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Determinants Of Growth Of Small Scale Enterprises In Volatile Industrial Environment

ERMIAS TASEW EYASU[1] , Dr. SUJATHA BOTTUGALLA[2*]

[1]Lecturer in department of management, Assosa University, Ethiopia

[2]Associate Professor, Department of Management, Siddhartha Institute of Technology and Sciences, India.

ABSTRACT

The most challenges of startup enterprises are their transition. Therefore, in this study the researcher tried to determine the factors affecting transition of small size enterprises in volatile industrial environment of Assosa City Administration. Mainly the study examined the effect of external and internal factors on the transition of the small enterprises in volatile industrial environment of construction sector in Assosa town. The study employed a descriptive survey research design to assess the factors affecting transition of small businesses. A total of 3200 entrepreneurs working in 910 small enterprises in Assosa town were the total population of the study and the sample of 355 respondents has considered. Data collection tools were interviews and questionnaires. Collected data analyzed using descriptive statistics and factor analysis with the help of SPSS software. The primary data was analyzed by using descriptive statistics like mean and standard deviation and presented using tables and figures. The finding of the study indicated that the external and internal factors significantly affect the transition of small enterprises. The study recommended that, for better transition of small scale business, the enterprises should diversify the product or service and increase in numbers of employees, and should efficiently transforms firms' resources into products effectively. Finally, Improvement in business skills is needed to enhance business growth. Infrastructural facilities need to be modified to enhance pace of economic growth through smoothening work of entrepreneurs. Eventually, Leaders should work hard to change negative attitude towards small scale enterprises.

Key words -Industrial Growth, Small Scale Enterprises, Entrepreneurship Development

1. INTRODUCTION

Micro enterprise stands for enterprise that has a paid-up capital below 20,000 Birr excluding consultancy or other firms that make use of advanced technology whereas small enterprise is enterprise in which paid up capital ranges between Birr 20,000 and 500,000 and save other firms using high technology (Belay et al., 2015).

The role of Small and medium-sized enterprises (SMEs) in economic growth and sustainable development of every nation cannot be over-emphasized especially for the rural economy (Tilaye and Mokonen, 2013). However, the enterprise grows less rapid than expected. Only few of them are transformed to the next growth level, most of the enterprises remains stagnate and others are out of the market (Mbugua et al., 2014). Mukras (2003) Small and Medium Enterprises comprise the largest proportion of businesses in most economies and frequently offer the greatest potential for job creation, it has been argued that SMEs is considered as the key strategy for minimizing unemployment rate and thus it can be recommended as the engine for growth and Development .The rationale behind this fact laid in the atypical characteristics of the volatile industrial

sectors. SMEs relatively is more labor intensive; suitability to produce more jobs with less capital per job created; utilizes local resources; uses simple and inexpensive technologies; fosters linkage formation within and among various sectors, means of[1] equitable distribution of resources among citizens in the nation and its flexibility to internal and external economic shocks.

According to Tegegne & Meheret (2010), the growth enterprises has three constituting dimensions; quantitative growth of the firm, qualitative growth and formalization of the firm. On the other hand, the growth of the MSEs is measured in terms of financial performance of the enterprises such as; income level and the profitability of the enterprises are good indicators of enterprises growth (Alemu et al., 2018). Other countries like Ethiopia were used the capital growth and manpower growth to measure the growth of enterprises. Generally most researchers agreed with both the financial and non-financial measurement of the firm are the good indicators of the firm growth. Most MSEs in developing countries do not upgrade their businesses to the next level of productivity, assets and employment rather; the majorities of firms stagnate, close down and exit the market place

The problem is more serious in Ethiopia like attitudinal problem of the operators, less ambitious, less marketing experience, lack of managerial and entrepreneurial skill, lack of credit availability, lack of working premises, inaccessibility of infrastructures,

lack of institutional coordination and unnecessary bureaucracy are considered as major factors that hinder the growth and transition of enterprises (Abebaw, 2014). Therefore, it is necessary to investigate the challenging factors that affect the growth of MSEs so as achieve the intended developmental objectives by reversing these challenges. Hence, this study was designed to assess the internal, external and causes and effects factors that affect the transition of small scale in Assosa city.

theoretical value. The findings will be used for the public, government and other stake holders which concern about the entrepreneurship and need to understand and assess the impact of related to micro and small business challenges and opportunities. It would also enable them to show the transitional development of small scale enterprises, their problems in the study area and help the government and other actors to focus on MSEs as one of the intervention for the fight against poverty. The study could also indicate the focus areas of the sector for planners and practitioners to give emphasis on MSEs in their development programs and projects and to arrive at appropriate solutions to the problems on MSEs.

