

Business Characteristics as a Determinant of MSE Growth

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Abstract: The research study was undertaken with a view to identify business characteristics that result in fast growth of MSE. Primary data was collected from 99 randomly selected MSE through structured questionnaire. Data were analyzed using both descriptive and inferential statistics with the help of SPSS. By using this software, analysis of variance was carried out to examine the variation in the growth of MSEs related to the variation in each of the independent variables selected. As two dependent variables were used to measure growth in this study, the result of this software shows different statistical result for both of them. The ANOVA and t-test result indicates, there is a significant variation on the growth of MSEs in relation to the variations of type of business, legal status, formal record, borrowing and competition level if growth is measured using asset growth. If growth is measured using employment growth, the deference in types of business, having formal recording practice and borrowing brings difference in growth. But the ANOVA and t-test result shows there is no significant difference in growth with respect to the difference in registration with MSE office and age of business whether it is measured with asset or employment growth.

Keywords: MSEs, small firms, micro enterprises, entrepreneurship, Ethiopia.

1. INTRODUCTION

In all successful economies, small enterprises are seen as an essential springboard for growth, job creation and social progress. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. The sector is claimed to be a breeding ground for development of industrial skill and entrepreneurships. In addition, it upgrades indigenous technologies, including exploitation of locally available raw materials with lower capital, flexible to local market conditions and with less requirement of infrastructure development and utilities.

Therefore, in developing countries if growth is to be broad based and employment opportunities are to grow, greater support should be given to those sections of the economy that are able to absorb much of the labor force. But, over the years, some of the MSE have grown extremely large and profitable and on the other hand, many others have failed or have not been as successful as they might have been. It is natural to say that every small business owner starts with high hopes of success, but it is a usual phenomenon that each year firms go out of businesses. Although failure is not the sole reason for enterprises to leave the business, many enterprises do fail each year (Tiruneh, 2011).

Due to the high contribution of micro and small enterprises in all direction to the economy of the country especially developing countries, MSEs have become the favourite of policy makers as it is commonly believed that they are as essential element of industrialization with forward and backward linkages to different sectors in the economy and for the aforementioned reason. However, before changing the policy, the policy makers themselves should know the factors that influence the growth and expansion of these enterprises.

Despite their potential to improve economic growth, micro and small enterprises (MSEs) in developing countries lack serious attention. They produce largely for the low income group and employ lower levels of techniques. Many of

them are self-employed type with a low transformation rate into higher size categories and their innovative activities are limited (Gebreeyesus, 2007).

Even if many researches are done on this area, currently those things that are responsible for the graduation of those businesses from one level to the next is not clear for researchers and business communities. MSE's growth may be affected by different factors. One of those factors mentioned in different research is business characteristics like the age, size, formality, sector and the like. Ethiopia is not special on this regard that thousands of MSE's are started and abolished soon after a year and some of them will grow fast that even graduate to larger business. Nobody clearly know what are those business characteristics that result in the growth of some business and death of others.

The purpose of this paper is to explore how business characteristics are responsible for its growth in Ethiopia. An improved knowledge of this linkage may be of considerable utility of policy-makers and any business stake holders. Again this paper adds to the existing store of knowledge by identifying the business characteristics of business that results in growth so that both government and individual business owners will directly apply those characteristics which results in fruitful result. Lastly, it is believed that, in effort to help mushrooming of MSEs, especially by establishing business incubators, academicians can provide consultancy service to MSEs through such researches.

2. LITERATURE AND HYPOTHESIS

This study aims to fill the gap in the current debate on the determinants of growth in MSE. The analysis is based on cross-sectional data of a set of micro and small enterprises in Addis Ababa. The following sections clearly puts hypotheses based on the existing theoretical and empirical literature. This paper explores whether and to what extent growth in MSEs can be explained by those variables. Certain firm characteristics may correlate positively or negatively with MSE growth tendencies. This section explores the relationship between MSE growth and four widely studied firm-level factors: firm age, legal form, industrial sector and formality.

Firm age and its influence on growth:

The relationship between firm age and growth in the MSE sector is particularly robust. Young MSEs grow substantially more rapidly on average than their older counterparts. Studies in both Africa and Latin America show that young MSEs are more likely to show high rates of growth compared with MSEs that have been in existence longer (Mead et al., 1998). A study revealed that the major expansion of dynamic enterprises occurs during their third year of operation (Gebreeyesus, 2007), and numerous other studies have shown that the average growth rate of firms decreases with age (woldie et al., 2008).

Why might young MSEs grow more quickly than old MSEs? A seminal theoretical paper by Jovanovic (1982), offers one possible explanation. Jovanovic proposes a learning model in which firm owners discover their efficient sizes of operation gradually. This theory predicts that a firm will expand quickly at first, and then taper off its growth as the firm approaches its optimal size. Notice that while growth slows, productivity is expected to increase as the firm ages and the owner comes to learn the company's optimal size of operations.

In reality, the effect of firm age on productivity is not so clear. On one hand, as they age, firms may benefit from learning by doing, which enables them to develop expertise in production, management, and marketing. Indeed, several recent econometric studies on small firms in the United States show that firm age benefits productivity, even when controlling for firm size (Mateev and Anastasov, 2010). On the other hand, several studies in developing countries suggest that firms suffer productivity losses as they age (Audretsch, 1995). Some experts' explanation of such findings is that these firms frequently fail to invest sufficiently in existing or emerging technology, leaving them with relatively outmoded equipment and hindering productivity levels relative to younger firms.

