

***Issue - 13, Vol-07, pp. 01-08, Jan-Jun 2017***  
***CLEAR International Journal of Research in Management, Science and Technology***

**RESEARCH ARTICLE**

**FACTORS THAT AFFECTS THE GROWTH AND EXPANSION OF MICRO AND SMALL  
SCALE ENTREPRISES IN ETHIOPIA (IN THE CASE OF ADAMA TOWN)**

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**ABSTRACT**

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***Article History:***

Received 22nd May 2017

Received in revised form 29<sup>th</sup> May  
2017

Accepted 05.06.2017

Published on 30.06.2017

***Keywords: MSEs and Startup***

***Capital***

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*This study focused on factors that affect growth and expansion of micro and small scale enterprises in Adama town. The main intention of the study is to discover the major factors hindering the growth and expansion of micro and small scale enterprises in Adama town. The general objective of the research paper is to identify the core problems that affect growth expansion of MSEs in Adama town and come up with possible solutions to the problems in this research paper. The core problem are listed as lack of access to credit, lack of effective training, lack of experiences, low level of educational achievement, lack of technical capacity to guide operation, lack of infrastructure, lack of work place, lack of startup capital and lack employs attitude towards their job are major one. The study would adopt stratified random sampling for selection of sample from the entire population both primary and secondary and secondary sources of data would be used for the accomplishment of the study. The significance of the would be used as a reference by other who are interested to conduct research in the same topic it also helps the researchers for farther investigation and provide valuable information for the government and other interested body to take some corrective action. Finally, logical conclusion and recommendation would be made based on the finding.*

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**INTRODUCTION**

Small and medium sized enterprise was mainly concerned with the size of small firms and providing expansion for their growth the stages small firms pass through as an economy grows.

They postulated several reasons why small firms in low income countries initially grow rapidly before their share in total industrial activity begins to decline.

Firms practically always begin as very small entities with low amounts of capital drawn from the savings of the owner or borrowings from friends and relatives initial levels of employment are low, typically less than a dozen, though the figure varies with the nature of the business the social and occupational back ground of the owners varies greatly and the firms that expand in to medium or large scale activities do so continually or in steps expansion can be very fast for some firms through the growth rates appear as broadly distributed as their final sizes. (Anderson 1982:1923)

Small and medium scale enterprise a positive image of profit seeking in private business in East Asia it shows that enterprise in middle income developing economies such as China, Taiwan, Singapore, Republic of Korea have benefited from industrial sector reform. In this case it is apparent that a relatively developed market skilled work forces, technology-intensive production and public and private support mechanisms have assisted small enterprise in capturing niche markets and under taking sub-contracting arrangements (World Bank, 1994).

Ghana's small-scale industries have been particularly success full in competing with products such as machine and tool parts, specialized nuts and bolts and bulky food-processing equipment. Tanzania small-scale industries successful new product lines including oil presses and expellers, water pumps and storage tanks and drill presses have also been adopted (Bagachwa, 1993). Micro and Small scale enterprises play a great role in the Country's economic growth and development. They are labor intensive and tend to use less capital to use existing local and traditional skills and raw material.

They create a great opportunity for technical educated and unemployment industrial development of Ethiopia (Hailay Gebretinsae , 2003:1). The role of micro and small scale enterprises in developing countries significant in terms of their employment of generation capacity, Quick production response and adapting to weak infrastructure and the use of local resources as a means of developing

endogenous entrepreneur and managerial skill for sustained industrialization.

Ethiopia's small-scale industries some successful in competing with products such as done technology, Maru metal industries, Mesten engineering in generally over view standard of development criteria categorized as one of the poorest of the least developing countries.

According to the Solomon 2004 micro and scale enterprise have a number of potential advantages to the economics of least developing countries. In Ethiopia they play a significant role in terms of accommodating a number of operators and creation full employment to the labor force. Adama town is regional towns the main salmene city it is fast growing. This had faced different problems that have been existing in the town. Thus, the role of micro and small enterprises would have a unique position for the purpose of creating employment opportunity for the poor and reducing poverty.

