

Factors Affecting Growth of Micro and Small Enterprises: A Case of Adola Woyu Town, Guji Zone Oromia Ethiopia

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DOI - <https://doi.org/10.61421/IJSSMER.2023.1402>

ABSTRACT

The purpose of this study was to assess the challenging factors for growth of micro and small enterprises in Adola Woyu town. It covers both internal and external environment factors that have potential influences on growth transformation of MSE in town. The study adopted a mixed research approach. The primary data was collected from the member of MSE and concerned officials through written questionnaire and interviews. Data was collected from 212 respondents through those data collection tools. Both probability and non-probability sampling techniques were employed to select sample from targeted populations. MSE in Adola town were classified in five strata namely Trade, Manufacturing; Urban agriculture, Services and construction and sample were drawn from each stratum proportionally. Purposive sampling technique was employed to select interviewers from MSE members as well as from concerned officials. 5-point Likert scale questions were employed to investigate about the factors hinders smooth growth of MSE study area for in-depth investigation of respondents' feeling and believes through this attitudinal scale questions. Both descriptive and inferential statistics were employed for data analysis. Frequency table, percentage, mean and standard deviation from descriptive and correlation and multiple regression were used for analysis. The findings of the study reveal that both internal and external variables have significant effects on growth of MSE in Adola town. Hence, it was recommended that both government and member of MSE should give more attention and watch both internal and external factors to ensure sustainable growth of MSE.

Keywords: Business, growth, marketing information, infrastructure facilities, managerial skill

1. INTRODUCTION

Micro and small-scale enterprise were recognized worldwide as major contributors to economic development and urban poverty reduction. It plays great role in socio-economic development as means for generating sustainable employment and income generating sector. Gemuno and Roel (2014) in their research work entitled assessment of the business service and training market in Myanmar stated that micro and small-scale enterprise (MSEs) were vital instruments for job creation and economic growth both in developing and developed countries. Now a days, in almost all economics of the world, MSEs were becoming a crucial and key factor for sustained growth and development and becoming life blood for most economics (Nafyad and Adenech, 2020)

In developing countries MSEs have a crucial role because of their potential contribution of employment creation, poverty reduction, industrial development and rural economic transformation. Micro and small-scale enterprise were one of the priority areas of action among the programs addressing African development (Derbie and kassahun, 2013). Government of Ethiopia

has taken various policy measures for the creation of enabling environment to boost contribution of private sector in generating employment opportunity (Yared, 2017). Among the private economic sectors encouraged to generate employment opportunity in Ethiopia; Micro and small-scale enterprise accounts more than 60% (Andualam, 1997). International institutions such as the world bank, the Asian development bank (ADB) and the United Nations Industrial Development Organization (UNIDO) and many donor countries through bilateral co-operation have also played a crucial role in empowering MSEs in developing countries (Zemenu & Mohammed, 2014).

Despite of its importance, growth of Micro and small-scale enterprise has been challenged with different factors internal and external to it. Empirical evidences show the number of factors that affecting survival and growth of MSEs at national and international levels. At the international level, Yoshino and Taghizadeh (2016) identified common factors as increased competition, the ability to adapt to rapidly changing market demand, technological change, and capacity constraints relating to knowledge, innovation, and creativity. For many SMEs, however, their potential was often not fully realized due to factors related to their small scale: lack of resources (finance, technology, skilled labor, market access, and market information); lack of economies of scale and scope were major remarks of problems (Awoyemi and Makanju, 2020)

Establishment, survival and growth of Micro and small-scale enterprise in most African countries have been challenged with factors like inadequate access to financing, weak technical capabilities, poor market access and lack of favorable policy environment (Shide, 2012). Yidnekachew (2016) identified external factors challenging growth of MSEs as social, economic, cultural, legal, and technological and internal factors as individual altitude, training and technical knowledge. He further pointed out that growth of MSEs in Ethiopia confronted problems of unfavorable legal and regulatory environment, discriminatory regulatory practice, lack of access to market, lack of business premises at affordable prices, lack of skilled expertise and managerial abilities. Mohammed (2016) have also identified challenging factors for MSEs growth in Ethiopia as inadequate credit assistance, problem of skilled man power, infrastructural problems, inadequate managerial skill, multiple tax and Levies, lack of access modern technology, policy inconsistency and government bureaucracy, marketing factors and politic-legal factors

Even though most of the factors across the globe were similar as indicated here above; there were few unique factors in each area. Therefore, this study was focused on assessing challenging factors for growth of MSEs in Adola Woyu town with special emphasis on identification of factors that hindering survival and growth of MSEs in a town. Trends of survival and growth of MSEs in Adola Woyu town was minimal, yet factors limiting growth have not been empirically identified. This was the reasons why the research was designed to be conducted in Adola Woyu town.

1.1 Statement of the problem

MSEs were recognized as vehicles for economic growth and poverty reduction and employment opportunities (Zemenu and Mohammed 2014). At both national and international level; MSEs can be used as tools for poverty alleviation through job opportunity creation with locally available resources. Oduyoye, Adebola, and Binuyo (2013) Explain MSEs as worldwide engine of economic growth that contributes to employment generation, wealth creation, poverty alleviation and food security

However, survival and growth of MSEs were challenged by number of factors and cease to contribute what it expected to be achieved. As a result, rate of unemployment and poverty were dramatically increasing overall the world, but rate was higher in under developed and developing countries like Ethiopia.

Different reforms have been initiated in Ethiopia to improve performance of MSEs for sustainable growth, transformation of business and economy of country as whole. The government's underlying objectives of the reforms were to restore and sustain the growth momentum of the past decade and, in particular, to create jobs for the country's young and growing population. In the reform agenda, crucial imperative given the labor market's need to absorb two million new entrants annually, an endeavor where the role of MSEs which have been engines of growth and job creation for many countries worldwide, was also given priority in the reform (Badshah Hussain, 2021).

