

**THE IMPACT OF PERSONAL AND LEGAL FACTORS ON  
THE SUCCESS OF ENTREPRENEURS: EMPHASIS ON  
MICRO AND SMALL ENTERPRISES IN ADDIS ABABA**

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**COLLEGE OF BUSINESS AND ECONOMICS**

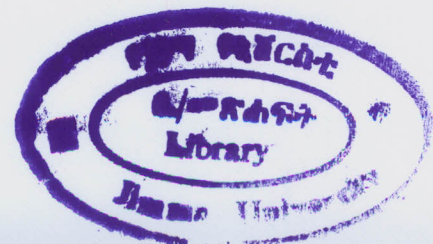
**MANAGEMENT DEPARTMENT**

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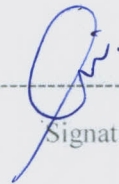
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## Declaration

I, the undersigned, declare that this MBA project paper is my original work, has not been presented for a degree in this or any other university and that all sources of materials used for the thesis have been fully acknowledged.

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## Abstract

*This study investigates the impact of personal and legal factors on success of entrepreneurs and their contribution for the employment generation and capital growth. This study further aims at identifying the relationship between personal factors of the entrepreneurs and their success, assessing government measures taken to promote MSEs success and describing legal factors contribution for success of MSEs. A self administered questionnaires and semi structured interview were used for data collection. The questionnaire was distributed to 190 randomly selected respondents; resulted in 160 viable responses for data analysis. A semi structured interview was held with officials of MSEs of Addis Ababa in the sampled sub cities, namely, Lideta and Kolfe Keranyo. A collected data were then analyzed using descriptive statistics and logistic regression. The result reveals that 117(73%) enterprises were shown capital growth and 43(26.9%) were not. Whereas, 61(38.1%) enterprises were grow in terms of employment and 99(61.9%) were not. The result of logistic regression shows Age of the owner, Industry experience, and legal factors are significantly and positively related to employment growth/ success except for age of the owners which is negatively related to employment growth and  $H_0$  was rejected. Whereas, education of the owner, family background, property protection, financial factors, training, government support and management experience effect was insignificant. In the second model, which is measuring capital growth,  $H_0$  was rejected and Industry experience, Management experience, Training of the owner, financial, Marketing and legal factors are found significant and positively related to success. And also, age of the owner, Education, government support and property protection contribution for capital growth were found insignificant. As such, some personal characteristics and government support programmes have a positive impact on success of entrepreneurs.*

**Key terms:** Success, Entrepreneurs, Growth, personal factors, Legal factors and Government support



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## **List of Acronyms/ Abbreviation**

CSA	Central Statistics Agency
DWCP	Decent Work Country Programme Ethiopia
EMPRETEC	Technology based Enterprise development. It is integrated entrepreneurship & innovation capacity building program
GDP	Growth Domestic Product
GTP	Growth and Transformation Plan
MoTI	Ministry of Trade and Industry
MSE	Micro and Small Enterprises
MSEDA	Micro and Small Enterprises Development Strategy
NEPASE	National Employment Policy and Strategy of Ethiopia
NEPS	National Employment Policy and Strategy of Ethiopia
SPSS	Statistical Package for Social Science
TVET	Technical Vocational Education and Training
UNDPEO	United Nation Development Programme Evaluation Office

## CHAPTER ONE: INTRODUCTION

This chapter contains background of the study, statement of the problem, objectives, research questions, scope, significance and limitation of the study and finally presenting organization of the paper.

### 1.1. Background of the Study

Entrepreneurs play a significant role in the development of a country; it enhances the path and the quality of economic development of a given state by creating employment opportunities, enhancing innovation, and bringing economic development. Entrepreneurs accelerate economic development of any country as they are the prime creator of firms (Spulber, 2008).

As the study made by Thomas and Mueller (2000) indicated entrepreneurial activity is helping developed states in repositioning their dying industries, in creating jobs for employment problems created by corporate restructuring and downsizing, and in enhancing economic flexibility and growth. Similarly, entrepreneurship is contributing a lot to developing countries by stimulating economic growth, replacing state-owned enterprises, creating jobs and empowering the disadvantaged segment of the population Harper (Cited in, Abimbola and Agboola, 2011).

Given the huge contributions of the sector, encouraging Micro and Small Enterprises (MSEs) sector which is described as the national home of entrepreneurship has a great advantage. It provides the ideal environment enabling entrepreneurs to exercise their talents to the full level and help them to attain their goals. In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress at large, (Micro and Small Enterprise Development Strategy, 1997).





Nichter and Goldmark (2003) have demonstrated the significance of the contribution made by MSEs in both developed and developing states. Accordingly, Approximately 97% of firms in Mexico and Thailand and over 96% in United States are MSE. Considering this reality, many countries are giving emphasis on the development of MSE's as a tool for entrepreneur expansion and hence, economic advancement.

Likewise, entrepreneurship development and MSEs are one of the areas given major attention in Ethiopia. The country's economy is mainly based on Agriculture; In 2011, Agriculture contributed major (46.4%) for GDP followed by service sector which contributed 44.1 %, leaving only about 4.2 % for construction, 3.6% for manufacturing and mining and quarrying contributes 1.7% (World Bank, 2012). Besides, majority of the country's population is relied on farming and there is high unemployment rate. According to the Report of DWCP (2009-2012), while the population growth rate of Ethiopia is 2.79%, the labor force (the employed and unemployed) has continued to grow faster than what the economy can gainfully and productively employ. The working age population stood at 54% of the population in 2004/05 GC, and is growing by about 1.2 million people per year.

Similarly, the World Bank (2011) report confirms that the national figure of the unemployment rate of male labor force is estimated at 12.1% of the total labor force and 20.9% females are unemployed in the country in 2009. According to the 2005 National Labor force survey, unemployment rate for the urban areas is estimated at 20.6%, which was about ten times higher than in the rural areas (2.6%). High number of population and lack of sufficient large scale industries to absorb the growing labor forces demands the state to thoroughly work on entrepreneurship development areas.

Considering all the problems presented here, Ethiopian government gives a due consideration for creating wider employment opportunity through promotion of MSE's by developing MSE strategy in 1997 and improving capability of highly labor intensive manufacturing sub sectors; such as, food and beverage, textiles, leather and chemical



products. Yet, all these measures of the government do not show clear paths to alleviate constraints of the sector, for instance, high competition from international and domestic large firms of the sector (Bekele and Muchie, 2009).

According to the 2005 World Bank Report indicates that poor countries, such as, Ethiopia are usually heavily regulated in terms of policy. It further stated that in countries like Ethiopia, MSEs have one of the two options: either compliance with regulation or operating in the informal sector. Leaving firms to continue in an informal sector is not good for the health of country's economy. Because, those firms operating in an informal sector do not pay taxes for government and create unnecessary competition for legally registered and operating firms. Given this reality, giving special emphasis on the effect of legal or policy factors on the progress of MSEs is justified. Starting up a new business might be easy, but having success is more difficult for MSEs especially in developing countries mainly as a result of these stringent regulations and policy framework coupled with absences of good entrepreneurship qualities.

This is reconfirmed by finding of the World Bank (2004) which states, businesses in poor countries face much larger regulatory burdens than those in rich countries. They face three times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them. And they have fewer than half the protections of property rights of rich countries. Heavy regulation and weak property rights exclude the poor from doing business. In poor countries 40% of the economy is informal. Women, young and low-skilled workers are hurt.

Regulation or policies might be particularly important in low and moderate income communities where the return measured in terms of net employment creation and economic development might be particularly high for generating high performance entrepreneurial firms (Audretsch and Lehmann, 2006).

In addition to the legal factors, Aldrich and Martinez (Cited in Makhbul, 2011) has demonstrated that personality trait of an entrepreneur, i.e. desire for independence, locus

of control, creativity, risk taking personality and need for achievement, is extremely difficult to demonstrate a causal relationship between personality traits and entrepreneurial behavior and success. However, they acknowledged that background characteristics have been shown to do that rather well. This background characteristic includes prior managerial experience, prior start-up experience, prior management team experience, knowledge, skills and abilities, and prior experience in the line of business. In addition to formal education, knowledge gained from training is also contributing to successful entrepreneurs.

In conclusion, it can be seen that legal and personal factors have major impact on the success or failure of entrepreneurship. As a result, it is reasonable to conduct research to identify the impact of legal and personal factors in context of four country. Thus, one must understand that there are other factors that can contribute for the success or failure of entrepreneurs, including, firm specific and other external factors (Schutjens and Wever, 2000).

## **1.2. Statement of the Problem**

A research based expansion and support to promote success of MSEs and upgrade them to the Medium and Large level Enterprises is a highly essential in countries like, Ethiopia; so as to enhance country's economic development and reduce unemployment problems. National Employment Policy and Strategy of Ethiopia (2009) also clearly indicated that the public sector can no more be the biggest employer.

Many researchers (e.g. Eshetu, 1999; Abebe, 2011; Tadesse, 2011; Bekele and Worku, 2008) were tried to investigate MSEs success and/or failure of MSEs in Addis Ababa. Nonetheless, literature review indicates that most of these studies were mainly focused on determining the impact of socio-economic situations of entrepreneur, firm factors and personal traits of an individual on the success of entrepreneurs. Moreover, lack of adequate finance, access to land, lack of access to market and the like are identified as some of the factors for the failure of MSEs on specified studies. However, the report made by UNDP (



1999) shows that the primary barrier to economic growth in developing countries is often not so much a scarcity of capital, labor or land; it rather is a scarcity of both the dynamic entrepreneurs that can bring these resources together and the markets and mechanisms that can facilitate them in this task. Hence, it is a clear indication that the dynamic character or personal factors of an entrepreneur along with good mechanisms, including properly devised policies can play pivotal role in bringing economic growth to a state.

Since, most MSEs are managed and controlled by their owner, their success or failure is also relied on the characteristics and quality possessed by the entrepreneur. Katwalo (2001) also indicated that it is important to study the entrepreneur's personality, entrepreneur's background and experience, and entrepreneur's skill including how they learn to determine reason of failure or success of entrepreneurs.

Besides, the legal environment in which they are operating has a great impact on the success or failure of enterprises. According to the survey report on MSEs (1997) in Ethiopia, despite the huge contribution of MSEs to the economy, it is stated that MSEs are largely constrained by various policies, structural and institutional related problems and bottlenecks. For instance, if government makes registrations easy by enacting proper laws, more entrepreneurs start business in a formal sector, creating more jobs and generating more revenue for the government (World Bank, 2012). If the government fails to do so, many firms will be forced to start their business in an informal way and the government loses a huge amount of money that could be collected as a tax and it will create unnecessary competition for legally registered firms.

Though, many studies are conducted on the effect of entrepreneurial characteristics and legal factors in different countries, including, Ethiopia (Abimbola and Agboola, 2011; Bekele and Muchie, 2009; Brixiova and Asaminew, 2010) there is lack of enough and detailed study conducted in Addis Ababa.

Given the aforementioned facts and assertions, it is quite necessary to undertake a thorough research on these issues giving due emphasis on the impact of the major success factors, to

identify how some firms are succeed and grow while others cannot celebrate even their first anniversary, by considering Individual and Legal factors. To this end, this study tries to examine the relationship between personal and legal factors and success of entrepreneurs in Addis Ababa to facilitate their growth.

### **1.3. Research questions:**

1. Do personal characteristics of entrepreneurs contribute for the success of entrepreneurs operating MSEs in Addis Ababa?
2. Does legal environment of the country specifically on the area of MSE contributes for the success of entrepreneurs in Addis Ababa?
3. Do various measures taken by the government toward assisting the success of entrepreneurs contributes for their success in Addis Ababa?

### **1.4. Objectives of the study**

#### **1.4.1. General objective**

The main objective of this study is to analyze the Impact of Personal and Legal factors on Success of Entrepreneurs operating Micro and Small Enterprises in Addis Ababa.

#### **1.4.2. Specific Objectives**

The specific objectives include;

1. To identify the relationship between personal factors of the entrepreneurs and their success who are operating in Addis Ababa.
2. To describe the legal factors, those specifically affect the operation of MSEs, contribution for success of MSEs operating in Addis Ababa.
3. To assess the impact of various measures taken by government to promote MSEs success in Addis Ababa.



## **1.5. Significance of the study**

The finding of this research will benefit for different parties including:

**For Researchers :** Findings from this study will help researchers in filling the gap of literature with respect to the study area by providing a deeper understanding of the impact of personal and legal factors on success of entrepreneurs in Addis Ababa.

**For Micro and Small Enterprises Owners:** this study will contribute a lot for owner of MSEs in Addis Ababa to identify relevant individual factors they should possess to achieve their goal and to know the main legal factors which can affect their success.

**For practitioners:** in the third place the result of this study will help Addis Ababa MSEA and other practitioners in the area of MSEs by serving as an input for their carrier in implying whether their policy is working as aimed or not.

## **1.6. Scope of the study**

Even though, there are different factors that can be researched in relation to success factor of MSEs, this study is delimited to investigate the impact of personal factors i.e. age of the owner, educational background, management experience, industry experience, family background and training of the owner and legal factors include government policies aimed at supporting MSEs and regulatory factors of the country on the area of MSEs on success of entrepreneurs operating in manufacturing sector in Addis Ababa, by considering entrepreneurs operating for at least three years.