Adama town micro and small scale enterprises start their operation from 1995. The major objectives of the enterprises are to create job opportunity for unemployed people and to increase the gradual transformation of the Adama town was increased from year to year. From the data the researcher has proved the number of unemployment is increasing. So, Adama town MSEs plays a great role in reducing unemployment and poverty in the town.

The constraints that affect their growth and expansion which includes lack of initial capital, lack of access to markets , lack of raw material, lack of knowledge and infrastructural constraints that constitute the problem area of micro and small scale enterprise (Daniel, 2006:4). Therefore, the researcher identified factors that affect their growth and expansion of MSEs in Adama town.

#### **RESEARCH QUESTION**

1. What are the major problems of micro and small scale enterprise growth and expansion?
2. Is there any government action and support for the expansion or the sector in the town?

3. What are the main role or rule and standards of micro and small scale enterprises?

## **OBJECTIVE OF THE STUDY**

### **GENERAL OBJECTIVE**

The general objective of the study was to assess the factors that affect growth and expansion of micro and small scale enterprises in Adama town

### **SIGNIFICANCE OF THE STUDY**

The result of this research is believed to provide the following significances.

1. It provides information to the small scale enterprise as to how to minimize its limitations.
2. It also helps the reference for other investigation.
3. It also is used as a reference for others who are interested to conduct a research on the same topic.
4. Provide valuable information for the government and other interested body to take some corrective action.
5. Finally it provides additional information to the existing literature on the enterprises.

## **RESEARCH METHODOLOGY**

Micro and small scale enterprise in Adama town research design are a plan for gathering relevant information to the research problem. The research would be used through descriptive statics design. Because the researcher to analyzes and interpret the factors of micro and small scale enterprises and its role in the growth and expansion of micro and small scale enterprises in Adama town.

## **SOURCE OF DATA**

The researcher used both primary and secondary sources of data to conduct this study. The

primary data in this research are mainly used interview, questionnaire, Secondary data would be used Adama town micro and small scale enterprise office reports, books, journals, internet sources and from other sources.

## **METHOD OF DATA COLLECTION**

Both primary and secondary sources of data would be used in under taking the research. The primary data interview would be used for micro and small scale enterprise offices (manager) ,questionnaire would be used for employees of micro and small scale Enterprise in observing the activities of micro and small scale enterprises. In the secondary source of data collection method will be used Adama town micro and small scale enterprise office reports, books, journals, internet sources and from other sources.

## **SAMPLE TECHNIQUE AND SAMPLE SIZE**

### **SAMPLING TECHNIQUE**

The sampling technique that the researcher used was a stratified random sample in selecting the representative following the method of proportional allocation. These samples would be selected from each stratum used relatively proportional allocation in relation to the percentage of total population from the total 624. The questionnaire distributed randomly for a total 80 MSEs. According to their strata after their stratification in to their homogenous sector categorizing in to five sectors which they are categorized.

### **SAMPLE SIZE**

The sample population was from keble 01, 02, 03 of micro and small scale enterprises in Adama town. The total population of these enterprises is 624. From this the researcher would take a medium sample size of 80 respondents using the sample size determination developed by carvaeho (1984) as called by zelalem (2005) in order to increase the accurate representation of the total population as stated below.

Sample size (n) =  $N / (1 + N(\alpha)^2)$

N = total population

sector	Number of enterprises	M	F	Sample	No. of respondents	%
Trade	437	350	87	56	54	71%
Manufacturing	58	42	16	7	7	9%
Service	76	58	18	10	10	13%
Constructing	19	16	3	3	3	4%
Urban area farming	34	34	0	4	2	3%
Total	624	500	124	80	76	100%

Sample size (n) =  $624 / (1 + 624(0.05)^2) = 244$

$\alpha$  = level of significance (5%)

Where, n = is the required sample size,

## RESULT ANALYSIS AND DISCUSION

**Table 1 Initial Startup Capital of Business**

Capital	Number of respondent	Percentage
500-1000 birr	3	4%
1001-5000 birr	53	70%
5001-10,000 birr	5	6%
Above 10,000 birr	15	20%
Total	76	100%

Source: Own Survey (2009)

Where we see the amount of capital on the table 1 most business startup capital was 1001-5000 birr 53(70%) of respondents 15(20%) of business was start with capital of above 10,000

Birr 5(6%) and 3(4%) of business was start up with the capital of 5001-10,000 birr and 500-1000 birr respectively. This result is affect expansion.