***Hypothesis 5:** There is significant relationship between the age of the firm and the level of growth attained; firm growth decreases with firm age.*

Legal form and its influence on growth:

Businesses can operate under several different legal forms, but the main differentiating factor, as far as growth is concerned, is whether the legal form offers the owners limited liability or not. Previous studies, show that firms with

limited liability grow faster than firms with unlimited liability. This is interpreted to imply that limited liability firms' owners are more willing to invest in risky ventures that may foster firm growth (Robson and Obeng, 2008). McPherson et al. (2008) also find that firms with a limited liability are more likely to become insolvent than comparable firms with full liability. But Mervi and Jyrki, 2007 suggest that legal form is not a significant factor of growth behaviour.

McPherson et al. (2008) demonstrate that firms with limited liability have higher growth than firms without limited liability. Several factors could explain the association between limited liability and firm growth. Corporations have the ability to issue stock and their stockholders have the freedom to resell their stock. This ability facilitates the process of raising capital for expansion. Entrepreneurs' expectations also play a role. Their choice of legal form could reflect their assessment of the riskiness of the project undertaken and their incentives for investment and growth (Robsan and Obeng, 2008). Tax treatment of profits and equity and the liability of the owner under the various legal forms could also affect the entrepreneurs' incentives for investment and growth. Owners of unlimited liability businesses are fully liable with their entire personal assets, while owners of limited liability businesses are only liable up to the amount of their share in the business. The advantage of a limited liability is counterbalanced by increased tax liability and legal complexity. Current profits and equity of unlimited liability businesses are taxed in proportion to the owner's share, while both limited liability businesses earnings and wealth are taxed at the corporate level. The interplay between these two factors could affect investment decisions and thus, growth. Businesses can operate under several different legal forms, but the main differentiating factor, as far as growth is concerned, is whether the legal form offers the owners limited liability or not.

***Hypothesis 6:** There is significant relationship between the legal status of the firm and the level of growth attained; limited liability firms have higher growth rate than their unlimited liability counterparts.*

Industry sector/ business type/ and its influence on growth:

A significant number of studies carried out to identify the influence of a firms sector on the growth of the firm concur that there are significant differences between sectors in terms of the typical growth rates of the firms. Only a few studies showed that sector variables are not significant (see Solomon (2004), Gebreeyesus(2007), Hussen and Zafaran(2010)). The sector/type of business which a firm is in is likely to be related to investment decisions and competitiveness. The link between the sector and investment decisions or competitiveness is explained by different empirical studies such as those of (Reid and Xu, (2009), brown (2004)), which reveal that firms operating in different sectors differ in terms of their investment decisions and productivity. Previous studies of firm performance have found substantial differences by industry, with small firms in retail and personal service sectors having lower growth rates (Harabi, 2003). This empirical observation could reflect differences in production technologies inherent in specific industries that have an impact on the determination of the "optimal size" of the firm. Thus, surviving businesses in industries characterized by a high degree of economies of scale are expected to exhibit higher rates of growth than surviving firms in industries where scale economies are relatively unimportant (Gilbert et.al, 2006). In retail and personal services, start-up barriers may be lower and more intense competitive pressures may characterize these sectors. In addition, products or services in these sectors may be easily imitated. In contrast, participation in industrial businesses or professional services may be highly dependent on very specific sets of capabilities or requirements developed through prior experience or education that render imitation difficult.

***Hypothesis 7:** There is significant relationship between a firm's sector and the level of growth attained.*

Formality:

The degree of MSE formality is another area of focus in the literature. Different researchers have taken different standing point concerning formality. To capture this characteristic, some of the researchers like Becker, K. (2004) recommend that the business formality variable is constructed from items that measured whether the business was registered with the government and another group of researchers like McPherson et al (2010) recommend for the measurement of this variable as what bookkeeping practices it followed. There are reasons to expect that the degree to which a business is formal may affect its growth. The literature shows that formality has a strong, positive effect on growth (McPherson et al (2010), Chen, (2007)). Businesses that are registered grow more rapidly than the unregistered, and those that keep

books also tend to have better growth prospects. These businesses may be better positioned to take advantage of growth opportunities by borrowing against future revenue and may be able to advertise more extensively than informal MSEs. According to Rogerson(2010), formalization increases business legitimacy and reputation in the eyes of their customers. While microenterprises are generally considered part of the informal economy, it is also true that microenterprises may vary considerably across a dimension of informality–formality (Chen, 2007).

Hypothesis 10: *There would be a positive relationship between enterprise formality and its growth. Registered business have higher growth rate than unregistered business*

Hypothesis 11: *There is significant relationship between formality of the firm and the level of growth attained; firm having financial record have higher growth rate than firms without financial records*

Availability of external finance:

Financial capital may help young firms to overcome their initial disadvantages and mistakes (Rachel Doern, 2009)). Most of the funding of young firms came from entrepreneurs' own savings or money borrowed from relatives and friends. However, the amount of cash needed to sustain or accelerate growth processes usually exceeds these personal sources. Many growing firms relay on external sources of finance to accelerate their growth perspectives. Therefore, some positive relationship between the use of external sources of finance (banks, governments and venture capitalists) and business growth is expected (Gilbert et al, 2006).

Additionally, Eveliina and Labinot (2011) pointed out that there might be a sort of 'self-selection' process where firms that had experienced higher growth rates or those projects with more likelihood to experience this kind of growth are precisely the ones that obtain external finance. Likewise, those firms that accessed to external finance passed through an exigent evaluation process in which the managerial team as well as the firm have been deeply analyzed (Ishengoma and Kappel, 2008).

