successful once. For many firms, the attraction, development and maintenance of successful individuals are a critical success factor even though recruiting new employee is one of the biggest challenges facing small firms, and a key component of organizational success (Chrisman, and Leslie (2010).

Most owners/ managers lack sufficient trainings, they do not have proper management procedures and their concern has remained on daily routine and to keep the business going and all decision making is concentrated in the hands of owner-manager, innovation activities in the enterprises mostly monopolized by them and gives less motivation for others workers to reveal their potential talents (Nuno and Santo 2013).

However, the sources of many of managerial problems in SMEs are lack of education and professional training. Today, owners/managers of small firms must be familiar with many aspects of management such as finance, personnel, sales, production, and so forth. Many studies indicated that entrepreneurs perform poorly in many areas of management such as bookkeeping, marketing, costing, warehousing, stock control, production scheduling, and quality control. The owner/managers in some cases either do not understand financial statements or do not use them for planning purposes cannot not differentiate between personal expenditure and business expenses, and have no accurate perception of their production costs (such as unit cost of labor; cost per unit of capital; marketing cost per unit of product etc.).

2.5.3 Infrastructure factors

As SMEs became increased from time to time, they generally demand more infrastructure services, consuming more energy and water, producing more waste and travelling more frequently and longer distances. Increased production also tend to require more infrastructure services as inputs to the production process although the composition of demand depend on which industry and manufacturing sectors grow most. Growth in services, for example, affects demand for infrastructure differently to growth in different sector.

Forecasting infrastructure demand requires a consideration of income forecasts, because demand for infrastructure would be affected by income. Most long-term economic forecasts are for Gross Domestic Product (GDP) rather than household incomes. The two measures are closely related, but not identical. Most cities of the developing countries are faced with various problems of which high incidences of poverty and unemployment, poorly developed infrastructure, inadequate public services, acute and ever worsening shelter deficits and accelerated environmental deterioration tend to be significant. These problems are mainly the result of the mismatch between their rates of SMEs growth and their economic productivity. Infrastructure is invariably linked with productivity of macro-economic development. That is why upgrading urban and rural infrastructure has received increasing attention over the past few years. The focus on infrastructure is particularly visible among developing countries, which are making serious efforts to enhance the productivity of their economies through improved provision of infrastructure.

Urban Infrastructure of developing countries' deficit needs to be seen in the context of these nations' capital scarcity. In particular, African cities are chronically short of built capital of all sorts—in the stock of housing, in structures devoted to commercial and industrial use, and in the form of public infrastructure Allan (2009).According to chacha, kotu and cheki kebele administrations Up to 80 per cent of the SMEs have access their electric and water meter. This is likely to take the form of single-storey shacks, with only limited access to water, sanitation, and electric power.

2.5.4. Financial factor

Financing is one of the crucial elements that determine the development of (SMES) and necessary to help them to set up and expand their operations, develop new products, and invest in new staff or production facilities. But if they are successful, there comes a time for all developing SMES When they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, or other financial institutions. Lack of finance was cited as the most pressing need of the SMES sector operators (nuno and Santos 2013).

The survey further indicated that working capital (necessary for the business growth) was the most needed followed by investment capital (for starting up new business). This is due to most banks do not operate a SMES financing window and low capability of borrower to prepare and present applications that meets bank's requirements. It is too expensive to hire professional services for doing this job for SMES. This is reflection of the lack of information or the perceived high cost of collecting such information on SMES. SMES have also inability to fulfill the acceptable collateral requirements like fixed assets such as residential houses and vehicles. Thus, rather than focusing their attention on evaluating income streams flowing from an investment project they may focus more on the value of collateral available in the event of financial distress.

This creates a problem for small firms in that they often do not have significant fixed assets to secure on in their early years of establishment (Arinaitwe, and Suwastika 2014). As a result of these and inability of small entrepreneurs to secure collateral requirements, the banking institutions became reluctant to provide them loans. Coupled with absence of other sources of finance other than traditional ones and informal sources, creation of new enterprises and the growth and productivity of existing ones be impeded. Particularly in developing countries like Ethiopia, where the financial market is weakly efficient, there is high information asymmetry between financial institutions and Micro and Small Enterprises (SMES). As a result, financial institutions face severe problems of adverse selection. That is why access to formal finance is usually difficult for SMES (Eshetu and Zeleke, 2009, Rakesh, 2010 Ayokunle, 2011, ILO, 2009). If SMEs cannot find the financing they need, brilliant ideas may fall by the wayside and this represents a loss in potential growth for the economy. Lack of financial availability and

accessibility is cited in many studies as being one of the major barriers and constraints to productivity. A loan approved for the applicant by the ACSI, failed to materialize because land title deeds as collateral. Owning title deeds as collateral to finance expansion is still a hurdle for most entrepreneurs, given that property is not usually registered in their names (Mulu (2009).

2.5.5. Access Financial Control and Planning on Performance of SMES

Financing is one of the crucial elements that determine the development of (SMES) and necessary to help them to set up and expand their operations, develop new products, and invest in new staff or production facilities.

The major universally indicated key problem for SMEs is lack of access to credit/finance. Credit factor operate in variety of ways in Ethiopia where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives, is not enough to enable SMEs undertake their business activities optimally. Insufficient access to long-term finance for SMEs has forced most SMEs in Kenya to rely on high cost short term finances. The various financial challenges that SMEs face include: high cost of credit, high bank charges and fees and lack of proper infrastructure (Kauffmann, 2015).in their study revealed the extent entrepreneurs' need for credit among the common and low earning businesses as numerous money lenders in the name of pyramid schemes came up, promising hope among the 'little investors,' which they can make it to the financial freedom through soft borrowing. The reason for opting for these schemes among a good number of entrepreneurs was majorly to seek finances and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SMEs in Ethiopia. Finding the starting capital for most business is one of the major hurdles that many entrepreneurs go through and even after obtaining the starting capital, acquiring sufficient finance to sustain business growth is yet another challenge (Carter, Greene & Hart, 2013).

Eeden (2014) carried out a study on challenges facing SMEs in South Africa. The study found that finance was one of the most prominent factors. The study further revealed that the Problem related to finance included: source of startup capital/beginning capital/, inadequate credit institution, High interest rate, lack of information on where to source for finance; restrictive

lending offered by commercial banks; lack of access to finance; insufficient financing; lack of track record required by the banks; Limited access to collateral and inappropriate structure of financial institutions when dealing with SMEs. Access to finance is paramount for the growth of SMEs' competitiveness, as SMEs have to invest in new technologies, skills and innovation (Basil, 2005). A wide spectrum such as this may only be tackled by mainstreaming SME development in national frameworks. It is also noteworthy to add that effort to resolve access to finance issues is not solely the responsibility of governments. SMEs need to take a better initiative like mobilizing joint advocacy and recommendations based on sound analyses through their membership organizations.

Eden (2014) suggests further that SMEs must adopt and implement sensible business practices and continuously invest in good internal management systems in accounting, planning, financial, operations and human resource management. Ihyembe (2006) reported that SMEs claim that financing, particularly long-term financing is the greatest obstacle to growth and investment. The challenges come at two levels. In least developed economies and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment cause major obstacles for SMEs to access financing (Chu,Cynthia and McGee, 2007).In some economies, there is inadequate capital, property rights may be a hindrance to ownership of land, underdeveloped markets don't favor the transfer of immovable assets, credit and collateral policies may not allow SMEs to access certain assets to be used as collateral (e.g.future acquired property), absence of registries increases risks to lenders for mortgages and pledges, weaknesses in legislation and in the judiciary may hamper contract enforcement and asset liquidation (Kinyanjui, 2006).Most of these obstacles may be due to poor organizational capacity. For instance, in developing economies, underdeveloped marketing, accounting, auditing, financial management and legal counsel services and other essential services that SMEs may need when they approach banks and other types of lenders may result in SMEs not being able to access or afford such services(Cassar and Holmes, 2003).In more advanced developing countries, where there is reasonable progress in the fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital, leasing and so on. For example, even though SMEs are the largest group of customers of commercial banks in any economy, loans extended to SMEs are

often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also be limited (Nyambura, 2013).

Majority of the formal financial institutions consider SMEs as highly risky and commercially unviable, thus hindering them from accessing credit and worse case is in the rural areas where most SMEs are located (Hamisi, 2012). The present legal and policy framework for financial services is less supportive of smaller borrowers and needs to be addressed.

2.5.6. Access government regulation and policy on performance of SMES

The Government can occur up with policies that can improvement and support the growth of novel technologies, products, and solutions. On the other hand, Government can likewise seem to hinder SME firm performance when it introduces policy which can restrict the autonomy, as well as the entrepreneurial freedom of some variety. In Ethiopia, all SMES are formal, properly licensed and subject to paying taxes as per the tax proclamation of the country. According to Amahara regional state Micro and Small Enterprise Development Bureau, there are as much if not more informal firms as are formal firms in Amahara regional .Some of the reasons attributed to the informality are high transaction costs during licensing, contraband; illegal under invoicing of imports. This implies that in Ethiopian SMEs operate in a difficult business environment due to the government disappointment in addressing the above overall problems. Among other things Lack of providing right business location ;tax and levies is high technology development and Marketing limit their contribution to economic development. According to World Bank (2005), in developing countries such as Ethiopia the legal and policy framework that govern the business environment is heavily regulated. Consequently, SMEs' operate in this difficult policy and regulatory environment have two alternative options; to compliance with rules and regulations and or to operate the business in informal manner. But study shows that, conforming the regulation create a problem for SMEs operation in terms of expansion, access to competitive market, and securing profit. Working in the informal sector prevents MSMEs from obtaining available limited services (Eshetu and Mammo 2009, 12-13)

2.5.7. Technology factor

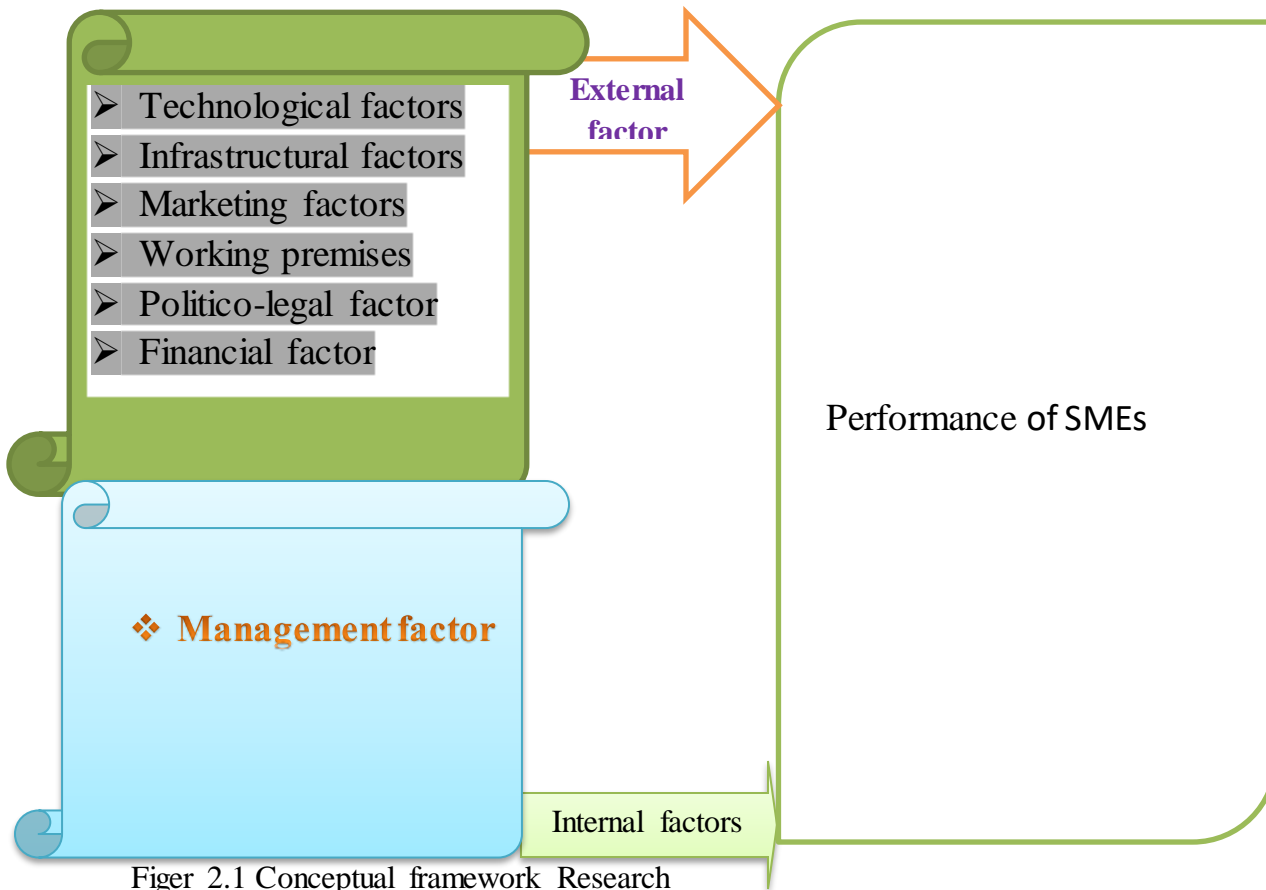
The role of SMEs in the economic growth need not be over-emphasized and their vitality is clear to the health of the economy. Technology activities observed in Ethiopia SMEs might group into

two: Improvements to existing product or manufacturing of copied product with minor adjustments of new design copied from abroad or minor modification to production process or technological innovation (UNCTAD, 2006). Thus, SMEs in Ethiopia their most activities are technological changes based on imitation with minor improvements. SMEs engaged in technological innovation, adoption and modification are not active in trying to adjust to changing demand condition by investing in skills and to go in line with change market need (Mulu, 2009). In Ethiopia, micro and small businesses have problems in getting information on appropriate technology and the process of transfer. To execute these crucial stages of technology transfer, the government will play catalytic role, lay-down the basis for technological development, and transfer (MOTI, 1997). Focus for helping the SMES includes; strengthen the relevance and effectiveness of existing R & D institutions and centers to support SMES to Making linkage with TVT collage, Establishing a technology data base and support by financial resource through loan.

2.6. Conceptual framework Research

The Conceptual frame work contains dependent and independent variable .Independent variables are assumed to have caused the change in the dependent variables. The dependent variables referred to as the reason that researcher wants to explain (Kothari, 2004).

