

DETERMINANTS OF MICROENTERPRISE SUCCESS IN
THE URBAN INFORMAL SECTOR OF ADDIS ABABA:
A MULTIDIMENSIONAL ANALYSIS

Belay File Garoma

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**DETERMINANTS OF MICROENTERPRISE SUCCESS IN
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A MULTIDIMENSIONAL ANALYSIS**

**DETERMINANTEN VAN SUCCES VAN MICRO-ONDERNEMINGEN
IN DE STEDELIJKE INFORMELE SECTOR VAN ADDIS ABEBA:
EEN MULTIDIMENSIONELE ANALYSE**

Thesis

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Dedicated to
Saktu Sarbessa (my grandmother) and Garoma Tesso (my grandfather)



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Acronyms

AACC	Addis Ababa Chamber of Commerce
ADCSI	Addis Credit and Saving Institute
ADLI	Agriculture Development Led Industrialization
BDS	Business Development Support
CBOs	Community Based Organizations
CSA	Central Statistical Authority
EAS	Enumerator Areas
EDRI	Ethiopian Development Research Institute
EEA	Ethiopian Economics Association
EMA	Ethiopian Mapping Agency
EO	Entrepreneurial Orientation
EUSES	Ethiopian Urban Socio economic Survey
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
FeMSEDA	Federal Micro and Small Enterprise Development Agency
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
HDI	Human Development Index
ICT	Information Communication Technology
ILC	Internal Locus of Control
ILO	International Labour Organization
IS	Innovation Strategy
LPE	Law of Proportionate Effect

MDG	Millennium Development Goals
MF	Microfinance Institutions
MoFED	Ministry of Finance and Economic Development
MOTI	Ministry of Trade and Industry
MSCS	Miner Sentence Completion Scale
MSE	Micro and Small Enterprises
MSED	Micro and small Enterprise development
NA	Need for Achievement
NBE	National Bank of Ethiopia
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Squares
PA	Proactiveness
PASDEP	Plan for Accelerated and Sustained Development to end Poverty
PPP	Purchasing Power Parity
ReMSEDA	Regional Micro and Small Enterprise Development
RT	Risk taking by the firm
RTP	Risk Taking Propensity
SDPRP	Sustainable Development and Poverty Reduction Program
SE	Self-Efficacy
SNNPR	Southern Nations Nationalities and People Region
TVET	Technical and Vocational Education and Training
UIS	Urban informal sector
UNIDO	United Nations Industrial Development Organization
WOFO	Work and Family Orientation



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Abstract

This study analyzes determinants of microenterprise success in the urban informal sector of Addis Ababa. The study uses a multidimensional analysis of success factors whereby internal and external factors of success are analyzed simultaneously. Success is represented by three indicators, namely employment growth, turnover growth and profit growth. A two-round survey of 286 microenterprises over a period of 28 months has allowed computation of annual average growth rates of these success indicators.

The study is divided into seven chapters. The first chapter presents an introduction in which summarized issues to be examined in the thesis is presented. This is followed by Chapter 2, which presents the theoretical and conceptual framework of the study. The framework sets a stage for a multidimensional analysis of success. The methodology employed for the study is also discussed in the same chapter. The study uses descriptive statistics and econometric methods. A quantile regression approach is used to analyze success factors across various growth clusters. In Chapter 3, the country background is presented. Here an assessment of some macroeconomic performances has been done while providing the background information on microenterprises in the urban informal sector in Ethiopia as well.

Chapters 4 and 5 present findings based on a descriptive analysis. Chapter 4 focuses on internal factors whereby success is analyzed against the entrepreneur and firm character. In Chapter 5, attention is given to external factors such as social networks and enabling business environments, which are, analyzed against success. Chapter 6 brings all dimensions together and analyzes success using econometric methods. The final chapter concludes the study by presenting major findings and drawing some implications.

*Determinanten van succes van micro-ondernemingen
in de stedelijke informele sector van Addis Abeba:
een multidimensionele analyse*



Samenvatting

Dit is een onderzoek naar de determinanten van succes van micro-ondernemingen in de stedelijke informele sector van Addis Abeba. In een multidimensionele analyse van succesfactoren worden interne en externe succesfactoren tegelijkertijd geanalyseerd. Er zijn drie indicatoren van succes: toename van de werkgelegenheid, toename van de omzet en toename van de winst. Op basis van een enquête die in een periode van 28 maanden in twee ronden is afgenomen bij 286 micro-ondernemingen konden de jaarlijkse gemiddelde groeicijfers voor deze indicatoren van succes berekend worden.

Het proefschrift bestaat uit zeven hoofdstukken. Het eerste inleidende hoofdstuk geeft een overzicht van de onderwerpen die in het proefschrift worden onderzocht. In hoofdstuk twee wordt het theoretisch kader en begrippenapparaat van het onderzoek uiteengezet. Dit kader vormt het uitgangspunt voor een multidimensionele analyse van succes. De onderzoeksmethodologie wordt ook besproken in dit hoofdstuk. Het onderzoek maakt gebruik van beschrijvende statistiek en econometrische methoden. Met een kwantiele regressiebenadering worden succesfactoren geanalyseerd voor verschillende indicatoren van groei. Hoofdstuk drie beschrijft de nationale context waarbinnen het onderzoek plaatsvindt. Er wordt een beoordeling gegeven op een aantal macro-economische indicatoren en dit hoofdstuk geeft ook achtergrondinformatie over micro-ondernemingen in de stedelijke informele sector in Ethiopië.