2. Objectives of the Study

Mainly this study was addressed the following objectives:

1. To measure the level of transition of small enterprise in Assosa city.
2. To examine the effect of the external and internal factors on the transition of small scale enterprises in Assosa city.

3. Significance of the Study

This research is applied research. Hence it has both practical implications as well as

4. LITERATURE REVIEW

4.1. Overview of Small and Medium

Enterprises (SMEs)

Small enterprises have no universally accepted common definition. The definition varies from country to country whether it is developed or underdeveloped. Countries view small and medium enterprises in different angles. As such scholars like Asma et al. (2015) argue that total asset, size of the labor force employed, and annual turnover and capital investments help as an indicator

to define small and medium enterprises. Mukras (2003) in India, micro, small and medium enterprises are classified in two classes: manufacturing enterprises and service enterprises. The enterprises engaged in the manufacturing or in the production of goods are defined in terms of investment in plant and machinery.

Malaysia defines SMEs based on fixed quantitative measures like total number of employees, capital, asset and sales turnover. Thus, in Malaysia, the hired employees not exceeding 5 in micro" enterprises for agriculture, manufacturing and service sectors. Small enterprises will hire 5-19, 5-50 and 5-19 employees for agriculture,

manufacturing and service sectors respectively. SMEs lack a uniform definition across the globe (Ngui, 2014).

4.2. Small and Medium Enterprises in

Ethiopian

Likewise to global countries, Ethiopia also lacks universal definition on MSE. According to MoTI (1997) Ethiopia defines enterprises based on labor and capital. Hence, categorization of SMEs based on these criteria helps to succeed the predetermined goals of the country. According to Ministry of Trade and Investment of Ethiopia MoTI (1997), also

Micro and Small Enterprises can be classified as "micro" and "small" for the purpose of strategy based on the criteria of capital. Based on Central Statistics Authority (CSA, 1997), MSEs are also described in terms of employment. Hence, "micro" refers to those with not more than 10 labor forces and those who have fewer than 50 employee are referred to as "small" whereas those who have more than 50 employees considered as medium and large scale enterprises.

The new Small and Micro Enterprises

Development Strategy of Ethiopia (published 2011), the working definition of MSEs is based on the combination of both capital and labor criteria. Accordingly, Enterprises considered as "micro" when they hired not more than 5 employees in both industry and service sector with a capital of not exceeding Birr 100,000 for industries, And Birr 50 000.00, for service sector. Enterprises considered as "small" when

their employees reached from 6-30 in both industry and service sector whereas their capital not more than Birr 1,500,000.00 for industry and Birr 500,000.00 for service sector (MSEDS, 2011).

4.3. Role of Small and Medium

Enterprises (SMEs)

The role of SMEs can be paramount in all aspects of the socio-economic development of any countries. Previous scholars like Mokonen and Kassahun (2013) stated that, MSEs not only generate huge employment but also create higher levels of income. Most studies revealed that developing countries like Sub-Saharan Africa including Ethiopia is well aware of the positive role that small and medium-sized enterprises can play in their development.

The contribution SMEs in the Economy:

Small and Medium Enterprises are considered the backbone of an economy, where we are referring to a random state, or if we are taking globally. These companies represent an essential source of economic growth, dynamic, and flexibility in advanced industrialized countries, just like they do in emergent economies and in development. Small and medium enterprises account more than 99% of the total active firms around the world of which60-70% of the jobs in all companies are created in SMEs. Small enterprises are very important in promoting competitiveness and to bring new products or techniques to the market. SMEs increase their productivity mostly through finance.

Investments provide access to technologies and help expand the business, thus ensuring the competitiveness of a company and, by extrapolating, the one of a nation as a whole (Maximilian, 2013).