Conceptual framework means that concepts that relate to one another were used to explain the research problem. Since business performance is influenced by both internal and contextual factors, operators need to understand what influences businesses to reach peak performance. The external factors include politico-legal, working premises, technological, infrastructural, marketing and financial factors. The internal factors that influence the SMEs's performance can be management factors. To align the conceptual framework with the research objectives, productivity performance is the dependent variable whereas politico-legal, working premises, technological, infrastructural, marketing, and financial and, management factors are all independent variables. These relationships are presented in Figure below



Figer 2.1 Conceptual framework Research

CHAPTER THREE

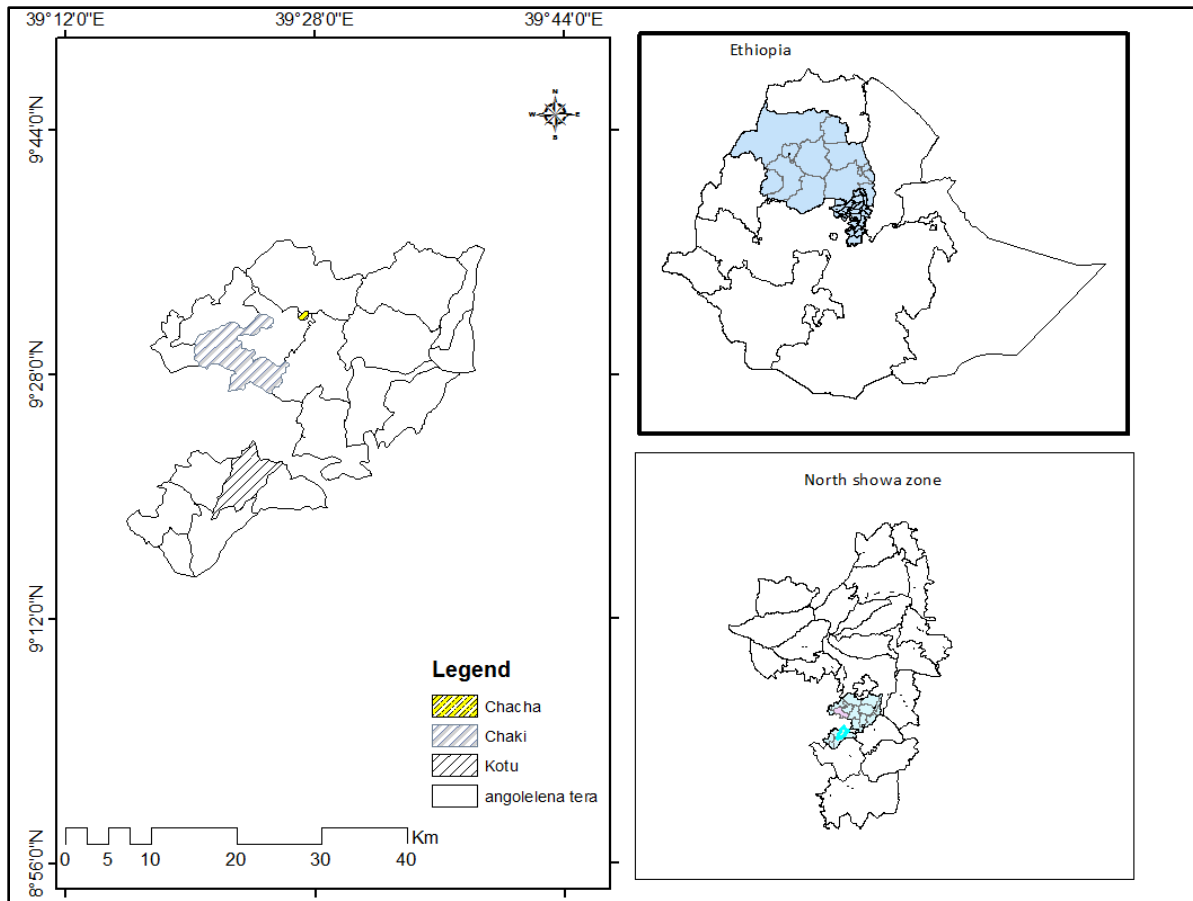
RESEARCH DESIGN AND METHODOLOGY

Research methodology is a way to systematically solve the research problem. It can be understood as a science of studying how research is done scientifically (Kothari, 2004). In order to analyze the potential impacts of factors on productivity performance level of SMEs, this study made use of a research methodology. This section provides an overview of the study's research approach which lays within the mixed methods strategies. The chapter discusses procedures and activities under taken, focusing on namely the study's socio economic data of the study area research design/approach/, Sources of Data ,Questionnaire design, Sampling techniques and sample size determination Data collection techniques data processing and analysis and instrument development. Besides, the section deals with a discussion on the ethical issues.

3.1 .The Study area and Socio-economic data

3.1.2. Location

The study was conduct in Amhara Region North Shewa Zone Angolelana Tera woreda is located at a distance of about 110 km from Addis Ababa 675 km from bahir dare and 17 km from deber berhan. Angoleana Tera is bordered by in the south, Asagert Woreda in the west, kenbebit Werda in the North, Bassona Worana Woreda and Ankober Worda in the east. The Woreda found between ($8^{\circ}56'00''$ - $9^{\circ}44'00''$ N and $39^{\circ}12'00''$ - $39^{\circ}44'00''$ E) (Figure3.1). Chacha is the Woreda center has 19 rural and 2 urban kebeles.



Source: Ethio-GIS (2019)

Figure 3.1 map of study area

3.1.3. Population

The size of population is usually a key demographic data that help to make decision on the demand and supply of urban services, such as solid waste management with in the town. According to the population and housing census of Ethiopia indicated that the Woreda's total population to be in 2020(CSA, 2013). According Angolelana tera woreda administration 100919 from this 51693 are male (51.2%) and 49226 are female (48.8%) out of this total population 13216 (13.1%) where urban inhabitant and 87702(86.9%) are rural inhabitant

3.1.4. Livelihood Strategies

The *Woreda* about 87.9% rural households depends on agriculture for their livelihoods. Mixed farming (crop production and animal rearing) is the major household economic activity in the area. Most of the people in the area are engaged in mixed agriculture. Crop cultivation and livestock production are practiced. Crop production is entirely rain fed, except in very specific and small areas where potatoes, vegetables and fruits are cultivated based on traditional and small-scale irrigation. There are two rainy seasons, *Kiremt* and *Belg*, and they are used for the cultivation of long cycle crops and in urban settlement main economic activities are mostly related to urban agriculture, trade, selling and buying agricultural products, retail trade of consumable goods, and products of micro and small scale enterprise like wood, metal works are familiar.

3.1.5. Basic infrastructure

According to Angolelanatera *woreda* administration regarding distribution of towns, schools, and health services, Angolelana *tera* *woreda* has two towns only/*chacha* and *kotu*/. According to *Woreda* education, office has schools of which 47 are primary and two secondary school respectively. Health office also indicates that the *Woreda* has 21 health care and 4-health center distributed in the *kebeles* (WHO, 2018). In addition, the area has 13 veterinary posts with very limited service to *Woreda* population. Amhara credit and saving institution is the only one institution who serves credit for the communities, many of the rural areas in the study area are not well integrated with all-weather roads most the road is trial and dry weather season road.

3.1 .6.Topography

The topography of the *Woreda* more characterized by high 86 % plane ,10 % up raged and 4 % mountain .The altitude of the varies from 1385m to 3500 m above mean sea level which gives altitudinal difference of the town by 2115 m.The highest place in the *Woreda* is Gubegna found in *kitalegn kebele*

3.1.7. Climatic condition

Based on the climate classification used in Ethiopia, of Angolelana tera Woreda characterized as Woina-Dega 13%, Dega 85% and kola 2%. The mean annual temperature of monthly highest and lowest temperature is 20.9°C and 10 °C and the mean annual precipitation 900-1000 mm with unimodal characteristics regime.

3.2. Research approach/ Design

The study was employed a combination of descriptive and explanatory types of research. The reason for using descriptive type of research in this study is to describe the existing phenomenon of the issue under study. Descriptive research is important to provide an accurate depiction of a given phenomenon or experience (Kothari, 2004). Explanatory type of research was also being applied in this study in order to answer why certain phenomenon is happened in relation to the issue of study. Explanatory research is important to explain why a certain phenomenon is happening in a particular (Kothari, 2004).

A research design is a definite plan determined before any data are actually collected for obtaining a sample from a given population (Kothari, 2011). For this study, a mixed methods research approach was employed. Mixed methods enable the researcher to collect both qualitative and quantitative data simultaneously or sequentially to have the necessary data concerning the research problem under inquiry. Mixed methods provide a better solution to the problem and the research questions (Shekhar et al., 2018).

3.3. Data sources

In order to achieve the objective of the study both primary and secondary data sources were employed. Primary data were generated from questionnaire, interview and complemented field observation. Secondary data were collected from available sources of information such as published and unpublished documents. This includes data from governmental offices, central statistical agency, published articles, and journals.

3.4. Sampling techniques and sample size determination

A sampling technique is the specific process used to select study participants or respondents (Saunders, Lewis & Thornhill, 2016). Types of sampling techniques fall into two categories. These two categories are probability and non-probability sampling techniques. In probability

sampling, all the elements have an equal chance of being selected, while the same does not apply for non-probability sampling techniques. Nonprobability is more suited when other factors other than time is more important than generalizability (Sekaran & Bougie, 2013). Non-probability sampling techniques include purposive, and convenience sampling. The study employed probability-sampling techniques. Examples of probability sampling technique include, simple random, systematic, stratified random, cluster and multistage sampling. Stratified random sampling technique was used to select respondent population into various strata, and to pick the individual respondents who participated in the study. Stratified random sampling is a technique, which attempts to restrict the possible samples to those, which are less extreme by ensuring that all parts of the population are represented in the sample to increase efficiency (Lucas & Donnellan, 2012). In stratified sampling, the population is first divided into disjoint groups. These subgroups, called Strata compromise the whole population (Harwell, 2011). In this study, the strata were the urban, town and rural settlement, chacha from urban settlement kotu from town settlement and chiki from rural settlement. Each stratum, a sample, of pre specified size, is drawn independently in different strata. Then the collection of these samples constitutes a stratified sample. Stratified sampling reduces bias and improves the representativeness of all groups. Stratified sampling is also relatively inexpensive compared to a census, increases accessibility of study population and the speed of data collection (Cooper & Schindler, 2014).

3.4.1 Sample Size

A sample is the actual items or individuals selected for a study whose characteristics exemplify the larger group (targeted population). A sample size is the total number of the respondents picked for the study. Various factors influence the determination of sample size. These include margin of error (confidence interval), confidence level and the proportion that will choose a given answer to a survey question (Aarons et al. 2012). The sample size of the study was determined at a 91% confidence level i.e. the scientifically acceptable degree of accuracy. The Yeman (1967) formula was used. This formula is presented below Equation

$$n = \frac{N}{1+N(e^2)} \quad n = \frac{988}{1+988(0.081)^2} \quad n=132$$

N= the population size, in this case 988

e= level of precision (8.1%);

l= constant value

n=132

The proportion of the respondents will obtain using the formula:

$$n = \sum_{i=1}^n p_i \cdot n$$

Where: n was the sample (132 respondents)

Pi was the proportion of the target population.

For chacha town $(1246/2583) * 132 = 63.67 \approx 64$ household from kotu kebele $(747/2583) * 132 = 38.17 \approx 38$ household and chaki kebele $(589/2583) * 30.09 = 30$ respondent Therefore the study sample is 132 respondents consisting of 64 from chacha 38 from kotu kebele and cheki 30 households. 132 respondents selected using simple random sampling technique.

Table 3.1 sample size

| Kebele | Settlement type | Household head | Sample proportion |
|-------------|-----------------|----------------|-------------------|
| chacha town | Urban | 1246 | 64 |
| Chaki | Town | 747 | 38 |
| Kotu | Rural | 589 | 30 |
| Total | | 2583 | 132 |

Source: (chacha, kotu and cheki kebele administration offices, 2019)

3.5. Data Collection Instruments

To generate the required data, the researcher has used different data collection instruments such as questionnaire, Key Informant Interview and Field observation.

3.5. 1. Questionnaire

Questionnaire was used as data collection instrument and administered by researcher. The researcher prepared both open ended and closed ended questionnaires on the basis of the

objectives of the study. The questionnaires were translated into Amharic. The survey questionnaire covered wide range of information which includes household characteristics, household livelihood, and the factor affecting the productivity level performance of SMES.

A total of 132 respondents from areas were selected using simple random sampling method.

3.5.2. Key Informant Interview

Interview method is particularly suitable for intensive investigation issues. The researcher prepared both structured and semi-structured interview guides and conducted interview with five key informants from different stakeholders including the SMES operators. 11 key informants were selected having from each sector purposively, and in-depth interviews were carried out with from SMES owners/manger (6), Woreda Trade and Industry development office representative (1), woreda technique and vocational industry development office representative (2), Amhara Saving and Credit (1), and Woreda revenue office representative (1) the researcher seek new insights, ask relevant questions, and assess internal and external affecting factor the productivity performance level of SMEs in the study area.

3.5.3. Field observation

Observation of the study kebele was carried out before and during the study period. Prior to collecting data, different sites were visited to know the means of types of SMEs sector, culture, basic social services and topography of the area. Information regarding people's attitude, marketing mechanism, infrastructural activities such as access to feeder roads connecting to the main roads, basic social services such as sources of water and power supply and other basic services were obtained from personnel observation and by talking informally with peoples in their site. Field observation has contributed to substantiate some of the findings of the study.

3.4.4. Secondary data

Secondary data were collected from available sources of information such as published and unpublished government documents. This includes data from governmental office Angolelana trea woreda technique and vocational industry development office, trade and industry development office, Amhara credit and saving institution (ACSI) annual, quarter and monthly reports taken the number of SMEs income level amount of loan government support and other data.

3.6. Methods of data analysis and interpretation

3.6.1. Descriptive Analysis

Descriptive analysis was used to reduce the data in to a summary format by tabulation (the data arranged in a table format) and measure of central tendency mean. The shortcoming of descriptive statistics is that the data may not be useful in making conclusions. It's simply a way to describe our data (Loo, Salmiah and Nor, 2015). Descriptive statistics, therefore, enables the researcher to present the data in a more meaningful way, which allows simpler interpretation of the data in the form of tables, graphs, and bar charts are various ways of presenting data in descriptive statistics. To answer the research questions several statistical techniques were used. These included descriptive statistics namely, frequency distribution and mean. Descriptive statistics involved computing the mean of the statements that reflect on the research questions (Verzuh, 2010).

3.6.2. Inferential Statistical Analysis

According to Sekaran (2000), inferential statistics allows to infer from the data through analysis the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable. The following inferential statistical methods were used in this study.

Inferential statistics are techniques that allow the use of samples to generalize the populations from which the samples were drawn (Firtle, 2013). It is important that the sample accurately represents the population. The process of getting into this is called sampling. Inferential statistics arise out of the fact that sampling naturally incurs sampling error and thus a sample is not expected to defend the population correctly (Cooper and Schindler, 2014).

3.6.2.1. Pearson Correlation

The study carried out Pearson correlation analysis to find out the degree to which the study's linear model would describe the relationship between independent variables (market related factor, management related factor, political legal factor, working related factor, technological related factor,) and the dependent variable, the productive performance level of SMEs.

According to Anastasiadou (2011), Pearson product-moment correlation coefficient denoted as r , measures the strength and direction of association that exists between two continuous variables.

Drawing the line of best fit for two variables is significant and best determined through Pearson's correlation analysis. The best way to have a clue of how near or far the data points are from the line of best fit, the Pearson correlation coefficient (r) becomes handy. That r , helps to show the appropriateness of the regression model. Pearson correlation coefficient r , can take any value from -1 to +1, which depicts a perfect linear relationship, while the -ve/+ve sign only show the direction of the relationship existing between the variables (Amin, 2010). Important to note that when R-value is 0 (zero), it's an indication that a relationship between two variables is non-existent.

3.6.2.2.binary logistic Regression Analysis

Regression analysis is a quantitative research method used in circumstances, which entails modeling and analyzing several variables. Saunders et al (2016) explains that Linear regression its applied in testing the relationship that exist between a dependent variable y , and several independent variable $x_1, x_2 \dots x$.

The equation of binary logistic Regression regressions on this study is generally built around two sets of variables, namely dependent variable (performance) and independent variables (politico-legal, working premises, technology, infrastructure, marketing, finance, and management). The basic objective of using regression equation on this study is to make the study more effective at describing, understanding and predicting the stated variables.

Regress Performance on Selected Variables $Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7$ Where: Y is the response or dependent variable- performance X_1 = politico-legal, X_2 = working premises, X_3 = technology, X_4 = infrastructure, X_5 = marketing, X_6 = finance, and X_7 = management are the explanatory variables. β_0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0. $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ are the coefficients associated with each independent variable which measures the change in the mean value of Y , per unit change in their respective independent variables. Accordingly, this statistical technique was used to explain the following relationships. Regress performance (as dependent variable) on the selected linear combination of the independent variables using multiple linear regressions.

3.6.2.3. Test for Normality

Saunders et al., (2016) explain that normal data is an important underlying assumption in parametric statistical analysis. As such, an evaluation of the normality of data is essential for many statistical tests in a research study. For the purposes of this study, data symmetry was measured through skewness and kurtosis. Kothari (2008) point out that a skewed distribution of a data set when the mean, mode and median are not the same. Kurtosis is when the distribution curve is flat or peaked.

The study used symmetry to measure skewness. Cooper and Schindler (2014) emphasize that lack of symmetry is seen when the score is equal to or greater than ± 1 . The study data did yield acceptable kurtosis scores. The data was checked for normality. In statistics, normality tests are used to evaluate if a data set is well-modeled by a normal distribution and to work out how likely it is for a random variable underlying the data set to be normally distributed (Verzuh, 2010). Normality test compares the scores in the sample to a normally distributed group of scores with the same average and standard deviation; the null hypothesis is that sample distribution is normal (Martinelli, 2010).

3.6.2.4. Reliability Coefficient

Analysis of reliability was done to measure the internal consistency of the test components i.e. the individual questions for each variable of study. This was done by the computation of Cronbach's Alpha coefficient for all items in the questionnaire. The Cronbach's alpha coefficient ranges between 1 and 0 with higher alpha coefficient values being more reliable than the others. According to Richard and Clark (2005), a poll with a good internal consistency should have high alpha coefficients. The results of the pilot study revealed that almost all the variables had alpha values of more than 0.7; which indicated a significant degree of internal consistency.