## **1.7. Limitations of the study**

This study was made on MSEs operating in Addis Ababa; given the fact the city is the political and economic sector of the country. Nonetheless, the result of this study may not apply for other MSEs operating outside Addis Ababa. Similarly, this study considers only the legal and personal factors, given the importance of the factors and considering the shortage of capital and time. However, there might be other factors other than these that can

affect MSEs success. Likewise, this study limited MSEs operating in manufacturing sector. Thus, care must be taken in generalizing for MSEs operating in other sectors.

The other limitation of this study is that, this study used cluster sampling of unequal size, which can produce estimates with the largest variance by considering the difficulty of taking samples from all sub cities found in Addis Ababa. Though, Single average annual growth formula is the most popular and better way of measuring growth (File, 2012; Gebreeyesus,2007) it may not fully show the fluctuation in employment/capital in years found in the middle of the study period.

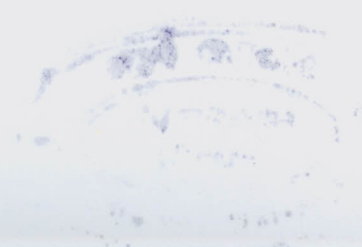
### **1.8. Definition of key terms**

The following conceptual definitions are given for the following words for this study.

- *Micro and Small Enterprises*: is refers to those enterprises registered under Micro and Small enterprises agency of Addis Ababa by fulfilling the criteria.
- *Manufacturing*: this refers to enterprises operating on the area of Food and beverage, Textile, Leather, Wood and metalwork, Arty- craft and Chemical works.
- *Growth*: in this paper refers to entrepreneurs who show capital/ employment growth.
- *Success*: in this paper refers to entrepreneurs operating for more than at least 3 years and show capital/ employment growth.
- *Entrepreneurship*: for this study Entrepreneurship is a process whereby individuals start and develop a new venture or business unit (Low and Macmillan, 1988).
- *Legal factors*: in this study legal factors are refers to measures taken by the government which can possibly affect the performance of entrepreneurs either positively or negatively and legal factors of the country on the area of MSEs that possibly affect the performance of the business.
- *Government support*: is to refer different types of supports given by government to support the growth of MSEs.

## **1.9. Organization of the paper**

The rest of the paper is organized as follows: chapter two presents the theoretical and empirical related literatures of the study, while chapter three provides research methodology. Chapter four outlines data analysis and discussion and chapter five concludes and suggests some recommendations.





## CHAPTER TWO: REVIEW OF LITERATURES

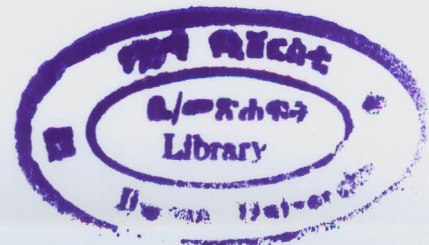
This chapter present review of related theoretical concepts and empirical literatures. The theoretical section contains different aspects of entrepreneurship and policies and regulation of Ethiopia aimed at developing and promoting entrepreneurship and the empirical review contains empirical literatures from studies conducted in different countries and Ethiopia, in the area of the impact of personal and legal factors on success of entrepreneurs. At the end of the chapter the conceptual framework of this study is presented.

### 2.1 Theoretical Literature

#### 2.1.1 Entrepreneurship

Many different definitions are given for the word entrepreneurship by different authors. Among those definitions, one was given by Sewell and Dacre Pool (2010) they define Enterprise as a business and Entrepreneurship as the desire, motivation and skills necessary to start and manage a successful business. The other definitions given by Timmons and Spinelli (2004) define entrepreneurship in two ways based on researches. The first one is definition developed over the past two decades “ entrepreneurship is a way of thinking, reasoning, and acting that is opportunity oppsed, holistic in approach and leadership balanced.” And the other definition given by them is “ entrepreneurship resut in the creation, enhancement, realization, and renewal of value, not just for owners, but for all participants and stock holoders and also it is mentioned that entrepreneurship requires a willingness to take risks both personal and financial in avery calculated fashion.

Entrepreneurship is also defined in the following way. Entrepreneurship is a process whereby individuals start and develop a new venture or business unit (Low and Macmillan, 1988). This can include an entrepreneurial individual acquiring a franchise or an existing business or firm (Gartner, 1984). This definition of entrepreneurship is used in this study.





### **2.1.2 Overview of Micro and Small Enterprises**

As it is stated on MSED A (2011) different countries give different meaning for the sector of MSEs based on their economic situation, policy direction and possessed resources. Most countries consider 3 criteria to define MSEs: these are number of full time employment, total asset or net asset, paid up capital and annual turnover.

Countries use either one or more criteria to define MSEs. But, some countries and international organizations used additional criteria which is legal entity of the business. For example, European countries updated their definition for MSEs to take account of economic development.

Small enterprises are defined as an enterprise which employs fewer than 50 persons and whose annual turnover and annual balance sheet total does not exceed EUR 10 million.

Whereas, Micro enterprises are defined as an enterprise which employs fewer than 10 persons and whose annual turnover and /or annual balance sheet total does not exceed EUR2 million as it is mentioned on Summary of European Legislation, 2007.

In Ethiopia two different definitions were used, before the currently used definitions were developed. The definitions were given by MSED A 1997 and CSA. The definition given by MSED A was based on paid up capital and this definition need revision because, the definition lacks clear indication about the labor in its definition while the main purpose for the sector is employment generation and also the definition was use paid up capital as a criteria and ignore the effect of inflation on current position of firms, and also even if the criteria was paid up capital the criteria to grow in to Medium and Large Enterprises were total asset (MSED A, 2011).

While, the definition given by CSA was based on Labor and Technology and based on the following criteria;

For Micro enterprises- hand craft and light industry owned and operated by the owner and family labor which do not use machines and operating by hand. And

For Small manufacturing industry- having less than 10 employees and using machineries.

From this definition the identified gap were, this definition ignores to consider other factors but only manufacturing and industry and did not used capital as criteria (MSEDA, 2011).

Since the definition given by those two institutions was not similar and there was no single definition for the country, it was difficult to collect data and conduct research on the sector for the last 7 years and it was difficult to measure the change found as a result of the strategy as it is mentioned on (MSEDA, 2011)

So that, by considering the mentioned gap from the previous definitions and experience of other countries the amended definition is given by MSEDA 2011 by considering number of employees and Total Asset as criteria.

For Micro Enterprises involved in industry sector, the number employees should be less than five and total asset is less than Br 100,000.00. And for service sector the total asset is less than Br 50,000.00 with the same number of employees.

For Small Enterprises involves in the industry sector, the number of employees are 6-30 with total asset of Br 1,500,000.00 and for service sector the total asset is Br 500,000.00.

Additionally, it is mentioned on the strategy paper that if conflicting situation is created between the number of employees and total asset to define the sector total asset is used in the first place (MSES, 2007,p 26-27).

### **2.1.3 Micro and Small Enterprise Development Strategy**

By considering the huge contribution of MSEs to the economy and the potential to reduce unemployment rate and bring equity in the country, the government of Ethiopia gives special attention for the sector and the prepared a National MSE Development and Promotion Strategy at national level under the bureau of Ministry of Trade and Industry (MoTAI) in 1997, which aims at alleviating the problems and promoting the growth of the sector (MSEDS, 1997).

The strategy was amended in 2011 by taking lots of experiences from different countries specially India, Japan and Malaysia. Until 2004/2005, the strategy was implemented by federal MSEs Development Agency organizes at national level. But it is found difficult to make the strategy practical by operating only at national level and the government of Ethiopia decides to establish SMEs coordinating body at regional level and sub branch offices are set up at zone/district level to increase the accessibility of government support for the sector (MSEDS, 2011).

#### **2.1.3.1 Government Support aimed at MSEs**

The government of Ethiopia gives support for MSEs either they are growth oriented or non growth oriented based on their stage/cycle. In this strategy, enterprise that wants to get support from the government, should know the stage of their enterprise. The support given to MSEs either maximum or minimum is depending on the growth stage of the enterprise. That means; higher stage enterprises want large support, to be successful in their business.



#### **2.1.4. Growth Oriented Sectors Selection Criteria**

Enterprises which can get support from government either minimum or maximum should fulfill some criteria required by government. Since the country has limited capital to support SMEs government depending up on the importance of the sector in the economy. Firms can get support from the government if they have large market size for their product, can absorb large number of employments, short period of return on investment, usage of local raw materials, high role for poverty reduction, and if they have large opportunity to transformed to Medium and Large scale industry.

##### *2.1.4.1 Types of Government Support for SMEs*

As it is mentioned on MSEDA (2011) the maximum support is given for growth oriented sectors, like, manufacturing, construction, urban agriculture, and trade and service sectors. Meanwhile, the minimum support is given for sectors other than the growth oriented. The maximum support given for growth oriented sectors are including providing: working premises with least leasing price, product display center with least leasing price, technical and business management training, counseling service, loan provision, market linkage particularly with government development programs (e.g. Housing development), exhibit exhibition, trade fair organization and access to technology.

The minimum support given for non growth oriented areas are including loan provision, exhibition, trade fair organization, technical and business management training, and counseling service (MSEDS, 2011).



#### *2.1.4.2 Growth and Transformation Plan*

The Ethiopian government gives a due emphasis for the development of MSEs in the Growth and Transformation Plan (GTP) which lasts for five years from 2010/11-2014/15. By focusing mainly in the industrial sector, sets strategic objectives of creating and promoting MSEs, which contributes to the development of the industrial sector and serve as a base and contributes to the development of the agricultural sector and create job opportunities and poverty reduction.

In the GTP the government set targets that should be achieved at the end of the plan period through comprehensive and accessible development support for MSE enterprises. These targets are; creating employment opportunities for about 3 million people, providing training of trainers for 10,000 professionals in manufacturing sub sector, providing training for about 3 million operators in the areas of entrepreneurship, handicraft, technical and vocational. And also develop 15,000 hectares of land to build shade and building for operators organized in enterprises.

#### *2.1.4.3. The Role of Micro and Small Enterprises*

As it is mentioned on many literatures and international organization's report, the importance of MSEs in any economy either developed or developing by creating employment opportunities, enhancing economic growth and fostering innovation is undeniable.

According to the United Nations Conference on Trade And Development (UNCTAD,2004) developed countries where technological and global competition is intense because of globalization and economic liberalization, promoting entrepreneurship means promoting countries competitiveness found to be more important today than ever. As it is mentioned on (MSEDS, 2011) even countries reached a higher stage in Industry and Manufacturing like Japan, the owner of Toyota and Sony companies, MSEs contributes over 50% of the output in manufacturing sector.

Similarly, MSEs played an important role in developing countries like Africa. Where, unemployment and poverty is a serious problem. To solve this problem, small businesses play crucial role in employment creation, and general contribution to economic growth (Katwalo, 2001;Gebreeyesus, 2007).

Like other developing countries, Ethiopia has the same problem of unemployment and poverty. Huge contribution of the sector for job creation in the country is revealed significant as it is shown on the report of World Bank, 2012 that 'Micro- and Small enterprises account for the bulk of job creation in developing countries'. For example the survey result of Ethiopia is:

During FY2008-10 Ethiopia experienced an overall employment growth rate of 11.1 percent. Among enterprises, Small firms had the highest employment growth rate of 14.4 %, while Medium and Large firms experienced growth rate of 9.5 and 2 % respectively. Firms in services had slightly higher employment growth (12 %) compared to firms in manufacturing (10 %) (World Bank, 2012 p.22-23).

In addition to this huge contribution of creating job opportunities for bulk of unemployment in the country, the sector also have a massive contribution for reducing poverty (Gebremariam, Bekele and Ridgewell, 2009).

Beside the contribution and support given by the government for building public infrastructure investment, facilitating agricultural sector and few sub sector in services, the productivity of SMEs have remained limited specially in manufacturing sector (Brixiova and Asaminew, 2010).

As it is mentioned on (MSEDS, 2011) even if the government give attention and set strategy for promoting and facilitating fast growth in MSEs in industry sector specially for manufacturing and construction, most MSEs fail immediately after formation or staying stagnant and very small number of enterprises are transferred to Medium And Large enterprises. However, this sector is the only option to create strong and experienced investors in the country.

for example, if the country has half million MSEs and from those enterprises if 99% of them are stagnant or fail and if only 1% is grow to Medium And Large enterprises, still the country can create more than 5000 Medium And Large enterprises. So, from this one can see that MSEs are the encubator for developmental investors for the country (MSEDA, 2011 p, 2 ).



## **2.2 Empirical Literatures**

### **2.2.1. Defining Success**

Defining success is somewhat difficult for many researchers. Success can be defined in different terms by different individuals based on their study objectives. Many literatures explain success from two points of views: one is from the point of economic success and the other is entrepreneur's satisfaction.

In this study, success is defined based on the definition given by different researchers such as, (Makhbul, 2011) and (Mehralizadeh *et al*, [no date]) Successful entrepreneurs are entrepreneurs who are operating at least for the past 3 consecutive years and showing growth. In this study operating for three consecutive years is considered as an indicator of success as it is mentioned by Wilson (Cited in Garoma, 2012), because MSEs are more vulnerable for failure in the infancy period. It is also mentioned by (Campbell, 2005) most new firms are disappeared within the first 2 years after their birth. So that it is reasonable to consider firms operating for at least 3 years as survivors.

