DETERMINANTS OF SUCCESS IN MICRO AND SMALL ENTERPRISEs (MSEs) AND ENTERPRUNERSHIP IN ADDIS BABA

Rahel Belete (PhD)
Addis Kassahun (PhD)
Introduction

• There is no commonly agreed upon international definition of MSE’s.

• Countries use different definition in their identification of MSEs and use head count of full time staff, annual turnover, total assets, net asset and paid capital either separately or together to define the enterprises.

• The Micro and Small Enterprise Development strategy of Ethiopia, definitions of MSEs based on the size of capital, number of people and the type of business.
• The legal framework and development of MSEs dates back to the 1940s and 1960s. According to Teshome 1994, the proclamation No. 242/1966 provided tax relief, access to land and buildings, public utilities and other facilitations of advisory and administrative nature to the sector.

• The Communist regime proclamation No. 76/1975, restricted acquisition of private businesses to a single license and capital ceiling set at Birr 300,000 for wholesale trade, Birr 200,000 for retail trade and 500,000 for industrial establishments. By proclamation No. 124/1977, the Handicrafts and Small Scale Industries Development Agency (HASIDA) was established.
Introduction

- Proclamation No. 9/1989 the Small Scale Industry Development Special Decree and Special Degree on Investment No.17/1990 are the additional two decrees the Derg declares to boost the sector.
- Proclamation of No. 41/1993 provides the establishments of Industry and Handicrafts Bureaus in the Regional Governments replaced the HASIDA proclamation.
- Proclamation No. 40/1996 decreed was issued for the establishment of Micro Financing Institution. The National Micro and Small Enterprise (MSEs) strategy was issued in 1996/1997. Federal Micro and Small Enterprises Development Agency (FMSEDA) and Regional Micro and Small Scale Enterprise Development Agencies (RMSEDA) were established by the Council of Ministers of Ethiopia Regulations No.33/ 1998.
Introduction

• The 1997 (MSEs) Development Strategy mainly focus on creating Job opportunities, reducing unemployment, alleviate poverty, boost the economy and promotes Entrepreneurship culture.

• Ethiopia with a population of over 88 million is straggling with an unemployment rate of 17.5% (CSA 2012).

• The government has given due attention to Micro and Small Enterprises (MSEs) in its GTP (2010-2015).

• MSE’s are believed to serves as fertile ground for entrepreneurship.
This research work has focused on studying the determinants of MSEs success in Addis Ababa. In particular, it studied MSEs across sectors that are manufacturing, construction, urban agriculture, trade, and service and try to understand the determinants of success in each sector to give a better input to the right policy to achieve better results from the respective sector.
Statement of the Problem

How do the personal, organizational and external factors affect the success of micro and small enterprises in Addis Ababa?
Try to understand,

- how the characteristics of the entrepreneur in terms of personal, institutional and environmental factors determine success?

- to give answer to what entrepreneurial orientation and motivational factors play in each sector.

- to identify success factors in terms of growth in capital, profitability and employments and then identify which factor play most for each success.

- Finally, the researchers reviewed the economic strategies and policies and suggested directions based on the findings of the study.
Kuratko and Hodgetts (Entrepreneurship: Theory, Process, and Practice, 1998-2007) analyze six different schools of thought, whereby entrepreneurship thought emanates from macro and micro views:

- **The Macro view of entrepreneurship** - external processes that are sometimes beyond the control of the individual entrepreneur

- **The Micro view of entrepreneurship** - examines the factors that are specific to entrepreneurship and are part of the *internal* locus of control
# Independent variables

## A) Personal Dimension:

1. Demographic profile
   - i. Age
   - ii. Sex
   - iii. Educational attainment
   - iv. Years of experience
   - v. Ethnic origin
   - vi. Religion

2. Entrepreneurial Motivation
   - i. Financial gain
   - ii. Employment creation
   - iii. Personal satisfaction

3. Entrepreneurial orientation/skills
   - i. Needs for achievement
   - ii. Risk-taking
   - iii. Internal locus of control
   - iv. Self-Efficacy

## B) Institutional Dimension:

1. Firm attributes
   - i. Size of firm (number of employees)
   - ii. Age of the firm (years of operation)
   - iii. Business Location
   - iv. Starting Capital

## C) External Environment

### C1. Enabling Business Environment:

- i. Infrastructure (telephone, water, power, road, market area and sewerage)
- ii. Licensing
- iii. Taxation
- iv. Access to business Development Services (BDS)
- v. Accessibility of Micro financing

### C2. Social Networks

- i. Network size
- ii. Frequency of interaction
Dependent variables

Successes of MSEs:

1. Profitability
2. Growth in capital
3. Growth in employees
Methodology

The study has been an explorative study through primary data using semi structured questionnaire.