However, empirical evidences show that hindrance factors for growth of MSEs in Ethiopia still continued. World Bank study found as MSEs in Ethiopia were found to be more credit constrained than either micro or large enterprises. Study reveals particularly, SMEs in Ethiopia perform much worse than large firms across a host of financing indicators (World Bank, 2021). World Bank study also show that SMEs in Ethiopia still confronted with challenges related to access to markets, infrastructure clusters networks, and skills gap. Practical experiences in study area also show that in AdolaWoyu town, more than half percent of registered and licensed MSEs cannot survived in the business. Official data of AdolaWoyu town Micro and small enterprise office show that only around ten percent of survived MSEs have been transformed to medium enterprise for last fifteen years. In the study area, there were no any empirical evidences that show factors that affect survival and growth of MSEs. Therefore, this study was conducted to assess challenging factors for survival and growth of MSEs with special emphasis in identification of the factors and to forward the way for solution.

1.2 Objectives of the study

To identify the challenging factors for growth of MSEs in study area

To explain how challenging factors affecting growth of MSEs in study area

To examine effects of internal factors on growth of MSE in study area

To investigate effects of external factors on growth of MSE in study area

2. REVIEW OF RELATED LITERATURE

2.1 Concepts and theoretical frame work of the study

Micro and small-scale enterprise have different meaning from country to country or there was no commonly accepted definition. As cited in article of (Londhe,2014) micro enterprises can be defined differently. Depending on country's stage of development policy objectives and administration. Most definition of MSEs depend up on the policy makers (financier, labor officers, traders and service persona) the common criteria that were used by different countries were 1- number of employees 2-asset employed 3- sales turn over or 4-combination of the above three factors. The central statistical authority (2002) of Ethiopia, defined MSEs as house hold type establishment /activity/, which were mainly engaged in marketed production were not registered companies or co-operatives have no full written book of accounts, have less than 10 persons engaged in the activities and have no license. According to Tadese (2010), the universal definition of micro and small-scale enterprises does not exist given the multitude of different economic, social, and geographic differences with international context of micro and small-scale enterprise. In some countries micro and small-scale enterprises were categorized based on the capital that was invested and, in some countries, based on the employment opportunity they provide.

MSEs were businesses that were basically privately owned and operated, with a small number of personal, and a relatively low volume of sales. Small businesses were normally privately owned

corporation, partnership or sole proprietorship. There was no universally accepted definition of small and medium sized business. The legal definition of small sized enterprise depends on each country (Joseph, John, Kale, 2013) and small businesses were the business that employees a small number of employees as well as micro enterprises will usually operate with fewer than 10 people and was started with a small amount of capital. Most micro enterprises specialize in providing goods or service for their local area (Investopedia 2016). MSEs, has no standard definition. MSEs have been identified differently by various individual and organization, such that an enterprise that was considered small and medium in one country was viewed differently in other country. Some common indicators employed in the various definitions include total assets, size of the labor force employed, and annual turnover and capital investment (Asma 2015).

As indicated in Ethiopia, MSE strategic document, the definition of micro and small-scale enterprises was smooth and has not been universally agreed for a decade. According to Ethiopia micro and small-scale enterprises development strategy, the working definition of MSEs in Ethiopia was based on capital and number of employees and by type of service (MOUDH, 2012). Thus, during 1997 Micro enterprises were those business establishments with a paid-up capital of not exceeding birr 20,000 and less than employees excluding high tech consultancy and high-tech establishment. The definition given to MSEs on that time was only based on paid capital or capital investment as most business was confined to family man power basis. Hence during 2012 MSEs strategy, the definitions of MSEs were amended, accordingly as it was stated in the amended MSE 2012 policy and strategy of Ethiopia as it was re-edited in 2016 definition of micro and small-scale enterprises was stated below. For the industrial sector (manufacturing, construction and mining); it refers to enterprises employing 6-30 persons and with total assets of from ETB 100,001 up to 1,500,000 for the service sector (retail trade, transport, hotel, tourism and information technology and maintenance service). This refers to enterprises that were employing 6-30 persons and with total assets of at least ETB 50,001 and up to ETB 500,000.

2.2 Challenges of MSEs Growth and development

Ardishvili et al. (1998); Delmar (1997), Weinzimmer et al. (1998) and Wiklund (1998) stated that growth of enterprise were reflected through profit, market share, employment, physical output and assets. While the firm was expanding those elements, it may be challenging to create new managerial services, skills, efficiency and organization structure in order to keep and capture the growth possibilities (Davidsson et al., 2010).

Another general aspect concerning challenges that holds for a majority of small firms was that the notion of not have enough working facilities that hinder firms' growth. Consists of lack of capacity within the facility was also other challenges that identified by scholars (Persson, 2011). The business environment was one of the most important creators of challenges for growth, and it was argued that institutions systematically have hindered growth of independent businesses (Davidsson & Henreksson, 2002). The challenge of growth appears with the difficulties to operate in an environment where a firm was not aware of the set of rules. Ekberg and Hedell (2011) studied and summarized challenges of MSEs into two internal and external. They also categorized challenges as tangible which they refer it as lack of assets and intangible refers to lack of human resources

2.3 Theories of the study

2.3.1 Business management theories of change

Studies show that a lack of managerial skills and capacity among SME employees and leadership constitutes a significant constraint to firm growth and the ability of SMEs to withstand economic shocks (Bruhn, M., D. Karlan, and A. Schoar, 2013 and Mano, Y., et. Al 2012). Business

management theories of change state that building the capacity of SME owners and employees will improve the performance of their enterprises. Basic-level management training was shown to improve business practices and, therefore, increase profits and/or employment, although the extent of improvement on these indicators was small and varied considerably among beneficiaries, depending on their base level of management knowledge and capacity (Bruhn et al., 2013 and Mano et al., 2012). Even though this theory stressed on SME employees and owners can improve their skills and capacities by participating in a training program, it criticized for this not more validated by literature as that it link between training and increased sales and growth. Despite of criticism, this theory was preferred for this study to investigate how training affects growth of MSEs in study area.