All items that return a Cronbach's alpha coefficient of 0.7 or more have been considered reliable. Individual items in a device measuring a single construct should give highly correlated outcomes, which would reflect the homogeneity of the particulars. In statistics and research, internal consistency typically measure based on the correlations between different items on the same test (or the same subscale on a larger test). It

measures whether several items that propose to measure the same general construct produce similar scores. Internal consistency is usually measured by Cronbach's alpha, a statistic calculated from the pair wise correlations between items. Internal consistency ranges between negative infinity and one.

Coefficient alpha will be negative whenever there is greater within-subject variability than between-subject variability. Various kinds of reliability coefficients, with values ranging between 0.00 (much error) and 1.00 (no error), are usually used to indicate the amount of error in the scores Cronbach's alpha internal consistency may $0.9 \leq \alpha$ Excellent, $0.8 \leq \alpha < 0.9$ Good, $0.7 \leq \alpha < 0.8$ Acceptable, $0.6 \leq \alpha < 0.7$ Questionable, $0.5 \leq \alpha < 0.6$ Poor and $\alpha < 0.5$ Unacceptable. Retrieved from <https://en.wikipedia.org/wiki/>

3.8 INSTRUMENT DEVELOPMENT

Basically, the instruments were developed based on the objectives of the study and research questions. The principles of questionnaires such as, use simple and clear languages, statements should not be too long and use of appropriate punctuations is also considered when developing the instrument. In addition, interviews can be taken as an instrument to strength the investigation.

3.8.1. Design of the Instruments

The tools were designed in such ways that can strength the viability of the study. The questionnaires were designed both in English and Amharic languages. The purpose of translating from English to Amharic language is to utilize those who cannot clearly understand English language so that respond easily. The interview questions were designed in English language only, because the discussion was in Amharic while making interviews with operators.

3.7. Ethical Considerations

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and consent was secured before the start of distributing questionnaire and asking interview questions. About the right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are reserved confidential thus collective names like 'respondents' were used.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

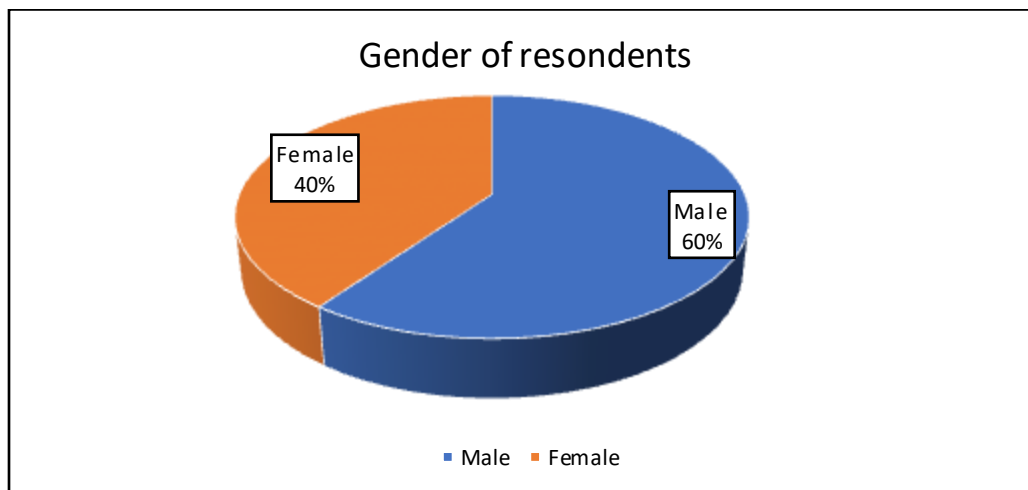
This chapter presents the presentation of data, analysis and interpretation. During the study, questionnaire paper was distributed to collect the necessary data. The data collected from employees using the questionnaire distributed is presented by using descriptive statistics. The employee demographic characteristics such as gender, age, education level, and job category and service year as below presented.

4.1. Demographic Characteristics of Respondents

This part commences with the analysis of the demographic data gathered from the respondents using chart, pie chart, graph, frequencies and percentages. Accordingly, the general respondent's characteristics including: sex, age, marital status, educational level and work experience are presented in figure below

4.3.1. Sex of respondents

As shown on Figure 4.1.out of the total 132 HHs 64 respondent from chacha ,38 respondent from cheki and 30 respondent from kotu both females and males are operating in SMEs at different positions as owners, managers or employees. However the percentage of their involvement in such enterprises is not equal.



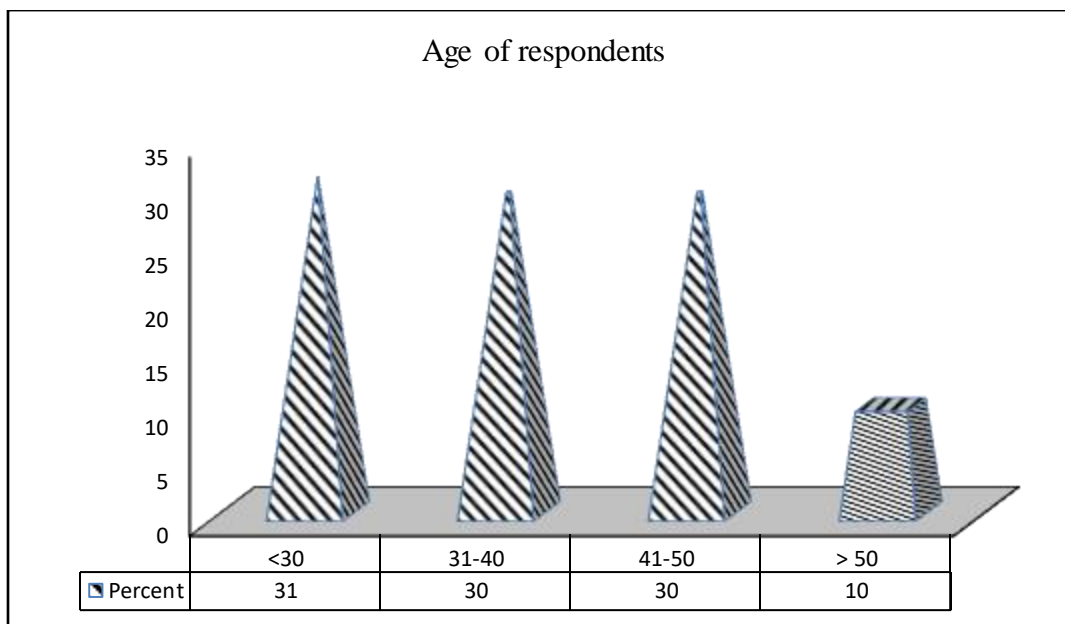
(Source: Filed survey 2020)

Figure 4.1. Gender of respondent

The study found out that gender distribution of the respondents showed that male SMEs representing 60 % of the entire population of 100 and the 40% representing female SMEs.

4.3.2 Age of respondents

As shown on Figure 4.2 out of the total 132 HHs 48 %house hold heads were from *Chacha* which is situated in *urban settlement* 29 % of them from *Cheki* which is *rural settlement* the remaining 29 % respondents were from *Kotu* which has *town settlement*. Different individuals with different age groups can join similar or different work environment enterprises can involve in working either individually or cooperatively for the objective of getting bread to survive and to be millionaires instead of sitting and waiting hand others.



(Filed survey 2020)

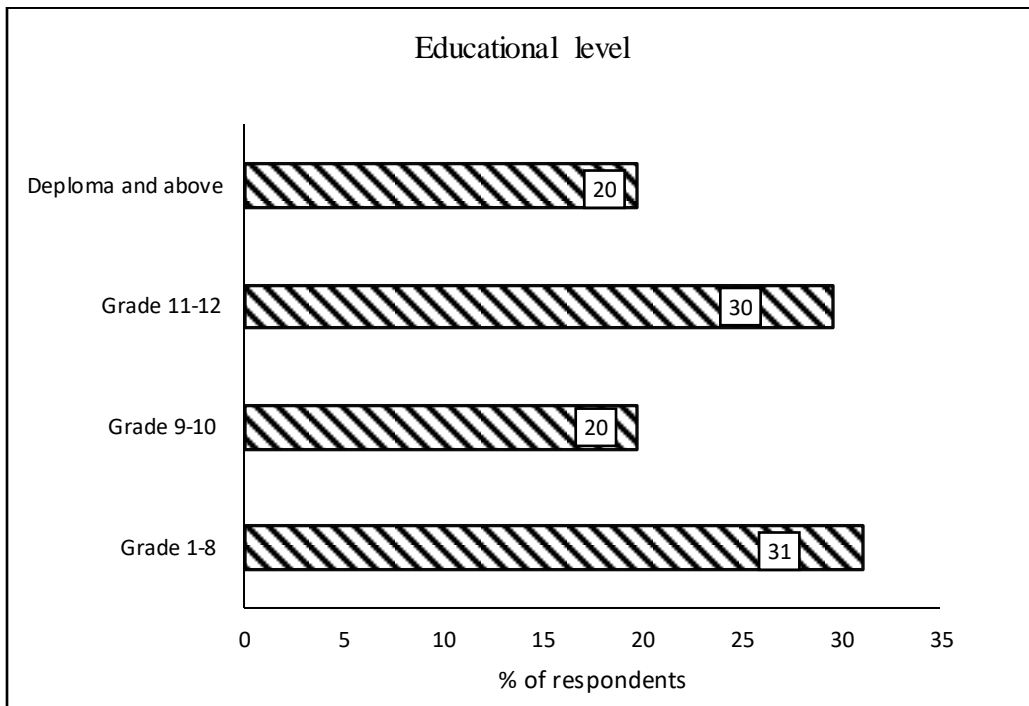
Figure 4.2 Age of respondents

As per the above Figure 31 % of the respondents were below 30 years, 30 % were between 31-40 years, 30 % were between 31-40 years and 10% were between 41-50 years. This implies that those aged below 30 years include a massive Proportion of SMEs.

4.3.3 Educational status of respondents

Some business owners are highly educated and extremely successful whereas others have yet to complete their high school but are equally successful. In many instances, it may depend on the

individual or SMEs. Nevertheless, education level can have an effect on the performance of a business as noted in other studies (berhanu 2018). A reason for assuming it would do so that education is Improves training and social and communication skills and provide the skills set and knowledge, which can help owner/managers with tools, like technology adaptation, which helps to increase productivity and success.



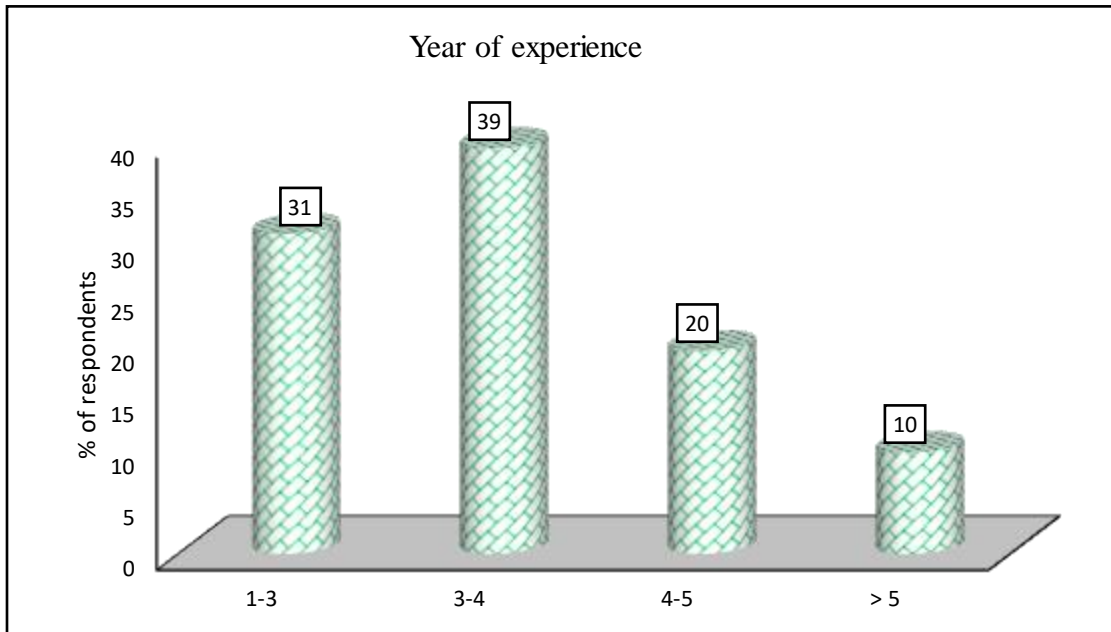
(Source: Filed survey 2020)

Figure 4.3.Educational backgrounds

Related with qualification, 31 % of respondents indicated that had 1 -8 were primary school completed of education, 20 % of respondents they were 9-10 secondary school 30 % of the respondents were preparatory completed and 20 % respondents were above diploma graduates . According to Mohan (2013). education would help owner/managers to integrate relevant information to do effective planning and to make well-informed decisions, which would ultimately enhance the organization’s success’ .The result show that the respondents had attained different levels of education and affect the management levels hence the higher education level attained by the business man the more make better decisions to grow the business.

4.3.3 Year of experience

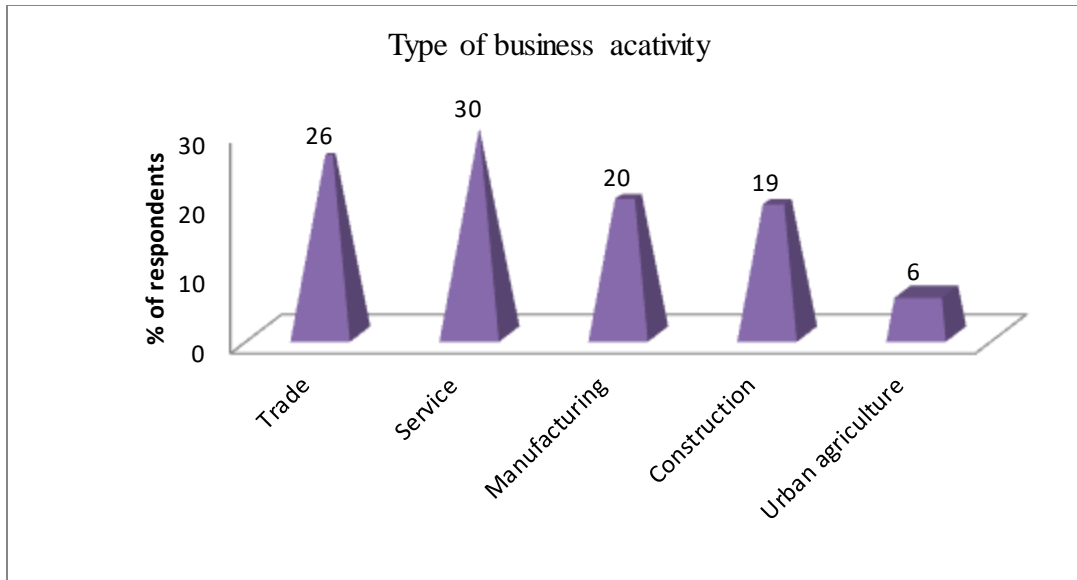
Earlier to starting their businesses, entrepreneurs are involved in a number of different fields of work and for a variety of reasons such as want, independence, and family commitments decide to open their own businesses. There are also a number of individuals who have absolutely no experience in a given field, but start businesses nevertheless. Because prior business experience is useful training to both a prospective entrepreneur and to that person's prospective employers, the empirical effect of such experience on business success is not entirely unambiguous.



(Source: Filed survey 2020)

Figure 4.4 .Year of experience

Figure 4.4 has shown the operation for 1- 3 years, Majority 39% respondents for between 3-4 years, 20% had being in operation for 4-5 and 10 % were above 5 years. The researcher confirms that the SMEs had worked their business within the market for a long period of time is more informed and experience that can help them to predict and flexible according the opportunities in the environment, can learn more from the colleagues in planning and in creating relationship with society/customers consuming their products, most respondents of MSEs have 3-4 years in which their experience of year has impact on their business where many studies indicates there is relationship between experience and business performance.



(Source: Filed survey, 2020)

Figure 4.5.Type of business sector

The study found that, the sample businesses were functioning in five sectors of the economy. Most of them are engaged in services 30 % followed by trade 26 %, manufacturing 20% construction 19 % and urban agriculture 10 %. This division of SMES by sector type was believed to be helpful to study each sector critical factors that affect the productivity performance of SMEs. This is because firms in different sectors of the economy face different types of problems. That means the degree of those critical factors in trade sector may differ from the factors that are critical to services, manufacturing, construction and agriculture sectors.