Hypothesis 9: *Those firms that have been financed by external sources will exhibit a higher growth*

Competition:

Previous research affirms that market characteristics affect venture growth perspectives (Ade kune, 2011). In particular, in the case of young MSEs one of the key features of markets refers to the level of competition, which could be described by the number of the main competitors. It is generally acknowledged that the larger the number of competitors is, the higher the competitive pressure would be, affecting negatively the growth perspectives of young MSEs (Durim, 2008). However, some empirical evidence shows that on the contrary, those firms facing large number of competitors exhibit higher growth levels (Capelleras, 2008).

Some arguments explaining this result pointed out that the negative side-effect of competitors may impact principally young MSE survival perspectives, instead of their growth level. In fact, those young firms that survive this intense competition, usually exhibit significant growth levels. Moreover, growth-oriented entrepreneurs would tend to target market segments with a higher level of competition, because of their attractiveness (e.g. differentiation advantages, profitability).

Hypothesis 13: *Those firms facing high competition exhibit a higher venture growth.*

3. METHODOLOGY

The aim of this research is to explore the influence of the owner/manager characteristics on the growth of the firm. Utilizing a self administered questionnaire, data were collected from two sub-cities of Addis Ababa, where a large number of MSEs are located, namely: Addis ketema sub-city and Arada sub-city. The sample for this survey consisted of 99 MSE owner/managers. Questionnaires are good research methods as they yield information about the past and present and offer the best means of obtaining standardized stimuli (Woldie et al., 2008).

The data collected from the self administered questionnaire were analyzed by using descriptive statistics based mainly on frequency distribution and percentage value. In addition, ANOVA test and t-test were used to check the relation between

dependent and independent variables. The ANOVA test is used when there are more than two alternatives. The t-test is used for variables having two alternatives to check whether their difference brings difference in the dependent variables.

Many different variables have been used to measure the firm’s growth. Employment, sales, and total asset are mostly used as growth measurement in literature. This shows that, there is little agreement in the existing literature on how to measure growth, and scholars have used a variety of different measures. In measuring growth, although theoretically alternative measurement tools such as growth rate of sales or profits could give more precise results, in practice they are not as credible as the employment and asset growth measure because of entrepreneurs’ hesitation to report the true values of their sales and profits. This hesitation, which leads to measurement errors, makes the employment and asset-based measure preferable in studies considering enterprise growth. Again, employment growth is relatively easy for respondents to remember and that is uncontaminated by price changes. Moreover, job creation may be an important social goal, and policies to support MSE’s are frequently justified on their supposed employment effects. But the use of employment or asset criteria could also depend on the sector under study. For highly capitalized firms, such as those belonging to certain manufacturing sub-sectors, variation in assets would be a more accurate measure of growth than variation in the workforce. But, this criterion cannot be used in the service sector, which is more labor-intensive. Therefore, this paper used both employment and asset growth as a growth measure. Employment Growth is the difference between average employment at inception and current average employment; whereas total asset growth is the difference between the total asset at the current and total asset at the beginning plus unpaid amount of debt.

4. FINDINGS FROM THE RESEARCH

The study sample consisted of 99 MSEs in which large number of them is owned by females. This is because of the fact that; in our country; as the number of females in formal education is less in number, most of them are participating in the business. The numbers of females joining government offices are very much less due to their less participation in formal education and business is their best area of selection. That means women in developing countries like us have a strong tendency to enter the MSE sector, in part because of ease of entry and their limited access to alternate opportunities. Again females are good from marketing point of view than males as they have a natural ability to attract and negotiate customer. Therefore, it is perhaps not surprising to see more number of females in business area than males in this country.

4.1. Employment growth (asset growth) with respect to type of business engaged in:

Table 4.1. (a) SME growth with respect to type of business (source: field survey)

		Report	
Type of business engaged in		asset growth	Employment growth
agriculture	Mean	25036.36	2.64
	N	11	11
manufacturing	Mean	300255.56	4.56
	N	18	18
trade	Mean	31415.24	-.57
	N	21	21
construction	Mean	340228.71	6.54
	N	28	28
service	Mean	37590.48	3.38
	N	21	21
Total	Mean	168237.62	3.57
	N	99	99

As it is indicated in the table, from the total sample taken 11 enterprises are engaged in agricultural sector which is actually the back bone of the country’s economy. When we look at the growth of those enterprises in this sector category on average they show asset growth of 25,036 and employment growth of 2.64 from the time of establishment to to-date.

The other 18 MSEs in this study are engaged in a manufacturing industry which is the promising sector of economy in bringing large industry development. The growth of MSEs under this sector category in terms of average asset growth is about 300,255 and employment growth is 4.56 from the year they have been established to to-date.

The other 21 SMEs in this study are engaged in a trade industry which is mostly participating in buying and selling goods and services without changing their form. The growth of MSEs under this sector category in terms of average asset growth is about 31,415 and in terms of employment growth is -57 during their operation.

From the fourth category, which is the construction industry, 28 MSEs are included in this study. They are the building block of the country’s construction sector which is actually on the infant stage. The performance of MSEs under this sector category in terms of average asset growth is about 340,228 and employment growth is 6.54 during their life time

The rest 21 enterprises have engaged in a services sector which is believed to be the modern best industry having many bases including tourism, the smokeless industry. The performance of MSEs under this sector category in terms of average asset growth is about 37,590 and employment growth is 3.38 during their operation

Over all, the above descriptive statistics result shows that, the rate of growth of MSE is also influenced by the sector in which it operates. In total, MSEs in manufacturing and construction sector were more likely to grow than those in trading. Again , the specific sectors that were most likely to generate new jobs through expansion is construction and manufacturing. This is because, the country is under fast construction and the governments need manufacturing sector as they help the country to save hard currency. The gross transformation plan (GTP) is expanding the construction site and many of the individuals are participating in this sector. Again as the government needs to transform these small manufacturing industries to a larger manufacturing industry the country is providing many pulling policies in order to attract investors on the area. Once more, as there is no large manufacturing industry in this country, those small manufacturing industries have high chance of selling their product at good price that will help them for future expansion. The negative sign showed in employment growth of trade shows that, the total number of employees of many trade businesses is less when compared with their past employee level. That means the number of employees consumed by those sector is decreasing.