2.3.2 Access to finance theories of change

Studies reveal the limited access to finance for investments was one of the most serious obstacles to SME growth, and access to credit was an important determinant of firm performance (Loening, J., B. Rijkers, and M. Soderbom, 2010). This theory explain that availability of credit allows firms to invest in productive assets that were likely to lead to productivity growth, increase production, and hire new employees as inputs to production. SMEs need working capital, as well as finance, for investment projects, where the terms match the expected chronology of the returns (e.g., the finance has the right term structure)

However, evidences show that banks in low-income countries generally do not have the appropriate products, and the high transaction costs for lenders to process, monitor, and enforce small SME loans increase interest rates, making borrowing more expensive or unavailable for SMEs, relative to larger firms. Part of the problem was legal (movable collateral, as well as an effective system to actually repossess or foreclose on property) and informational credit history and probability of repayment (Ayyagari, Demirguc-Kunt, and Maksimovic, 2017)

Access to finance theories of change suggesting that expansion of collateral laws to include movable assets can have positive impacts on SME employment growth, efficiency, and profitability. Therefore, this theory was selected for this study in order to use it as supportive evidences of the suggestion that will be given after study. Ayyagari et al., (2017) suggested that collateral system reforms can lead to greater lending, especially for smaller and younger firms

2.3.3 Market access theories of change

Market access theories of change stating that expanding market share can provide SMEs with opportunities to scale up and grow. But empirical evidences reveal that entering these markets can be a formidable challenge. SMEs struggle to access information about market opportunities, and potential clients do not know how to easily find SMEs that can meet their needs. Moreover, many market opportunities were out of reach for SMEs, due to legal and financial constraints, along with high quality standards (Innovations for Poverty Action, 2017)

The evidence from (Innovations for Poverty Action, 2017) suggests that market linkages programs increase SME sales and employment and that these programs positively affect SME sustainability. In the case of buyer firms, a market linkages approach contributes to increased sales and positively affects their ability to export

2.3.4 Innovation theories of change

Theory states that Innovation was a key element of competition and driving efficiency within markets. However, on average, SMEs were less innovative than large enterprises and they innovate

in a different way. SMEs command fewer resources, have less research and development (R&D), and generally face more uncertainties and barriers to innovation (Castillo et al., 2011). Since innovation was vital for increasing productivity and contributing to overall economic growth, governments and donors were supporting interventions that foster a sound business environment, help SMEs to develop and use their internal strategic resources effectively, and build an innovation system that was effective in the commercialization of research and inclusive of a large range of SMEs (Piza et al., 2013). The evidence shows that applying technological advances leads to more effective use of productive resources. The transformation of new ideas into new economic solutions (new products and services) was the basis of sustainable competitive advantages for firms (Cook and Olafsen, 2016). Even though innovation theory was criticized, as it may be seen as potential threat to employment, in particular when technological change may lead to the substitution of labor with capital; it will be preferred to investigate challenges of MSEs in study area with regard to innovation.

2.3.5 Challenges of MSEs Growth and development

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Another general aspect concerning challenges that holds for a majority of small firms was that the notion of not have enough working facilities that hinder firms' growth. Consists of lack of capacity within the facility was also other challenges that identified by scholars (Persson, 2011)

The business environment was one of the most important creators of challenges for growth, and it was argued that institutions systematically have hindered growth of independent businesses (Davidsson & Henreksson, 2002). The challenge of growth appears with the difficulties to operate in an environment where a firm was not aware of the set of rules

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2.4 Empirical studies

The empirical related literatures tried to review several studies that were conducted both inside and outside the country by different researchers on the assessment of challenging factors of growth of micro and small-scale enterprises and summarized as follows.

A firm's ability to grow and strengthen its competitiveness depends highly on its potential to invest in new ventures, innovation, improvement and diversifications over time (ITCSME competitiveness, 2015) while small firms mainly employ or engage the poor, the growing firms can help them out of poverty with higher, more stable wages (ANDE, 2012) also, Gebreyesus (2007) to show a study using learning model of firm growth to investigate some key issue of success, particularly employment expansion among micro-enterprises in six major towns in Ethiopia. The finding indicates that firm's initial size and age were inversely related to growth providing evidence that small and younger firms grow faster than larger and older firms and the finding was consistent with the learning hypothesis.

Financial source, access to infrastructure and access to working premises were significant factor affecting the growth of micro and small-scale enterprises. Similarly, the study by Tefera et al (2013) on growth determinants of micro and small-scale enterprises in Mekele city indicates that sex of the manager, initial investment on the firm, location of, and the sector in which firms operate determine the growth of MSEs. According to the studies conducted by Ibrahim (1986), provide evidence that management skills were critical factors in both the failure and success of business (Lichtenstein and bursh, 2001). The illustrate that according, cash flow and marketing need management skills and lack of them was a major cause of failure. Weaknesses in these areas were found to impact on all others areas of the business. A lack of management skills and expertise was major hindering the progress of the SME sector in Kenya.

A study conducted by bhavani T.A (2012) highlight the issue of quality employment generation by the SSIs and negates the short-term attitude of increasing the volume of employment generation compromising with quality. The author argues that employment generation by the SSIs may be high in quantitative term by very low in quality. Technological up-gradation would enable the small firms to create quality employment improving remuneration, duration, and skills. This structure shift may reduce the rate of employment generation in the short run but would ensure high income employment generation in the long run. The study made by Subrahmanya Bale (2011) has probed the impact of globalization on the export's potentials of the small enterprises. The study shows that share of SSIs export in total export has increased in protection period but remain in more or less stagnated during the liberalization period. However, the correlation co-efficient in liberalization period was higher than that of protection period suggesting that the relationship between the total export has become stronger in liberalization period. This may be due to the drastic change in composition of SSI export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusing of improved technology, finance, and marketing techniques should be emphasized.