The contribution SMEs to Employment of Labor: The growth of SMEs numbers globally had a positive impact through
creating new jobs and lowering unemployment. SMEs are the main source of employment in developed and developing countries comprising of over 90% of African business operations and contributing to over 50% of African employment and GDP (Munyaka et al., 2015).

Small and medium enterprises are the biggest contributors to the employment of labor; they employ a large number of people (Maximilian 2013). The same study revealed that enterprises are responsible for new employment; they generate approximately 86.01% of new jobs. Countries with a lower income per capita, SMEs have a higher impact on the employment level, compared to countries with a larger

income. Moreover, the costs associated to the creation of job in a smaller or medium enterprise are reduced compared to the ones involved in the creation of a job in a big enterprise.

4.4. The Transitional Development of

Small Scale Enterprises

According to Wakjira (2015) MSEs are considered as paramount actor of socio-economic development both in developed and developing countries. Thus, to bring stable economic growth and development especially for those countries that have stagnant economic growth, large and vibrant SMEs would be highly needed. Micro and small scale enterprises are not only the major important agent in socio-economic development of developed countries but also they are the bench mark for the transitional development of economy in most developing countries. The development of MSEs in developing countries have significant role to achieve the predetermined goals of the country like economic growth, poverty reduction, job creation, equity and fair distribution of income, and increase productivity (Weldegbriel, 2012).

4.5. Factors Affecting the Transition

Small scale Enterprise

According to Alberola et al. (2012) though there is a progress on the contribution of MSEs to the national economy, a large number of MSEs are eventually closed or stagnated at starting phase due to, various internal and external factors.

4.5.1. Internal Factors that affect the

transition of small enterprises

According to Caroline (2013) internal factors like enterprise characteristics; age educational status, experience, and sex of the entrepreneur, affects the firm transition and promotion either positively or negatively. However, the serious business environmental challenges to the development of SMEs, the firm-specific factors such as entrepreneur characteristics, poor management competence, lack of skilled managers, deficiencies in marketing strategies, low efforts of R&D and low technological capacities are also prominent factors responsible for the limited growth of SMEs.

However, this study focuses on the internal factors that have an adverse effect on the enterprise growth and transition these factors further classified among the following categories.

4.5.2. External factors that affect the

transition of small enterprises

According to Victoria (2017) external factors are factors that hinder the firms" transition from one scale to the next scale which are out of the control of the enterprise. These factors are; financial factors-to be SMEs more productive and competent in the market, to invest in new technologies, skills, and innovation, financial accessibility can be seen as a paramount. Financial accessibility cannot be resolved simply by implementing financing programs in a vacuum rather covering institutional issues. However, lack of access to financial credit is almost universally indicated as a key problem for small and medium enterprises.

Zahara et al. (2013) infrastructural factors-infrastructure is one of the most critical factors for economic development because it interacts with the economy through the production processes, and changes in the quality of infrastructure available for production will greatly impact the

production and performance of organization's levels of output, income, profits and employment creation in the economy. Unfavorable roads, power interruption, shortage of water, and inaccessible telecommunications are the major challenges and without which primary, secondary and tertiary production cannot function (Krueger & Carsrud, 1993).

Working and shopping Place Factors-Working premises with least leasing price

adjustment is the first requirement and taken as mandatory to the government (Terhas, 2015). However, the working premises related factors like shopping centers, inaccessibility of existing places for market linkage, inadequacy of working and high rent cost for working and shopping centers are the most factors that hinder the performance of small enterprises (Asadolla and Mohammad, 2016).

Market and Related Factors- Marketing knowledge is important for the promotion, growth, anddevelopment of Micro and small enterprises. In this regard, the Ethiopian government has formulated MSE"s strategies to ease marketing challenges by creating inter-linkage mechanisms with other institutions, providing training on marketing, developing export support programs and marketing

information center. However, inability to sell the products and services; lack of adequate marketing channels, and lack of marketing skills are the problems to the starting of business and further growth of the sector (MoTI, 1997).

Legal and Leadership Factors- Registration and licensing, and the extent of government official involvement and accessibility of rules and regulations have impacts on

MSE"s. High start-up costs for licensing and registration requirements, cost of settling legal claims and excessive delays in court proceedings can impose excessive and unnecessary burdens on MSE's operations. Even though registration and licensing helps MSE's to have legality rights, and to reduce the prevalence of informality, more than 12% of MSE"s in Addis Ababa didn't have registration license (MUDC, 2013).