### **2.2.2. Measuring Success**

There is no single unit or standard/ theoretical model to measure success in enterprises development (Abebe, 2011). Some entrepreneurs measure their success by monetary bases like, profit, capital growth, turnover etc. and others measuring their success by non monetary bases like, job satisfaction, employee growth, geographical spread, brand value and independence ratings are made by owners or business managers and which have not a single measure for growth/success (Rauch *et al*, 2009).

Study conducted by (Rauch *et al*, 2009) argued that, the relationship between entrepreneurial orientation (may be viewed as the entrepreneurial strategy making process) and non financial goals such as satisfaction, is less straight forward. Because there is little direct effect of entrepreneurial orientation on non financial goals since their relationship is weak and lead to



less satisfaction. Whereas, satisfaction may increase because of better financial performance since indirect effects are typically smaller than direct effect. In their study, they found it reasonable to argue the assumption of higher relationship between entrepreneurial orientation and financial performance than for entrepreneurial orientation and non financial performance. So, from this argument we can say that it is better to measure entrepreneur's success by monetary terms than measuring it by non financial means.

On the other way some authors like (Gebreeyesus, 2007) argued that measuring growth in non monetary means such as employment growth is the safest way, since these measurements are free from the effect of inflation and it is free from reporting error. Since most MSEs are do not keep record.

Measuring employment Size is representing the number of regular workers that include all working owners and paid workers, in the business on a regular basis (Gebreeyesus, 2007).

Employment size can be calculated by measuring the average growth by using the following formula.

Average growth= (employment now-employment at start)/employment at start. If this value is divided by the number of years in business it gives annual average growth of firms in terms of employment (Liedholm, 2002,P. 234).

In this study due to the difficulty of access to all information and data to measure success, capital growth and number of employment were used to measure success. The need to use these two measurements of growth is to offset the limitation of one by the other through the use of both the financial and non financial means. And also it is repeatedly mentioned on (MSES, 2011) that the significance role of this sector in income and employment generation for country like Ethiopia is high. Where, unemployment and poverty is a headache. So, it is viable to measure the success of firms by using these two measures.

### **2.2. 1. Success Factor of Entrepreneurs**

Many studies have been conducted to identify major factors that contribute for the success of entrepreneurs to minimize the higher failure rate of MSEs both in developing and developed world including Ethiopia. Some businesses succeed and others end up bankrupt. But, there is no similarity between literatures as to which variables do in fact lead to success and there currently are no theories which justify this (Lussier and Halabi, 2010).

Success of enterprises may be the result of internal and external factors to the firm. Internal factors include entrepreneur's personal characteristics and firm specific factors and external factors are other factors such as political legal environment, socio economic factors and other related thing which are out of the control of the entrepreneur Plaschka and Curran *et al* (Cited in, Eshetu 1999) . Since many small firms fail immediately after formation or after some period of existence, it is difficult for any economy to earn the expected value from the sector. In this aspect the understanding of why firms fail and succeed is crucial to the stability and health of economy (Audretsch and Lehmann, 2006). From those contributing factors for the success of entrepreneurs some of them are presented as follows.

#### **2.2.3.1 Personal Related Factors**

In addition to environmental and firm specific factors personal related factors also have a huge contribution for the success/ failure of any firm. Since most MSEs are managed and ruled by their owners, factors related to the owner have their own contribution for the success/failure of the firm. Age of entrepreneur, educational background, management experience, training and other personal related factors have positive or negative outcome on success of entrepreneurs on success of firms as different studies conducted in different countries are showing Such as; (Abera, 2012; Eshetu, 1999; Jiru, 2011) among others.

#### *2.2.3.1.1 Age of Entrepreneur*

Age of entrepreneur is one factor among personal characteristics of entrepreneurs which is studied by different researchers and result in a debatable issue between researchers. Some researchers argued that age of entrepreneur have a significant result on the success of entrepreneurs; on the other side others argued that success and age of entrepreneurs do not have any relationship, i.e entrepreneurs in any age group can be successful or fail.

Khan and Siddiqi (2011) in their study of empirically tested the important determinants of firm growth; argued that age of owner adversely reduces the probability of firm growth.

On the other hand (Harada, 2003) on his study conducted to identify who succeeds as an entrepreneur? In Japan he claims that age of the owner have a significant effect on the success of entrepreneurs, in this study (Harada, 2003) found that young owner of enterprises are more successful than the old one.

From the given studies we can observe that Age of an entrepreneur is the most determinant factor of firms success/failure.

#### *2.2.3.1.2. Educational Background of the Owner*

Education is the most powerful thing in this technologically sophisticated world. In today's world entrepreneurs cannot be competitive unless they are knowledgeable either through regular education or not. In many studies the importance of education is clearly mentioned for the success of entrepreneur. The more entrepreneurs are educated the more they become successful but some authors argued that entrepreneurs can be successful even with low level of education.

Khan and Siddiqi (2011) argued that education of the owner can significantly and positively increase the probability of firm growth. This means that the more the owner is educated, the more he's firm is growing.



Similarly, study conducted on (Eshetu, 1999) by considering individual and social factors behind success of entrepreneurs in Ethiopia, stated that education of the owner have a significant result on the failure or success of entrepreneurs. This means that, the more entrepreneurs are educated the more they are succeed and the less they are educated the less they are succeeded.

On the other hand some researchers found no relationship between firms success and entrepreneurs education. The study of (Harada, 2003) did not found any difference between entrepreneurs based on their educational background. In this study he confirmed that there is no difference between firms performance either they are educated or not.

Abebe (2011) on his study of analysis of the success factors of micro and small enterprises in Addis Ababa, argued that educational background of entrepreneurs have a significant effect on their success. And also Audretsch and Lehmann (2006) on their study of what determining the variation of entrepreneurial success in Chile, they showed that entrepreneurs with higher level of education tend to be more successful than others.

#### *2.2.3.1.3 Previous Related Work/Industry and Management Experience*

Having experience in related job or in any other job may have a positive effect on the success of entrepreneurs. Since, he/she already know the network, the production process and the market of that specific product. Many Researches support this idea in their findings whereas, entrepreneurs with no experience can be found successful.

The study of Harada, 2003 and Eshetu (1999) argued that, having related experience before start up is important for firm's success. This sentence indicates that, entrepreneurs might have experience in any other field of work but the one who have experience on the related job is more successful than others.



Similarly study conducted by Gebreeyesus (2007) aimed at investigating some key determinants of success and particularly employment expansion among micro enterprises, covered 974 randomly selected businesses in six major towns in Ethiopia (Addis Ababa, Awassa, Bahir Dar, Jimma, Mekelle, and Nazreth) (Eshetu, 1999); (Abebe, 2011) confirmed that entrepreneurs with business experience have better chance of success than entrepreneurs who are not experienced.

Harada (2003) stated that previous knowledge of entrepreneurs on specific market have positive effects on the performance of entrepreneurs. The study of (Audretsch and Lehmann, 2006) mentioned that both prior industry and management experience increase the chance of success for entrepreneurs. The study conducted by (Schutjens and Wever, 2000) on determinants of new firm's success in Dutch stated that some years in salaried employment enhance firm's growth. On the other side if the owner did not have adequate management training, they can be bankrupt as it is stated on the study of (Jiru, 2011) factor constraining the growth and survival of MSEs in Burayu.

#### *2.2.3.1.4 Training of the Owner*

The knowledge of entrepreneurs on the entrepreneurship area, before starting the business or after start up is crucial to increase success of firms. Since more MSEs are managed by their owners the knowledge of owners on marketing, record keeping and other related things can contribute for success. The importance of training for the success of entrepreneurs is supported by the study of different authors in different countries.

Siddiqi and Khan (2011) also argued that on the job training of owner is increase the probability of success. Similarly, (Mehralizadeh *et al.*), support the importance of training on success of entrepreneurs by showing the result of their research conducted on the title of 'A study of factors related to successful and failure of entrepreneurs of small industrial business with emphasis on their level of education and training' and they stated that entrepreneurs without any training are tends to fail.

Different literatures argued that absence of training can lead the firm to failure this can be shown from the study of (Jiru, 2011) absence of management training lead the firm to failure.

In addition to entrepreneurs commitment and initiation success also depends on the quality and commitment of the trainers and facilitators either it is given by government bodies or other NGOs (UNDPEO, 1999).

#### *2.2.3.1.5 Family Background*

The contribution of family background for success of entrepreneur is mentioned on many literatures. But, it is clear that entrepreneurs with no family background in business activity succeed in business.

Audretsch and Lehmann (2006) Argued that parent owned business increase the chance of success for owners since they are engaged in already existed market, using free family labor and network. Similarly, (Siddiqi and Khan, 2011 and Eshetu, 1999) stated the importance of engaging in the family business for succeeding in business by their study conducted in different countries.

#### **2.2.3.2 Legal factor of MSEs on success of entrepreneurs in Ethiopia**

Government policy and legal system in which entrepreneurs' operating is playing an important role in facilitating success or failure of firms. The influence of government policies either during start up or after start up through legislation and regulation, licensing and taxation is crucial.

Starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders and enforcing contracts are the major important thing in business activities ( World Bank 2011).

legal environment in which entrepreneurs are operating is found important in the study of (Audretsch and Lehmann, 2006) for success or failure of entrepreneurs. In their study they



argues that, in addition to entrepreneurs background many factors contributes for success or failure of the enterprises, and one is the legal environment in which the entrepreneurs are operating. They mentioned that the role of public policy would be particularly important in low and moderate income communities where the return measured in terms of net employment creation and economic development.

#### *2.2.3.2.1 Property protection*

Entrepreneur's wants to assure before starting business about the protection of their property. In Ethiopia, properties are protected by law, but the enforcement is weak. According to the report of World Bank (2011) Ethiopia scored 30 out of 100 on property protection indexes and the country is on down ward trend on property right indicator of 2011. In addition to this contracts are enforced with some delay because of weakness in the capacity of legal and judicial system of the country. This weak capacity of the legal system may enforce entrepreneurs not to take their disputes or issues to the court and deal with the party in an informal way and this may cost unnecessary scarifies for either party (World Bank, 2011).

Supportive policies and procedures of the government are important to facilitate growth of entrepreneurs through removing conditions that hinder the growth of the sector such as, market imperfection and administrative rigidities (Fierro[no date]).

Bekele and Muchie (2009) argued that, legal and regulatory problem is a major obstacle for efficient operation of for MSEs in Ethiopia. Among those identified problems by their study, bureaucratic registration requirements for licensing, high policy control, overregulation, corruption, high tariffs and unfair tax were major policy-related constraints that adversely affecting the sector.

#### *2.2.3.2.2 Government Support for MSEs*

Ageba and Amha (2001) by their study conducted in Ethiopia mentioned that institutional support (infrastructure facilities like business premises, water and power; financial services; extension services; assistance in the transfer of technologies; promotion of marketing



facilities; and provision of training on sustainable basis) has yet to be provided by the government and other stakeholders. And much more remains to be done to create an enabling business environment in Ethiopia. Through Concrete and coordinated regulatory and institutional support.

Countries legal system and supports given by the government without government interference is found very crucial for the success of entrepreneurs especially for entrepreneurs in developing countries as it is mentioned by different researchers conducted in different countries. Including (Abimbola and Agboola, 2011; Suresh and Ramraj, 2012 and Bekele and Muchie, 2009)

Government policy makers should foster entrepreneurship through programmes, like supplying relevant information, encourage networking, facilitate the provision of finance; create positive attitudes towards entrepreneurial activity. Focused policies that facilitate access to finance, professional services and training for start-up companies that simplify business registration, and taxation, etc. are essential to entrepreneurial venture creation and success (UNDP, 1999).

As it is mentioned in different studies (Suresh and Ramraj, 2012; Abimbola and Agboola, 2011 and Bekele and Worku, 2008) government policies and intervention in the MSEs area has its own effect on the success or failure of entrepreneurs. As the study by (Abimbola and Agboola, 2011) conducted in Nigeria shows that, policy of the country has a significant effect on entrepreneurs specially operating in developing countries in which policies are more regulatory and frequently changed. In their study they examined academic publications, reports and publications of government agencies and other stakeholders in the field of entrepreneurship in Nigeria and some policy programmes of government. Their objective was to understand the relevances of those policies in entrepreneurship development initiatives in the country. In this study they showed that, most of the considered programmes were declining either due to discontinuation by succeeding governments or lack of adequate resources, both human and material, for their operations.

Study conducted by (Suresh and Ramraj, 2012) mentioned that in addition to human factors environment also has its own influence on the decision of entrepreneurs to start and succeed in the business. At the end of their investigation they found that government and environmental support is among other factors which contributes for success.

In conclusion, since most reviewed literatures clearly show the importance of personal and legal factors for the success/failure and growth of MSEs. Many studies should be conducted in Ethiopia by considering little attention given to conduct research in Addis Ababa by considering personal and legal factors and their contribution for the growth of the sector.

### **2.3. The Conceptual Frame work**

Success of an enterprise can be resulted from many factors, such as, internal to the firm and external factors. Lee and Peterson, (Cited in Abimbola and Agboola, 2011) mentioned that entrepreneurial success is not only a condition of traits and behaviors of individuals but also the environment in which entrepreneurship takes place.

The identified individual factors from literatures to study the relationship between those factors and success of entrepreneurs are six in addition to legal factors and government support. Which are Age of an entrepreneur, previous work experience in the field, and management experience, level of education, entrepreneurship training, family background and legal environment and government support on the area of MSEs.