As study done by Akampumuza (2007) noted that one of the most difficult problems facing the Nigerian SMEs was lack of good advice, lack of education, high illiteracy levels, high incidence of poverty, disease, inadequate information, poor decision making, shortage of skills, lack of efficiency, lack of lending policies, pour of record keeping as well as the amount to be borrowed. Scholars explain the reason why it was dangerous for the small-scale enterprises to borrow from the formal credit market. According to Thibaultiet al (2002) suggest that factory influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees as important factor in examining the performance as small-scale business operators. As per study by owulalah (1999) remarked that an entrepreneur in small scale business in a bid to achieve the organizational objective is therefore confronted with bundles of problems such as inadequate capital and lack of access to financial services, due to terms and conditions of financial institution poor financial management owner was personal habits, lack of training, inadequate infrastructure, marketing problems, employment and over reliance on relation among other. Additional to the above challenge and problem, disprove corporation and the selection of working sector and place the other challenge. This was gap of the research so I skim this problem on my research addition to the empirical studies for others research. Tarfasa, et al (2016) conducted a research to assess the determinants of growth of micro and small enterprise by using a random sample of 300 MSEs, selected from manufacturing, construction, service trade and urban agriculture in AdisAbeba.

According to this research among managers or owners characteristics, age, marital status and education were important factor affecting growth of both micro and small enterprises. Cherkos et al (2017) studied significant factors in micro and small enterprises performance in Amhara region. In this study, working premises, access to finance, infrastructure, entrepreneurship and business managerial problems were found to be the most critical factors and took majority of the share of the causes of 50% drop-out. The study also shows that even though working areas were built, they are not functional due to lack of facilities. More ever, due to infrastructure problems of daily power interruption 25% of their work time is lost.

Kefale and Chinnan (2012) identified major problems that hindered employment growths were market problem, lack of working capital among other such as seasonality work input supply problem, power fluctuation and lack of skilled manpower, high rent, high input price, unfair competition and utilities expense are also encountered by micro and small enterprises. This indicated the fact that market problem, working capital problem and lacking of working place coupled with other factors stated above has negative impact on the employment growth in small and micro enterprises. Study by Kibret, et al (2015) identified major problems experienced by MSEs. In Gedo zone, where high tax, inefficient tax administration, prices of inputs, bureaucratic burden, lack of raw material, inadequate skills and high interest rate. Furthermore, high collateral requirement was another major hindering factor. This was due to the reason that commercial banks considered small business as high risk clients with no resource to provide collateral. Kebede and Simesh (2017) conducted a study to examine the impact of environmental factor affecting the MSEs performance in east Gojjam zone and conducted that inadequate power supply, inadequate water supply unavailability of dry waste and sewerage system unavailability of business development service, unavailability of suitable market place collateral requirement to get loan, shortage of working capital and unavailability of own working premise were identified as serious problems for performance.

2.5 Variables of the study and conceptual model

For this study, influencing factors for growth of MSEs that previously identified by scholars were focused assessed as causal factors for failure or growth of MSEs. Practical evidences from study area reveal that more than half of the MSEs established cease to survive and very few can grow and transformed to medium scale enterprises. But still there were no scholarly identified hindrance factors for the cases. Therefore, this study was assessed challenging factors for growth of MSEs in AdolaWoyu town based on the factors identified by researchers in any other areas.

Davidsson et al. (2010) identified the factors as managerial services, skills, and efficiency and organization structural factors, whereas, Persson (2011) identified it as working facilities and capacity within the facility were major factors affecting growth of MSEs. Davidsson & Henreksson (2002) suggested that the challenging factors for the growth of MSEs were factors in business environments. Ekberg and Hedell (2011) categorized factors in to two internal and external and also tangible and intangible. They pointed out that tangible factors were those factors related to physical assets, whereas intangible factors lack of technical and managerial skills.

2.5.1.1 Internal factors

Internal and tangible barriers are the lack of different systems such as methods for controlling processes and lack in gathering information about market demand, routines and so forth (Ekberg & Hedell, 2011). The author also identified internal and intangible barriers that address the lack of skilled labor, management skills how one should develop the organization and expected negative outcomes of growth. Hagos, Gebremichael, and Getie (2014) argued that there are many factors

surrounding the entrepreneur that could be important while discussing challenges of growth on internal basis; the most important factors to consider are: the manager's motivation, education and experience, and the number of founders

Internal challenge of growth is the need for allocation of resources and capabilities, which also could be referred to purposeful planning, that needs managerial capabilities to function. firm is expanding, it may be challenging to create new managerial services, skills, efficiency and organization structure in order to keep and capture the growth possibilities (Abebe & Gemed, 2020)