5. MATERIALS AND METHODS

5.1. Research Design

Research design is the overall plan for connecting the conceptual research problems to the pertinent (and achievable) empirical research (Leedy and Ormrod, 2005). The research design used in this research was both descriptive and explanatory design. The researcher used descriptive design to

describe demographic information. Whereas, explanatory design was used to examining casual relationships of dependent and independent variables, and to know the influence of independents on dependent variable.

5.2. Independent and Dependent

Variables

The independent variables of this study are

factors that have influence on dependent
variable like (working capital, working

premises, Infrastructures, technology, entrepreneurial skill and training, marketing knowhow. To measure these variables respondent were asked to indicate their degree of agreement from the possible

alternative about the issue. To this effect, the researcher use liker scale from the work of (Mokonen and Kassahun, 2013) each item was scored on a five-point rating scale. However, the dependent variables are an outcome or result which varies according to different factors in thesis research dependent

variable means Enterprise transition. Whereas, to measure the dependent variable, each respondent was asked to indicate his/her level of agreement and each item was scored on a five-point rating scale.

5.3. Target Population

The target population of the study was the management and employees working in small scale enterprises in Assosa town in five sectors (manufacturing, service, trade, urban agriculture, and construction) as such there are 910 SSEs owned by 3200 entrepreneurs. The entrepreneurs are working in the two woredas of Assosa town.

5.4. Sample Size and Sampling

Technique

From the total population 3200 the researcher selected 355 sample respondents by using Yamane (1967) sample size determination formula. And finally, the study employed simple random sampling technique giving equal chance for the whole sample respondents.

5.5. Data Analysis Techniques and

Procedures

The researcher was used both descriptive and inferential statistical analysis. The data collected through questionnaire was analyzed using Statistical Package for Social Sciences (SPSS) Version 20. The data was screened and treated for errors and missing values. According to Krishnaswami and Ranganatham (2007) data analysis and interpretation involves cleaning up collected research data before undertaking to deduce it so as to give meaningful interpretation and explanation. Factor analysis was done handling each of the two main objectives (External factors and internal factors). Ordinary Least Squares (OLS) regression model was also used to test for the effect and significance the independent variable (External factors and internal factors) and the dependent variable (SSEs-Transition).

6. RESULTS AND DISCUSSIONS

6.1. External factors affecting the transition of small enterprises

The external factors affecting the transition

of small scale enterprises are measured by:

the   availability   of finance,   Working   and

shopping place, Legal and leadership related

issues,   infrastructure access and,   capacity

building and technological. Those variables

were examined in multi-item questions and

the respondents were required to indicate the

extent to which they agree or disagree with

these negatively constructed statements from

the scale of 1-5 (5 = strongly agree, 4 =

agree, 3 = undecided, 2 = disagree and 1=

strongly   disagree)   was   used.   From   their

responses mean and standard deviation was

computed.

Table 1: External factors affecting the transition of small enterprises

External factors affecting the transition of small enterprises	N	Mean	SD
Finance	355	3.905	0.977
Working and shopping place	355	4.328	1.106
Legal and leadership	355	4.556	1.199
Infrastructure	355	3.470	0.950
Capacity building and technological	355	4.268	1.157

According to Zaidaton and Bagheri (2009) the mean value of below 3.39 is described as low, 'between' 3.4 to 3.79 is moderate and, above 3.8 is high. Based on this, as shown in Table 1 above, the legal and leadership related problems have an impact to a very great extent on the growth pattern of small enterprises with a mean of 4.557 and a standard

deviation of 1.199. Whereas, infrastructure related problems have a moderate extent on the growth pattern of small enterprises with a mean of 3.470 and a standard deviation of 0.950.

6.2. Internal factors affecting the Transition of Small enterprises

Internal factors (entrepreneurial factors and managerial factors) were affecting the transition of a small scale business in Assosa town were identified and the respondents were also required to indicate the extent to which they agree or disagree with these negatively constructed statements. A scale of 1-5 (5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree and 1= strongly disagree) was used.