**Table 2 Major Source Start up Capital of Business**

Major Source Capital	Number of respondent	Percentage
Personal saving	56	74%
Micro finance	12	16%
Friends	-	-
Family	8	10%
Ekuib	-	-
NGO's	-	-
Total	76	100%

Source: Own Survey (2009)

As show in table 2 about 74% of startup capital of sample enterprises came from internal source of finance especially personal saving of entrepreneurs followed by loans from micro finance institutions 16% other source family enterprises..

assistance 10%. The majority of initial source of financing for small businesses in Adama town come from personal savings 74%. This result directly affects expansion of small business

**Table 3 Access to Credit of Respondents**

Access to credit	Number of respondent	Percentage
Yes	12	16%
No	64	84%
Total	76	100%

Source: Own Survey (2009)

As show in table 3 about 84% respondents do not access to credit and 16 % (12) respondents get access to credit. So, that the majority of

micro and small scale enterprise does not access to credit to the respondents.

**Table 4 Are there factors that hinder The Expansion of Small Scale Enterprise?**

Response	Number of respondent	Percentage
Yes	65	86%
No	11	14%
Total	76	100%

Source: Own Survey (2009)

From table 4 we understood that many number of respondents 65(86%) responded yes for the question is there any problems that hinder the expansion of micro and small scale enterprise in

1. Lack of transportation and road
2. Repetition of similar business
3. Lack of training
4. Lack of experiences

Adama town? 11(14%) of respondent response to this show that there are many problems that hinders the expansion micro and small scale enterprise.

Those problems are:

5. Lack of credit access
6. Lack of supplies
7. Lack of work place

**Table 5 The Growth Level Of Respondent Business**

Response	Number of respondents	Percentage
High	3	4%
Medium	29	38%
Low	44	58%
Total	76	100%

Source: Own Survey (2009)

As indicated in table 5 58 % (44) of growth level of business respondent are low level of growth 38 %( 29) of the respondent's response that there

1. Lack of access to market
2. Lack of infrastructure
3. Lack of startup capital

have medium growth level and the remaining 4 %(3) faces high growth level. The majority of the respondent responded to low level of growth. The respondent mentioned major problem for low and stagnant growth level of their business.

4. Lack of market linkage
5. Lack of effective training and

**Table 6 Government Bodies Support to the Business**

Response	Number of respondent	Percentage
Yes	42	55%
No	34	45%
Total	76	100%

Source: Own survey, 2015

As it can be seen from the above the table 6 the respondents response yes 42(55%) and 34(45%)

of respondents response No. The majority of government bodies support to the business Yes 42(55%). What kind support you have gotten? Financial record, tax reduction, work place and for the question is No, What kind of support you need from governmental bodies new road construction, suppliers of raw material, technological support, relevant trading, access to credit.



## **ANALYSIS OF INTERVIEW**

### **ANALYSIS OF INTERVIEW RESULTS FROM GOVERNMENT OFFICIALS**

**Q1.** What is the objective of micro and small scale enterprises in the town?

As we get information from micro and small scale enterprises bureau, micro and small scale enterprises have the following objectives:-

1. To create a job opportunity for unemployment people

- ✓ Lack of entrepreneur attitude
- ✓ Lack of knowledge, skill, experience
- ✓ Lack of finance

**Q3.** Do bureau give training which is relevant for business?

To increase micro and small scale enterprises in the Adama town the of micro and small scale enterprises provide some training support relevant to employees which include:-

1. Accounting and Bookkeeping Records
2. Reducing tax
3. Giving loan
4. Construction Training

**Q4.** What is the role of micro and small scale enterprises in increasing employment opportunity for the development of the town?