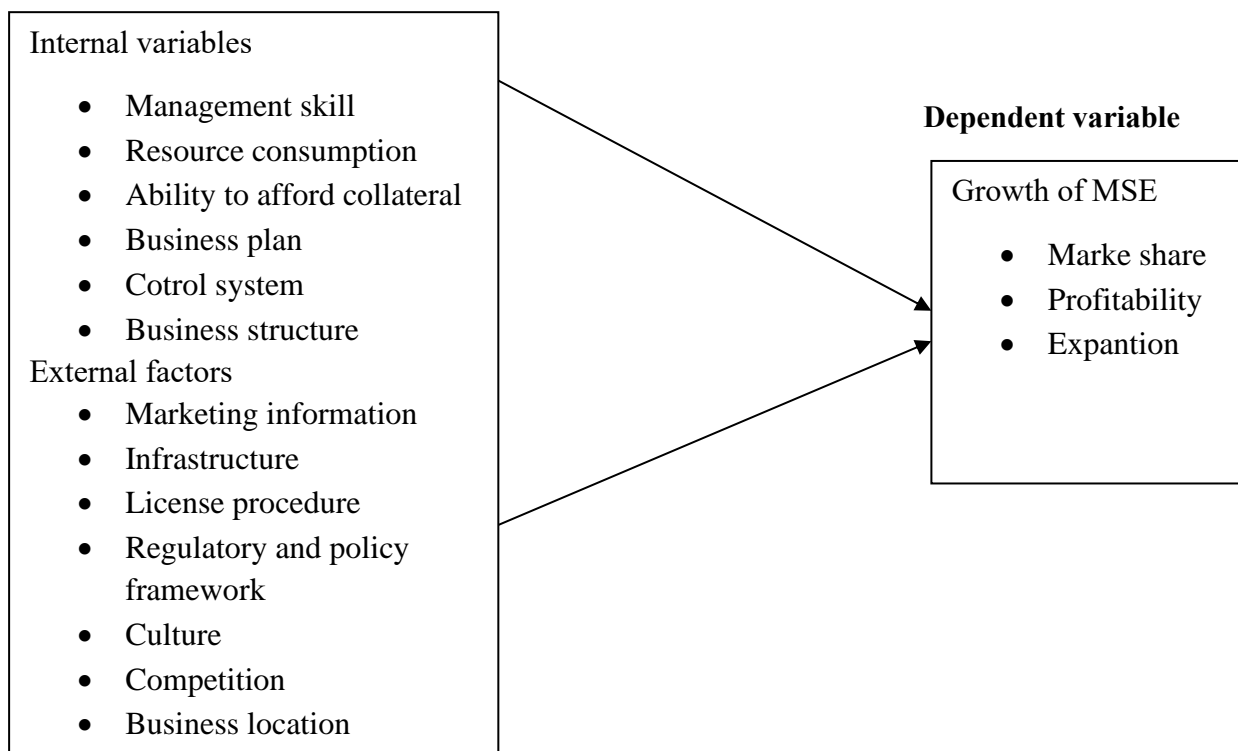
2.5.1.2 External factors

Ekberg and Hedell (2011) argued that two groups of external challenges exist; the first one is tangible challenges that refers to low availability of capital and investments for expansion and unfavorable tax and employment institutional systems. discussed four external challenges that determines small firm growth; the demand for the firm's product and services, the competitors, the production factors and the business environment. The business environment is one of the most important creators of challenges for growth. The challenge of growth appears with the difficulties to operate in an environment where a firm is not aware of the set of rules

2.5 Conceptual framework

Conceptual framework was graphical expressions of relationship between study variables. For this study internal and external variables were independents variables that predict changes in explanatory variable which was growth of MSE. Each two independent variables have sub variables as shown here under.

Independent variables



3.1 Research approach and design

The study was applied both quantitative and qualitative research approach, which was called the mixed methods, a convergent parallel mixed method is applied (Creswell, 2014). It was a form of mixed method design in which the research converges or merges both quantitative and qualitative data in order to provide a complete analysis of the research problem. In such a design both types of data gathered at nearly uniform time and conductor of the study integrated them at the time of integration. Furthermore, by using a mixed method approach at different stage of research, any bias that exists in any single methods can neutralize or remove the biases. The primary advantage of the design was that the research was able to gather a great deal of information in relatively short period of time. It was a straight forward way of finding out what people thought, felt and did. Survey methods have become sophisticated that even using a very small sample was sufficient to infer with great accuracy how a larger group would respond (Feldman, 1996).

Research design was the plan and structure of investigation so conceived in order to obtain answer research question. According to kothr (2000) research design was defined as conceptual structure with in which research was conducted. A cross sectional study design will be used by the research as general guideline for the study. The study adopted a cross sectional study method; it was efficient in collecting large amount of information within a short time. The descriptive nature describing the existing phenomenon as it exists. According to Kothari (2004) descriptive research includes surveys and fact-finding inquiries of different kinds. The major purpose of descriptive research was a description of the state of affairs as it exists at present likewise explanatory research design also shows the causal relationship between variables (sounders et al 2009). Explanatory studies were necessary for such a study that situation or problem leads to an explanation of the relationship between variables. Therefore, researcher in order to meet the objectives, a descriptive survey design will be used.

3.2 Population of the study

Since the aim of the research would be to examine determinants assessment of challenging factors of growth of micro and small-scale enterprises: in the case of Adola town, the total population of this study will be total number of micro and small scale in Adola town, according to the data from concerned office of job creation (w/r carraa hojii uumuuf ogummaa)-there were 450MSEs operating in the town among these only 212 of MSEs have invested for this study area. In this regard target population for this study will be 450 MSEs of Adola town as indicated on below table.

3.3 sampling size

The sampling size was a listing of all elements in the population from which the sample was drawn (Kothari; 2014). It contains the names of all items of a universe (in case of the finite universe only). It was extremely important for the source list to be as representative of the population as possible. Accordingly, sampling size was determined based on the Yemane (1967) formula as follows at 95% confidence 5% significance level

$n = \frac{N}{1 + N(e)^2}$ Where, n- represents sample size

N- Target population of the study

e- Tolerable margin of the error

$$n = \frac{450}{1 + 450(0.05)^2}$$

$$n = \frac{450}{1 + 450(0.0025)}$$

$$n = \frac{450}{1 + 1.125}$$

$$n = \frac{450}{2.125}$$

n= 212

3.4 Sampling techniques

For this study, stratified sampling technique will be applied so as to obtain a representative of the entire population. The population will be stratified in to five mutually exclusive MSE categories; namely manufacturing, construction, trade, urban agriculture and service. After stratification has made and size in each stratum determined depending up on percentage proportion of the sample size to ensure homogeneity within each stratum and then simple random sampling techniques will be applied to select sample from each stratum

3.5 Sources and Methods of data collection

This study will be employed both primary and secondary source of data to get consolidated data which help to reach on concrete findings.

3.5.1 Primary source of data

The study will be used primary data collection tools through structure question, with a form of fixed response alternative questions that require the respondent to select from a predetermined set of answer to all questions and interviews with some opened ended questions and interviews with some MSEs leaders on determinants assessment of challenging factors of growth MSEs in Adola town. This study intended to use two types of primary source data collection instruments listed below.