4.2 measurements of productivity performance

4.2.1. The concept of business performance

According to Martin (2010) performance is defined simply in terms of output terms such as quantified profitability. Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (Bidzakin K.J., 2009). The issues that remain unresolved are the goals against which performance should be assessed and from whose perspective the goals should be established (Etzioni, n.d:128).

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

A business enterprise could measure its performance using the financial and nonfinancial measures. The financial measures include profit after tax and income of while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting time and employees' income. To measurement the productivity performance level of Angolelana tera SMEs by using the financial measures taken as the profit after tax and employees' income each member of SMEs.

Table 4.1. The productivity performance level of SMEs in Angolelana tera woreda from 2015 up to 2019

| Indicator | | Years | | | | |
|-----------|---------------------------------|--------------|--------------|------------|-----------|-----------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 |
| <u>1</u> | Total amount of product in BIRR | 9.622,766.14 | 11,181,209.4 | 10,926,368 | 9,063,968 | 8,330,241 |
| <u>2</u> | Total number of workers | 720 | 807 | 782 | 885 | 988 |
| <u>3</u> | Productivity ratio | 13364.95 | 12855.28 | 16529.8 | 10601.13 | 8431.41 |
| 4 | Productivity index | 100 | 116 | 113 | 94 | 86 |

(Source Angolelana Tera Woreda technic and vocational enterprise office)

Table 4.1. Shown that productivity performance increase from 2015 to 2016 but decrease from 2017 to 2019

Productivity index can measure by the initial year 100 then we multiply each year productivity by 100 then finally we divide it by the initial year productivity performance.

$$\text{Productivity performance} = \frac{\text{out put}}{\text{in put}}$$

Whereas output to be taken as Total profit gain per year

In put taken as Total number of work e force

Table 4.1shwn that the trends The productivity performance level of SMEs in Angolelana tera worda starting from 2015 up to2019 (13364.95, 12855.28, 16529.8. 10601.13and8431.41) respectively the result indicated that the number of SMEs increasing from the beginning up to the end but productivity performance decreased because that the presence of different factor arising from internal and externally .this factor enter prate through Descriptive analysis.

4.3 Descriptive analysis

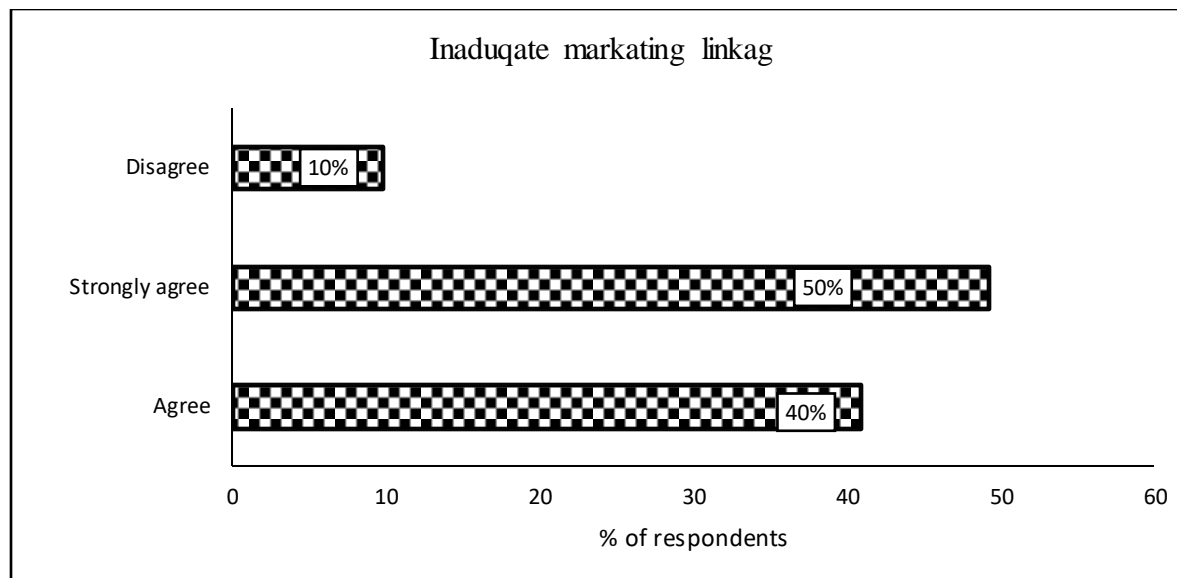
Factor affecting the performance of micro and small enterprise

Respondents were asked different questions concerning those factors affecting the performance of SMES in Angolelan tera Woreda. Their responses are organized in the following manner.

4.3.1. Marketing factor

4.3.1. 1. Inadequate marketing linkages

The external linkages in a value chain among SMEs and other firms between input or raw material supply and final product to market distribution are critical for getting a product from inception to the market, and for transferring learning and embedded financial and business services from one SMEs to another along the chain.



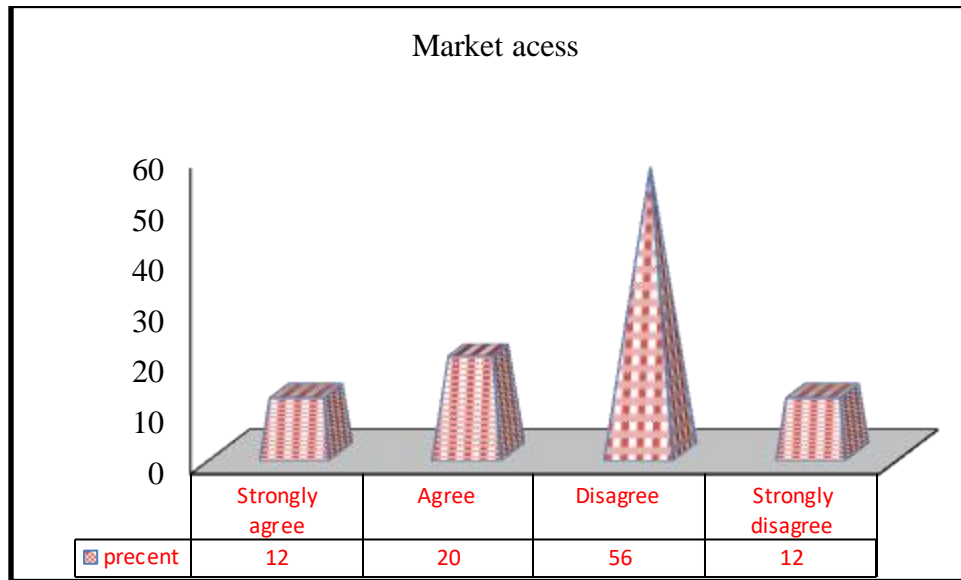
(Source: Filed survey, 2020)

Figure 4.6. Marketing linkage

Figure 4.6. Shown that the 40 % of the respondent agree as they have lack of marketing linkage ,50 % of the respondent also strongly agree had limitation of linkage with external bodies in their business and the remaining 10 % respondents disagree with this limitation in their business; so it indicate that marketing linkage with external bodies in SMEs helps to create relationships between individuals/ society such as those made up of family and friends, professionals or entrepreneurs with similar profiles or backgrounds, successful businesses, with competitors, even linkage between networks in the broader community or connections across different groups who are associated with mobility and especially useful for SMEs trying to overcome regulatory or other obstacles. As it is shown in table 4.6 in the study area SMEs are compared with this advantage of networks and experience of businesses concerning the involvement of external relationship for growth of the profit, they are not the beneficiary of this marketing linkage. Previous study (Birhanu *et al.* 2017), in Efrata Gedam Woreda indicated that decline of productivity performance of SMEs is one of the major factor is Inadequate marketing linkages.

4.3.1. 2. Marketing Access

Access to the market is expected to positively influence the productivity and sustainability of SMEs. This is because SMEs located at closer distance to market have high probability to sale their products and buy inputs and the enterprises can have to be better opportunity to sell their products and disable to get the benefit from the product (Gebrehiwot 2005).



(Source: Filed survey, 2020)

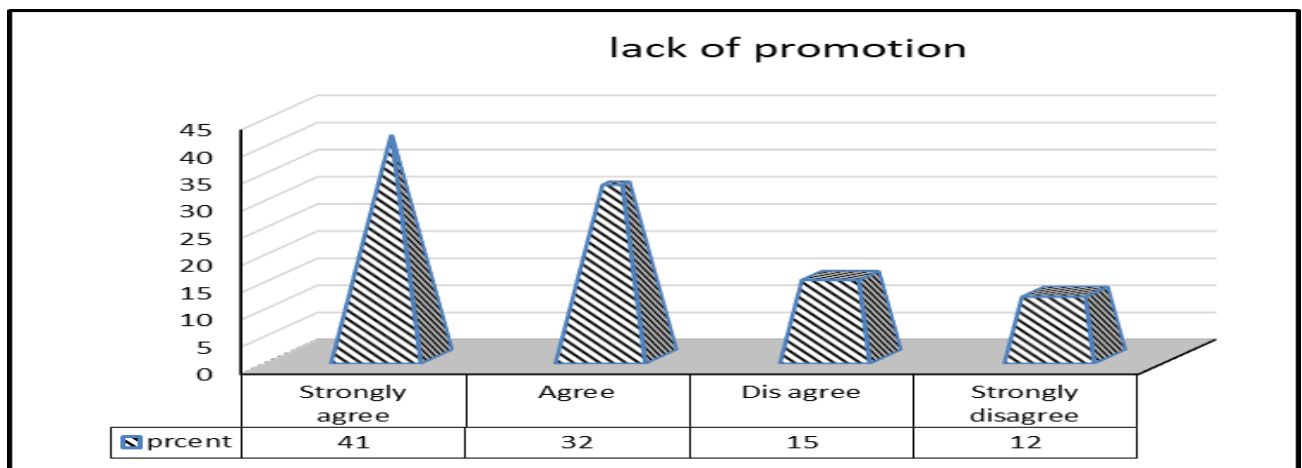
Figure 4.7. Marketing Access

Figure 4.7. Shown that 12 % of respondents strongly agree with market access for their products 20 % respondents disagree, 56 % respondents disagree with access of marketing and 12 % respondents strongly agreed with the issue. Market access adds value by making goods and services available at suitable times and locations, by creating a pleasant environment in terms of location, allowing multiple distribution size, making them more responsive to customers' needs. Therefore, the customers' demand for the product and supply of SMEs mismatched or the market cannot be easily accessible for the products, then the products of the producers sit idle securing up the capital. This implies there is limited market access for the product, the movements of the produced product to the market come slow in which the possibility to get working capital for further productive is contracted and make the business stagnant/stuck rather than actively contributing to productive. Similarly, findings of berhanu *et al.* (2017), in Eferat Gedam Woreda and Kappel, (2010), reported, the factors hindering the potential growth of SMEs in sub-Saharan

countries are limited access marketing affect the productivity of SMEs through immobile good and services.

4.3.1. 3. Lack of promotion

Businesses use different communication activities to inform, encourage and remind the target markets about their business, their products and activities. Advertising, personal selling, sales promotion through participating in exhibitions, trade fairs, and demonstration are promotional mixes that business can use. One of the important ways of expanding market for goods and service for SME is participating on exhibitions.



(Source: Researcher’s Survey 2020)

Figure 4.8. Lack of promotion

Figure 4.8. shown most respondents response they agree with lack of promotion for their products indicating 41% respondents strongly agree, 32% respondents agrees,15 % respondents dis agrees and 12 % respondents strongly dis agree Also the data supported through interview the responses of sample enterprises use informal ways through which individuals announced the location of their business know and informally transmit from one to another about the products of many businesses according to their relationship.

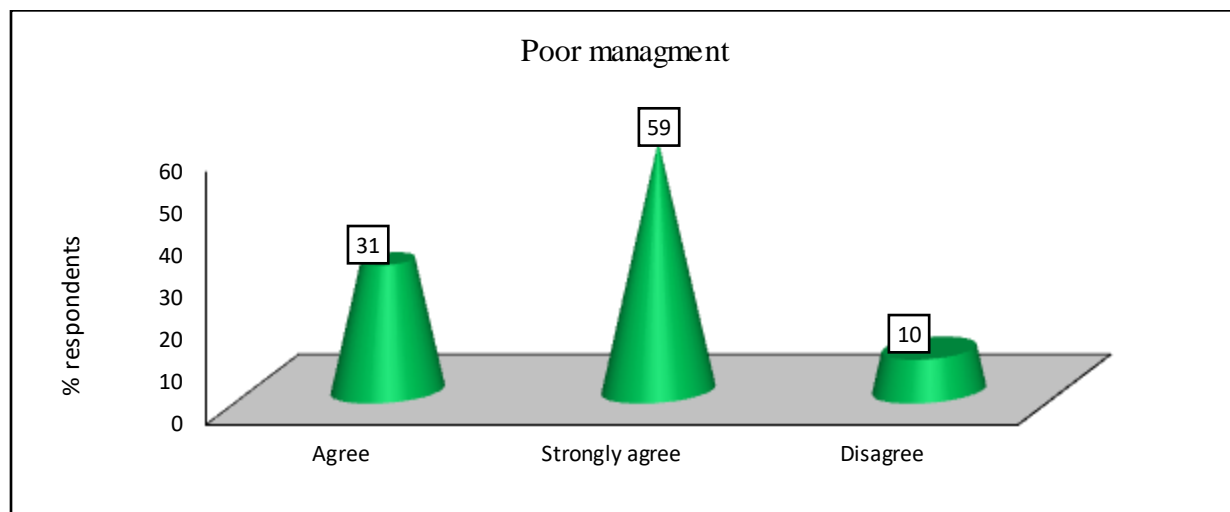
Figure 4.8. Result confirmed with prior studies regarding problems of promotion of SMES especially in Ethiopia (Rahel 2010) which concluded even though enterprises plan to promote their products; however, their budget is mostly tight. In the study area most SMEs

are not using promotional combinations as required in their businesses in which they can make the public around them and other local areas have awareness through different mechanism about their products and service they give to the community.

4.3.2. Management related factor

4.3.2.1. Poor management

In the study area most of SMEs problems are usually characterized as critical success/failure factors as they are internal to the organization and within its control. These problems need immediate managerial actions and include human resources management, business planning, organizing, and directing. The future of small firms depends on the development and maintenance of human resources in which few highly competent people devoted to the task, driven by it, working full time and very hard are the successful once.



(Source: field Survey 2020)

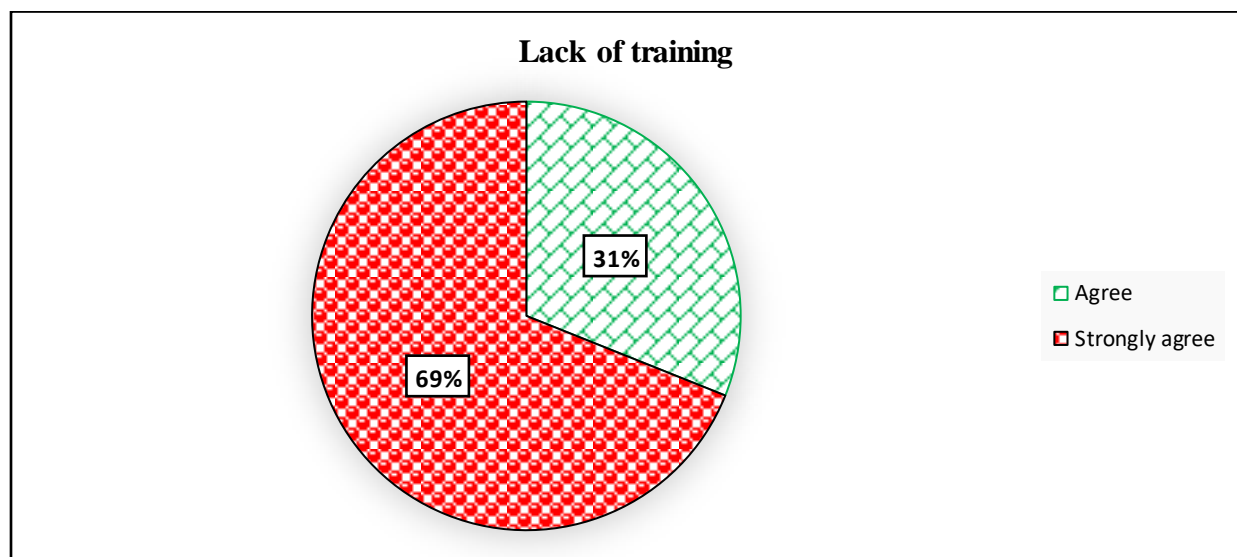
Figure 4.9. Poor management

According to Figure 4.9, show that 31 % of respondents agree and 59 % strongly agree of respondents as poor managements affected their business the remaining 10 %t dis agrees with the issue .result reveals that Most owners/ managers lack sufficient trainings and experience they do not have proper management procedures gives less motivation for others workers to reveal their potential talents in addition to questioner the researcher confirmed through interview Lack of open communication b/n owner/ manager, member of SMEs and employees one cause for

less productivity. Therefore, from the above analysis in the view of the researcher possible to conclude that the problem of SMEs Growth is the poor management style available in the enterprises. This finding supports the findings of Nuno and Santos, (2013) the ability of managers to perform activities has very important bearings on the performance of the business.