Table 4.1. (b) SME growth with respect to type of business (source: field survey)

ANOVA Table

		Sum of Squares	Df	Mean Square	F	Sig.
Employment growth * type of business engaged in	Between Groups (Combined)	634.274	4	158.568	3.386	.012
	Within Groups	4402.049	94	46.830		
	Total	5036.323	98			
asset growth * type of business engaged in	Between Groups (Combined)	2.119E12	4	5.298E11	10.374	.000
	Within Groups	4.800E12	94	5.107E10		
	Total	6.919E12	98			

The above ANOVA result suggested that the industry by which the SME is classified has a significant bearing on asset/ employment growth (F=3.386 and 10.374, df=4, 94, P= 0.012 and 0.000). The results of his study showed that industry is a factor for asset / employee growth. This variable has a significant bearing in bringing difference in asset/employment growth. This result of ANOVA test shows that the industrial sector (Sector) has a significant (at the 5% level) impact on growth. It suggests us sector of the businesses will determine business growth which means that sectoral difference is significant for asset and employee growth. Those who participate on manufacturing and construction industry have high chance of growth than other sectors.

The above result insist us to accept the hypothesis which states that, there is a significant difference on the growth of MSEs in relation to the difference in business type. Difference in the type of business is the result of the difference in the growth of the business.

To sum up the ANOVA result supports the argument; type of business is a factor in the growth of business which means that participating in different type of business brings difference on the growth of MSE.

4.2. Employment growth (asset growth) with respect to age of business:

Table 4.2. (a) SME growth with respect to age of the business (source: field survey)

age of business		Report	
		asset growth	Employment growth
less than 5	Mean	158,371.54	4.10
	N	52	52
greater or equal to 5 and less than 10	Mean	225,365.75	2.28
	N	32	32
greater or equal to 10 and less than 20	Mean	72,590.91	3.18
	N	11	11
greater than or equal to 20	Mean	102,500.00	8.00
	N	4	4
Total	Mean	168237.62	3.57
	N	99	99

The other variable of this study which is expected to have relation to the growth of MSEs is the age of the business which is the number of years since establishment.

As it is indicated in the above table, from the total sample enterprises in this study, 52 MSEs have the operation year of less than 5. They are included under the younger part of MSE categories. Looking to the growth of the enterprises that have an operation year of less than 5, using asset and employment growth of the enterprises as a measure of performance, on average these enterprises show 158,371 growth in asset and 4.10 growth in employee from the year they have established to to-date.

Again the same table shows that, 32 MSEs included in the study have a service life of between 5 to 10 years in which most of MSEs registered with micro and small enterprise office is included, because of the fact that, MSE office establishment is a recent phenomenon. Looking to the growth of the enterprises that have an operation year of between 5 to 10 using asset and employment of the enterprises as a measure of growth, on average these enterprises show 225,365 growth in asset and 2.28 growth in employment from the year they have established to to-date.

On the other hand 11 enterprises in the sample taken for the study have the operation year of 10 to 20 in which most of those businesses established after the privatization policy of this government are included. In terms of growth using asset and employment as a measure, enterprises within the age range of 10 to 20 have an average asset growth of 72,590 and average employment growth of 3.18 during their life time

The remaining 4 enterprises in the sample for the study have an operation life time of greater than 20 which is actually the oldest part of the whole. The growth of the enterprises in this age category in terms of average asset growth is about 102,500 and employment growth is 8 during their life time

The overall result shows that large percentage of average asset growth is within the range of 5-10 years followed by those below 5 years. This result shows there is an inverse relationship between enterprise growth and the age of the MSE. The analysis indicates that younger MSEs are likely to show higher rates of growth, compared to those that had been in existence for a longer period. That is to mean that younger firms have high probability of growth. This is mostly related with quality of their product. Most of the time when business men open a business, they attract customer by using different attracting things like may be quality product with less price. But as it grows older they doesn't care that much.

Some experts' explanation of such findings is that older firms frequently fail to invest sufficiently in existing or emerging technology, leaving them with relatively outmoded equipment and hindering productivity levels relative to younger firms. Again it is related with the size of the enterprises in which younger firms have small size and make possible the easy and sufficient management which leads to high asset growth. But, concerning the employment level; business with the age of greater than 20 years; have a good performance than the others followed by business with less than five years. This may be because of the size effect that the older business are large in size and should employ more employees than the others

Table 4.2. (b) SME growth with respect to age of the business (source: field survey)

ANOVA Table

	Sum of Squares	Df	Mean Square	F	Sig.
employment growth * age of business	Between Groups (Combined)	3	49.233	.957	.417
	Within Groups	95	51.459		
	Total	98			
asset growth * age of business	Between Groups (Combined)	3	7.580E10	1.076	.363
	Within Groups	95	7.044E10		
	Total	98			

Most obvious, in terms of interpretation of the results in the above Table, there is insignificant relation between asset/employment growth and age of SMEs. Even if the asset growth is higher for young businesses and employment growth is high for older businesses, it is not statistically significant (F=.957 and 1.076, df=3, 95, P=.417 and .363). This shows that age of business does not have a significant effect on business growth. These results refute the Jovanovic model of firm growth, which says younger firms grow faster.

This statistical result supports us to reject the hypothesis of the study which states that, there is a significant difference on the growth of MSEs in relation to the difference in their age range whether the growth is measured by asset or employment growth. But even if there is no statistically different result concerning growth between MSEs in different age group, young enterprises have high asset growth than the older one and older business have a high employment growth than the younger business. But those differences are not statistically different for MSEs with different age group.