1. Satisfy the demand of the people by produce and available product and supply product to the people
2. Create a broader job opportunities
3. By using modern technologies the enterprises have a vital role to change agricultural activities in to industrialization

## **CONCLUSION**

The result showed that most of initial capital 1001-5000 birr and source of

- Lack of infrastructure
- Lack of startup capital
- Lack of market linkage

The majority respondents are responded that the government supports the business but it is not fully support like new road,

2. To increase the matter action in rural and urban area
3. To increase the gradual transformation of the economy in to industrialization

**Q2.** What are the major problem of micro and small scale enterprise regarding their growth and expansion?

There are problem that affects the normal operation of enterprises in the Adama town. The main problem that identified by the bureau of micro and small scale enterprise regarding to their growth and expansion in the town are:-

- ✓ Lack of raw material supply
- ✓ Lack of transportation

capital MSEs comes from personal savings; this covers 74% of the total MSEs response majority of MSEs in the study area use informal source of finance. The formal financial institutions have not been able to meet the credit needs of the MSEs because of the requirement of collateral on the other hand; the loans provided by micro financial institutions were inadequate and required with a short repayment period 20% of the loan amount preserving in the micro financial institutions account and high interest rates. This resulted in limited growth and expansion of MSEs.

- ✓ 84 % of respondents did not get access to credit, so that the majority of MSEs did not access to credit. This result is affect growth and expansion of MSEs.

- ✓ The level of growth of the business slow. The respondent responded he main reason for low and stagnant growth level of their business.

- ✓ Lack of effective training and service
- ✓ Lack of access to market

supplier of raw material. Technological support and relevant training and right advices.

✓ The Factors that hinders MSEs are lack of training, Lack of experiences, lack of infrastructure. Lack of work place, lack of supplies. Lack of startup capital as mentioned by majority of respondents and that hinder the growth and expansion of MSEs in the Adama town.

### RECOMMENDATION

✓ Although savings are one of the means of accumulation of capital often savings alone cannot be sufficient for running and expanding business operation, thus there is a need for creating lines of credit. The support of banks should be encouraged through varying methods. Such as widening the kind or range of collaterals, providing credit by making longer repayment, increase the amount of loan provided for group based lending.

✓ The availability of suitable infrastructure to the function of MSEs is important. Infrastructure like electric power supply, water supply, road, telephone, utilities and transports have positive impact on the growth of MSEs and MSEs which good and enough infrastructure grow fast (Solomon 2004).

✓ MSEs travel more and more distance to get raw material they are forced to incur higher transportation cost so that their profitability level decreases which turn reduce its capacity and road construction plays a significant role in realizing economic development and for the expansion of investment.

The role of construction of roads is crucial for sustainable development. Road development is also essential with the perspective of saving of time, minimizing traveling expenses and improving services in trade, construction, manufacturing and urban area farming, new roads, maintaining and up grading of the existing ones is vital.

In Adama town road networks and transports are the main blood lines of every activity. It had the greatest effect on the growth of MSEs the government provides special attention and support for MSEs.

✓ Supporting government bodies: services provided through supporting markets such as finance, consulting, tax advice, market information and skills training are often directly related to improvements in capacity. Local and national level government agencies and private business service, supporting services may be offered directly to MSEs on a fee-for-service basis or they may be embedded in firm relationship that is expansion through vertical or horizontal linkages.

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#### **ACKNOWLEDGEMENTS**

First my great thanks go to my Advisor Yared Asmerew to his advice and constructive comments on each step to prepare this study. Secondly, I would like to my special thanks also go to my sister Mebrate Haile for her material and computer writing, internet data supports. Next I would like to thank the manager of the organization and employees for their full cooperation in the collection and preparation of the required data. Finally, I would like to express my thanks to everybody who has supported us in this study.

#### **ACRONYMS**

MSEs - Micro and Small scale Enterprise  
UN -United Nation  
IMF -International Monetary Fund  
FDRE and MTI - Federal Democratic Republic of Ethiopia and Ministry of Trade and Industry  
RTIB - Regional Trade and Industry Bureau  
SIYB - Start up and improve Y