4.3.2. 2. Lack of Training

Many MSEs Owners and managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. Management is about using resources efficiently in order to meet the objective of the enterprises. In start-up and early years of small firm, the owner/manager will be responsible for all significant decisions regarding resources needed, their sources, the way they will be used and how they are controlled.



(Source: field Survey 2020)

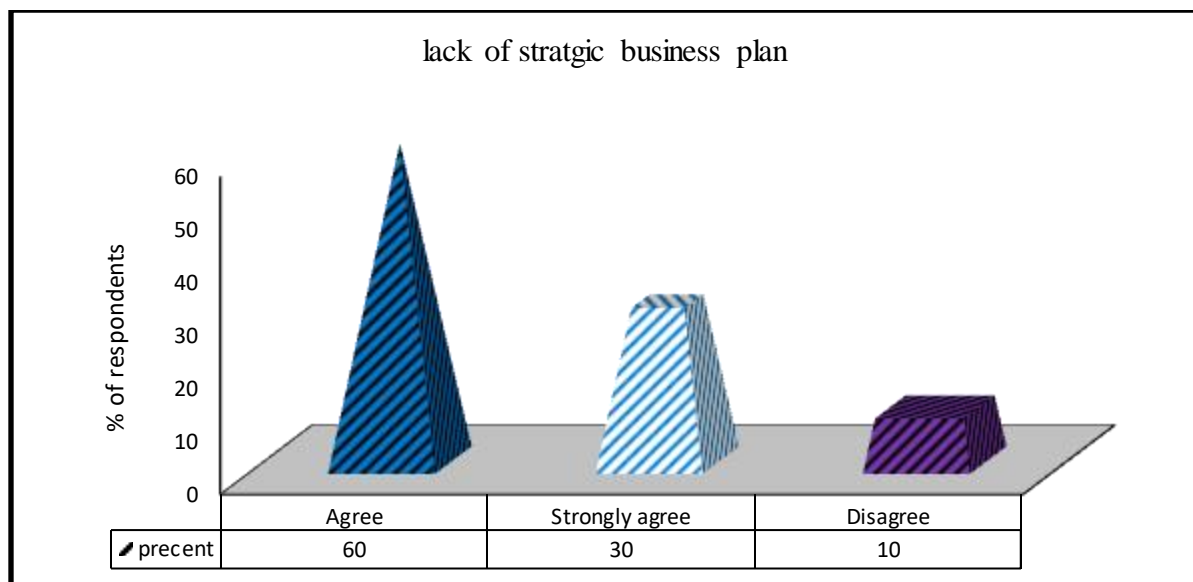
Figure 4.10.Lack of Training

Among the sampled respondents that lack of training opportunity for SMEs, 69 % respondents agreed and 31 % of the respondent strongly agreed and in addition to that the researcher confirmed through interview most of SMEs Owners mostly depend on their own resources and experiences as well as those of their families and friends even the prior training during star-up, operation are too complex , trainees, trainers are not qualified and promised from government and practically available in the enterprises is mismatched. Accordingly, the above data the

researcher conclude that the employees working in MSEs mostly have no prior multi –skill trainings even though they are forced to work instead of covering others duty without full range of knowledge and confidence that bring variation on quality of an output.

4.3.2. 3. Lack of Prepare strategic Business Plan

Planning critical for businesses to have comprehensive business plan around full range of planned activities and detailed expectation for an established enterprise relating to operation, marketing, financial and managerial considerations. This plan launches an entire business’s expansion requirements tend to write formal business plans to get external funding. Many SMEs fail because of fundamental shortcomings in their business planning.



(Source: field Survey 2020)

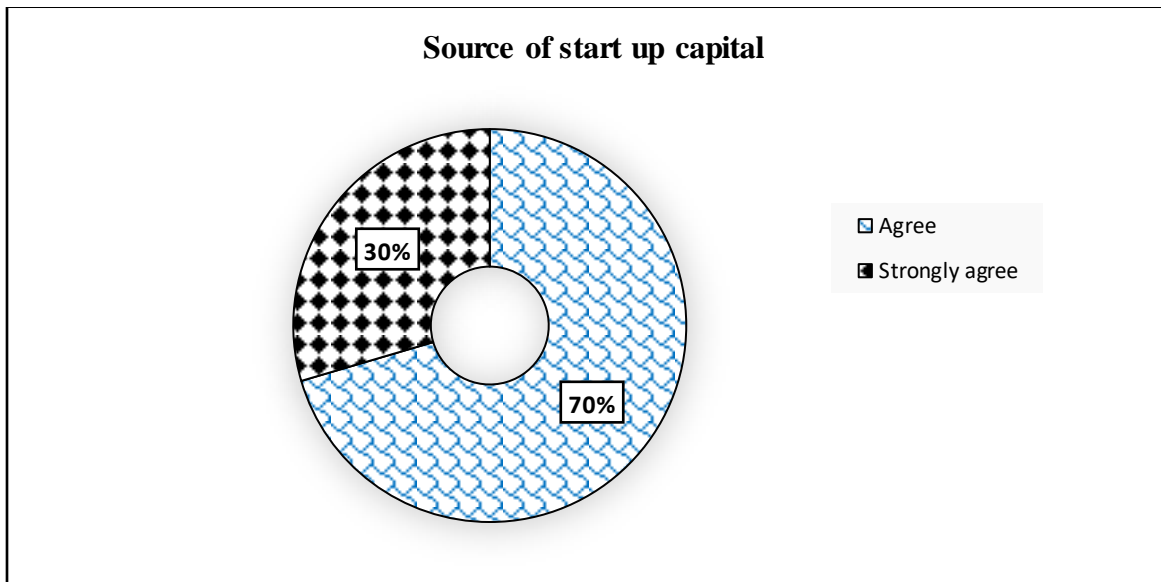
Figure 4.11.Lack of Prepare strategic Business Plan

According to the respondents response 60 % agree, 30 % strongly agree and 10 % dis agree as they have lack of knowledge in preparing and providing convincing business plan when they need external loan for banks and financial institutions. This has an implication of most of the SMEs haven’t such deep information and knowledge to prepare this business plan as requirements in getting loan.

4.3.3. Financial factor

4.3.3. 1. Source of startup capital

Finance is one of the critical requirements for start-up, growth of business SMEs even though different SMEs most of the times fail to distinguish between long and short term financing needs and to find appropriate sources. Thus, as individuals cannot join businesses with empty mind, they also need have some sources of finance that helps them to start the business. The sources of this finance can differ from one another depending on different factors. Major possible financial sources of start-up of businesses in the study area, informal sources were the highest in the past for different individuals working as private and cooperative .Figure 4.12.Shows the major source of initial capital of these enterprises.



(Source: field Survey)

Figure 4.12.Source of startup capital

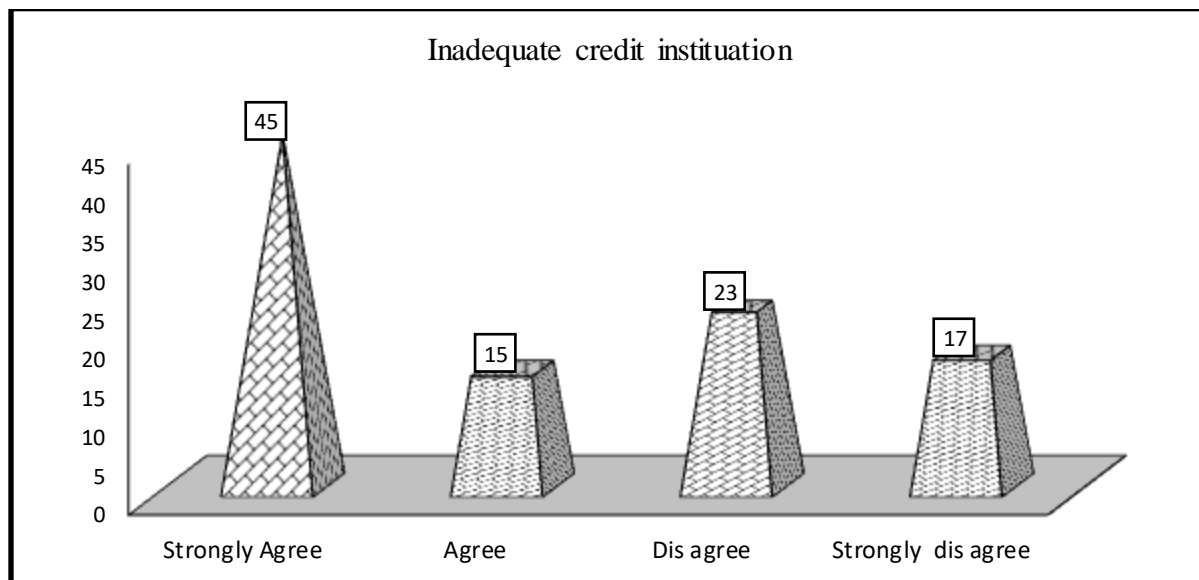
Based on the information on the above figure 70 % of respondents are agree with lack of source of startup working capital and 30 % of them strongly agree with this problem.SMEs are affected more severely by initial capital constraints. The above data the researcher collected information from SMEs representative for various reasons lack of starting up working capital ranging from lack of collateral and limited credit facility from government budget and a single

Micro Financing Institution ‘ACSI’ provides the loan for individuals for expansion purpose when fulfilling the criteria required by the institution. SMEs have also inability to fulfill the acceptable collateral requirements like fixed assets such as residential houses and vehicles.

The result show the main sources of startup and expansion finance or funds for most SMEs are personal savings followed by, family and friends/relatives for those can fulfill the requirements. Previous studies by Etsegenet(2010) and (Mulu,)2009) show that informal financial source, especially personal saving and loan/assistances from relatives or friends, are a major source of initial capital for about 75% of their sampled SMES operators.

4.3.3. 2. Inadequate credit institution

SMEs who have an opportunity of accessing credit would build their capacity to produce more through purchasing of machine inputs. Credit some time used directly to purchase tool for production when SMEs faces shortage of cashes. During the start-up obstacle is overcome, a lack of credit frequently factor growth during SMEs’ earlier years, because undeveloped SMEs tend find financing even more difficult than older SMEs Andy (2007). Over the life of the SMEs, growth can also be hindered by credit factor that limit investment to maintain or improve technology.



(Source: field Survey, 2020)

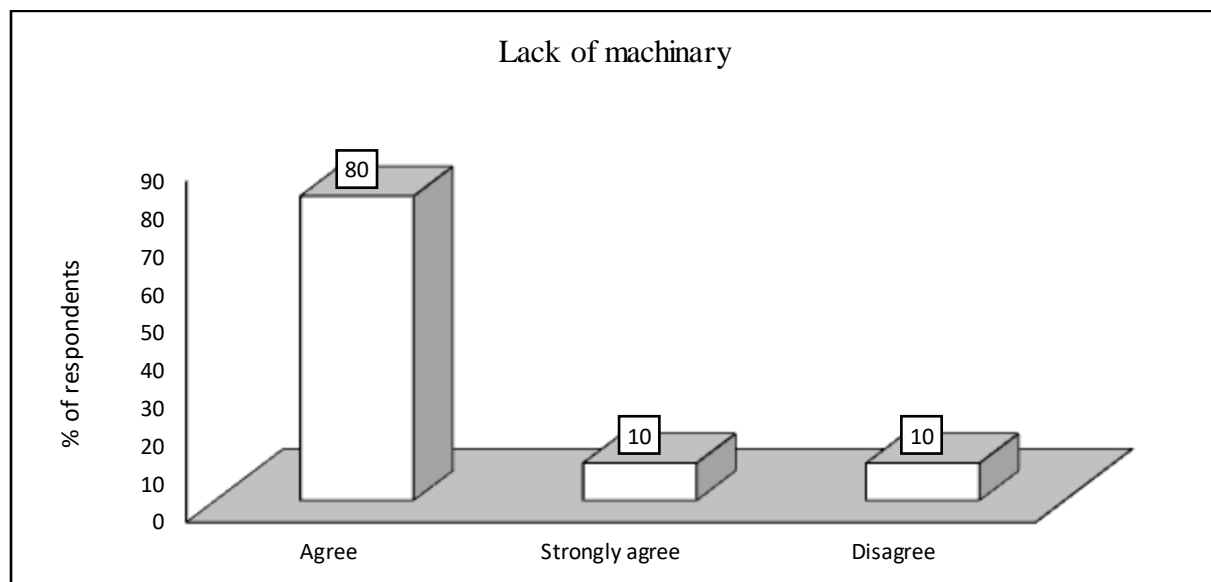
Figure 4.13. Inadequate credit institution

As shown in table 4.13 the result response 45 % respondents strongly agree, 15 % respondents agree, 23 % respondents dis agree and 17 % respondents strongly dis agree respectively. The survey results and key informants interview shows that that that most of respondents of the agreed credit institutions are not adequately available major barriers and constraints to productivity. according to Woldehanna et al., (2009) stated that formal money lending institutions have so far failed to produce innovative, affordable and user friendly financial services with a particular view to assist the struggling SMEs sector in Ethiopia.

4.3.4. Technological factor

4.3.4. 1. Lack of machinery

SMEs engaged in technological innovation, adoption and modification are not active in trying to adjust to changing demand condition by investing in skills and to go in line with change market need (Mulu, 2009).



(Source: field Survey, 2020)

Figure 4.14.Lack of machinery

Figure 4.14.Shown that, lack of appropriate machinery and equipment is the main problem of SMEs engaged in different work processing. The response of respondent agreed 80 % respondents strongly 10 % respondents and 10 % respondents dis agree respectively. According to the researcher field observation SMEs used some working machines, equipment's and tools, most of which were purchased. According to the interview with the operators, the financial

source to purchase equipment's and materials were obtained from informal sources (personal saving and family or relative). The operators indicated that the presence of these machines, tools and equipments has allowed the operators to produce products. According to some interviewees of specially sector like milk, metal and wood processing sector, they lack money to acquire new technology (equipment, machinery, tools, etc.). Moreover, respondents replied that, if new and appropriate technologies obtained, the presence of them will result in performance improvement. From the above analysis the researcher concludes lack of appropriate machinery and equipment is the main problem source financial constraints.

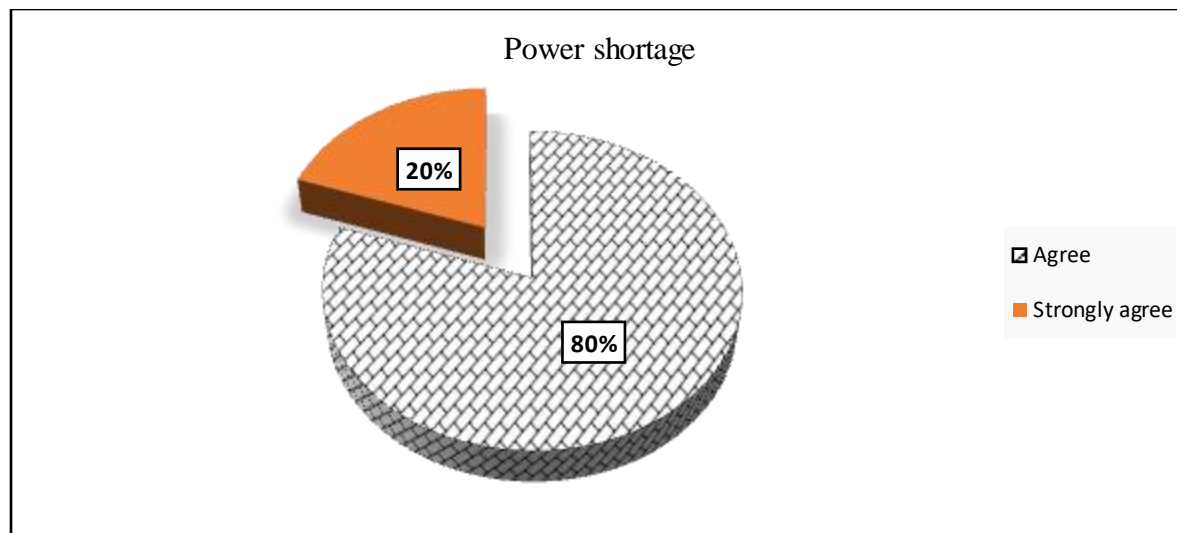
4.3.5. Infrastructural factor

As SMEs increase, they generally demand more infrastructure services, consuming more energy and water, producing more waste and travelling more frequently and longer distances. Increased production will also tend to require more infrastructure services as inputs to the production process although the composition of demand will depend on which industry sectors grow most

The availability of infrastructural facilities is essential and ingredients for business growth and expansion. Thinking growth without infrastructure is ideal and looks like a dream that is vanity and striving after wind. For most of SMEs their work is tied with these infrastructures and if it is unavailable even for minutes they forced to stop their production or service deliver Because, there are no other substitutions of infrastructure to these enterprises to use instead of like electricity, water, and, road etc.