In total the ANOVA result does not support the argument, being in different age group will bring difference in growth of MSE. So age of the business is not the determinants of growth whether it is measured by using asset or employment growth in Addis Ababa

4.3. Employment /growth asset growth with respect to legal status of the business:

Table 4.3. (a) SME growth with respect to legal status of the business (source: field survey)

Report

legal status of the business		asset growth	Employment growth
unlimited liability	Mean	110242.32	3.43
	N	56	56
limited liability	Mean	243766.37	3.74
	N	43	43
Total	Mean	168237.62	3.57
	N	99	99

Another variable to be expected to have a relation with SME growth that has been included in this study is the legal status of the MSE.

As it is indicated in the above table, from the total sample enterprises in this study, 56 MSEs are within the category of unlimited liability which means that they are responsible for any unpaid debt and their personal property will be ceased if the debt is not fulfilled. Looking to the growth performance of the enterprises by using asset and employment as a

growth measurement, those enterprises with the category of unlimited liability have an average asset growth of 110,242 and employment growth of 3.43 during their life time of operation.

The remaining 43 enterprises in the sample taken for the study are included within the category of limited liability which means they are not personally responsible for any unpaid debt and their debt is limited to what they have invested in the enterprises. In terms of growth using asset and employment as a measure, enterprises with a limited liability status have an average asset growth of 243,766 and employment growth of 3.74 during their life time.

The overall picture of the descriptive statistics result about enterprises performance and their legal status shows that, those enterprises with a limited liability status performs better in terms of asset and employment growth when compared with those enterprises with unlimited liability. The possible justification for this is, due to the fact that those businesses have high chance of borrowing from external sources and expand their business. They can take risky businesses that have a high return due to their limited liability.

Table 4.3. (b) SME growth with respect to legal status of the business (source: field survey)

ANOVA Table

			Sum of Squares	Df	Mean Square	F	Sig.
asset growth * legal status of the business	Between Groups (Combined)		4.337E11	1	4.337E11	6.486	.012
	Within Groups		6.486E12	97	6.686E10		
	Total		6.919E12	98			
Employment growth * legal status of the business	Between Groups (Combined)		2.423	1	2.423	.047	.829
	Within Groups		5033.900	97	51.896		
	Total		5036.323	98			

The above ANOVA test result shows that statistically there is a significant relation between the legal status of the business and its asset growth ($F=.047$, $df=97$, $P=.012$). This means that enterprises with a limited liability have high asset growth. But as the above table result shows there is insignificant difference in employment growth with respect to legal status difference in MSE ($F=0.047$, $df=97$, $sig=0.829$). Legal status does not have any effect on employment growth. Being a limited liability does not contribute anything to employment growth.

Thus the ANOVA result helps to accept the hypothesis which states that, there is a significant difference in the growth of MSEs in relation to deference in the legal status if the growth is measured by using asset growth. But the ANOVA results shows there is insignificant difference in growth and reject the hypothesis if growth is measured by using employment growth. This does not mean that there is no effect on employment growth. Even if statistically insignificant difference in growth of employment is measured, there is a difference in the mean employment growth of the two.

Summing up the ANOVA result does shows legal status is the determinants of MSE growth if growth is measured by asset growth and not the determinants of growth if growth is measured by using employment as a measurement.

4.4. Employment growth/ asset growth/ with respect to having formal records:

Table 4.4. (a) SME growth with respect to having formal record (source: field survey)

Group Statistics

		financial record	N	Mean	Std. Deviation	Std. Error Mean
Employment growth	Yes		50	6.28	8.028	1.135
	No		49	.80	4.860	.694
asset growth	Yes		50	3.11E5	313700.381	44363.933
	No		49	2.28E4	31052.103	4436.015

Use of formal record keeping for control in the enterprises day to day business operation is considered as another variable that would result difference in asset growth between those use the system and those do not use.

As it is listed in the table above from the total sample enterprises considered in this study, 49 enterprises do not use any kind of formal record keeping as control of its day to day operation. When we look at the growth of enterprises in this category in terms of asset and employment, on average they have show asset growth of 2.28×10^4 and employment growth of 0.80 during their life time.

The remaining 50 sample enterprises included in this study use record keeping for control to facilitate their day to day business activities. In terms of their growth performance in asset and employment, enterprises under this category have an average asset growth of 3.11×10^5 and employment growth of 6.28 during their life time.

In general, the average growth of those enterprises using record keeping during their service life has better performance of asset and employment growth when compared with non users. The possible reason for this is having financial record will provide them with some opportunities to check their status and they can have an opportunity to determine the best price as they exactly know their cost which means their operation is not by chance.

Table 4.4. (b) SME growth with respect to having formal record (source: field survey)

		t-test for Equality of Means						
		T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
Employment growth	Equal variances assumed	4.101	97	.000	5.484	1.337	2.830	8.138
	Equal variances not assumed	4.121	80.949	.000	5.484	1.331	2.836	8.132
asset growth	Equal variances assumed	6.393	97	.000	287888.896	45033.540	198509.784	377268.008
	Equal variances not assumed	6.457	49.980	.000	287888.896	44585.163	198336.056	377441.737

Based on the above SPSS-generated results, there is a significant difference between the asset/ employment growth of SME having a financial record mechanism and those without it. The result is statistically significant showing business with financial record have high growth rate ($t=4.101$ and 6.393 , $df=97$, $P=0.000$ and 0.000).

This t-test result enables to accept the hypothesis which states that, there is a significant difference on the growth of MSEs in relation to the difference in financial record. That means formal financial record will bring difference in the growth of MSE.