- **Primary data:**
  - Interviewed 100 **Entrepreneurs** of MSEs randomly from the five sectors (manufacturing, construction, urban agriculture, service and trade) 20 each covering all sub cities in Addis Ababa. *The data collection was conducted in Addis Ababa from September to December 2014.*
  - Key informant interviews with relevant government officials

- **Secondary data:**
  - EMSEDA data base, bulletin, directories, existing literature, journals, magazines, websites, and annual plan and reports
  - Other country similar studies has been reviewed

The study use linear regression analysis using SPSS software
(70%) of respondents in the trade sector was female followed by service sector where 30% are females. On the other hand, construction (90%), urban agriculture (80%) and manufacturing (80%) sectors were owned by men.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Female</th>
<th>Male</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>%</td>
<td>f</td>
</tr>
<tr>
<td>Trade</td>
<td>14</td>
<td>70</td>
<td>6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Service</td>
<td>6</td>
<td>30</td>
<td>14</td>
</tr>
<tr>
<td>Construction</td>
<td>2</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>Urban agriculture</td>
<td>4</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>30</strong></td>
<td><strong>70</strong></td>
</tr>
</tbody>
</table>
Almost all 99(99%) of the operators attended formal education of which 27 (27%) and 20 (20%) had diploma and first degree respectively.
Research Findings

### Distribution of MSEs Entrepreneurs by Entrepreneurial Motivation

<table>
<thead>
<tr>
<th>Sector</th>
<th>Financial Gain</th>
<th></th>
<th>Employment Creation</th>
<th></th>
<th>Personal Satisfaction</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No  f  %</td>
<td>Yes  f  %</td>
<td>No  f  %</td>
<td>Yes  f  %</td>
<td>No  f  %</td>
<td>Yes  f  %</td>
</tr>
<tr>
<td>Trade</td>
<td>20  100</td>
<td>0  0</td>
<td>19  95</td>
<td>1  5</td>
<td>10  50</td>
<td>10  5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>19  95</td>
<td>1  5</td>
<td>6  30</td>
<td>14  70</td>
<td>19  95</td>
<td>1  5</td>
</tr>
<tr>
<td>Service</td>
<td>20  100</td>
<td>0  0</td>
<td>14  70</td>
<td>6  30</td>
<td>18  90</td>
<td>2  10</td>
</tr>
<tr>
<td>Construction</td>
<td>18  90</td>
<td>2  10</td>
<td>5  25</td>
<td>15  75</td>
<td>14  70</td>
<td>6  30</td>
</tr>
<tr>
<td>Urban agriculture</td>
<td>20  100</td>
<td>0  0</td>
<td>10  50</td>
<td>10  50</td>
<td>19  95</td>
<td>1  5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>97  100</strong></td>
<td><strong>3  3</strong></td>
<td><strong>54  54</strong></td>
<td><strong>46  46</strong></td>
<td><strong>80  80</strong></td>
<td><strong>20  20</strong></td>
</tr>
</tbody>
</table>

Only three entrepreneur’s 2 from the construction sector and 1 from the manufacturing sector indicated that their entrepreneurial motivation is financial gain. Almost half 46(46%) of the principal respondent MSEs stated employment creation as their motivator.
About 73% of the micro and small enterprises had the age of less than 10 years, out of which 43% had the age of less than 2 years since establishment. When the data is disaggregated by sector, construction firms had relatively longer years of age (40% were 10 years or more since established) followed by firms in manufacturing (35%).
Out of 100 MSEs, 46 had starting capital of below 10,000 Ethiopian birr (ETB) while 40 MSEs had a starting capital between 10,000 and 99,999ETB. In short, 86 MSEs had start-up capital of less than 100,000ETB and only 14 MSEs had a start-up capital between 100,000 and 500,000ETB. There were not a single MSE who had a start-up capital above 500,000ETB.
Research Findings

### Distribution of MSEs Entrepreneurs by Access to Business Development Services

<table>
<thead>
<tr>
<th>Frequency of getting BDS</th>
<th>f</th>
<th>%</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No BDS</td>
<td>27</td>
<td>27.0</td>
<td>27.0</td>
<td>27.0</td>
</tr>
<tr>
<td>Took one type of BDS support</td>
<td>26</td>
<td>26.0</td>
<td>26.0</td>
<td>53.0</td>
</tr>
<tr>
<td>Took two types of BDS support</td>
<td>34</td>
<td>34.0</td>
<td>34.0</td>
<td>87.0</td>
</tr>
<tr>
<td>Took three types of BDS support</td>
<td>13</td>
<td>13.0</td>
<td>13.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

73(73%) of MSEs have received at least one type of (Business Development Support) BDS
Research Findings