4.3.5. 1.Power shortage /interruption /

most of SMEs their work is tied with these infrastructures and if it is unavailable even for minutes they forced to stop their production or service deliver Because, there are no other substitutions of infrastructure to these enterprises to use instead of like electricity. According the Angolela Trea Woreda administrative office has many customers of power service consisting of individual house hold units, government offices, SMEs and other investor and NGOs. In the study area at present there are about 703 (27%) SMEs housing units have electric meter.



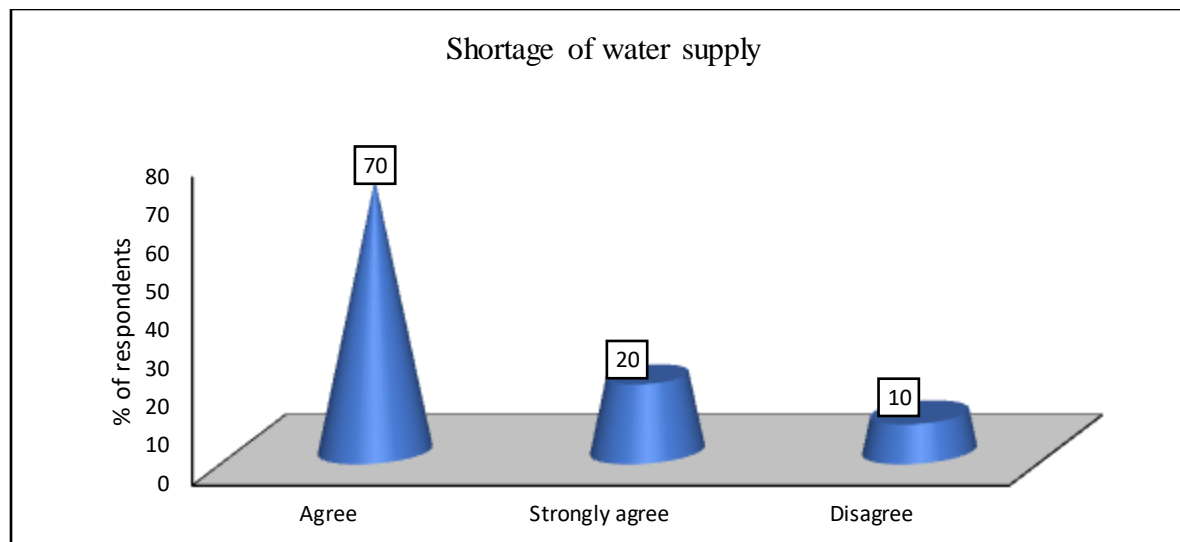
(Source: Filed survey, 2020)

Figure 4.15. Power shortage /interruption

Figure 4.15. shows that the majority of the respondents about agree 80 % was response of enterprise that power interruption and the remaining 20 % of respondents strongly agree power interruption. The table shows that insufficient and interrupted power supply affect the performance of SMEs specially engaged in wood and metal work, barberry, milk pressing and other sectors those high demands of electric power in the selected area. From the above result concludes that most of the respondents agree on power shortage high contribution of affect the peroductivity of SMEs in the study area.

4.3.5. 2. Shortage of water supply

Safe drinking water according to CSA (2012) means tap inside the house or in the compound, private, shared or communal, water purchased from a kiosk, acquired from a protected private or shared well. Unsafe water means unprotected well, water from a river, lake or pond or other unspecified sources.



(Source: Researcher's Survey 2020)

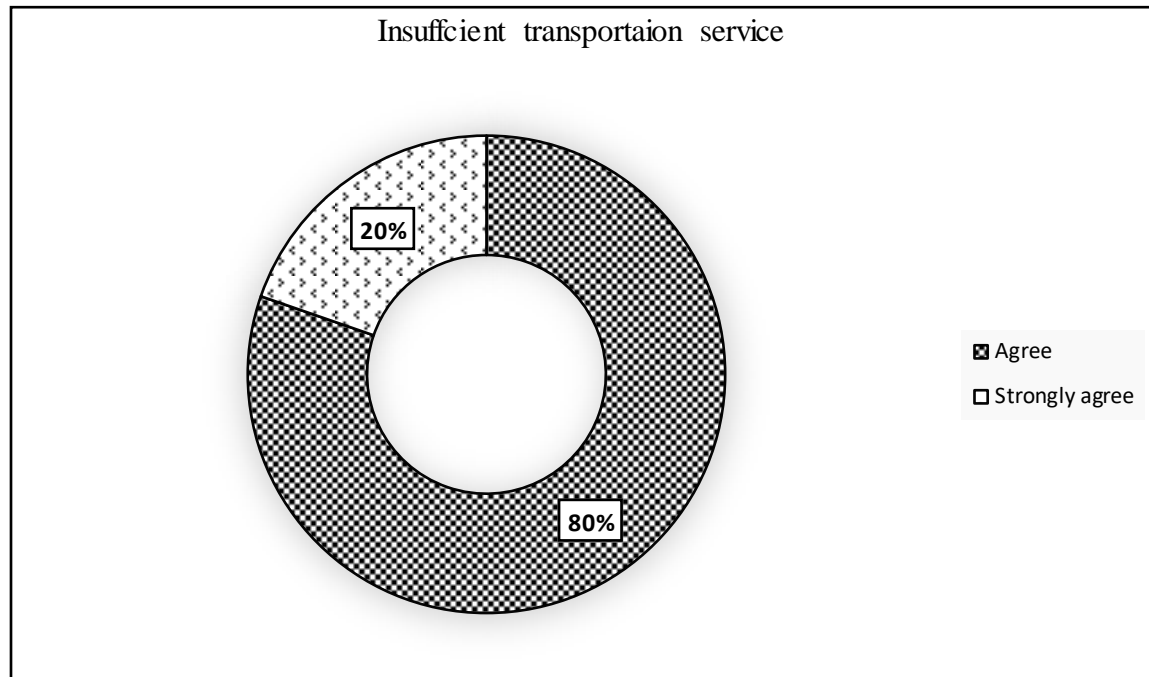
Figure 4.16. Shortage of water supply

The figure 4.16 shows that, according to respondent's response shortage of water supply 70 % respondents agree 20 % respondents strongly agree and 10 % respondents disagree. It indicates that shortage of water supply affect the productivity performance level of SMEs. According to the data collected from Angolelana tera worda water and energy office pipe water introduced in 1999 E.C and 2000 E.C chacha and kotu accordingly also cheki public tap in 1998 and coverage of water supply chacha 76.76. % kotu 55.3% and cheki 41.7% Source of the water supply is spring with discharge capacity of 5.5, 3.2 and 1.8 liter per second at the beginning and which is still in use, but it does not satisfy water demand of the community . So some peoples are forced to use other water sources, like spring and river found to around them for wash and constricton purpose. From the above analysis the researcher concludes that there shortage of water supply in the study area .The result is similar to Eden, (2014) study on challenges facing SMEs in South Africa.

4.3.5. 3. Insufficient transportation services

Concerning transport facilities, access to affordable and appropriate transport is of paramount vitality in expanding the employment opportunities of the urban poor who need inexpensive access to areas of economic and commercial activity. Equally, the importance of physical capital especially infrastructure in enabling people to access, and directly support, income-generating

activities is well recognized by writers on urban livelihoods such as Rakodi (2012:22).



(Source: Filed survey, 2020)

Figure 4.17. Insufficient transportation services

According to figure, the respondents response indicates highest percentage with agreed as there are insufficient transport infrastructures in the study area with 80 % and followed by 20 % respondents strongly agree. This indicates Most of the enterprise lack sufficient transport services for production and delivery of goods and service from the production area to distribution.

4.3.6. Political legal factor

4.3.6. 1. Tax related factor

The sources of revenue are further classified in to income from taxes, income from service charges, and income from property sales, and miscellaneous revenue sources. According to the revenue office; the main sources of revenue in in the study Area are property tax, income tax, and service charge and in rare case miscellaneous revenue sources are common. Among them property tax takes greater share

Table 4.2. Tax related factor

| Type of business activity | Tax and levies is high | | Mean | X ² |
|---------------------------|------------------------|----------------|------|----------------|
| | Agree | Strongly agree | | |
| Trade | 29 | 21 | 26 | |
| Service | 16 | 50 | 30 | |
| Manufacturing | 33 | - | 20 | |
| Construction | 16 | 23 | 19 | |
| Urban agriculture | 6 | 6 | 6 | 30.544*** |

***Significant at 0.01 level
(Source: Filed survey, 2020)

As shown above the table, enterprises engaged in trade, services, manufacturing, construction and urban agriculture sector, agreement of almost all of the respondents of the five sectors agreed with on the tax levied on their business is not reasonable the calculated means of 26, 30, 20, 19 and 6 respectively. The researcher also confirmed that through interview from the SMEs and Angolelana Tera worda revenue office representative the tax levied on all SMEs the same amounts of tax and unfair tax discourage the productivity and statically significant at=0.01 level.

4.3.6. 2.Lack of government support

Government and other public sector agencies at both Woreda and local levels (such as various Woreda, and Keble SMES Development Agencies etc.) support through Follow-up and continuous discussions with concerned bodies, value chain, appropriate training modalities and holistic ways for productivity of SMEs

Table 4.3.Lack of government support

| Type of business activity | lack of government support | | | Mean | X ² |
|---------------------------|----------------------------|----------------|----------|------|----------------|
| | Agree | Strongly agree | Disagree | | |
| Trade | 29 | 28 | - | 26 | |
| Service | | 67 | 100 | 30 | |
| Manufacturing | 33 | - | - | 20 | |
| Construction | 31 | - | - | 19 | |
| Urban agriculture | 8 | 5 | - | 6 | 101.651*** |

***Significant at 0.01 levels

(Source: Filed survey, 2020)

Based on the information from the above table the respondent response Summarized lack of government support for SMEs doing their activities the mean value 26, 30, 20, 19 and 6 from the sector of trade, services, manufacturing, Construction and urban agriculture respectively. MSEs doing their activities there are factors that they cannot control by themselves and the support services to SMEs from government cover both financial and non-financial involvements provided to enhance the productivity performance of the sector. Thus, depending on the data collected through questionnaires and interview and, analyzed accordingly, the productivity performance of the MSEs are constrained by government related supports like lack of providing working premises and adequate infrastructure, Working premises and infrastructures are central to business operations in decreasing initial and operating costs and not to walk properly in competition and directly or indirectly block the grow

4.3.6. 3.Lack of right business location

Facilitation of working premises enables both the newly upcoming enterprises and the existing one those want to change to better location, and in the same token those which attained higher capital and showed progress need such facility for expansion purpose.

Table 4.4.Lack of right business location

| sector | lack of right business location | | | Mean | X ² |
|-------------------|---------------------------------|----------------|----------|------|----------------|
| | agree | strongly agree | disagree | | |
| trade | 34 | 21 | - | 26 | |
| service | - | 75 | - | 30 | |
| Manufacturing | 39 | - | - | 20 | |
| Construction | 19 | - | 92 | 19 | 138.411*** |
| urban agriculture | 7 | 4 | 8 | 6 | |

***Significant at 0.01 level

(Source: Researcher's Survey 2020)

Based on the information from the above table the respondent response lack of provision of right business location indicates the mean value 26, 30, 20, 19 and 6 from the sector of trade, services, manufacturing, Construction and urban agriculture respectively. This data entirely implied that

lack of provision of right location indicates the highest mean value in which has considered as potential effect on the productive performance of the enterprise and Significant at 0.01 levels. From the above table 4.4 to conclude that there are other problems faced directly or indirectly related with site of business and affect the growth of the enterprises like: poor access to infrastructures that have several consequences on income and productivity of SMEs. It also discourages mobility, few units' wants move out of their current location perhaps due to lack of choice. Obviously this means there is an opportunity for additional investment to improving the business.

4.3.7. Working Place factor

4.3.7. 1. High Cost of house or working place rent

Working Premises of Enterprise One of the desires of most participants in SMEs is to save on costs and this includes saving on rental; for them higher disposable income now is more important than a better quality premises or working space.

Table 4.5. Cost of house rent

| Cost of house rent | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------------|-----------|---------|---------------|--------------------|
| Agree | 93 | 70 | 70 | 70 |
| Strongly agree | 39 | 30 | 30 | 100 |
| Total | 132 | 100 | 100 | |

(Source: Filed survey, 2020)

Table shows that the response of respondents indicated with 70 % respondents agree and 30 % respondents strongly agree high Cost of house rent. In addition interview conducted with SMEs manager /owner operator of all sector was confirmed that, worked in rented house and high rental charges have slow down the performance of their businesses and higher than the capacity to pay. Similarly, in an interview conducted with head chacha, kotu and cheki kebele

administrative and enterprise office representative was confirmed this idea. According to obtained from interview and field survey that high rent of house is resulted from absence of own premises to run business. Similar findings from Birhanu (2017 *et al.*, showed that cost of house rented is one of major factor of productivity of SMEs.

4.4 .Correlation and Regression Analysis

4.4 .1. Correlation analysis result

Correlation is quantitative estimation of how two variables oscillate between each other. When two variables increase or decrease in parallel then the correlation is said to be positive. However, in the instance where a variable decrease as the other increases, then the correlation is said to be negative. Correlation analysis was done to measure the strength of the linear association between the dependent and independent variables, as shown in table 4.6. The Pearson correlation coefficient, r , values range from +1 to -1 that is coefficient r can show either a negative or positive relationship.

The results of correlation analysis between the productivity performances level SMES indicated that these variables are negative and positively correlated (table 4.6). The results for Pearson Correlation test showed that there was a negative correlation between productivity performance level SMEs and, market related factor, management related factor, technological factor, Working factor and financial factor and productivity performance level SMEs, $r = -.159, -.153, -.181, -.191^*$ and $-.100$ statically level at $p=0.01$. Finally, the results for Pearson Correlation test showed that there was a positive correlation between political and legal factor and productivity performance level SMES, $r = .116$. The reason that currently the government policy highly focuses to solve the problem of unemployment and reeducation of poverty the best strategies are SMES that means most of the poor and unemployed person participate in the enterprise and generate income.

Table 4.6 Correlation analysis result

| | Productivity performance | Market factor | Management factor | Technology factor | Working factor | Political leg factor | financial factor |
|-------------------------------------|--------------------------|---------------|-------------------|-------------------|----------------|----------------------|------------------|
| Productivity performance level SMES | Pearson Correlation | -.159** | -.153** | -.181** | -.191* | .116 | -.100** |
| | Sig. (2-tailed) | .003 | .002 | .000 | .028 | .186 | .000 |
| | N | 132 | 132 | 132 | 132 | 132 | 132 |

Source: Filed survey,2020

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

* . Correlation is significant at the 0.05 level (2-tailed).

4.4 .2 .Testing for Normality

To check the normality of the data set for the productivity performance level SMES, descriptive values such as skewness and kurtosis were generated. The scores revealed the presence of both positive and negative skewness, even though there was no case of excessive skewness in the data since the values were within the range of -2 to +2. The values for kurtosis were within the range of -7 to +7, and therefore did not portray excessive kurtosis

Table 4.7 Descriptive statics

| | N | Skew ness | | Kurtosis | |
|------------------------------------|-----------|-----------|------------|-----------|------------|
| | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| Financial related factor | 132 | -.745 | .211 | 1.371 | .419 |
| Management related factor | 132 | .149 | .211 | .253 | .419 |
| Marketing related factor | 132 | .139 | .211 | .575 | .419 |
| Political and legal related factor | 132 | -.533 | .211 | .654 | .419 |
| Technology related factor | 132 | -.354 | .211 | -.397 | .419 |
| Work related factor | 132 | -.185 | .211 | .450 | .419 |
| Valid N (list wise) | 132 | | | | |

Source: Filed survey, 2020

4.4 .3. Testing for Linearity

To establish that the relationship between the productivity performance level of SMEs and the factor (marketing, financial, management, political and legal, infrastructural, technological and working related factor) linear, linearity test was done and the results indicated in Figure 4.18. The results showed that all the variance inflation factors (VIF) were below 10. This clearly indicated that the relationship between the productivity performance levels on SMES was linear.