Looking in to the above table result, formal record is a determinant of MSE growth whether it is measured by using asset or employment growth. MSEs that have a formal financial record have different growth when compared with those without formal financial record.

4.5. Employment growth/ asset growth/ with respect to borrowing from external source:

Table 4.5. (a) SME growth with respect to borrowing from external source (source: field survey)

Group Statistics

borrowing from external source		N	Mean	Std. Deviation	Std. Error Mean
Employment growth	Yes	56	5.75	7.782	1.040
	No	43	.72	5.096	.777
asset growth	Yes	56	2.75E5	310290.181	41464.270
	No	43	2.92E4	60774.663	9268.049

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The other variable of this study which is expected to have relation with growth is borrowing from external source. The external fund obtained is invested in some promising project and help the organizations grow. The external fund only includes fund obtained from external sources in formal way and does not include informal borrowing from friends or families.

As it is indicated in the above table, from the total sample enterprises in this study, 56 MSEs have borrowed from external source to be used in their organization. Looking to the growth of the enterprises that use external borrowing as a source of finance, using asset and employment of the enterprises as a measure of performance, on average these enterprises show 2.75×10^5 asset growth and employment growth of 5.75 during their life time.

On the other hand 43 enterprises in the sample taken for this study did not borrow from external sources for business expansion. They only use their own source of finance for their day to day operation and never need any external fund from external source. In terms of growth using asset and employment as a measure, enterprises which use external found as a source of finance for their business activities have scored an asset growth of 2.92×10^4 and employment growth of 0.72 during their operation period

The overall picture of the descriptive statistics result about enterprise borrowing from external source shows that, those MSEs having external borrowing as a source of fund have better performance than their counterparts. That means those business that borrow from external source have high chance of growth when compared with the non user of external funds. This shows there is a large difference between growth of borrowing business and non borrowing business. The mean growth is higher for businesses with having external borrowing than non borrowers.

The possible justification for this is that, those enterprises that have borrowed from external sources have enough resources for expansion and have the chance to use opportunities with the available resource. Businesses need financial resources, to undertake any project activities that have a positive development effect on growth. To make those projects possible there must be enough finance which is not possible in reality because of the scarcity of resources. So businesses should borrow from external sources in order to make those projects possible which is the way for business expansion. This deference in the availability of finance makes difference in growth.

Table 4.5. (b) SME growth with respect to borrowing from external source (source: field survey)

	t-test for Equality of Means							
	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference		
						Lower	Upper	
Employment growth	Equal variances assumed	3.674	97	.000	5.029	1.369	2.312	7.746
	Equal variances not assumed	3.874	94.848	.000	5.029	1.298	2.452	7.606
asset growth	Equal variances assumed	5.113	97	.000	245738.207	48064.323	150343.831	341132.583
	Equal variances not assumed	5.784	60.435	.000	245738.207	42487.438	160763.269	330713.144

In this table, there is a significant difference between borrowers and non borrowers in growth whether the growth is measured by using asset or employment ($t=3.674$ and $5.113, df=97, P=0.000$ and 0.000). A higher borrowing behaviour means a higher asset growth. This result is also in accordance with Thong's (1999) results as borrowing is one of the characteristics of organization that showed a significant growth potential. In this case, borrowing from external source is significant and contribute for the business growth. This is also not surprising since borrowing from external source help the business to be in better coordination to maintain its operations, and with more available resources, compared with non borrowers. For non borrowers it is difficult to invest in an opportunity that may grow their businesses.

Hence based on this t-test result the hypothesis of this study which states, there is a significant difference on the growth of MSE in relation to the difference in borrowing condition is accepted. That means difference in borrowing condition brings difference in growth. There is difference in asset growth of borrowers and non borrowers.

To conclude the above t-test result, having formal record is the determinants of MSE growth whether the growth is measured by using asset growth or employment growth. The variation in having formal record will results in the variation in growth.

4.6. Employment growth/ asset growth with respect to competition in the market:

Table 4.6. (a) SME growth with respect to competition level in the market (source: field survey)

competition in the market		Report	
		asset growth	Employment growth
very high	Mean	243,707.69	3.00
	N	13	13
high	Mean	231,132.06	5.25
	N	36	36
normal	Mean	199,157.06	3.35
	N	17	17
low	Mean	25,088.24	2.12
	N	17	17
very low	Mean	84,650.00	2.00
	N	16	16
Total	Mean	168,237.62	3.57
	N	99	99

As it is indicated in the above table, from the total sample taken 13 enterprises are found in high competition markets which demonstrate that there is large of number of the same business found at their nearby. When we see at the growth of those enterprises functioning in this market category on average they show asset growth of 243,707 and employment growth of 3 during their life time starting from establishment to now.

The other 36 MSEs in this study are functioning in the market where the competition is high which is somewhat less than the first category. The growth of MSEs under this market category in terms of asset and employment shows the average asset growth of about 231,132 and employment growth of 5.25 for their whole operation life time.

The third categories of those enterprises are 17 MSEs which are functioning in the market where competition is normal. In this type of market the competition level is moderate that it is not too high or too low which means medium. When we see the growth of MSEs functioning in this market category where the competition is normal in terms of average asset and employment growth, it is about 199,157 and 3.35 respectively

The fourth category of those enterprises included in this study is 17 MSEs which are functioning in the market where the competition is low. In this type of market the number of business men found at their nearby are small in number. With regard to the growth of MSEs under this category where the competition is low in terms of average asset and employment growth is 25,088 and 2.12 respectively

The remaining 16 enterprises are functioning in the market category where there is very low competition. In this types of market the number of other business with similar products are very small. With respect to the growth performance of those businesses dealing with this type of market where the competition is very low in terms of average asset and employment growth is 84,650 and 2 respectively during their operation.