Distribution of MSEs Entrepreneurs by Profitability

<table>
<thead>
<tr>
<th>Sector</th>
<th>Profitability (in 1000 ETB)</th>
<th>f</th>
<th>%</th>
<th>f</th>
<th>%</th>
<th>F</th>
<th>%</th>
<th>f</th>
<th>%</th>
<th>F</th>
<th>%</th>
<th>F</th>
<th>%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;10</td>
<td></td>
<td></td>
<td>10-49,999</td>
<td></td>
<td>&lt;50</td>
<td></td>
<td>50-99,999</td>
<td></td>
<td>100-200</td>
<td></td>
<td>&gt;200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>18</td>
<td>90</td>
<td>5</td>
<td>19</td>
<td>95</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>18</td>
<td>35</td>
<td>7</td>
<td>41</td>
<td>17</td>
<td>85</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>3</td>
<td>16</td>
<td>4</td>
<td>21</td>
<td>7</td>
<td>4</td>
<td>21</td>
<td>4</td>
<td>21</td>
<td>4</td>
<td>21</td>
<td>19</td>
<td>95</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Urban agriculture</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>39</td>
<td>12</td>
<td>67</td>
<td>3</td>
<td>17</td>
<td>3</td>
<td>17</td>
<td>0</td>
<td>0</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>29</td>
<td>13</td>
<td>14</td>
<td>39</td>
<td>43</td>
<td>14</td>
<td>15</td>
<td>18</td>
<td>20</td>
<td>20</td>
<td>22</td>
<td>91</td>
<td></td>
</tr>
</tbody>
</table>

From those which enjoyed more than 200,000 ETB annual profits, 80% were in the manufacturing and construction sectors (45% construction and 35% manufacturing). Out of the total respondents, 39 MSEs earned a yearly average profit of less than 50,000ETB.

There were no MSEs from trade and urban agriculture sectors in the range of average profit above 200,000ETB. Almost all 90% (18/20) of the MSEs in the trade sector had yearly average profit of less than 10,000 ETB. From those MSEs which registered more than 200,000 ETB annual profits, 75% were male owned ones and 69% of the owners had completed at least 12 grade.
The average total number of employees during the startup of the MSEs was 6.03 but currently on average MSEs had 17.23 employees. The average change in number of employees was 11.2 or 113% (11.42/6.03). Sector wise, construction sector had the highest change in number of employees (22.85) followed by service and manufacturing sectors.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Mean number of employees</th>
<th>% change in number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees during start up</td>
<td>Current number of employees</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.40</td>
<td>20.4</td>
</tr>
<tr>
<td>Construction</td>
<td>8.55</td>
<td>30.4</td>
</tr>
<tr>
<td>Urban agriculture</td>
<td>4.04</td>
<td>10.7</td>
</tr>
<tr>
<td>Trade</td>
<td>2.5</td>
<td>3.45</td>
</tr>
<tr>
<td>Service</td>
<td>6.65</td>
<td>20.2</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td><strong>6.03</strong></td>
<td><strong>17.23</strong></td>
</tr>
</tbody>
</table>
Research Findings

The Multiple Linear Regression analysis of the study reveals that:

• average yearly amount of tax paid (p-value =0.000), number of employees (p-value 0.017) and access to telephone (p-value =0.05) were found to be significantly associated with MSEs yearly average profit.

• sex (p-value =0.011), creating employment opportunity as success (p-value =0.047) and frequency of getting business development service from the government (p-value=0.008) were found to be predictor variables of MSEs capital growth.

• Average yearly amount of tax paid (p-value =0.000) and MSEs Social network size (p-value =0.002) were statistically significant association with employment growth.
Conclusion

- The summary of the study findings show that individual, organizational and external factors have different levels of significant disaggregation and analyzed by sector.

- For the trade sector, sex, education status, business location, current capital, access to telephone shows a very strong significant for average yearly profit while for capital growth, age in years, year of experience and weighted self-efficacy showed significant relations.

- For the manufacturing sector, number of employees showed significant relations with average profit.

- The capital growth for the service sector shows significant relations with number of employees.

- For the construction sector, years of experience showed significant relations with capital growth. For the urban agriculture sector, current capital showed significant relations with profitability.

- In accordance with many empirical studies, this study also reveals that MSEs success depend on various factors across sectors.
Recommendation

- Frequency of getting business development service (BDS) were found to be significantly related to capital growth. Here, the government needs to address the issue on quality of BDS trainings which was highlighted by the MSEs. This can be done by making the BDS need base and tailored in accordance of the MSEs level and need for example for incubation, startup, growth and maturity stage.

- Ensuring gender equality and creating equitable wealth creation is one of the strategies in the MSE policy. Yet, the disparity of income which is reflected in variation in MSEs capital growth between male and female needs to be looked at very closely.

- Government needs to see the sectorial context in designing MSEs policy and strategies to address the challenges faced by each sector.
etgrace@gmail.com
addiskassahun@gmail.com

Thank You!