Table 2: Internal factors affecting the transition of small enterprises

Internal factors affecting the transition of small enterprises	N	Mean	SD
Entrepreneurial factors	355	3.845	0.927
Managerial factors	355	3.878	0.952

As shown in Table 2 above, the transition of small scale enterprises are to a great extent affected by the enterprises entrepreneurial skill with a mean of 3.845 and a standard deviation of 0.927. The entrepreneurial factors (Lack of entrepreneurial skill, Lack of information to exploit business opportunities, Absence of cost benefit analysis and Lack of business management plan) are to a great extent unfavorable to businesses thus it negatively impacts on small firm transition in Assosa town. Similarly, Managerial factors (Lack of managerial capacity, Lack of strategic operational business planning, Dependency syndromes of business owners, Uneducated and untrained people holdup the managerial position in the enterprise and Poor holdup of decision-making process) are extremely to large extent negatively impacts on small firm transition with a mean of 3.878 and a standard deviation of 0.952 in Assosa town.

6.3. Correlation Analysis

In this section correlation analysis is computed to test (investigate) and proof the research's the three null hypothesis.

Pearson's correlation coefficient computed using SPSS V.16 to examine the nature of relationship between the independent and dependent variables of the study. According to Maddala, (1992), correlation coefficient value of ± .1 represent small effect, ± .3 represent Medium (moderate) effect, and ± .5 and above represents large effect, if correlation is moderately high or high, say .4

or above, the item is probably at least moderately correlated with most of the other items and will make a good component of summated rating scale and if the item-total correlation is negative or too low (less than .30), it is wise to

Table 3: Interpretation of correlation coefficient examine the item for wording problems and conceptual fit.

No.	Correlation coefficient	Description
1	<0.1	Weak
2	0.1<r<0.3	Low (significant)
3	0.3<r<0.5	Moderate
4	>0.5	High

However, any correlation coefficient (r) that is positive indicates a direct or positive relationship between two measured variables. Negative correlation

(r) indicates indirect or inverse relationship. Results of correlation coefficient are analyzed for both the variable and factors constructed to measure the study variables. Items are analyzed in order to measure individual items relation with the criterion variable as well as for inter items correlation of both predictor and criterion variable.

Source: Maddala (1992)

Table 4 below describes partial correlation between SSEs transition with its factors designed from the conceptual framework, which are: Internal Factors, and External Table 4.Correlation Analysis Results

Factors. Table 4 presents the correlations of these variables.

Variables		Transition	External Factors	Internal Factors
Transition	Pearson Correlation	1		
	Sig. (2-tailed)			
External Factors	Pearson Correlation	0.667[a]	1	
	Sig. (2-tailed)	0.000		
Internal Factors	Pearson Correlation	0.816[a]	0.465[a]	1
	Sig. (2-tailed)	0.000	0.000	

Note: [a] and [b] are significant at 1%, 5%, (2-tailed), respectively

Table 4 shows that the relationship between dependent variable (SSEs transition) with independent variables. The relationship between external factors and SSEs transition is 0.667 with 1% significance level that means External Factors and business transition were moderately correlated. The relationship between external factors and SSEs transition is 0.667 with 1% significance level that means External Factors and business transition were moderately correlated. Also, the relationship between internal factors and SSEs transition is 0.816 with 1% significance level that means, Internal Factors and business transition were strongly correlated with the SSEs transition.

6.4. Regression Analysis Results

Table 5 shows results of linear regression analysis. The results provide evidence that External Factors and internal Factors have a statistically significant effect on Small scale enterprises transition at 1% significant level.

Table 5: Model summery

				Model summery			
Model	R	R Square	Adjusted R Square	Change Statistics			
				F Change	df1	df2	Sig. F Change
1	.706[a]	.558	.541	11.593	3	130	.000[a]

a. Predictors: (Constant), External Factors, Internal Factors

b. Dependent Variable: SSEs Transition

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Source: Own survey data (2020)

In multiple regression analysis, all the three R values (R, the R^2 and adjusted R^2) indicates that, the degree to which the linear combination of the independent variables predicts the dependent variable. Accordingly, the regression analysis findings indicated that R= .706[a], which represents that the model (linear regression of the External Factors, Internal Factors) is strong predictor of small scale enterprises transition. Adjusted R Square = 0.541 which

indicates that, 54.81% of variation of dependent variable is explained by the two predictor variables. However, the model is statistically significant in predicting the relationship between dependent (business transition) and independent variables of the study (External and Internal Factors). The F value = 11.593 indicating a significant model for the relationship as given by the regression coefficients.