As the table shows the stiffness of competition have a positive effect on business growth. As the competition increase asset growth also increase

The possible explanation for the above descriptive statistics result when there is high competition is that, people want to purchase products where there is large number of sellers and this will increase the income of the organization which is responsible for business growth. Due to the existence of many options available where there is large number of business in the market, people want to purchase goods and services from them. The existence of competition again makes those enterprises innovative that may be responsible for the growth of their sales which in turn bring business growth.

That means those businesses with very high competition have a high growth opportunity. This is for the reasons that, people want to purchase products where is large number of sellers and this will increase the income of the organization

which is responsible for business growth. So market competition have a significant effect on asset growth, which means that firms with highly competitive market are more likely to grow.

Table 4.6. (b) SME growth with respect to competition level in the market (source: field survey)

ANOVA Table

	Sum of Squares	Df	Mean Square	F	Sig.
Employment growth * competition in the market	Between Groups	4	45.482	.881	.479
	Within Groups	94	51.643		
	Total	98			
asset growth * competition in the market	Between Groups	4	1.732E11	2.615	.040
	Within Groups	94	6.624E10		
	Total	98			

The above ANOVA result indicates that competition is of importance to the survival of MSE. The result shows there is a significant relation between asset growth and the market in which it operates. The stiffness of competition will determine the business growth (F=2.615, df=4, 94, P=0.040). With respect to employment, the competition in which the business functions does not have an effect on employment growth. The result shows employment growth in different market is statistically insignificant (F=.881, df=4, 94, P= .479). Irrespective of the market in which the business function the employment growth is not affected.

Thus the ANOVA result helps to accept the hypothesis which states that, there is a significant difference on growth of MSEs in relation to the level of competition in the market if the growth is measured by using asset growth. But as there is insignificant relation between employment growth and level of competition in the market, this hypothesis is rejected if growth is measured by using employment growth. Which means difference in competition level in market does not bring difference in growth if, it is measured by using employment growth. But this does not mean that there is no difference in employment growth among different level of market with different competition. As has been stated before average employment growth is high with high level of competition

Generally the ANOVA result shows market competition is the determinants of growth if growth is measured by using asset growth, otherwise not a determinant, if growth is measured by using employment growth as a measure

4.7. Employment growth/ asset growth with respect to Registration with SME office:

Table 4.7. (a) SME growth with respect to registration with MSE office (source: field survey)

Group Statistics

registration with MSE office		N	Mean	Std. Deviation	Std. Error Mean
Employment growth	Yes	58	3.34	7.979	1.048
	No	41	3.88	5.917	.924
asset growth	Yes	58	1.27E5	237830.452	31228.668
	No	41	2.26E5	294087.271	45928.715

The last variable to be included in this study as a determinant of asset growth is registration with MSE office. That is whether the business has been registered to MSE office or trade and industry office. The business within formal sector should be registered to either of the two office i.e. MSE office or trade and industry.

As it is listed on the above table, from the total sample enterprises in this study, 58 MSEs are registered to MSE office to be under the umbrella of this office rules and regulation. They can get any special benefits provided by this office to its members. Looking to the growth of the enterprises registered with MSE offices using asset and employment as a performance measurement, on average these enterprises demonstrates an asset growth of 1.27×10^5 and employment growth of 3.34 during their operation period.

The remaining 41 enterprises in the sample taken didn't have registered with MSE office. That means they are registered with trade and industry of their respective sub city. Concerning their growth using asset and employment as a measure, enterprises not registered with micro and small enterprises shows an average asset growth of 2.26×10^5 and employment

growth of 3.88 during their life time. The asset growth for both of them is almost similar and there is no such big difference among the two groups

Table: 4.7. (b) SME growth with respect to registration with MSE office (source: field survey)

		t-test for Equality of Means						
		t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
Employment growth	Equal variances assumed	-.363	97	.717	-.533	1.469	-3.449	2.383
	Equal variances not assumed	-.382	96.747	.704	-.533	1.397	-3.306	2.240
asset growth	Equal variances assumed	1.850	97	.067	99066.933	53558.833	-205366.391	7232.525
	Equal variances not assumed	1.784	74.379	.079	99066.933	55539.865	-209723.170	11589.305

Finally, the t-test also provides no evidence that formality has an appreciable effect on a firm’s employment growth (t=-363, df= 97, P=.717). That is, once we control for the rest of the characteristics of firms as well as other observable factors, formality does not make employment growth any more likely. Even if Formality status increase the growth rate by some amount in principle, this result indicate that the formal registration in this country is not important for employment growth. Again, concerning the asset growth it will become the same of this that formality has insignificant effect on business growth (t=1.85, df=97, P=0.067).

Hence the hypothesis of the study which states that, there is a significant difference on the growth of MSEs in relation to their formality is rejected irrespective of the measurement change. Meaning that there is no difference in growth of those businesses registered with MSE office and those registered with trade and industry whether it is measured by using asset or employment.

To conclude this t-test result, the formality of MSE is not the determinant of growth, which means that there is no growth difference of MSE with respect to the difference in the formality status.

5. CONCLUSIONS AND RECOMMENDATION

5.1. Conclusion:

This study investigates the determinants of growth in a sample of micro and small enterprises in Addis Ababa. The data set provides an excellent opportunity for investigating the effects of owner / manager characteristics, business characteristics and some external variables on firm growth. Thirteen independent variables were included in this study to examine their effect on micro and small enterprises selected from MSE office and trade and industry and to generalize the result for the rest of them. Two dependent variables are used to measure MSE growth i.e. employment and asset. The effect of those variables on both of that dependent variable is different. The ANOVA and t-test result shows different table result with respect to those thirteen variables selected when growth measurement is changed. That means when growth is measured by using asset or employment the statistical result shows different result.