- ✓ The relationship between the described variables is shown in the following figure. The conceptual framework is developed based on the studies of; (H/WOLD, 2005; Vallone, 2008; Bowen, Morara and Mureithi 2009; Govindasamy, 2010 and Eshetu, 1999) and MSED A 2011.

Figure 2: Conceptual Frame Work

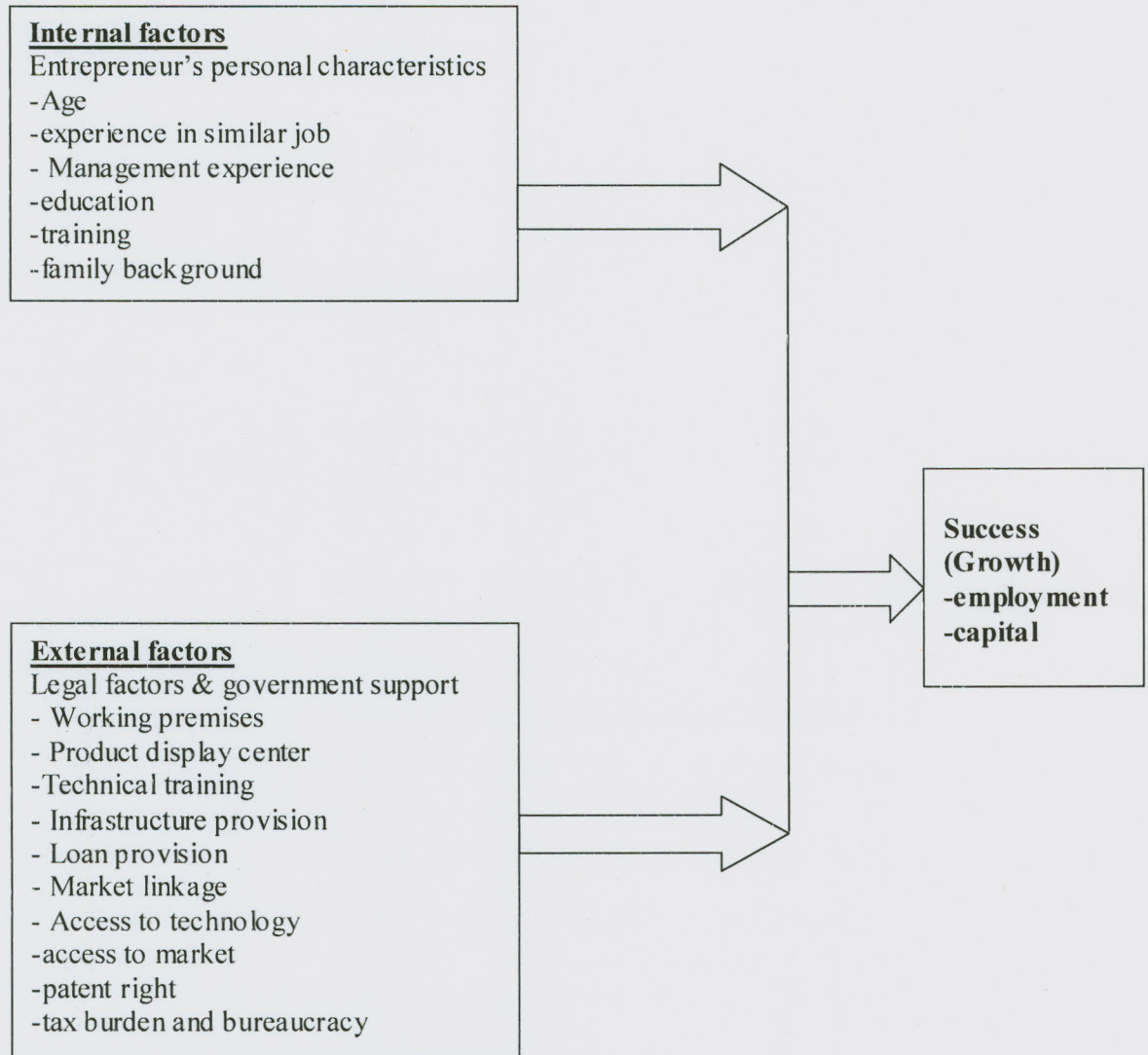


Fig.1 Developed from literatures



### **Explanation of variables**

To make the independent variables clear one can see the explanation given below.

The success of the entrepreneur would depend on their personal characteristics (Vallone, 2008)

- ✓ Age of entrepreneur- age of entrepreneurs significantly affect firms success. (H/WORLD, 2005)
- ✓ Educational back ground- educational back ground of an entrepreneurs is a major contributor for success as it is mentioned on many studies, such as, (Vallone, 2008) ; (Bowen, Morara and Mureithi 2009)
- ✓ Training - in addition to other factors Relevant training is also positively related to business success (Bowen, Morara and Mureithi, 2009).
- ✓ Experience (in management and in related field)- There were significant differences in the successful and less successful group of entrepreneurs in terms of the number of years the business has existed (Govindasamy, 2010).
- ✓ Family background- Influences from family and extended family circle create conditions that are either favorable or unfavorable for entrepreneurship (Eshetu, 1999).
- ✓ Legal system and government support- as it is mentioned on the study of (Bekele and Muchie 2009) legal and regulatory problems is a major obstacle to efficient operation in the MSEs in Ethiopia.

## CHAPTER THREE: METHODOLOGY

In order to analyze the potential impacts of personal and legal factors on success of entrepreneurs, 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 study area profile, the study's research design, questionnaire design, data collection, sampling strategy, data processing and analysis, factor analysis and instrument development.

### 3.1. Description of the Study Area

Addis Ababa, the capital of Ethiopia was founded in 1886 by Emperor Menilik II. Based on the 2007 Census conducted by the central statistics agency of Ethiopia (CSA), Addis Ababa has a total population of 2,739,551, of whom 1,305,387 are men and 1,434,164 women.

The city is the capital of many international organizations including, African Union, United Nations economic commission for Africa and also for federal organizations of Ethiopian government. The city has ten sub cities and each sub cities contain a large number of MSEs operating in all sectors. Among them 2106 of them are engaged in manufacturing sectors for more than three years.

Since the city is the biggest and capital of the country, with a large number of populations it serves as the center for trade and industry of the country. And also the city is known for having a large number of unemployment than rural areas according to the report of DWCP, 2009-2012. Due to this reason the government encourages the people to create job in MSEs and indeed large number of MSEs are operating in the city.



### **3.2 Research Design**

A descriptive and explanatory research type was employed in this study. Descriptive research is chosen due to the fact this study aims at describing and critically assessing the impact of personal and legal factors on success of entrepreneurs in Addis Ababa. Kothari (2004) also states that the major purpose of descriptive research is description of the state of affairs as it exists at present. Explanatory research design was used to see the relationship between dependent and independent variables with the aim of estimating the success of entrepreneurs.

### **3.3 Target Population**

Target population of this study was MSEs in Addis Ababa operating in manufacturing sector. Including Food and beverage, Textile, Leather, Wood and metalwork, Arty- craft, Chemical operating at least for three years. In this study 315 survival firms were included which can stay in business for more than three years.

### **3.4 Sampling Frame**

In this study the sampling frame is the list of entrepreneurs operating in Addis Ababa in manufacturing sector for more than three years.

### **3.5 Sample Size and Sampling Procedures**

Two stage cluster sampling was employed in this study. In the first stage 10 clusters of unequal size were formed by using the total number of sub cities in Addis Ababa by assuming the similarity of MSEs operating in all sub cities. Then two clusters namely Lideta and Kolfe Keranyo were chosen randomly due to cost and time factor to address all sub cities and the sample size was determined by using Cochran (1977, p 75-76 ) formula for finite population. In addition to this, key officials operating in the area of MSEs from the selected sub cities were interviewed.



Number of MSEs found in Kolfe Keranyo= 201 and

Number of MSEs found in Lideta =114. Totally, N= 315 enterprises

Table 3.5.1 Number of enterprises, operating on manufacturing area, at least for 3 years.

No	Name of sub cities	No of enterprises
1	Nifas silk lafto	317
2	Bole	220
3	Kolfe keranyo	201
4	Gullele	267
5	lideta	114
6	Kirkos	87
3	Addis ketema	313
8	Arada	231
9	Yeka	194
10	Akaki kaliti	162
Total		2106

Source- Addis Ababa MSEs agency

$$n = \frac{n_0}{1 + (n_0 - 1)/N}$$

$$n_0 = \frac{z^2 pq}{d^2}$$

$$n_0 = \frac{(1.96)^2 (0.5)(0.5)}{(0.05)^2}$$

$$= 384.16$$

$$n = \frac{384.16}{1 + (384.16 - 1)/315}$$

$$= 173$$

For non response rate  $173 \times 0.1 = 17.3$ , then totally,  $n = 173 + 17 = 190$

Where:  $n$  -- sample size

$d$  -- Margin of error (0.05)

$p$  -- Population proportion (0.5)

$N$  -- Population size

$Z$  - Confidence level 95% (1.96)

This 190 number is proportionally distributed among the two sub cities.

Kolfé Keranyo =  $201/315 \times 190 = 121$

Lideta =  $114/315 \times 190 = 68.7 \sim 69$  which is totally 190.

Note: in this study the most frequently used confidence interval 1.96 was used. And population proportion  $p^* = 0.5$  was used. Because, a larger value for the quantity of  $p^*(1-p^*)$  will provide a larger sample size. Note that, the larger value of  $p^*(1-p^*)$  occurs when  $p^* = 0.5$ . Thus, in using  $p^* = 0.5$  we guarantee that the sample size will be sufficient to obtain the desired margin of error (Anderson *et al*, 2009).

### **3.6 Data Type and Source**

To achieve the objective of the research, both primary and secondary source of data were used. Regarding the sources of data, the primary data had been obtained from the owners of MSE and officials in Addis Ababa. Furthermore, secondary data were collected from different related literatures, websites, and different documents and records from Addis Ababa Micro and Small enterprise agency.

### **3.7 Data Collection Techniques and Instruments**

Primary data for this study were collected by using questionnaire and interviews. The questionnaire was self administered questionnaire used to collect data from entrepreneurs operating in Addis Ababa and semi- structured interview was used to collect data from government officials in the area of MSEs in Addis Ababa. The questionnaire was consisted of both close and open ended questions and *Likert* scale type questions. The reason for choosing questionnaire is due to the fact that it is the safest way to collect data from large number of respondents and to minimize personal biases of researcher.

For collecting secondary data, the researcher was used all available information in the area of SMEs. Like Government publications, policies, rules and regulations, reports of different organizations, internet and prior researches in the area of MSEs.

### **3.8 Questionnaire Design**

The questionnaire was developed in a very clear and precise way to make it clear for respondents and to encourage respondents to read and answer the questions. The questionnaire has two parts one with multiple choice questions and the other with a six point *Likert* scale type. The *Likert* scale questions were used to measure the item from (strongly disagree, disagree, inclined to disagree, inclined to agree, agree and strongly agree). The reason for choosing six scale *Likert* scale type questions is to know the respondents level of agreement with a given statement by way of an ordinal scale, it is better to get respondents feeling about the question rather than asking direct questions like yes or no. Then for analysis purpose the responses are grouped to agree and disagree to. The questionnaires were developed based on empirical literatures of MSEs studies. After the questionnaires were prepared it was translated to Amharic by professional translators to minimize the loss of meaning during translation.



### 3.9 Test of Reliability and Content Validity

The validity of items on the questionnaire was tested by using pilot survey; to make sure that the questions are clear and easy to understand. This was done by distributing the 20 questionnaires for judgmentally selected entrepreneurs and discussion was made about the questions. Judgmental method was used due to cost and time factor and the necessary adjustments were made, like rewriting words and phrases in understandable way.

Furthermore, reliability test was conducted on the pilot test questionnaires and the result indicates that the items are reliable enough to be applied (see table below). Filed (2009) also states that Cronbach's alpha value of .7 to .8 is an acceptable value.

Table 3.8. Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
.805	.752	21

### 3.10 Method of Data Processing and Analysis

After the data had been collected, edited, organized, EpiData(V3.1) was used to enter the collected data to benefit from controlled data entry and double entry verification (Lauritsen and Bruus, 2005). Then the data was transported to SPSS 16v (Statistical Package for the Social Sciences) a program that used for statistical analysis.

Descriptive statistic specifically tables has been used to show the relationship between the dependent variable and independent variables of this study which is personal and legal

factors. And also, narration has been used to present the interview conducted with officials of two sub cities. In addition to this, logistic regression has been used in order to study the impact of independent variables on success (employment and capital) growth by including all factors employed under this study. The reason behind selecting binary logistic regression is the dichotomous (binary) nature of the dependent variable.

Two predictive models were developed. These models incorporated the independent variables to predict the growth of firms from two approaches (employment and capital growth). The independent variables were; personal factors which includes; age of owner, education, management experience, experience on related work, training and family background. Factor Analysis was also used to explore factors that best describe and from five factors which was named as, government factors, financial factor, marketing factors, legal factors and product protection.

Initially, questionnaires were measured in dichotomous and *Likert* scales. But, questionnaires were manipulated by using SPSS to make them fit to the requirements of the logistic regression. To measure the growth of firms in terms of employment two questions were asked, one is the initial number of employees and number of employees now, then the annual average growth was calculated and also the same procedure were used to measure the growth of firms in capital. Independent variables those initially measured, on a six-point *Likert* scale ranging from strongly disagree to strongly agree were transformed from being categorical to dichotomous or Agree and disagree by using SPSS 16v.