3.5.1.1 Questionnaires

The questionnaires related to the research questions and the objective of this study will be constructed to use for data collections. Such a data collection instrument will be developed in order to gather large data (Clark, Creswell, et al 2008). for this study, the research will be use a structured questionnaire in the form of nominal and ordinal to collect the required data from sample respondent. Self-administered questionnaire will prepare in English and translated to Afan Oromo for data collection in working language of the respondents and questionnaire will administer and distributed to the selected respondents

3.5.1.2 Interview

The second instrument of data collection for this study will be an interview. The reasons for conducting an interview were to collect information which was unique and to obtain information that unable to gather by the researcher through other methods (stake, 2010). Therefore, the researcher will be made an interview to support the quantitative aspect and to collect additional information which cannot to be collected through questionnaires. The qualitative data collection method through an interview in this study will be followed by semi-structured interview. Because of nature of this study, using a semi-structured interview was best to understand the opinions of the respondents about the relationship between variable (Maxwell, 2012). In the semi-structured interview, similar questions asked the participant to know the specific information which would be important to compare each other (Sounders, Lewis, et al 2009). The interview schedule was developed by the researcher based on the research questions. The interview will be made through Afan Oromo language and it will be translated to English for analysis.

3.5.2 Secondary source of data

Secondary data collected from published and/or unpublished government document, websites, reports and newsletter and annual reports of the study area.

3.6 Model Summary

Model summary was mathematical relation between dependent and independent variable that show magnitude of independent effect on dependent

$$Y = a + b_1X_1 + b_2X_2 + E$$

Were

Y= Growth of MSE

X1= Internal factors

X2= External factors

E=Standard error

b1=Coefficient of internal factors

b2= Coefficient of external factors

3.7 Validity and reliability

3.7.1 Validity

Validity of the instruments used for data collection were checked using Pearson correlation coefficients with comparative of critical table of Pearson correlation table. All items were valid since calculated value of Pearson correlation coefficient of each item was greater than critical table value of Pearson correlation coefficient at 195 degrees of freedom at 95% confidence interval and 5% significance level which is 0.138098

3.7.2 Reliability

A pilot test was carried out with fourteen conveniently selected respondents from three MSE that did not form part of the sample. Seven from respondents each MSE were purposively selected and given questionnaire to fill. With regard to questionnaires, subjects were asked to complete the questionnaires, to give their comments on the clarity of instructions and question items and to suggest any additions or rectifications that could be made to improve the instrument. And few of questions were amended based on pilot study results. Total reliability of items used to collect data was very good. Cronbach's Alpha value was .829 which indicates that total reliability of data collected for study was reliable.

4. DATA ANALYSIS AND PRESENTATION

4.1 Descriptive analysis

The numbers of variables have been identified as challenging (hindrance) factors for growth of MSE from the literature review. Among the various variables the following were selected based on their relevance for the objectives of this study and investigated. The results of investigation were as indicated here below table with average mean of respondent's responses.

Table 1: Descriptive Statistics analysis of external and internal factors

Variables	N	Mean	Std. Deviation
Internal factors	197	3.2601	.33376
External factors	197	3.0722	.32591

Valid N (listwise) 197
Source: Researcher survey (2022)

It can be seen from the table above that, average mean of the respondents answer on influencing forces on growth of MSE from internal and external factors were 3.26 and 3.07 with 0.33 and 0.33 Std. Deviation respectively. Challenging forces from internal factors was higher than that of from external factors. Here below detail analysis of mean responses of the respondents with regard to influences of from each internal and external factor included for this study.

Table 2: Descriptive Statistics Internal factors

Variables	N	Mean	Std. Deviation
Management skill	197	3.6531	.41354
Resource consumption	197	2.8917	.51903
Ability to afford collateral	197	3.1345	.57002
Business plan	197	3.8604	.58428
Control	197	2.3274	.70578
Business structure	197	3.0914	.59913
Valid N (listwise)	197		

Source: Researcher survey (2022)

Variables considered as internal factors were managerial skill, consumption of the resources, ability to afford collateral for loan, ability to plan and implement it, management control system and structure of the business. Among those variables ability to plan and implement was highly influential than other variables with mean average responses of 3.86 and 0.58 Std. Deviation. Next to plan, managerial skill was more influential with average mean response rate of 3.65 and 0.41Std. Deviation followed by ability to afford collateral for loan which has average mean response rate. Structure of the business has moderate effect with average mean of response rate of 3.09 and 0.60 Std. Deviation than consumption of resources and management controlling system that have mean average rate of responses of 2.89 and 2.33 with Std. Deviation of 0.52 and 0.71 respectively.

Table 3: Descriptive Statistics external factors

Variables	N	Mean	Std. Deviation
Market information	197	3.3841	.54055
Infrastructure	197	2.2563	.61984
License procedure	197	3.3198	.48892
Regulatory and policy framework	197	3.4543	.46819
Culture	197	2.9645	.49617
Competition	197	3.0711	.52003
Business location	197	2.3934	.70805
Valid N (listwise)	197		

Source: Researcher survey (2022)

External factors identified as challenges for MSE and investigated were market information, allocation of the resource from government, Legal procedure during start-up of the business, regulatory policy framework, Socio and culture, competition in the market and location areas of business. Among all external factors, regulatory policy framework has high effect on MSE growth in AdolaWoyu town than any other factors with average mean response rate of 3.45 and 0.47 followed by market information which has average mean response rate of 3.38 and 0.54Std. Deviation. Legal producer required during early stage of the business also has high influence on growth of MSE in study area with average mean response rate of 3.32 and 0.48892Std. Deviation, followed by competition in the market which has average mean response rate of 3.07 and 0.52Std. Deviation. Among the external variables investigated, location of business area has least effect as per the average mean responses of participant with mean values of 2.39 and 0.71 Std. Deviation next to social and cultural variable which has average mean response of 2.96 and 0.50 Std. Deviation.