Table 6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		Beta	Std. Error	Beta		
1	(Constant)	1.329	.308	-	4.308	.000
	External Factors	.012	.006	.478	2.143	.033
	Internal Factors	.319	.107	.506	2.983	.005
	a. Dependent Variable: Business Transition					

As illustrated in table 6 above, indicate that both main explanatory variables (external factor and internal factors) had a positive and statistically significant effect on small scale enterprises transition. However, based on the result, External Factor had a significant influence on small scale enterprises transition as shown by the

coefficient ($\beta = 0.012$, $t = 2.143$, $p > 0.033$). This means that, a one unit refinement in external factors will increase the level of enterprises transition by 0.319 units and is significant at 1% significance level. And internal factors also had a statistically significant effect on small scale enterprises transition with the coefficients ($\beta = 0.319$, t

$= 2.983$, $p > 0.005$). That means a one unit improvement in internal factors will increase the level of enterprises transition by 0.319 units and is significant at 1% significance level. This is consistent with the study of David (2016), the organizational internal factors like managerial skills and staff competencies had a significant influence on business transition.

7. CONCLUSION AND RECOMMENDATIONS

7.1. Conclusions

Small scale enterprises play an important role in developing economies not only in economic development, but also in poverty alleviation, innovation and job creation. However, the role of small-scale enterprises is critical for the development of any given nation particularly for developing countries

including Ethiopia. It is also seen as an important force to generate employment opportunity and equitable income distribution among the citizens.

This study was conducted in Assosa town with the main objective of assessing the factors that affect the transition of small scale enterprises to medium scale by including sample respondents from small scale enterprises. Specifically, the study tried to assess the current situations of small scale enterprises transitional performance in relation to their
capital and manpower growth, the external and the internal factors that hinder the transitional performance of small enterprises. Based on these objectives and the findings, the following conclusion was made.

The current status of small scale enterprises are explained by low capital and manpower amount, and most enterprises are run their business for survival purpose but not up-grader. This implies that the MSE strategy is not implemented appropriately and the intended unemployment reduction and income generation objective are not achieved due to different internal and external challenging factors.

The study conclude that the internal factors such as entrepreneur characteristics, poor management competence, lack of skilled managers, deficiencies in marketing strategies and low technological capacities are prominent factors responsible for limited growth of small scale enterprises into medium sized enterprises.

The study also concluded that external factors such as unfair competition from the informal sector, cumbersome and costly bureaucratic procedures, laws, policies, and regulations, an inefficient tax system, a lack of access to external linking technologies, a lack of access to external financing and low

human resources capacities are the key business external environmental factors affecting transition of small scale businesses into medium enterprises in the study area.

The findings of the research revealed that there was a significant association between the transition of small scale enterprises in to medium enterprises and the existing external and internal factors.

7.2. Recommendations

Based on the findings and conclusions of the study, the following recommendations are forwarded.

The regional policies and strategy should create a convenient investment environment for small scale enterprises transition. Problems like- absence of market linkage facilities negatively affects the production capacity of the enterprises, particularly the power interruption is critical problem and the problem is not solved yet. Improvement in business skills is needed to enhance business growth. Infrastructural facilities need to be modified to enhance pace of economic growth via smoothening work of entrepreneurs. Eventually, Leaders should work hard to change negative attitude towards MSE. Therefore, more should be expected from the government to reverse the problem and create enabling condition for enterprises so as to achieve their growth objective. The

government should improve the infrastructural service in terms of coverage and quality of electric power supply through increasing the production of power. In addition, the government should increase the production of water through implementing soil and water conservation activities and improve the existing conditions of road through providing maintenance services and constructing road newly.

Based on the finding of this study small scale enterprises were faced critical financial problems limited loan access, unreasonable interest and high collateral to borrow money. Therefore, because of this the financial sources of most enterprises are very limited. As a result their business activity and growth is limited by their capital amount. It is recommended to improve access to finance for enterprises by strengthening their capacity, setting rational interest rate is necessary to support the transition of small scale enterprises.

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