### **3.11 Model Specification**

#### **3.11.1 Assumptions of Logistic Regression**

The following assumptions should meet to use logistic regression for data analysis.

- In logistic regression the dependent variable must be categorical/ binary and it assumes meaningful coding of the variables. But, the independent variables can be

either categorical or continuous. Thus, the rule for binomial logistic regression is to code the dependent variable as 1 and 0. In this study 0, otherwise and 1 success.

- The groups must be mutually exclusive (non-overlapping) and Large samples are needed.
- There should be a linear relationship between the explanatory variables and the dependent variable. But due to the categorical nature of the dependent variable this assumption is violated in binary logistic model. Then, to meet this assumption the model used logarithmic transformation to express a non linear relationship in to linear way called Logit Berry &Feldman (Cited in Field, 2009).
- Absence of multicollinearity between independent variables.

✦ Equation of logistic regression when multiple predictors used.

$$P(y) = \frac{1}{1 + e^{-(b_0 + b_1X_{1i} + b_2X_{2i} + b_3X_{3i} + \dots + b_nX_{ni})}} \dots\dots\dots (eq1)$$

Where,

P(y) is the probability of events occurring

e- is the base of natural logarithm

b<sub>0</sub> is constant and X<sub>1</sub> is predictor variable and a coefficient (or weight) attached to that predictor (b<sub>1</sub>) etc. (Field, 2009 p 266).

### 3.12 Factor Analysis

Among the importance of factor analysis, one is to reducing a data set to a more manageable size while retaining as much of the original information as possible (Field, 2009). Factor analysis is used in this study to reduce questionnaires in to manageable size which are containing questions about government support and legal factors in *Likert* scale type. The same author mentioned that, in the case of reducing data set variables should be correlated fairly but if they are correlated strongly that might created because of multicollinearity problem in the data. If correlation coefficients are scanned and the values are greater than 0.9, the variables should be eliminated from the data set.



Before factor analysis was conducted, the adequacy of the data collected from the sample were checked by using Bartlett's Test of Sphericity and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. In this study, factor analysis was performed on 15 items (variables) that measure legal factors and government support. Accordingly, these variables were checked for sampling adequacy using Bartlett's Test of Sphericity and Kaiser-Meyer-Olkin (KMO).

Table 4.3.1 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.714
Bartlett's Test of Approx. Chi-Square		466.276
Sphericity	Df	105
	Sig.	.000

Source- Computed from own survey, 2013 of factor analysis

From Table 4.3.1, Kaiser-Meyer-Olkin (KMO) test shows that there are probably significant relationships among the perceived determinants of legal factors and government support as Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is  $0.714 > 0.5$  and Bartlett's Test of Sphericity  $\chi^2=466.276$ ,  $p=0.000 < 0.05$  is statistically significant, which shows that the variables are correlated highly enough to provide factor analysis.

Orthogonal factors were obtained using varimax rotation and only those factors with an eigenvalue greater than one are considered. For factor analysis in varimax rotation convergence established after 34 iterations and 58 % of the total variance was explained by the first five factors with eigenvalues greater than one. (See Table 4.3.2)

The determinant was 0.048 as indicated in the correlation matrix (see Appendix ) which is greater than the necessary value of 0.0001 and this shows there is no problem of multicollinearity in the data set

Table 4.3.2 Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.571	23.803	23.803	3.571	23.803	23.803	2.758	18.386	18.386
2	1.543	10.286	34.090	1.543	10.286	34.090	1.776	11.841	30.226
3	1.252	8.350	42.440	1.252	8.350	42.440	1.558	10.387	40.613
4	1.184	7.893	50.332	1.184	7.893	50.332	1.375	9.166	49.779
5	1.093	7.290	57.622	1.093	7.290	57.622	1.176	7.843	57.622
6	.990	6.602	64.224						
7	.911	6.073	70.297						
8	.844	5.625	75.922						
9	.767	5.111	81.033						
10	.668	4.456	85.490						
11	.556	3.707	89.197						
12	.512	3.411	92.609						
13	.456	3.042	95.651						
14	.360	2.400	98.050						
15	.292	1.950	100.000						
Extraction Method: Principal Component Analysis.									

The first factor that comprised of six items is the most significant which accounts for 18.4 % of the variance of the original items. This is largely loaded with government support given to entrepreneurs (V5, V13, V11, V14, V7 and V3) and thus, this factor is labeled as government support. The second factor which captures 11.841% of the total information comprised of two items (V8 and V9), which is largely loaded on questions about financial factors and labeled as financial factors.

The third factor that comprised of three items (V12, V6, and V10) shows high loading on market and marketing information; and it is labeled as marketing factors and explained 10.4 % of the total variance. The fourth factor explains 9.2 % of the total variance with two items loaded which is related to tax burden and information about government regulation, and it is labeled as legal factor. The final factor is comprised of two items (V4 and V2) loaded by

bureaucracy and product protection; and it is labeled as product protection and explained the total variance 7.8%.

Table 4.3.3 Rotated Component Matrix<sup>a</sup>

	Component				
	1	2	3	4	5
V5	.762				
V13	.757				
V11	.652				
V14	.623				
V7	.620				
V3	.430				
V9		.831			
V8		.795			
V12			.706		
V6			.602		
V10			.545	-.496	
V1				.763	
V15				.451	
V4					-.782
V2					.648
Extraction Method: Principal Component Analysis.					
Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 6 iterations.					



Table 4.3.4 Rotated Component Matrixes (only items with item loading 0.4 or above)

Component	Item	Content
Factor one	v3	Government support is high
Government support	V13	Infrastructural support
	V7	Provides raw materials
	V11	Working premises
	V14	Technological support
	V5	technical support
Factor two:	V8	Provides loan
Financial factor	V9	Procedures of getting loan
Factor three:	V10	Provides product display center
Marketing factors	V6	Access for market information
	V12	Marketing linkage
Factor four:	V1	Tax
Legal factors	V15	Access for information about government regulation
Factor five: product protection	V4	Bureaucracy
	V2	Patent right

Source- computed from Rotated Component Matrix

## CHAPTER FOUR: RESULTS AND DISCUSSIONS

In this section of the study, the first part presents and discusses descriptive statistics results related to demographic factors and the independent variables of the study and then followed by analyzing the data by using logistic regression to examine the ability of independent variables to predict success of entrepreneurs.

Of the totally distributed (190) questionnaires, 170 (89.5%) were collected Out of which only 160 were found relevant for data analysis.

### 4.1. General Information about the Enterprises

As it is shown from Table 4.1.1 majority of the enterprises 123 (76.9%) were Micro Enterprises with employees between 1 and 6 while the rest 37(23.1%) of the respondent enterprises were in the category of small business enterprises with employees between 6 and 30 according to the classification scheme of MSEs 2011.

From the same table, one can see the types of business in which respondents are involved, this study considered enterprises which are involved in manufacturing sector only. 78(48.8%) of them were involved in wood and metal works, 37(23.1%) were involved in textile and garment, 31(19.4%) were involved in food and beverage and the rest 14 (8.8%) of them were involved in leather work. Most enterprises were involved in metal and wood category.

Among those enterprises included in this study, 84 (52.5%) of them were operating individually, 35(21.9%) were PLC, 13(8.1%) were operated under ordinary partnership, 9(5.6%) were operated under general partnership, 8(5%) were Limited partnership, 6(3.8%) were operated under share company and 5(3.1%) were joint ventures. This data shows that most of the respondents were individual owners.

This study also limited to include enterprises operated for more than three years, out of total sampled enterprises 125(78.1%) were aged between 3 and 5, 28(17.5%) were aged between 6 and 10 and the rest 7(4.4%) were operated above ten years. From this it can be concluded that firms aged between 3 and 5 are many in number than other groups.

Table 4.1.1 General Information about Enterprises

Item		Frequency	Percentage (%)
Types of enterprises	Micro	123	76.9
	Small	37	23.1
	Total	160	100.0
Types of business	leather work	14	8.8
	wood and metal	78	48.8
	Textile and garment	37	23.1
	Food and beverage	31	19.4
	Total	160	100.0
Forms of ownership	sole proprietorship	84	52.5
	ordinary partnership	13	8.1
	general partnership	9	5.6
	Plc	35	21.9
	joint venture	5	3.1
	share company	6	3.8
	Limited partnership	8	5.0
	Total	160	100.0
Firms age	3-5	125	78.1
	6-10	28	17.5
	Above 10	7	4.4
	Total	160	100.0

Source- survey results 2013



Table 4.1.2 personal characteristics of respondents

Items		frequency	Percentage (%)
Gender of the respondent	Male	116	72.5
	Female	44	27.5
	Total	160	100.0
Age of owners	less than 30	67	41.9
	30-40	47	29.4
	41-50	29	18.1
	above 50	17	10.6
	Total	160	100.0
education level	primary and no education	58	36.2
	high school	71	44.4
	Tertiary	31	19.4
	Total	160	100.0
Is your business is family business?	Yes	32	20
	No	128	80
	Total	160	100.0
Owning family business contributes for success?	Yes	23	71.9
	No	9	28.1
	Total	32	100.0
Industry experience	Yes	105	65.6
	No	55	34.4
	Total	160	100.0
Management experience	Yes	75	46.9
	No	85	53.1
	Total	160	100.0
Training	Yes	73	45.6
	No	87	54.4
	Total	160	100.0
Advantages from training	how to price your product	55	75
	how to handle your customer	50	68.5
	how to sale your product	60	82.2
	how to make market linkage	55	73.3
	Total	73	299
Who gave you the training?	Addis Ababa chamber of commerce	3	4.1
	Addis Ababa MSEA	63	86.3
	Other NGO	20	27.4
	Total	73	117.8

Source: Own Survey, 2013

As it is clearly shown from Table 4.1.2, the out of 160 respondents 116(72.5%) were Male owners while 44(27.5%) of them were Females. In this study the numbers of Male respondents were greater than that of Female respondents. This finding clearly shows that the small tendency of female entrepreneurs to participate in manufacturing sector.

From similar Table 4.1.2 it is clearly shown that among the total of 160 respondents 67 (41.9%) of them were aged less than 30, 47(29.4%) of them are aged between 30 and 40 and 29(18.1%) of them are aged between 41 and 50 and 17(10.6%) of them are aged above 50 years. Here respondents under age 30 are somewhat greater than other age group of respondents.

With regard to education level of respondents 71(44.4%) of them were attended high school, 58(36.2%) of them were under the group of primary and no education, and 31(19.4%) of them were attended tertiary education. In this case high school attended respondents were a greater than other groups of respondents.

From the same Table it can be shown that, out of total respondents 128(80%) were not owning their family business, whereas, 32(20%) were owned their family business. From those owned their family business, 23(71.9%) were believed that owning their family business enables them to enjoy success whereas, 9(28.1%) did not believe owning their family business is the base for their success. Those entrepreneurs who think that owning family business has a positive impact for their growth mentioned that, support from the family member by providing free labor, financial support, using already existed market network and family advises have a great impact for their success.

It is possible to see from Table 4.1.2 that 105(65.6%) of respondents had work experience in related job before start up the current job and the rest 55(34.4%) did not have any related experience in the field before they engaged in the current job. From this one can see that number of owners starting job with experience in related field are greater than those who did not have experience in the job. From this it can be concluded that entrepreneurs with

experience in related job can succeed/stay in the business than others. Since, they are already an expert in the field.

The same Table 4.1.2, shows that, 85(53.1%) of them did not have management experience prior to starting the current job, while, 75(46.9%) of respondents had management experience prior to starting the current job. This result shows that, most respondents did not have management experience before starting the current job.

The other variable included in this study is training, 87(54.4%) of them did not take any training since they engaged in their job and 73(45.6%) of respondents did take training. This result shows that entrepreneurs who did not take training are slightly greater than those who did take training. While, still the total number of entrepreneurs who take the training is less than 50% it is considered as there is no training for entrepreneurs. This insufficient training was given by 63(86.3%) by Addis Ababa Micro and Small enterprises agency, 20(27.4%) were trained by other NGOs and 3(4.1%) by Addis Ababa chamber of commerce, and This figure shows that those training programs were given by Micro and Small enterprises Agency.

Accordingly, respondents were mentioned the specific advantage they got from the training. They mentioned that, the training was enabled them to know how to price their product, how to handle customers, how to sale products and how to create market linkages. However, this training was given for small number enterprise owners.



## 4.2. Legal Factors and Government Support

Table 4.3.1 Legal factors and Government Support

Items		Frequency	Percentage (%)
Factor 1- government support	Agree	72	45.0
	Disagree	88	55.0
	Total	160	100.0
Factor 2- financial factor	Agree	68	42.5
	Disagree	92	57.5
	Total	160	100.0
Factor 3- marketing factor	Agree	72	45.0
	Disagree	88	55.0
	Total	160	100.0
factor 4- legal factor	Agree	62	38.8
	Disagree	98	61.2
	Total	160	100.0
factor 5- product protection	Agree	57	35.6
	Disagree	103	64.4
	Total	160	100.0

Source- Computed from own survey, 2013

As it can be seen from the above Table 4.3.1, 88(55.5%) did not approved the availability of any government support in their carrier whereas, 72(45%) of respondents approved the availability of government support This point shows that most of the respondents did not agreed with the supply of government support.