4.3 Inferential Statistics

Inferential statistics was used to try to infer from the sample data what the population might look and conclusion was researched. Hypothesis testing was done to check where null hypothesis accepted or rejected based on the p-value. The p value was the probability indication that the samples were from the same population with regard to the dependent variable (Creswell, 2010). The main reason for testing of significance was to calculate the probability that an observed outcome has merely happened by chance. It can used to estimate whether or not we think the null hypothesis was true. Decision rule was rejecting null hypothesis if the P-value was small ($P < 0.05$), otherwise accepting it.

4.3.1 Correlation Analysis

Correlation analysis statistical tool used to describe the strength and direction of the linear relationship between independent and dependent variables

Pearson correlation coefficients (r) can be used to see relation between variable in two dimensions which ranges from -1 to $+1$. The sign indicates whether there was a positive correlation or a negative correlation, whereas, the size of the absolute value (ignoring the sign) provides an indication of the strength of the relationship between variables. A perfect correlation of 1 or -1 indicates that the value of one variable can be determined exactly by knowing the value on the other variable. The values approaching 1 or -1 indicate strong relation, while values close to zero indicate weak relationships. This part contained the relationship between challenging factors and MSE growth.

Table 4: Correlations

		Business growth
Business growth	Pearson Correlation	1
	Sig. (2-tailed)	
	N	197
Management skill	Pearson Correlation	.292**
	Sig. (2-tailed)	.000
	N	197

Consumption in resource	Pearson Correlation	.364**
	Sig. (2-tailed)	.000
	N	197
Ability to afford collateral	Pearson Correlation	.508**
	Sig. (2-tailed)	.000
	N	197
Business plan and implementation	Pearson Correlation	.450**
	Sig. (2-tailed)	.000
	N	197
Control	Pearson Correlation	.479**
	Sig. (2-tailed)	.000
	N	197
Business structure	Pearson Correlation	.596**
	Sig. (2-tailed)	.000
	N	197
Market information	Pearson Correlation	.656**
	Sig. (2-tailed)	.000
	N	197
Infrastructure	Pearson Correlation	.685**
	Sig. (2-tailed)	.000
	N	197
License procedure	Pearson Correlation	.231**
	Sig. (2-tailed)	0.001
	N	197
Regulatory and policy framework	Pearson Correlation	.306**
	Sig. (2-tailed)	.000
	N	197
Culture	Pearson Correlation	.347**
	Sig. (2-tailed)	.000
	N	197
Competition	Pearson Correlation	.433**
	Sig. (2-tailed)	.000
	N	197
Location of business	Pearson Correlation	.535**
	Sig. (2-tailed)	.000
	N	197

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

Source: Researcher survey (2022)

As shown on table above all variables were significantly and positively correlated with dependent variable, even though degree of correlations were varies among variables. Akoglu (2018) suggested that interpretation of Pearson correlation coefficients as absolute value of 1 was perfect correlation, correlation coefficient values range between 0.7 and 0.9 represent strong correlation, Values ranges between 0.4 and 0.6 represent moderate correlation, Values ranges between 0.1 and 0.3 represent weak correlation and 0 value represent no correlation between variables. Accordingly, most of the variables of the study lies within the ranges of moderate correlation with dependent variable with Pearson correlation coefficients ranges from 0.4 to 0.685. Independent variables such as Ability to afford collateral, Business plan and implementation, Management control, Business structure, Market information, Resource allocation, Competition and Location of business have moderate correlation relation with MSE business growth, while such variables as Social and culture, Regulatory and policy framework, Startup legal procedure, Consumption in resource and Management skill has weak correction with MSE business growth in study area with Pearson correlation coefficients less than 0.4

4.3.2 Linear regression assumption diagnosis test

In research data analysis, before regression analysis it needs to check data as it may fulfill OLS assumption or as it may violate to detect effects of outliers. Among the OLS assumptions in linear regression analysis tested here in this study were test for linearity assumption, test for normality of the residuals, test for multi-collinearity and test for Heteroskedastic effect. From OLS assumption diagnosis test researchers approved that there was no violation of OLS assumption to use linear regression analysis. Therefore, multiple linear regression were employed. The result of diagnosis test were annexed below

4.3.3 Multiple regression analysis and hypothesis testing

4.3.3.1 Analysis of model summary and ANOVA

Table 5: Model Summary

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.952 ^a	.906	.899	.11181	.906	135.215	13	183	.000

a. Predictors: (Constant), Mlocation, Mstartupprocedur, Mskill, Msocialandculture, Mstructure, Mcompetition, Mresource, Mplan, Mcollateral, Mmarketinf, Mcontrol, Mresourceallocation, Mregulatorandpolicyfrmwrk

Source: Researcher survey (2022)

The model used was fit for the data, as it can be seen from the model summary table above. The F-statistic was significant at p-value of .000 which indicates good model fitness. The R-square and Adjusted R-square values were sufficiently explaining predicted variable. From Adjusted R-square value we can see that independent variables used for this study have all together the ability to explaining dependent variable at 89.9% which indicates high predictive power that they to explain the variation in dependent variable which was business growth. For the predicted variable of this study only, 11.1 % of the variation can be caused by any other variables that have not been used

for this study. This case implies that the relevant variables were used for the study and appropriate model was employed.

Table 6: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	21.975	13	1.690	135.215	.000 ^b
Residual	2.288	183	.013		
Total	24.263	196			

Source: Researcher survey (2022)

a. Dependent Variable: Business growth

b. Predictors: (Constant), B/Location, startup procedure, M/skill, Social and culture, B/structure, competition, C/resource, plan and implementation, A/collateral, M/information, M/control, resource allocation, regulatory and policy frame work

The test Analysis of variance (ANOVA) was conducted to determine whether the model works in explaining the relationship among variables and to test variance among the groups in the study. The result indicates that the null hypothesis which states no mean differences among the groups was rejected alternate hypothesis accepted for the fact that the p-value was very lower than 0.05 which was 0.000. It implies that there was significant difference among the mean of the group that can be seen from result of ANOVA table. F-statistics was significant at $F(13,183) = 132.22$ p-value of 0.000.