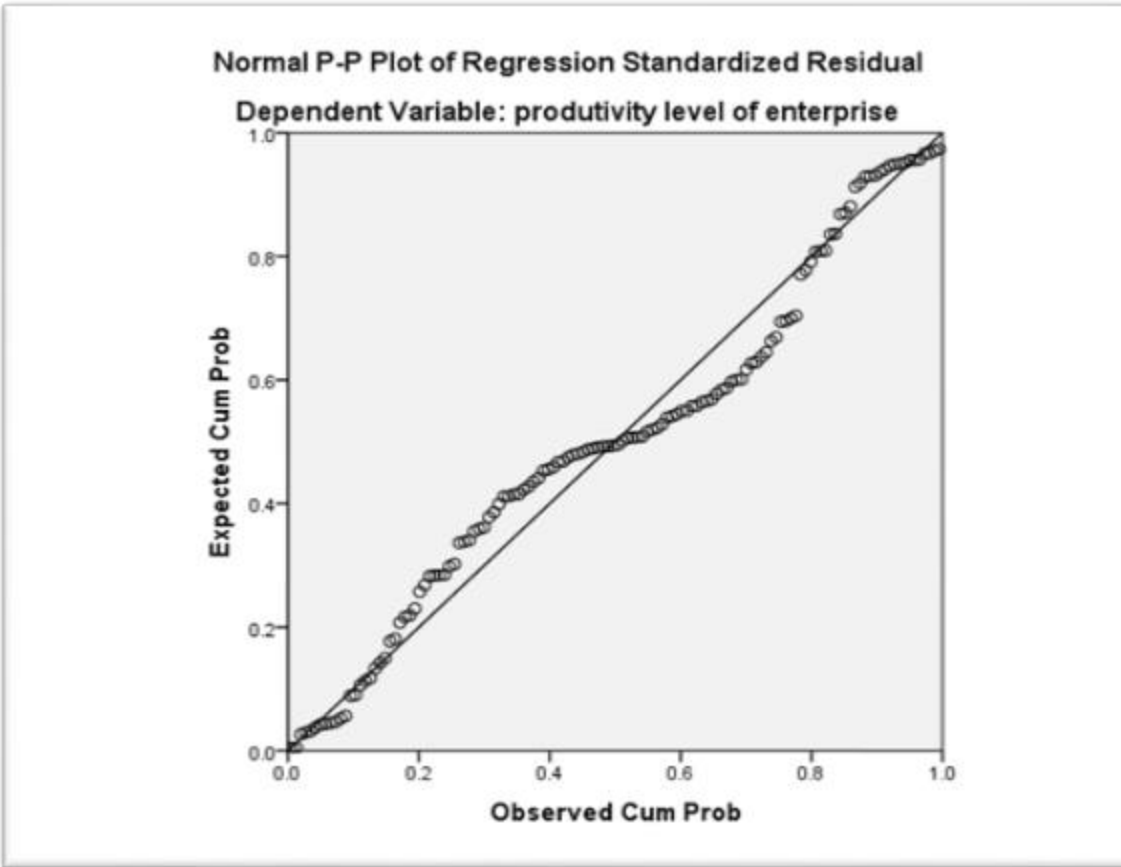


Figure 4.17 Testing for Linearity

Source: Filed survey, 2020

4.5. Binary logistic Regression Analysis of productive performance level SMES

Regression analysis was carried out to explore the level of effects market related factor, management related factor, technological factor, financial factor and political legal factor (independent variable) on the productivity performance level of SMES (dependent variable). In this study, linear regression was used. In addition, linear regression was run to test whether the overall regression model is a good fit for the data, through F-ratio result. The outputs for this analysis included regression model summary, ANOVA and regression coefficients.

4.5.1. Binary logistic Regression Model Summary

The results for the model summary were presented in table 4.8 the table shows R, R², adjusted R², and the standard error of estimate. R represents multiple correlation coefficients, R² represents coefficient of determination and adjusted R indicates the statistic value adjusted with respect to

the number of independent variables in the model. Thus, it reveals the fitness of the regression model.

Model Summary

Table 4.8. Model Summary

| Model | R | R Square | Adjusted Square | R Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-----------------|------------------------------|---------------|
| 1 | .855 ^a | .732 | .722 | .71473 | 1.569 |

Source: Filed survey, 2020

a. Predictors: (Constant), political and legal related factor, financial related factor, technology related factor, management related factor, marketing related factor, work related factor

b. Dependent Variable: productivity performance level of SMEs

Form the table 4.8. $R=.855$ shows a positive correlation, coefficient of determination $R^2=.732$, while adjusted $R^2=.722$ shows that the regression model fits the data. This means political and legal related factor, financial related factor, technology related factor, management related factor, marketing related factor, work related factor about 73 % variance in the overall productivity performance level SMES when other factors are held constant.

4.5.2. ANOVA

Regression ANOVA is a statistical measure that helps in understanding the level, or the extent of variability with regards to a regression model. Besides, its findings are used in setting a base for testing significance. The study conducted regression anova to test whether the overall regression model was a good fit for the data, and to find out the level of variation resulting from the independent variable (political and legal related factor, financial related factor, technology related factor, management related factor, marketing related factor, work related factor) in the regression model. The $R^2=.732$ (table 4.8.) and F-test results in ANOVA (table 4.9), Indicate that 6 independent variable that is political and legal related factor, financial related factor, technology related factor, management related factor, marketing related factor, work related the variance ($R^2=.855$, $F(73.582)$, statically significant at $p=0.01$ level) in the regression model.

Table 4.9. Regression of ANOVA result

ANOVA^a

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|--------------|----------------|-----|-------------|--------|-------------------|
| 1 Regression | 2.192 | 6 | 37.589 | 73.582 | .000 ^b |
| Residual | 45.902 | 125 | .367 | | |
| Total | 48.095 | 131 | | | |

Source: Filed survey, 20

20

a. Dependent Variable: productivity level of enterprise

b. Predictors: (Constant), political and legal, financial, technology, management, marketing, work related factor

4.5.3. Binary logistic Regression Coefficients

Regression coefficient is the slope of the linear relationship between the dependent variable and the part of a predictor variable that is independent of all other predictor variables. The regression coefficients present deeply on table 4.10

Table 4.10. binary logistic Regression Analysis

| Model | Unstandardized | | Standardized | | | Collinearity Statistics | |
|------------------------------------|----------------|------------|--------------|--------|--------|-------------------------|-------|
| | B | Std. Error | Beta | t | Sig. | Tolerance | VIF |
| (Constant) | 2.903 | 1.040 | | 2.791 | .006 | | |
| marketing related factor | -.004 | .137 | -.003 | -.032 | .475 | .875 | 1.143 |
| management related factor | -.197 | .128 | -.139 | -1.540 | .006* | .938 | 1.066 |
| financial related factor | -.047 | .154 | -.028 | -.304 | .010** | .915 | 1.093 |
| technology related factor | -.075 | .136 | -.050 | -.555 | .580 | .933 | 1.072 |
| work related factor | .095 | .175 | .055 | .540 | .090* | .733 | 1.365 |
| political and legal related factor | .203 | .193 | .106 | 1.050 | .002** | .749 | 1.335 |

Source: Filed survey, 2020

A, Dependent Variable: productivity level of enterprise

The binary logistic Regression model with all the predictor variables indicate as follow: Predicted performance score = .293 + -.003 market related factor) + -.139 (management related factor) + -.028 (financial related factor) -.050 (technological related factor) + .055 (work related factor) + .106 (political legal factor). The smaller the value of sig. (and the larger the value of t) the greater the contribution of that predictor. The result of binary logistic Regression linear regression analysis in the above table 4.10.clearly demonstrates that four explanatory variables have negative and significant influence on SMEs performance with the value of (β =-.004,-047, -075, -197) for market related factor, management related factor, financial related factor, and technological related factors respectively with p-value less than 0.05. In this study the highest Beta value is .028 for finance factor, second highest is -.003 for marketing factor.

CHAPTER FIVE

5. MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

In this chapter the major, conclusions and recommendations are discussed. For clarity purpose, the conclusions are based on the research objectives of the study. Based on the findings of the study recommendations are made to government bodies, to workers of SMEs and suggestion for other researchers.

5.1. Major Finding

The findings from this study may be imperative because, from the analysis of key variables, the researcher be able to come up with recommendations on the key factors to be considered in performance of the enterprise

As the findings of participants profile indicates, males' participation in SMES is 60 % compared with females. The age of participants mostly fall between >30 years demonstrating 31 percent. Most of SMES educational qualification is in 1-8 primary level indicating 31 %. Respondents experience year indicate that most of them have 3-4 years of experiences dominate 39 %.

- Marketing factor affecting the productivity performance of SMES from the findings indicate: market access of respondents response agree 20 %, percent strongly agree 12%, ,dis agree 56% and strongly dis agree 12% with limited market access for their products, lack of promotion they agree 32% , strongly agree 41% ,disagree 15% and strongly dis agree 12% , the results of inadequate marketing linkage , agree 40 % , strongly agree 40% and 10% dis agree had limitation of networking with external bodies in their business .
- ❖ Management factor include: Poor management sample respondents shown that agree 31 % ,strongly agree 59 % and 10% dis agree of the issue , Regarding the lack of training opportunity for SMEs, from the government, from the sample 69 % agreed , 31 % strongly. SMEs Owners mostly depend on their own resources and experiences as well as those of their families and friends even though little training is given as formal to motivate them to enter in to the work at beginning and Lack of Prepare strategic Business Plan that of the respondents 60 % agree, 30 % strongly agree and 10 % dis agree as they have lack of knowledge in preparing and providing convincing business plan when they need external loan from financial institutions.

- ❖ Financial related factor of SMES include the result of lack of Source of startup capital showed 70% agree and 30 % strongly agree of them with this problem even if active SMES tend to seek credit more actively, it does appear that small SMES are affected more severely by initial capital limitations. Inadequate credit institution the result shown that 15 % agreed ,45 % strongly agree,23 % dis agree and 17% strongly dis agree with limited financial institution and complexities of obtaining loans from financial institutions were cited as major hindrances to small business development and most SMEs are unable to secure badly needed loans from the financial institutions. Because high collateral requirement to get loan these institutions is required highly and it is beyond their capacity and business.
- ✚ Technological factor, lack of appropriate machinery and equipment is the main problem of SMES engaged in different work processing he result shown that agreed 80 % strongly agree 10% and dis agree 10 % respectively. SMEs Working own machines, equipment's and tools, most of which were purchased obtained from informal sources.
- ✚ Political and legal related factor of SMES include: lack of government support the respondent response Summarized lack of government support for SMES done their activities the mean value 26, 30, 20, 19 and 6 from the sector of trade, services, manufacturing, Construction and urban agriculture respectively. Lack of right working location with the mean value 26, 30, 20, 19 and 6 from the sector of trade, services, manufacturing, Construction and urban agriculture respectively. Tax and levies is high enterprises engaged in trade, services, manufacturing, construction and urban agriculture sector, the tax levied on their business is not reasonable and the mean of 26, 30, 20, 19 and 6 respectively.
- ✚ Infrastructural factor that affects the productivity performance is Power shortage /interruption that the response of enterprise that power interruption is agrees 80 percent and strongly agrees 20 percent .the table shows that insufficient and interrupted power supply affect the performance of SMES specially those engaged in construction sector like wood , metal , brick work and other sector which high consumption of power in the selected Area, Shortage of water supply the result shown that, agree 70 % strongly agree 20% and dis agree 10 % . Insufficient transport service highest percentage with agreed as there are insufficient transport infrastructures in the study area with 80% and followed by strongly agree 20%.

- Working place factor high Cost of house rent shown that agrees 70% of and strongly agree 30%. The response high rent of house is resulted from absence of own premises to run business.

5.2. CONCLUSIONS

This research was conducted in Angolela Tera Woreda north shewa zone with the prime intent of critically assessing the affecting the productivity performance level of SMES workers involved in trade, services, manufacturing, construction, and urban agriculture sector activities. A randomly selected 132 households were selected using simple random sampling were used to generate the required data. Besides, to supplement the quantitative data, key informant interview, questioners and secondary data were used.

To give conclusion for these factors, the researcher combined agrees and strongly agree responses together and disagrees and strongly disagree in one for the purpose of using percentage. Also, the researcher focused on mean value of variables to identify the major factors affecting the performance level of these enterprises.

Based on the objectives and findings of the study, the following conclusions are worth drawn.

- ❖ The most important external factors identified are financial factors which include Source of startup capital; working and expansion capital is limited, because of inadequate number of financial institution, complicated loan application procedures and high collateral requirement from banks and other lending institutions. The main sources of startup and expansion finance or funds for most SMEs are personal savings followed by family and friends/relatives.
- ❖ The workings premises factors include absence of own premises and the rent of house is too high.
- ❖ Marketing factors include, inadequate marketing linkage, Marketing Access, Lack of promotion and absence of relationship with an organization/association that conducts marketing research.
- ❖ Infrastructural factors incorporate power interruptions, shortage of water and lack of sufficient and quick transportation service that hinder the business performance of all sectors.
- ❖ Political and legal factor that affect the performance of SMEs are limited /lack of support from the government both financial and non-financial involvements provided to enhance the productivity performance of the sector it including providing right working promise and high tax . According to the findings, the reason ranges from lack of visible commitment of

some governmental bodies to lack of regular integration between the SMEs workers and the concerned bodies of the government, technological factor lack of machinery and Infrastructural factor is Power shortage /interruption/, insufficient transport infrastructures and Shortage of water supply are factor that affect the performance level of SMEs in Angolelana Tera Woreda.

- The main internal factors identified were management factors which include Poor management, Lack of Training for SMES, lack of strategic business planning for external bodies for the loan.

The results for Pearson Correlation test showed that there was a negative correlation between productivity performance level SMEs and, market related factor, management related factor, technological factor, Working factor and financial factor and productivity performance level SMEs, $r = -.159, -.153, -.181, -.191^*$ and $-.100$ statically level at $p=0.01$. Finally, the results for Pearson Correlation test showed that there was a positive correlation between political and legal factor and productivity performance level SMES, $r = .116$.

The result of binary logistic Regression linear regression analysis in the above table 4.10. clearly demonstrates that four explanatory variables have negative and significant influence on SMEs performance with the value of ($\beta = -.004, -.047, -.075, -.197$) for market related factor, management related factor, financial related factor, and technological related factors respectively with p-value less than 0.05.

5.3 RECOMMENDATIONS

Suggestions for corrective and complementary measures to improve the potential performance of SMES are essential. Such recommendations demand an in-depth analysis of the influence of different factors regarding the sector. Based on the findings and conclusions of the study, the following recommendations are forwarded for owners, actors, government, SMEs and other stakeholders to improve the performances of SMES in Angolelana tera Woreda

The government bodies should provide affordable alternative sources of finance for SMEs.

This can be done *by*

- ☞ The Microfinance institutions should review and simplify loan application procedures, the level of collateral and interest rates that can be easily accessed and affordably utilized by SMEs

- ☞ In order to facilitate access to credit for SMEs, banks and micro institution need to allocate a certain portion of their loanable funds for SMEs. This has to be supported by special lending and repayment arrangements. Thus, in order to address the problem of credits, financial institutions, donors, NGOs can assist in creating lines of credit and special windows for assisting growth-oriented.
- ☞ Assigning of trained experts Extension workers at grass root level is vital in providing technical support, information required about the political legal requirements and facilitate on the day to day support needed.
- ✓ Marketing factors are frequently indicated as the explanatory factor for most problems faced by the studied SME. Therefore, it is necessary to solve this deep-rooted problem. Some of the ways of doing so can be:
 - ☞ Providing selling and display places in areas close to working area.
 - ☞ Linking the SME with other private contractors, cooperative, association, government and non-government organization working with around them.
 - ☞ The SMEs Operators are better to enhance their marketing skills through proper training and experience sharing with other successful medium and large scale enterprises. the government bodies, non-government bodies and the other stakeholders are better to assist them by searching market for their products which is produced by the SMEs operators, by doing this, they are try to save them from losses.
- ❖ The government should to make SMEs competitive and profitable, increasing the capacity and skill of the operators through continuous Skill development trainings, experience sharing from successful enterprises, and provision of advice and consultancy and improve provision of necessary infrastructure.
- ❖ The government should organize/make SMEs as industry village in appropriate location by building sheds and other common basic requirements, arranging common facilities and encourage private investors and non-governmental origination to participate in these premises constructions by providing certain incentives for private investors like tax relief and availing of lease-free land. This will help SMEs to use common infrastructural facilities for production, access common market and sales centers, site for promotion, ensure fair competition and buyers can get them around same area of operation.