Out of total respondents, 92(57.5%) did not agree with the supply of financial support and 68(42.5%) were agreed with the financial supply and easiness of getting loan from micro finances.

From similar Table it can be observed that, 88(55%) were did not agree with the government support in relation to market. While, 72(45%) of respondents were agreed about government

support in relation to market linkage and providing marketing information. This result shows that, most enterprises were not benefited from government in relation to market linkage.

The fourth factor is legal factor. Out of total respondents, 98(61.2%) were blamed the government for leaving high tax burden on them and the bureaucracy of the administration. While, 62(38%) were agreed that the legal factors in relation to government regulation and tax burden were not an obstacle for their business. This figure shows that, tax and bureaucracy burdens are the main problems that hinder their business from success.

The last factor is about property protection and registration, 103(64.4%) were did not agree with the availability of property protection from being copied by others and others 57(35.6%) of respondents were agreed with the availability of patent right and the enforcement of the law.

In conclusion, from questions asked to know the support of government and legal factors for enabling the business environment comfortable for enterprises to be successful, most of the respondents did not agree with the availability of government support and the enabling environment created by government.

#### **4.2.1 Interview conducted with officials of MSEs from Lideta and Kolfe Keranyo sub cities**

With regard to legal factors and government support, interview was conducted with two officials of the sampled sub cities, from Lideta, interview was held with Ato Gebre Ayalew, organizing and facilitating officer of MSEs and Ato Tesfa Wube, Organizing and Facilitating officer of MSEs from Kolfe Keranyo sub city. Personally both offices believed in giving supports for MSEs owners to be successful. But, they mentioned that the difficulty delivering service for all enterprises operating in Addis Ababa due to many factors, like scarcity of resources, both financial and human resources. The office is responsible to give support for enterprises organized under Micro and Small enterprises agency and for growth oriented enterprises like construction and manufacturing. The reason for selecting this two

sub sectors is, the ability of the sectors in absorbing a bulk of unemployment and the capacity of the sector to transform the economy from agriculture to industrial based.

Even if, priority is given for manufacturing and construction industries, supports are given for other sectors according to their contribution for employment. Supports given by the offices are: management training, facilitating access to finance, creating market linkage, providing working places and other technical helps. As the officials mentioned anyone who has the resident ID card, working places and certified in the field of his profession can organized and work under the office either personally or in cooperatives. Additionally, they mentioned that rather than working personally under the office of MSEs it is better to cooperated together to get better advantage from the office. Because, their office gives priority for MSEs organized under cooperatives.

Lastly, they pointed that there are some problems which hinder the office from providing good services for its customers like, awareness problem of owners on what the office is doing for them, by expecting more from government without exerting their effort. The major problem which hinders the service of the office is the incompetency of workers. As they mentioned, even if they want to support enterprises by sending their workers, they do not have enough workers in the office and even those who are working in the office are not professionals to deliver the necessary support for enterprises.

Additionally, they mentioned that the problem they are observing from Micro and Small enterprises are mostly management problem, conflict between members and lack of administering their property in a good manner. Both officers did not agree that the support given for the enterprises are enough, especially in enabling MSEs to administer their assets properly and creating awareness of working in group by solving conflicts between member groups of cooperatives.

From this interview one can observe that, even if offices working on MSEs were started their job with the great hope of helping enterprises success, due to so many problems they are facing at current time they did not give enough support for the area as expected.



### 4.3. Measuring Growth

In this part the statistical analysis, indicators for the dependent variables are presented. The analysis was made by two indicator variables (employment growth and capital growth) and independent variables both from personal and legal factors (age of owners, education level, prior job experience in related field, experience in management, training, family background, and legal factors (Government support, financial factor, marketing factor, legal factor and property protection) were tested by using enter method in logistic regression. First, each variables were tested whether they are significant or not and the significant variables were interred and used to predict the model. Logistic regression analysis was done separately for each indicator variables by using two separate models.

### 4.4. The relationship between personal and legal factors and employment growth

#### 4.4.1 Indicators of Growth

Table 4.4.1 Indicators of Growth

Item		Frequency	Percentage (%)
Growth by employment	Not grow	99	61.9
	Grow	61	38.1
	Total	160	100.0

Source- own computation from primary data

This part of the study presents the current performance of the enterprise. These are undertaken by asking respondents different related questions which can help to measure success/growth and by calculating their annual average growth by using growth measurement formula for employment and capital growth.

Annual average growth rates:  $[(\text{current employment} - \text{initial employment}) / \text{initial employment}] / \text{enterprise age}$ . This formula was used by different researches like (Liedholm 2002; Gebreyesus 2007 and Rabetino, 2007) to measure employment growth in their study.

As it can be seen from Table 4.5.1, 99(61.9 %) of enterprises were not grown and 61 (38.1%) of enterprises were grown in terms of employment number since start up till now. From this, it can be concluded that most enterprises did not show growth in terms of employment since they are engaged in the current job.

Here it is possible to calculate the average growth of sample firms in terms of employment for the entire duration by using similar formula but not dividing for firm's age.  $(\text{Total employment now} - \text{total employment initial}) / \text{total employment initial}$ . The total employment in the sample establishments rose from 711 to 790. This is about 11.1% growth for the entire duration in their business. Dividing the growth of employment of each firm to the number of years in business gives annual average growth of 2.88% since start-up, per year have in mind that, this growth is the result of 61 firms those show growth in employment. The rest are either downsized or stay stagnant in their number of employment.

#### 4.4.1.1 Model One- Measuring Success through Employment Growth

This model tests the impact of all eleven variables on employment growth.

Table 4.5.2.1: Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	92.474	11	.000
	Block	92.474	11	.000
	Model	92.474	11	.000

Source- logistic regression result of the study

In this model, the model chi-square has a value of 92.474 and probability of (0.000) which is  $<0.05$ . This shows that the model is good fit.

Table 4.3.2.2 Model Summary (Cox & Snell R Square and Nagelkerke R Square)

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	120.221 <sup>a</sup>	.439	.597

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

Source- logistic regression result of the study

The model summary of Cox and Snell and Nagelkerke's R<sup>2</sup> provides some approximations of R<sup>2</sup> statistic in logistic regression (See Table 4.3.2.2). In this model, Cox and Snell R<sup>2</sup> indicate that 43.9 % of the variation in the dependent variable, success is explained by explanatory variables. Nagelkerke's R<sup>2</sup> indicates that 59.7% of the variability in the overall success of entrepreneurs was explained by the explanatory variables. The rest is explained by other variable not included in this study.

Table 4.3.2.3 employment growth/success classification Table

Observed			Predicted		
			Employment growth		Percentage Correct
			otherwise	success	
Step 1	Employment growth	Not grow	84	15	84.8
		Grow	15	46	75.4
		Overall Percentage			81.2

a. The cut value is .500

Source- logistic regression result of the study

The overall accuracy of the model to correctly predict success out of 160 respondents was 81.2%. From which, 84.8% were predicted for respondents who did not grow/otherwise and



75.4% were for respondents who grow/show success from their category. This result revealed that, most of the respondents did not grow by their number of employees as it is already confirmed in the descriptive part.

Table 4.3.2.4 variables in the logistic regression equation (for annual employment growth)

		Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I. for EXP(B)	
								Lower	Upper
Step 1 <sup>a</sup>	Age (ref)			24.072	3	.000			
	Age (1)	1.275	.613	4.321	1	.038	3.579	1.076	11.911
	Age (2)	-1.525	.669	5.189	1	.023	.218	.059	.808
	Age (3)	-1.997	.790	6.388	1	.011	.136	.029	.639
	Q5( family background )	1.369	.734	3.476	1	.062	3.931	.932	16.577
	Product protection	.586	.492	1.419	1	.234	1.796	.685	4.707
	Government support	.899	.492	3.339	1	.068	2.456	.937	6.439
	Q15( management experience )	.669	.493	1.844	1	.174	1.952	.743	5.126
	Q13(industry experience )	1.061	.486	4.761	1	.029	2.890	1.114	7.495
	Financial factor	.183	.494	.138	1	.711	1.201	.456	3.162
	Marketing factor	1.170	.505	5.366	1	.021	3.221	1.197	8.665
	Legal factor	1.013	.480	4.457	1	.035	2.755	1.075	7.057
	Constant	-7.195	1.862	14.934	1	.000	.001		

a. Variable(s) entered on step 1: age, family background, product protection, government support, management experience, industry experience, financial factor, marketing factor, legal factor.

Ref\* - reference category of the predictor

Source- logistic regression result of the study

As it is shown from Table 4.3.2.4 age of the owner, industry experience, Marketing factor and Legal factors are significant success predictor of the model.

The result of logistic regression shows that owners in the reference category (< 30 years) are 4 times highly likely to grow than other age groups at 0% level of significance

The next significant factor is Industry experience with significant level of 0.029 is the other significant variable of the model. The odd ratio is 2.890. This means that, entrepreneurs with industry experience is 3 times highly likely to succeed than entrepreneurs with no industry experience.

Marketing factor is also another significant predictor with (0.021) significance level. The odd ratio is 3.22. This implies that as marketing factors increased by one unit, success is highly likely increased 3.2 times.

The last significant factor of this model is legal factors with the value of (0.035) level of significance. The odd ratio is 2.755. This means that, as legal factors increased by one unit, success is highly likely increased 2.8 times.

In this model, almost half of the variables (education of the owner, family background property protection including (bureaucracy and Patent right), financial factors including (financial support and procedures of getting loan), training and management experience) and government supports are insignificantly affect the dependent variable.

#### 4.4.1.2 Model Two: Measuring Success through Capital Growth

Table 4.5.2 growth by capital

Growth by capital		Frequency	Percentage
	Not grow	43	26.9
	Grow	117	73.1
	Total	160	100.0

The other indicator of enterprises growth is total capital, as is it shown from Table 4.5.2, 117(73.1%) of them are show growth by capital since establishment to date and 43(26.9%) of enterprises did not show capital growth since they start their operation. From this it can be said that most survival firms show growth in their capital as they stay in business. As (Garoma, 2012) mentioned in his multi dimensional study of informal sectors in Addis Ababa, firms which can survive in the business and show growth can be called as successful

enterprises. The result of this study shows that most firms grow in their capital accumulation rather than increasing in number of employees. From this it can be concluded that the intention of MSE to hire more employees is less, rather they tends to be more capital intensive than being labor intensive.

In this model the impact of all eleven independent variables were tested on capital growth/success by using logistic regression.

#### 4.4.1.2.1 Model test

Table 4.5.3. Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	151.864	9	.000
	Block	151.864	9	.000
	Model	151.864	9	.000

Source- logistic regression result of the study

In this model, the model chi-square has a value of 151.864 and probability of (0.000) which is  $<0.05$ . This shows that the model is good fit.

Table 4.6.2.2 Model Summary (Cox and Snell and Nagelkerke's R2)

Table 4.5.4. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	34.379 <sup>a</sup>	.613	.891

a. Estimation terminated at iteration number 10 because parameter estimates changed by less than .001.

The model summary of Cox and Snell and Nagelkerke's R2 provides some approximations of R2 statistic in logistic regression (See Table 4.5.4). In this study, Cox and Snell R2 indicate that 61.3 % of the variation in the dependent variable, success is explained by



explanatory variables. Nagelkerke's R2 indicates that 89.1 % of the variability in the overall success of entrepreneurs was explained by the explanatory variables. The rest is explained by other variable not included in this study.

Table 4.5.5 Classification Table

Observed		Predicted		
		growth by capital		Percentage Correct
		Otherwise	success	
growth by capital	Otherwise	41	2	95.3
	Success	3	114	97.4
Overall Percentage				96.9

a. The cut value is .500

Source: computed from own survey, 2013

The overall accuracy of the model to correctly predict success out of 160 respondents was 96.9 %. From which, 95.3% were predicted for respondents who did not grow/otherwise and 97.4 % were for respondents who grow/show success from their category. This result revealed that, most of the respondents did grow in terms of capital accumulation.



Table 4.5.6. Variables included in model two

Variables	B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I. for EXP(B)	
							Lower	Upper
Q5(1) family background	4.987	1.839	7.355	1	.007	146.424	3.986	5379.020
Q13(1) industry experience	3.330	1.609	4.282	1	.039	27.936	1.192	654.543
Q15(1) management experience	3.695	1.412	6.850	1	.009	40.230	2.529	639.898
Q17(1) training	2.589	1.217	4.528	1	.033	13.313	1.227	144.501
Financial factor r(1)	2.593	1.100	5.559	1	.018	13.364	1.549	115.319
Marketing factor (1)	5.988	1.650	13.173	1	.000	398.735	15.713	10118.121
Legal factor (1)	2.749	1.178	5.442	1	.020	15.629	1.552	157.403
Constant	-7.829	2.605	9.031	1	.003	.000		

Source: computed from own survey, 2013

As it is shown from table 4.5.6., family background, industry experience, management experience, training of the owner, financial factor, marketing factor and legal factors are contributes significantly for the overall success prediction in the model.

The next significant factor of the model is family background with significance level of .007. The odd ratio is 146.424. This means that, the odd ratio is greater than one and it implies that, as the family background increases by 1 unit entrepreneur's success is more likely to increase increased 146.42 times.

Industry experience with significant level of 0.039 is the other significant variable of the study. The odd ratio is 27.94. This means that, the odd ratio is greater than one and it implies that, as the industry experience increased by 1 unit entrepreneurs success is more times likely increased 27.94 times.