While some of the findings support commonly held beliefs, others suggest that some popular concepts regarding small business growth may need to be re-examined. The study supports the idea that, there is a significant variation in the growth of MSEs operating in this town with respect to the gender, age of the owner/ manager, experience, family back ground, type of business, legal status, having formal record keeping practice, borrowing, competition level in the market and availability of market for its product differences if asset is used as a growth measurement. That means the variation in those variables will result in the variation of growth if the measurement of growth is asset growth.

The results provide strong evidence that external finance is an important factor in stimulating the growth of MSE in Addis Ababa. This result corroborates the finding of Eveliina and Labinot(2011) which says having an external borrowing will make the business to exploit opportunities.

Again, experience was found to be relevant to MSE growth. This result is on the right hand of the Brown et al (2004) which puts its finding with a strong conclusion that experience will avoid liability of newness in the area.

Concerning age of the owner/manager, the findings suggest that the age of the owner manager is negatively associated with MSE growth. The same with the finding of Woldie et al (2008), having a male owner/ manager is also associated with MSE growth.

With respect to legal form and having formal record, MSEs with limited liability and those with formal record shows a better performance of asset growth which is in line with the finding of (Chen,(2007), and Robson and Obengo (2008).

But the study shows there is no significant difference between MSE growth with respect to the variation in the level of education of the owner/ managers, registration with MSE office and age of business whether the growth is measured by using asset growth or employment growth. Enterprises difference concerning education, and age of business does not bring statistical difference in asset growth which means that those variables are not the determinants of asset growth. The study found no evidence to support a common perception linking formal higher education with higher incidence of business success and growth. Even those individuals with no level of education show better asset growth. Though high level of education is highly correlated with business growth, graduate or post-graduate education does not affect the growth prospect of a micro and small business. This finding, which is highly robust to alternative specifications and methods of estimation, runs counter to the claims of some recent studies that education is an important constraint for MSE growth. But Reid and Xu(2009) reaches on the same conclusion that says experience and knowledge of the area is more important than the educational level of the owner/ manager. But it may be because of the fact that education is not related to the activity they are currently undertaking. . Likewise, this finding suggests that age of business does not seem to be important for growth performance. This is contrary to the belief held by many researchers which says there is a negative relationship between business growth and its age

The statistical result for the second dependent variable that is employment shows, there is a significant variation in the growth of MSE with respect to experience, family back ground, type of business, having formal record, borrowing and availability of market for its product if growth is measured using employment growth. With respect to this variable, the statistical result shows there is no difference in growth between MSE with respect to the difference in gender, age of the owner / manager, age of the business, legal status and competition. But in terms of average employment growth, those enterprises that are owned/ managed by individuals less than 25 years shows higher growth rate. In terms of age of business and legal status, those enterprises having the age of more than 20 years and have limited liability status shows better average employment growth in which actually there is slight variation in growth between limited liability and the unlimited liability businesses. With regard to competition and registration, enterprises with in high competition market and have no registration shows better growth. In relation to the gender of the owner/ manager, those enterprises owned/ managed by male individual's shows better average employment growth.

5.2. Recommendation:

Given the importance of the micro and small enterprise sectors to GDP and to national employment in most developing countries, it is important to consider what sorts of policies might be undertaken to foster expansion of this sector and give some suggestion. One aspect of this is growth of the existing MSEs through the design and development of new policies and strategies that are appropriate for the development of this sector. This study suggests several lessons that may be of use to researchers and policy makers.

The ANOVA and t-test result shows that firms with access to credit grow more rapidly than those without such access. As a result it will be better if stakeholder increase their credit bases in order to support them. Again even if the number of male in the business is very much small when compared with female business owner/ manager, their business growth is higher than those businesses which are owned/ managed by female counterparts. So the number of male in business should be increased that the countries growth may be accelerated.

As the country has a plenty of young age group when we compare with the total population, the country can get much benefit from this. In Ethiopia the largest percentage of age group is the young age group which constitutes those working age less than 35 years. The ANOVA result shows that the growth of business for this age group is high when compared to the others. So government and other stake holders may help those peoples enter in to business if the country is intended to be on fast lane.

Even if registration with micro and small enterprises is expected to have a positive relation, the result shows that those enterprises registered with MSE office have less growth rate when compared with those registered with trade and industry. This implies that the effort of this office in making those businesses grow is not effective. That means those businesses under their benefit package shows less growth when compared with the opposite groups. So it is better if the MSE office discuss with the participants and other stakeholder to change their way in order to put those businesses on the fast train.

In relation to the education level of the owner/ manager, there is no difference in the growth of MSEs with the difference in education level even if it is expected to have a positive relation that increase in the level of education will bring business growth. But what is noted in this study is the opposite. So it is good if the education system of the country is practical rather than a theory based and other subjects about business should be given at lower grades that everybody who joins school can get it.

With respect to experience of the owner/ manager, enterprises owned/ managed by individuals with high previous experience shows better growth. So it will be better if stakeholders of the sector work on preparing training programs so that they can share experience with one another especially to those entering into the sector without any previous business background.

The other area that this study wants to suggest is record keeping practices of the enterprises. The t-test result shows those enterprises that have formal record keeping practice shows better growth. If that is so, all MSEs should start using a formal record keeping practice. For record keeping again they should have to hire an expert on the area which makes things difficult for them. As a result of their inability to hire a specialist in the area it will be good if stakeholders arrange training that employee themselves can learn and have a record by their own.

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