- ❖ The tax system needs proper attention as some SMEs have complaints over the existing subjective method of tax assessment and levied which is based on subjective estimation and beyond the ability to bear as most of them do not have audited financial statements.
- ❖ The government should arrange and give equipment's, machines and other necessary materials through lease in which SMEs can cover the payment during the operations to reduce doubt of getting back payments for the borrowed finance.
- ❖ SMEs should create incorporation and partnership with technological organization and professions and with others in line with the shift in demand of customers of new technology. They also should actively participate on technological conference and bazaars while they are conducting in nearby institutions, In addition to this, the government should create linkages with TVET collage, university and other governmental institutions in order to get technological information.

This study dealt with more of external and internal factors that affect the productivity performance of SMEs. Further research could target the medium and larger SMEs. The field of SMES is large and very diverse. It is an interesting area with many unresolved issues. It would be encouraging to get more solutions to many issues arising.

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APPENDIX 1

QUESTIONNAIRE

DEBEBER BERHAN UNIVERSITY COLLEGE OF SOCIAL AND HUMANITIES
DEPARTMENT OF URBAN DEVELOPMENT AND MANAGEMENT /MES/ PROGRAM

INTRODUCTION

Dear respondent, I am a graduate student in the department of management, Addis Ababa University. Currently, I am undertaking a research entitled 'factors that affect the productivity performance level of small and micro enterprises in Angolelena Tera Woreda. You are one of the respondents selected to participate in this study. Please assist me in giving correct and complete information to present a representative finding on the current status of the factors affecting the performance of Micro and Small enterprises in two sub-cities of Addis Ababa. Your participation is entirely voluntary and the questionnaire is completely anonymous.

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

Instructions

- No need of writing your name
- For Likert scale type statements and multiple choice questions indicate your answers with a check mark (✓) in the appropriate block.

SECTION 2:

Part I: Demographic profile of respondents

1. Gender:

A-Male

B-Female

2. Age A. 18-30 B. 31-40 C. 41-50 D. Above 50

3. Educational qualification: A 1-8 B 9-10 C 11-12 D. diploma and above

4. Year of experience A.1-3 B. 3-4 C. 4-5 Above 5

5. What is the main activity of the enterprise?

A. trade B services Construction D manufacturing E urban agriculture

6. How did you raise funds to start-up your business?

A. Personal saving B. Family C. Banks D. NGOs E. Friends/Relatives
 F. Micro finance institutions H. Others (specify) -----

SECTION 3: Affect the productivity performance level of SMES.

The factors that affect the productivity performance level of SMES are listed below. Please indicate the degree to which these factors are affecting the performance of your business enterprise. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (√) under the choices below. Where, 1 = agree, 2 = strongly agree, 3 = disagree and 4= strongly disagree. 5. Other

4. Please indicate the degree to which you agree with the following statements concerning Marketing Related factor

| Rn. | 4. Marketing Related factor | 1 | 2 | 3 | 4 | 5 |
|-----|--|---|---|---|---|---|
| 4.1 | Inadequate market linkage | | | | | |
| 4.2 | poor customer relationship | | | | | |
| 4.3 | Lack of promotion to attract potential users | | | | | |
| 4.4 | Marketing Access | | | | | |

5. Please indicate the degree to which you agree with the following statements concerning Management Related factor

| r.n | 5 Management Related factor | 1 | 2 | 3 | 4 | 5 |
|-----|-------------------------------------|---|---|---|---|---|
| 5.1 | poor managements | | | | | |
| 5.2 | Lack of trainings | | | | | |
| 5.3 | Lack of strategic business planning | | | | | |

6. Please indicate the degree to which you agree with the following statements concerning financial factor

| R.N | 6. Financial factor | 1 | 2 | 3 | 4 | 5 |
|-----|--|---|---|---|---|---|
| 6.1 | source of startup capital/beginning capital/ | | | | | |
| 6.2 | Source of startup capital | | | | | |
| 6.3 | inadequate credit institution | | | | | |
| 6.4 | High interest rate | | | | | |

7. Please indicate the degree to which you agree with the following statements concerning Technological factor

| R.N | 7. Technological factor | 1 | 2 | 3 | 4 | 5 |
|-----|---|---|---|---|---|---|
| 7.1 | Lack of appropriate machinery and equipment | | | | | |
| 7.4 | Lack of skills to handle new technology | | | | | |

8. Please indicate the degree to which you agree with the following statements concerning Infrastructural factor

| R.n | 8. Infrastructural factor | 1 | 2 | 3 | 4 | 5 |
|-----|-------------------------------------|---|---|---|---|---|
| 8.1 | Power interruptions | | | | | |
| 8.2 | shortage of water supply | | | | | |
| 8.3 | insufficient transportation service | | | | | |

9. Please indicate the degree to which you agree with the following statements concerning Working Place facto

| R.N | 9. Working Place factor | 1 | 2 | 3 | 4 | 5 |
|-----|-------------------------|---|---|---|---|---|
| 9.2 | cost of house rent | | | | | |
| 9.3 | size of working area | | | | | |

10. Please indicate the degree to which you agree with the following statements concerning Politico-Legal Factors

| Ro/n | 11. Politico-Legal Factors | 1 | 2 | 3 | 4 | 5 |
|------|----------------------------|---|---|---|---|---|
| | | | | | | |

| | | | | | | |
|------|---|--|--|--|--|--|
| 11.1 | tax and levies is high | | | | | |
| 11.2 | Lack of government support | | | | | |
| 11.3 | Lack of providing right business location | | | | | |

Anything you want to add or opinion you may have on constraining factors growth of your

Business do not mention in the table?

APPENDIX 2

B Interview Questions Interview questions with SMEs operators

1. What problems did you face while running SMES in relation to:

A. external factor

- Politico-legal factor [government support, access of land taxation and like]
 - Premises factor (high rent of house and access of working space)
 - Technology factor (machinery and source of capital)
 - Infrastructure (power, transportation, water supply and like)
 - Marketing factors (relationship with suppliers, customers linkage, promotion and others)
 - Financial Constraint (interest rates, collateral requirements, etc)
- B. Internal Management related factor
1. What are other problem(s) did you faced regarding the overall functioning of your activity?

APPENDIX 3

የደብረ ብርሃን ዩንቨርሲቲ አርባን ደብሎፕመንትና ማኔጅመንት ት/ቤት ክፍል አስተዳደር ድህረ ምረቃ ት/ቤት

ክፍል አንድ

ውድ የጥናቱ ተሳታፊዎች፡-

የዚህ መጠይቅ አላማ በአንጎላላና ጠራ ወረዳ ውስጥ ያሉትን አነስተኛና ጥቃቅን ኢንተርፕራይዝ /ስራ/እድገት ተፅእኖ የሚያሳድሩ ተግዳሮቶችን ምክንያቶች ምን እንደሆኑ መረጃ መሰብሰብ እና የመፍትሄ ሃሳብ ለሚመለከተው አካል ለማቅረብ ነው። ስለዚህ እርስዎም በዚህ ጥናት እንዲሳተፉ ተመርጠዋል። እርስዎ የሚሰጡትን ትክክለኛውን መረጃ ለጥናቱ ውጤታማነት በጣም አስፈላጊ መሆኑን በመገንዘብ መጠይቁን በጥንቃቄ እንዲሞሉ እጠይቃለሁ። ተሳትፎዎ በእርስዎ በጎ በፈቃደኝነት ላይ የተመሰረተ ነው። በመጨረሻም የሚሰጡት መረጃ ሚስጥራዊነቱ የተጠበቀና ለዚህ ጥናት ዓላማ ብቻ እንደሚውል አረጋግጣለሁ። የማንኛውም መልስ ሰጪ ማንነት በማንኛውም መልኩ የማይታተምና የማይሰራጭ ይሆናል። ሁሉም መረጃዎች ለትምህርታዊ ዓላማ ብቻ ይውላሉ። ጊዜዎን ሰውተው ስለሚያደርጉልኝ ትብብር በቅድሚያ አመሰግናለሁ።

ማሳሰቢያ

- በመጠይቁ ላይ ስም መፃፍ አያስፈልግም።
 - መልስዎን በሳጥኑ ውስጥ የእርማት ምልክት (✓) ያስቀምጡ
- ክፍል አንድ፡-የተሳታፊ መረጃ

1. ያታ፡-ወንድ ሴት
- ዕድሜ - .ሀ.18-30 ለ. 31-40 ሐ. 41- 50 መ. Above 50
- የትም/ት ደረጃ፡-ያልተማረ ሀ. 1-8 ለ. 9-10 ሐ.11-12 መ. diploma and above
4. Year of experience ሀ.1-3 ለ. 3-4 ሐ. 4-5 ሠ .Above 5

በስራው ላይ ቆይታ /ልምድ/:- ሀ.1-3 ለ. 3-4 ሐ. 4-5 ሠ. Above 5

1. 5. የተሰማሩበት የስራው አይነት?

ሀ. ንግድ ለ.አገልግሎት ሐ. ኮንስትራክሽን ማኑፋቶቲሪንግ ሠ. የተከተማ ግብርና

6 .በዘርፉ ለመንቀሳቀስ መነሻ ብር ከየት አገኙ?:-የግል ቁጠባ አነስተኛ ገንዘብ ቁጠባ ከንደኞችና ዘመዶች የግል ድርጅት ባንክ

ክፍል ሶስት: ከዚህ በታች በአንጎላላና ጠራ ወረዳ ውስጥ ያሉትን አነስተኛና ጥቃቅን ኢንተርፕራይዝ /ስራ/እድገት ተፅእኖ የሚያሳድሩ ተግዳሮቶችን ምክንያቶች ተዘርዝረዋል። ከተዘረዘሩት ችግሮች የእርስዎን የስራ ዘርፍ ይበልጥ ተፅእኖ የሚያሳድሩትን በደረጃ ያመለክቱ። ለእያንዳንዱ ጥያቄ ከአማራጮቹ አንድ ጊዜ ብቻ የ (✓) ምልክት በማድረግ ምላሽ ይስጡ

4= በጣም አልሰማማም 3 = አልሰማማም
 =1= እስማማለሁ 2 = በጣም እስማማለሁ 3 = አልሰማማም 4= በጣም አልሰማማም
 5= ሌላ

| ተ/ቁ | 4. ከግብይትና ተዛማጅ ችግሮች ረገድ(አንፀር) | 1 | 2 | 3 | 4 | 5 |
|-----|-------------------------------|---|---|---|---|---|
| 4.1 | በቂ የሆ የገበያ ዕድል አለመኖር | | | | | |
| 4:5 | ስለምርቱ ወይም ጥቅሙ ለደንበኞች አለማሰተዋወ | | | | | |
| 4.6 | በቢዝነስና ስኬት በኩል የኔትወርክ እጥረት | | | | | |

| ተ. ቁ | 5.የስራ አመራር ክህሎት ጋር የተያያዙ ችግሮች | 1 | 2 | 3 | 4 | 5 |
|------|---|---|---|---|---|---|
| 5.2 | የተለያዩ ስራዎችን ለመስራት የተለያዩ የክህሎት ስልጠናዎች እጥረት | | | | | |

| | | | | | | |
|-----|--------------------------|--|--|--|--|--|
| 5.5 | የአመራ ብቃት አነስተኛ መሆን | | | | | |
| 5.7 | የረዥም ጊዜ የቢዝነስ እቅድ አለመኖር። | | | | | |

| ተ/ቁ | 6.ከበጀት ጋር በተያያዙ ችግሮች | 1 | 2 | 3 | 4 | 5 |
|-----|--|---|---|---|---|---|
| 6.1 | ባንኮችና ሌሎች አበዳሪ ተቋማት የሚጥሉት ክፍተኛ የብድር ወለድ መጠን። | | | | | |
| 6.2 | በቂ የሆኑ የብድር ተቋማት አለመኖር። | | | | | |
| 6.3 | የስራ ማንቀሳቀሻ ብር እጥረት። | | | | | |
| 6.4 | ባንኮችና ሌሎች አበዳሪ ተቋማት ለማበደር የሚጠይቁት ክፍተኛ የማስያዣ መጠን። | | | | | |

| ተ.ቁ | 7. ቴክኖሎጂና ተዛማጅ ችግሮች | 1 | 2 | 3 | 4 | 5 |
|-----|--|---|---|---|---|---|
| 7.1 | ለስራዬ ተገቢ የሆነ ቴክኖሎጂ ግብዓት አለመኖር | | | | | |
| 7.3 | በገንዘብ እጥረት ምክንያት አዳዲስ የቴክኖሎጂ ውጤቶችን አለማግኘት። | | | | | |

| ተ.ቁ | 8. ከመሰረተ ልማት ጋር የተያያዙ ችግሮች | 1 | 2 | 3 | 4 | 5 |
|-----|-------------------------------------|---|---|---|---|---|
| 8.1 | የኤሌክትሪክ ሀይል መቆራረጥ። | | | | | |
| 8.2 | የተቆራረጠና በቂ ያልሆነ የውሃ አቅርቦት። | | | | | |
| 8.4 | በቂ እና ፈጣን የሆነ የትራንስፖርት አገልግሎት አለመኖር | | | | | |

| ተ/ቁ | 9. የስራ ቦታና ተዛማጅ ችግሮች | 1 | 2 | 3 | 4 | 5 |
|-----|----------------------|---|---|---|---|---|
| | | | | | | |

| | | | | | | |
|-----|-----------------------------|--|--|--|--|--|
| 9.1 | ስራዬን የሚያካሂድበት የግል ቦታ አለመኖር። | | | | | |
| 9.2 | አሁን ያለሁበት ቦታ ለስራ አመቺ አለመሆን። | | | | | |
| 9.3 | ከፍተኛ የሆነ የቤት ኪራይ መጠን። | | | | | |

| ተ/ቁ | 10 -መንግስታዊ ተቋማት የማግኘት ችግር | 1 | 2 | 3 | 4 | 5 |
|-----|---------------------------|---|---|---|---|---|
| 9.1 | ከፍተኛ የሆነ ቀረር መጣል | | | | | |
| 9.2 | የመንግስት የድጋፍ አለመኖር | | | | | |
| 9.3 | ትክክለኛ የቢዝነስ ቦታ የማቅረብ አጥረት | | | | | |

ከላይ ከተጠቀሱት ነጥቦች በተጨማሪ በእርሶ ስራ/እድገት / ላይ ተፅዕኖ/ችግር/ የሚያሳድር አሰራር ወይም አገልግሎት ካለ ሐሳብ ወይም አስተያየት ቢገልፁልን.....

APPENDIX 4

| Item total for scale | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|-------------------------------------|----------------------------|--------------------------------|----------------------------------|----------------------------------|
| Sex | 47.2727 | 108.872 | -.234 | .811 |
| Age of respondents | 46.4924 | 97.565 | .419 | .905 |
| Educational background | 46.2955 | 94.347 | .509 | .904 |
| Experience | 46.5909 | 93.786 | .654 | .899 |
| Type of business activities | 46.1742 | 99.244 | .242 | .713 |
| Inadequate marketing linkag | 46.9848 | 97.923 | .657 | .900 |
| Lack of promotion | 47.0833 | 98.214 | .844 | .898 |
| poor managements | 46.8864 | 98.208 | .678 | .899 |
| Lack of trainings | 46.9848 | 99.114 | .798 | .899 |
| Lack of strategic business planning | 47.1818 | 99.295 | .521 | .702 |
| source of startup capital | 47.3788 | 101.352 | .558 | .902 |
| inadequate credit institution | 47.5758 | 103.361 | .536 | .803 |
| High interest rate | 47.3788 | 99.962 | .714 | .800 |
| lack of machinery | 47.3788 | 99.978 | .495 | .702 |
| power shortage | 47.4773 | 101.763 | .594 | .902 |
| shortage of water supply | 47.2803 | 98.341 | .603 | .900 |
| insufficient transportation service | 47.4773 | 101.580 | .618 | .902 |
| cost of house rent | 47.3788 | 103.016 | .375 | .904 |
| tax and levies is high | 47.2803 | 101.196 | .534 | .702 |
| lack of right business location | 47.0833 | 99.466 | .513 | .802 |