Management experience is significant at 0.009 significant levels. The odd ratio is 40.23, which is greater than one and this implies that, as management experience increased by one unit, success is more likely to increase 40.23 times.

The other significant factor of this model is training of the owner with (0.033) significance level. The odd ratio is 13.313, since the odd ratio is greater than one, as training is increased by one unit; success is more likely to increase 13.3 times.

Financial factor is the other significant factor of the model with (0.018) significance level. The odd ratio is 13.364. This means that as financial factor increased by one unit, success is more likely to occur 13.4 times.

And also marketing factor is significant with value of (0.00) significant level. The odd ratio is 398.74. This implies that, as marketing factor increased by one unit, success is more likely to increase 398.74 times.

The last significant factor of this model is legal factors with (0.02) level of significance. The odd ratio is 15.63. This implies that as legal factors increased by one unit, success is more likely to increase by 15.63 times.

Other factors (age of the owner, education of the owner and government support and property protection) are found insignificant and excluded from the model.



## 4.5 DISCUSSION

From the model that shows employment growth, the finding result shows that most enterprises did not show growth starting from their establishment to date. This result confirms the idea that MSEs do not want to hire employees; rather, they used the business as the way for self employment and being one's own boss. MSEs included in this study generates 2.88% employment per year which is still smaller when compared to other African countries, like Botswana, Swaziland and Zimbabwe were 6.3, 4.1 and 5.6% respectively, Botswana, Swaziland and Zimbabwe were 8.4, 6.6 and 7.4% respectively. (Kefale and Chinnan, 2012), as it is mentioned on the study of the same study confirmed that, MSEs show small growth interms of employment.

From the study result it can be seen that as the age of entrepreneurs increases their growth in terms of employment starts to decline and also no relationship were found between age of the owner and capital growth. This means that, the younger the entrepreneurs are the more they are succeeded in terms of generating more work, since they exert their effort to do more and show growth. This result is also confirmed by other researcher, such as, (Achleitner *et al*, 2004 and Lafuente and Rabetino, 2007), Achleitner also further states that the probability of taking risks in business starts to decline as the age of an entrepreneurs increasing since they mainly focused on family issues.

The other significant factor for entrepreneur's growth in terms of capital is family background. This can be due to the ability of entrepreneurs to use free labor of the family the tendency of hiring new employees might be less. In addition to this, getting financial support and involved in an already existed network as it is already confirmed by many researchers, like (Eshetu, 1999; Audretsch and Lehmann, 2006 and Siddiqi and Khan, 2011). Even if the number of entrepreneurs with family background in business is small, they grow faster than other firms.

The next significant predictor for growth both in terms of employment and capital is industry experience and the finding is supported by many researchers; such as, (Eshetu 1999; Gebreeyesus, 2007; Harada, 2003 and Abebe, 2011 and Schutjens and Wever, 2000). The reason behind the huge difference between entrepreneurs with industry experience and without can be due to the result of learning by doing effect and the ability of achieving economies of scale in job.

In this study, poor relationship is found between management experience and employment growth whereas, significant relationship is found between management experience and capital growth. Many studies found poor management is the main reason for firm's failure like (Abera, 2012; Bekele and worku, 2008). While the finding of (Achleitner *et al*, 2004), confirms the insignificant relationship between management experience and firms growth.

Training is the other factor that found significant in terms of capital growth, but it not supported the relationship between training and employment growth. As it is mentioned on the study of (Bekele and worku, 2008; Mehralizadeh *et al*, [no date]) by referring model of learning, entrepreneurs with training would therefore be expected to grow faster.

Marketing factors also found significant for the growth of entrepreneurs, both in terms employment and capital. Marketing factor is the summation of three variables, which consists product display center, Access for market information and Marketing linkage. Since marketing is the main problem for many entrepreneurs, those who can get market linkage can grow faster than others, this finding is supported by the study result of (Kefale and Chinnan, 2012) conducted on Woldya, Ethiopia.

Legal factors is also show significant impact on success of entrepreneurs in this study, which is the cumulative result of variables such as, Tax burden, access for information about government regulation. It obvious that, as tax burden reduced and government information is easily accessible, business environment is become suitable and enable entrepreneurs to be successful as it is supported by finding of (Garoma, 2012).

The other significant factor for capital growth is financial factor where as the relationship between employment growth and financial factor was not supported. Financial factors are found significant for the growth of entrepreneurs by so many authors especially during start up periods and many of them mentioned financial factor as a reason for entrepreneur's failure. For example, (Tadesse, 2011; Mehralizadeh *et al*, [no date]) mentioned, financial problem as main factor for the success or failure factor of entrepreneurs.

This study also confirmed there is no relationship between entrepreneur's education and growth. This finding is in contrary to the finding of (Gebreeyesus, 2007 and Achleitner *et al*, 2004), which shows entrepreneurs with high school complete and with some college years grow faster.



## **CHAPTER FIVE: MAJOR FINDINGS, CONCLUSION AND RECOMMENDATION**

The objective of this study is to identify the Impact of Personal and Legal factors on Success of Entrepreneurs operating Micro and Small Enterprises in Addis Ababa. In this chapter major finding, conclusions drawn from data analysis and discussion were presented and based on the conclusions recommendations has been given.

### **5.1. Major Findings**

Major findings drawn from the study include;

The findings of this study shows high growth of entrepreneurs in terms of capital and in contrary low growth rate in terms of employment.

Age of the owner, and industry experience are significant and positive success predictor of employment growth while, age is significant and negatively related. Whereas, education of the owner, family background, property protection, financial factors, training and management experience and government supports are insignificantly affect employment growth. Here it was confirmed that, the younger the owners of the firm the more they are growing in terms of employment since they are capable enough to perform their carrier. Industry experience, Management experience, Training of the owner, financial, Marketing and legal factors are found significant and positively related to success which was measured in terms of capital growth.

Most entrepreneurs did not get any support from the government and the office of MSEA. Since most of the respondents were individual owners and the MSA agency did not perform well because of lack of resources both material and human, lack of awareness from entrepreneurs. The main problem from entrepreneur's side identified by the office is management problem of their resources and conflict arises between owners/ cooperative

members. The legal environment of Ethiopia, in which entrepreneurs operating is not a promising and did not, contributes for their success.

Education, property protection, financial factors, training, and government support and management experience are insignificantly affect growth in terms of employment. Whereas, age of the owner, education, government support and property protection were found insignificant in predicting capital growth.

## 5.2 Conclusions

The Government of Ethiopia recognized and paid due attention for promotion and development of MSEs since they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. This aim can be achieved if the country can create strong and growth oriented enterprises which can create job opportunity for other individuals, in addition to creating job opportunity for themselves. Growth of firms can be depending on internal and external factors to the firm. From internal factor personal and firm specific factors can be mentioned, on the other hand the business environment of the country can contribute for the failure or success of entrepreneurs. Among those factors, this study considered the impact of personal and legal factors on success.

**Consequently, the following conclusions are drawn from the finding.**

Entrepreneurs show good performance in capital accumulation rather than showing growth in employment. From this it can be concluded that even if the government select manufacturing sector as one of labor intensive area to create more job opportunity, enterprises currently at work or those considered in this study did not contribute more for creating employment opportunity.

Even if, the office of MSEA is aimed at facilitating growth of entrepreneurs by giving a due emphasis for growth oriented sectors such as, manufacturing the result of the finding confirm that there is no enough support and enabling legal environment which can facilitate enterprises to succeed/ grow. This by itself can be the main reason for enterprises to not show growth in terms of employment.

Most of the respondents were engaged on metal and wood works and most of them are private owners. Since they did not organized under cooperatives they did not get any support



from the government including, marketing and financial support, working premises, technical and technological supports.

From indicator variables (Age of the owner, Industry experience, Government support and legal factors) are significantly and positively related to employment growth/ success except for age of the owners which is negatively related to growth.

Industry experience, Management experience, Training of the owner, financial, Marketing and legal factors are found significant and positively related to success/ capital growth.

### **5.3 Recommendations**

MSEs office of Addis Ababa better encourage the capacity of the sector by enabling those individually operating enterprises to form cooperatives and perform together through awareness creation about the benefit of doing in group and the benefit they can get from the office and by providing working places for those entrepreneurs which shows capital growth as they stayed in business to enhance the capacity of their growth in terms of employment.

The office of MSED A and other concerned sectors in Addis Ababa needs to cooperate with business schools found in Addis Ababa, such as, Addis Ababa University and Commercial College of Addis Ababa and other stake holders like EMPERTEC Ethiopia to upgrade the management and entrepreneurship concept through consistent and continuous training program. In addition to this, it is important to upgrade the technical knowledge of entrepreneurs in their field through enabling them benefited from TVET colleges of Addis Ababa by creating a link and allowing students to work in MSEs their apprenticeship programmes through proper supervision.

In relation to marketing factors, the government needs to help entrepreneurs especially those operating wood and metal in creating market linkage by giving the chance of providing their product for the vast housing project of Addis Ababa. Even if, most of them are operating individually they can develop the capacity of hiring additional employees if they can get market for their products. Since participating in tendering with large organization is costly MSEs.

Since young entrepreneurs tends to grow faster than the aged one in terms of employment generation, it is advisable for the government if it gives attention for giving short term training for those youngsters graduated from university in this manufacturing field in collaboration with TVET colleges and enable them to create their own jobs.





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# ***Appendix***

**JIMMA UNIVERSITY**

**COLLEGE OF GRADUATE STUDIES**

**COLLEGE OF BUSINESS AND ECONOMICS**

**Dear respondents**

First, thank you for participating in this Study.

This questionnaire is prepared to collect data from Micro and Small enterprises in Addis Ababa for the study in the area of personal and legal factors of entrepreneur's success, for partial fulfillment of Masters of Business Administration (MBA) Jimma University. The success of this survey depends on your participation and frank responses. The questionnaire is used only for academic purposes and your responses will be kept strictly confidential.

If you have any queries, please contact me by *0913409878*-Medina Hassen

**General instruction**

- ✓ No need of writing your name
- ✓ Put check mark (✓) For *Likert* scale type statements and multiple choice questions.

Thank you so much for your cooperation!

---

**Part one**

**Demographic characteristics of entrepreneurs**

1. Gender:

1. Male  2. Female

2. Age of the entrepreneur

< 18  18-30   
31-40  41-50   
50+

3. Level of education

Illiterate  primary education  secondary education   
Tertiary education

**Part two: General information about the business**

1. What is the age of your business under the current ownership?

\_\_\_\_\_

2. Did you expand your business after you engaged in the current job?

Yes  No

3. If your answer for question No 2 is yes, did you expand with similar operation?

Yes  No

4. What is the form of ownership of your business?

Sole proprietorship  ordinary partnership  general partnership   
limited partnership  P.L.C  joint venture  share company

5. Is your choice under no. 4 a family business?

Yes  No

6. If your answer for no 5 is yes, do you think it contributes for your success?

Yes  No



7. If your answer for number 6 is yes, how?

Please specify \_\_\_\_\_

8. What is the type of business you are involved in?

Construction  leather work

Wood and metal work  Textile and Garment

Food and beverage  Arti craft  chemical works

If other, please specify \_\_\_\_\_

9. What was the amount of total capital invested in Birr to start this business?

\_\_\_\_\_

10. Is your capital growing as you stay in the business?

Yes

No

11. Currently, how much is the total capital of your business in Birr?

\_\_\_\_\_

12. How many permanent employees did you hire when you start your business including the owner?

\_\_\_\_\_

13. How many Permanent employees do you have now including the owner?

\_\_\_\_\_

14. Do principal owner(s) of this enterprise have any experience on similar business in the industry before establishing the current business?

Yes

No

15. If your response for question 14 is yes, for how many years?

\_\_\_\_\_

16. Do you have had any management experience at work in any field before establishing this business?

Yes

No

17. If your response for question 16 is yes, for how many years? \_\_\_\_\_

18. Do you have any training related to entrepreneurship before starting your business or after starting?

Yes

No

19. If your response for question 18 is yes, what is the specific advantage you gained?

How to price your products

How to handle customers

How to sale your products

How to create market linkages

If others, specify \_\_\_\_\_

20. Again if your question for number 18 is yes who gave you the training?

Addis Ababa chamber of commerce

Addis Ababa micro and small enterprise agency

Other non government organizations (NGO's)

If any other, please specify \_\_\_\_\_

21. What types of supports are given to you from the government?

Technical support

training

Financial support

Technological support

Providing raw materials

providing market

If any other, please specify

\_\_\_\_\_



**Part three: questions about government support and legal environment**

The major legal factors and government support programs of MSEs of Ethiopia which aimed at supporting the sector are listed below. Please indicate the degree to which these factors are contributing for success 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, 6 = strongly agree, 5 = agree, 4 = inclined to agree, 3 = inclined to disagree and 2 = disagree, 1 = strongly disagree.

Please, indicate the degree to which you agree with the following statements concerning legal factors.

No	legal factors	6	5	4	3	2	1
1	The tax levied on my business is reasonable						
2	Government gives me patent and copy right protection for my work						
3	government support is high						
4	Bureaucracy in company registration and licensing is low						
5	Government helps me to compete with other firms by giving technical support						
6	Government provides sufficient market information for my products						
7	Government provides me sufficient raw materials for my products						
8	Government provides me loan with less amount of interest and free of collateral						
9	The procedure of getting loans from micro finance institution is easy						
10	Government provide me product display center at lower price						

11	Government provide me working premises at lower prices						
12	Government create market for my products						
13	Government provides the necessary infrastructures when necessary in short time. Such as electricity						
14	Government help me to use up to date technology in my career						
15	Easy access of information on government regulations that are relevant to my business						

Thank you for your time and genuine response!!!