Therefore, the model used was significant fit for data and the variability in dependent variable which was business growth was actually caused by variation in predictors such as Managerial skills, Consumption of the resource, Business plan and implementation, Business structure, Ability to afford collateral, Management control, Market information, resource allocation, Legal and start up procedures, Regulatory and policy framework and Business location.

Regression Coefficients and interpretation

Table 7: Refression table

Model		Unstandardized		Standardized	t	Sig.
		Coefficients	Coefficients	Coefficients		
		B	Std. Error	Beta		
1	(Constant)	.137	.115		1.190	.236
	Management skill	.164	.025	.193	6.642	.000
	Resource consumption	-.054	.020	-.079	-2.669	.008
	Ability to afford collateral	.055	.019	.090	2.910	.004
	Business plan	.158	.018	.263	8.596	.000
	Control	.031	.016	.062	1.899	.059
	Business structure	.145	.018	.247	7.966	.000
	Market information	.117	.023	.180	5.170	.000
	Infrastructure	.283	.018	.498	15.315	.000
	License procedure	-.031	.022	-.044	-1.416	.159
	Regulatory and policy framework	-.003	.027	-.004	-.123	.902
	Culture	-.036	.019	-.051	-1.941	.054
	competition	.103	.019	.153	5.530	.000
	Business location	.038	.016	.077	2.410	.017

a. Dependent Variable: Growth in MSE

Source: Researcher survey (2014)

From the regression table above, it can be seen that all internal factors were significantly affecting growth MSE in study area except management control which was insignificant at the “t” and p-values of 1.899 and 0.059. All null hypothesis for internal factors were rejected except null hypothesis for managerial control that have no significant effect on business growth as it have seen in regression table with p-value of greater than 0.05. From the external variables of the study; four were significantly affecting MSE business growth in AdolaWoyu town, which were market information, resource allocation, Competition in the market and location of the business. Three of the external variables included in study have no significant effect on MSE business growth at AdolWoyu town. Those variables were License procedure, regulatory and policy framework and social and cultural factors. They were insignificant at “t” and p-values of -0.044 and 0.159, -0.004 and 902 and -0.051 and 0.054 respectively. The null hypotheses of those three variables were accepted while the null hypotheses of four variables were rejected.

All Variables that have negative effects on business growth in study area such as Resource consumption, business licence procedure, regulatory and policy framework and culture are insignificant except resouece consumption. Negative sign of resource consumption indicates that increase in unbalanced resource consumption negatively affecting business growth. Unit increase in unbalanced resource consumption resulted in 5.4% decrease in business growth. In the same manner all negative sign in all variables indicates opposite direction effect, eventhough the effects are insignificant in others variables.

5.1 Summary of major findings

The study was designed to investigate challenging factors for growth of MSE in AdolaWoyu town of Guji zone oromia regional state, Ethiopia. In order to accomplish objective of the study data was collected from MSE members in Adola town through written questionnaires and interview. In addition to MSE members, AdolaWoyu town administration officers who have responsibility to administer and control over MSE were interviewed. Data used for study were collected from 212 respondents and analyzed using descriptive statistics such as frequency table, mean and standard deviation and inferential analysis as correlation and multiple regressions. Based on the above discussion, the following summary of findings were drawn

- The result of the study reveals that internal factors have potential influence than external factors which account average mean of 3.2601. Among the internal factors, ability to prepare and implement business plan was highly influential as it indicated in average mean of responses of participant 3.8604 followed by managerial skill to lead and control business with average mean of response 3.6531.
- Descriptive analysis of factors reveals also that among external factors that influence growth of MSE in study area, regulatory and policy framework and market information were major determinants with average mean responses of 3.4543 and 3.3841 respectively.
- All factors identified and included in this study; both as internal and external factors were significantly and positively correlated with MSE business growth in study area. The most variables from both internal and external have moderate correlation with dependent variables while variables such like Social and culture, Regulatory and policy framework, Start-up legal procedure, Consumption in resource and Management skill has weak correction with MSE business growth in study area with Pearson correlation coefficients less than 0.4
- Regression result reveals that management control from internal factors, start-up procedure, regulatory and policy framework and social and cultural variables from external factors were insignificant.

5.2. Conclusion

The main purpose of this study was to investigate challenging factors for MSE growth in AdolaWoyu town. For the matter of that, number of factors were identified by grouping in to two internal and external and investigated. From the result of the study researcher concluded that internal factors strongly affect MSE business growth in AdolaWoyu town than external factors. It can be generalized that business plan was vital for business growth if it well prepared and implemented. Managerial skill to lead business was also significant and influential among internal factors that can be determines business growth. Internal factors were both descriptively and inferentially realized as it highly influencing growth of MSE business in study area. Member of the MSE in AdolaWoyu town believe that government regulation and policy framework and market information were highly affecting their business from external factors, even though, regulatory and policy framework was not statistically insignificant to affect business growth. It can be concluded that regulatory and policy framework and start up procedure have no significant effect on growth of MSE in AdolaWoyu town rather than it affects startup of the business. The finding of this article has managerial decision-making implication by indicating variables need to be given focus. MSE leaders and concerned officers can use the findings of this reaserch to lead and coordinate growth of business by controlling influential factors.

5.3 Recommendations

Based on the findings and conclusion; the following suggestions were forwarded.

- Both parties, government and member of MSE should have to give attention for internal factors for successful growth of MSE business
- Business plan preparation and implementation should have to given more attention since it has potential influence than all other internal factors
- At equal rate to business plan; managerial skill to lead business is should have given. Government needs to give training for business leaders to update their skill to lead business
- Among the external factors marketing information, resource allocations for business and competitions in the market need to be given special attention for business growth.
- Member of MSE in AdolaWoyu town need to watch market information and should have to be alert for competitions in the market since those factors have statistically significant effect
- Government should have to be fairly and equitably allocate resources for MSE in the town in the form of infrastructure and loan disbursements

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