**INTERVIEW QUESTIONS:**

**For managers of Addis Ababa city administration Micro and Small enterprises Development agency**

1. Do you think that government support is necessary for the success of entrepreneurs?
2. If your answer for question number one is "yes", who are supported under your office?
3. Again if your number for question number one is yes what types of supports your office gives for entrepreneurs?
4. Does your office give or facilitate entrepreneurship training for entrepreneurs?
5. Does your office give a special support for some identified sectors?
6. If your answer for number 5 is "yes" what is the reason?
7. Do you think the support given by the government is enough to support entrepreneur's success?
8. If your answer for question number 7 is NO what do you suggest for improvement?

## Appendix A

### Output of each variables from logistic regression for employment growth

#### Output of each variable from logistic regression/ one predictor used

**Variables in the Equation**

	B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 <sup>a</sup> Age			43.251	3	.000	
Age (1)	1.364	.490	7.751	1	.005	3.912
Age (2)	-1.761	.551	10.204	1	.001	.172
Age (3)	-2.224	.691	10.370	1	.001	.108
Constant	-.111	.334	.111	1	.739	.895

a. Variable(s) entered on step 1: Age.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Education			2.326	2	.312	
Education (1)	.333	.415	.645	1	.422	1.395
Education (2)	.669	.441	2.306	1	.129	1.953
Constant	-.836	.332	6.343	1	.012	.433

a. Variable(s) entered on step 1: Education



**Variables in the Equation**

	B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 <sup>a</sup> Q5(family background)	1.824	.562	10.548	1	.001	6.196
Constant	-3.839	1.080	12.645	1	.000	.022

a. Variable(s) entered on step 1:  
Q5.(family background)

**Variables in the Equation**

	B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 <sup>a</sup> Q17(training)	-.190	.372	.262	1	.609	.827
Constant	-.244	.496	.242	1	.623	.784

a. Variable(s) entered on step 1:  
Q17.(training of the owner)

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Product protection	.705	.336	4.396	1	.036	2.024
Constant	-.887	.259	11.711	1	.001	.412

a. Variable(s) entered on step 1: product protection.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Government support	1.344	.349	14.867	1	.000	3.835
Constant	-1.221	.268	20.704	1	.000	.295

a. Variable(s) entered on step 1: government support.

**Variables in the Equation**

	B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 <sup>a</sup> Q15(management experience)	.921	.346	7.095	1	.008	2.512
Constant	-1.728	.501	11.903	1	.001	.178

a. Variable(s) entered on step 1: Q15.(management experience)

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Financial factor	.686	.330	4.317	1	.038	1.986
Constant	-.819	.235	12.118	1	.000	.441

a. Variable(s) entered on step 1: financial factor.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Marketing factor	.819	.339	5.837	1	.016	2.268
Constant	-.956	.263	13.188	1	.000	.385

a. Variable(s) entered on step 1: marketing factor.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Legal factor	.919	.336	7.498	1	.006	2.508
Constant	-.969	.250	14.989	1	.000	.379

a. Variable(s) entered on step 1: legal factor.

**Variables in the Equation**

	B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 <sup>a</sup> Q13(industry experience)	1.316	.346	14.430	1	.000	3.727
Constant	-2.324	.521	19.884	1	.000	.098

a. Variable(s) entered on step 1:  
Q13.(industry experience)



**Predicted model by significant variables/ multiple logistic regression**

**Block 0: Beginning Block**

**Classification Table<sup>a,b</sup>**

Observed		Predicted			
		empt grwth		Percentage Correct	
		otherwise	success		
Step 0	empt grwth	Otherwise	99	0	100.0
		success	61	0	.0
Overall Percentage					61.9

a. Constant is included in the model.

b. The cut value is .500

**Block 1: Method = Enter**

**Omnibus Tests of Model Coefficients**

	Chi-square	df	Sig.
Step 1 Step	92.474	11	.000
Block	92.474	11	.000
Model	92.474	11	.000

**Model Summary**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	120.221 <sup>a</sup>	.439	.597

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

**Classification Table<sup>a</sup>**

Observed		Predicted		
		empt grwth		Percentage Correct
		otherwise	success	
Step 1	empt grwth	84	15	84.8
	success	15	46	75.4
	Overall Percentage			81.2

a. The cut value is .500

Variables in the equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I. for EXP(B)	
								Lower	Upper
Step 1 <sup>a</sup>	Age			24.072	3	.000			
	Age (1)	1.275	.613	4.321	1	.038	3.579	1.076	11.911
	Age (2)	-1.525	.669	5.189	1	.023	.218	.059	.808
	Age (3)	-1.997	.790	6.388	1	.011	.136	.029	.639
	Q5(family background )	1.369	.734	3.476	1	.062	3.931	.932	16.577
	Product protection	.586	.492	1.419	1	.234	1.796	.685	4.707
	Govt support	.899	.492	3.339	1	.068	2.456	.937	6.439
	Q15(management support)	.669	.493	1.844	1	.174	1.952	.743	5.126
	Q13(industry experience)	1.061	.486	4.761	1	.029	2.890	1.114	7.495
	Financial factor	.183	.494	.138	1	.711	1.201	.456	3.162
	Marketing factor	1.170	.505	5.366	1	.021	3.221	1.197	8.665
	Legal factor	1.013	.480	4.457	1	.035	2.755	1.075	7.057
	Constant	-7.195	1.862	14.934	1	.000	.001		

a. Variable(s) entered on step 1: age, family background product protection, govt support, industry experience, industry experience, financial factor, marketing factor, legal factor.



## Appendix B

### Output of each variables from logistic regression for model two which measure capital growth

Output of each variable from logistic regression/ one predictor

**Variables in the Equation**

	B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 <sup>a</sup> Age			.430	3	.934	
Age (1)	.203	.602	.114	1	.735	1.225
Age (2)	.195	.629	.096	1	.756	1.215
Age (3)	-.077	.667	.013	1	.908	.926
Constant	.875	.532	2.705	1	.100	2.400

a. Variable(s) entered on step 1: age.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Education			3.177	2	.204	
Education (1)	.770	.496	2.415	1	.120	2.160
Education (2)	.072	.438	.027	1	.870	1.074
Constant	.734	.351	4.368	1	.037	2.083

a. Variable(s) entered on step 1: Education

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Q5(family background)	3.083	.497	38.405	1	.000	21.825
Constant	-4.356	.892	23.836	1	.000	.013

a. Variable(s) entered on step 1:  
Q5.(family background)

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Q13(industry experience)	2.019	.557	13.138	1	.000	7.534
Constant	-1.493	.658	5.153	1	.023	.225

a. Variable(s) entered on step 1:  
Q13.(industry experience)

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Q15(management experience)	1.306	.383	11.658	1	.001	3.692
Constant	-.901	.559	2.592	1	.107	.406

a. Variable(s) entered on step 1:  
Q15.(management experience)

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Q17(training)	1.685	.400	17.778	1	.000	5.392
Constant	-1.437	.572	6.324	1	.012	.238

a. Variable(s) entered on step 1:  
Q17.(training)

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Government support	1.271	.378	11.324	1	.001	3.565
Constant	.394	.240	2.687	1	.101	1.483

a. Variable(s) entered on step 1: government support.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Financial factor	1.005	.367	7.509	1	.006	2.731
Constant	.480	.250	3.693	1	.055	1.615

a. Variable(s) entered on step 1: financial factor.



**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Marketing factor	2.921	.517	31.855	1	.000	18.553
Constant	-.111	.236	.222	1	.638	.895

a. Variable(s) entered on step 1: marketing factor.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Legal factor	1.375	.375	13.468	1	.000	3.954
Constant	.260	.256	1.026	1	.311	1.296

a. Variable(s) entered on step 1: legal factor

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Product protection	.898	.366	6.024	1	.014	2.454
Constant	.464	.272	2.912	1	.088	1.591

a. Variable(s) entered on step 1: product protection.

**Block 0: Beginning Block**

**Classification Table<sup>a,b</sup>**

Observed			Predicted		
			growth by capital		Percentage Correct
			otherwise	success	
Step 0	growth by capital	Otherwise	0	43	.0
		Success	0	117	100.0
Overall Percentage					73.1

a. Constant is included in the model.

b. The cut value is .500

a. If weight is in effect, see classification table for the total number of cases

**Dependent Variable  
Encoding**

Original Value	Internal Value
otherwise	0
success	1

**Block 1: Method = Enter**

**Omnibus Tests of Model Coefficients**

	Chi-square	df	Sig.
Step 1 Step	151.864	9	.000
Block	151.864	9	.000
Model	151.864	9	.000

**Model Summary**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	34.379 <sup>a</sup>	.613	.891

a. Estimation terminated at iteration number 9 because parameter estimates changed by less than .001.

**Hosmer and Lemeshow Test**

Step	Chi-square	Df	Sig.
1	31.067	8	.000

**Classification Table<sup>a</sup>**

Observed		Predicted			
		growth by capital		Percentage Correct	
		otherwise	Success		
Step 1	growth by capital	Otherwise	41	2	95.3
		Success	3	114	97.4
	Overall Percentage				96.9

a. The cut value is .500



Variables in the Equation									
		B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I. for EXP(B)	
								Lower	Upper
Step 1 <sup>a</sup>	Q13(1) industry experience	3.330	1.609	4.282	1	.039	27.936	1.192	654.543
	Q5(1) family background	4.987	1.839	7.355	1	.007	146.424	3.986	5.379E3
	Q15(1) management experience	3.695	1.412	6.850	1	.009	40.230	2.529	639.898
	Q17(1) training	2.589	1.217	4.528	1	.033	13.313	1.227	144.501
	Financial factor(1)	2.593	1.100	5.559	1	.018	13.364	1.549	115.319
	Marketing factor(1)	5.988	1.650	13.173	1	.000	398.735	15.713	1.012E4
	Legal factor(1)	2.749	1.178	5.442	1	.020	15.629	1.552	157.403
	Constant	-7.829	2.605	9.031	1	.003	.000		
a. Variable(s) entered on step 1 : industry experience, education, family background, management experience, training, financial factor, marketing factor, legal factor.									

## APPENDIX C

### Result of each variables from likert scale type questions

Items		Frequency	Percentage (%)
The tax levied on my business is reasonable	strongly disagree'	25	15.6
	Disagree	50	31.3
	inclined to disagree	10	6.2
	inclined to agree	27	16.9
	Agree	30	18.8
	strongly agree	18	11.2
	Total	160	100.0
Bureaucracy in company registration and licensing is low	strongly disagree'	35	21.8
	disagree'	18	11.25
	inclined to disagree	8	5.0
	inclined to agree	19	11.9
	Agree	42	26.2
	strongly agree	38	23.8
	Total	160	100.0
government support is	strongly	52	32.5

high	disagree		
	Disagree	33	20.63
	inclined to disagree	20	12.5
	inclined to agree	25	15.6
	Agree	14	8.8
	strongly agree	16	10.0
	Total	160	100.0
Government provide me product display center at lower price	strongly disagree'	40	25
	disagree'	34	18.7
	inclined to disagree	30	21.3
	inclined to agree	16	10.0
	Agree	29	18.1
	strongly agree	11	6.9
	Total	160	100.0
Government helps me to compete with other firms by giving technical support	strongly disagree'	70	43.8
	disagree'	47	29.4
	inclined to disagree	12	7.5
	inclined to agree	12	7.5
	Agree	10	6.2
	strongly agree	9	5.6
	Total	160	100.0
Government provides sufficient market information for my	strongly disagree'	77	48.1
	disagree'	43	26.9



products	inclined to disagree	17	10.63
	inclined to agree	12	7.5
	Agree	7	4.4
	strongly agree	4	2.5
	Total	160	100.0
Government provides me sufficient raw materials for my products	strongly disagree'	88	55
	disagree'	41	25.6
	inclined to disagree	10	6.2
	inclined to agree	6	3.8
	Agree	12	7.5
	strongly agree	3	1.9
	Total	160	100.0
Government provides me loan with less amount of interest and free of collateral	strongly disagree'	49	30.6
	disagree'	38	23.75
	inclined to disagree	21	13.12
	inclined to agree	16	10.0
	Agree	27	16.9
	strongly agree	9	5.6
	Total	160	100.0
The procedure of getting loans from micro finance institution is easy	strongly disagree'	50	31.25
	disagree'	29	18.1
	inclined to disagree	17	10.6

	inclined to agree	20	12.5
	Agree	37	23.1
	strongly agree	7	4.4
	Total	160	100.0
Government gives me patent and copy right protection for my work	strongly disagree'	32	20.0
	disagree'	33	20.6
	inclined to disagree	10	6.2
	inclined to agree	31	19.4
	Agree	40	25.0
	strongly agree	14	8.8
	Total	160	100.0
Government provides me working premises at lower prices	strongly disagree'	48	30.0
	disagree'	56	35.0
	inclined to disagree	15	9.4
	inclined to agree	13	8.1
	Agree	21	13.1
	strongly agree	7	4.4
	Total	160	100.0
Government creates market for my products	strongly disagree'	50	31.2
	disagree'	38	23.8
	inclined to disagree	18	11.2
	inclined to agree	25	15.6
	Agree	21	13.1



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