In hoofdstuk vier en vijf worden de resultaten van een descriptieve analyse gepresenteerd. Hoofdstuk vier bespreekt interne factoren waarbij succes gerelateerd wordt aan het karakter van de ondernemer en de onderneming. In hoofdstuk vijf worden externe factoren zoals sociale netwerken en een gunstig bedrijfsklimaat behandeld en gerelateerd aan succes. In hoofdstuk zes worden alle dimensies bijeengebracht en wordt succes geanalyseerd

met econometrische methoden. Het laatste hoofdstuk sluit het proefschrift af met een overzicht van de belangrijkste resultaten en een bespreking van de implicaties.

1

Introduction

1.1 Background of the Study

Urbanization, with its challenges and opportunities has become a development agenda of developing countries, especially after the nineties. The focus and policy advocacy on rural development as a catalyst for industrialization has also been challenged and seems to be losing ground. In many developing countries, let alone functioning as a catalyst, agriculture failed to feed and sustain the rural population. The rapidly growing rural population, poor technology, lack of capital and unfavourable climatic conditions can be mentioned as factors contributing to its low performance. The consequence of such bad performance is an increasing pressure on infant cities of developing countries. In almost all developing countries, the rate of urbanization is, by far, exceeding the population growth rate of their national average, indicating rural–urban migration as a major factor for such an explosion. For example, in Ethiopia, EEA (2009) indicates growth rate of urbanization at about 4 percent while that of national population growth was about 2.7 percent.

One can raise a question: is this a new phenomenon since advanced nations have passed through the same route? In many advanced nations, rapid industrialization and advancement in technology have successfully absorbed the surplus labour. For currently urbanizing developing countries however, the problem is twofold: cities are not creating enough jobs and the rural sector is deteriorating. Urban managers therefore are confronted with such issues as ensuring job security, poverty reduction and economic growth. The question is whether national and local governments have the necessary skills and knowledge to formulate effective city development strategies. It requires resources, skill, technology and

knowledge to set city development strategies and make cities engines of growth. These resources, however, are scarce in developing countries.

A question that follows is what is the fate of those migrants after joining cities? As indicated by CSA (2003), for example, about 90% of migrants join the urban informal sector. Lack of skill, capital and working premises force these migrants to participate in low economic activities such as vending, shoe shining, loading/unloading, among other things. However, through time, some migrants become successful and join the formal/mainstream economy while others stay mired in the informal sector.

This research focuses on the determinants of microenterprise success in the urban informal sector, which could form a potential basis for economic growth and poverty reduction in developing countries' cities. The majority of poor people in the developing countries' cities make a living in the urban informal sector (UIS). Many scholars and policy makers have recognized that the sector serves as an important channel through which rural migrants assimilate to urban life. The sector is the centre of hope for the poor majority. Much of the pressure facing developing countries' urban managers arise directly or indirectly from the informal sector.

However, addressing the problem of the poor in the urban informal sector or making the sector serve as an engine for growth is not easy. In the first place, attitudes towards the informal sector are mixed. Policies have ranged from straightforward prohibition of the sector to a poverty alleviation orientation. Miller (1987) summarizes four competing policies for informal economies: drive-out, pay-up, improve and expand. The drive-out policy, which means getting rid of informality, is practically impossible in many countries as evident from current data. The pay-up policy, which requires much more stringent policing, seems to be very difficult, at least for developing countries with limited resources on policing the pay-ups. The improve policy, which is more poverty alleviation oriented includes, for example, family allowance schemes, extending social insurance to the workers with marginal benefits in the informal sector. Again, the sustainability of this policy is questionable, from low-income countries' point of view. The expand policy, which means government efforts to aid informal economies to help them grow, seems a more sound policy which also seems to have convinced many developing countries.

Secondly, the great diversity of the urban informal sector has posed challenges towards successful intervention. Urban informal sector operators vary across sub-sectors/activity, by size, by degree of informality, gender participation; across size and activity, each requiring specific and targeted policy strategies towards successful intervention. However, with a proliferation of informality and, with increasing pressure from the sector, developing countries have responded to the challenges in a uniform manner. In many developing countries, including Ethiopia, the micro and small enterprise development programs (MSED) are viewed as a key policy strategy to embrace the sector. ILO (2002) argues for MSE development from a decent-work agenda point of view. It pursues MSE development and delivers support to these countries. In many developing countries, such programs have initiated packages such as business development support services, vocational and technical education and export promotion policies for micro and small enterprises. They have also devised a number of strategies such as labour based infrastructure development, urban agriculture, clustering, business incubators and subcontracting as a way to make the informal sector serve as an engine for development. International institutions and donor agencies also support these packages and strategies as they think that it has a positive multiple impacts such as secure and well paying jobs, less inequality and rapid economic growth in these countries.

Embracing informality or making it grow into the mainstream economy requires, among other things, understanding causes of informality, the functioning of informal sector, understanding factors that influence success in the sector and the dynamics of both the formal and informal sector, which all require understanding of specific country context. In this case, a “one size fits all” policy may not apply. For example, according to MOTI (1997), MSED interventions in Ethiopia are poverty alleviation oriented because policy makers and scholars are preoccupied with the perception that microenterprise operators in the informal sector are driven by survival goals than growth goals (World Bank, 2007). One can argue at this point, that policy makers have ignored the very diverse nature of the informal sector in the course of intervention. Policies and support agencies for the urban informal sector should treat a daily-laborer/ wage-earner as different from a small manufacturer or a small shop owner, although these two parties are members of the urban informal sector. However, uniform interventions continue to fail to either

stimulate many firms towards the mainstream economy or help enterprises grow.

This study argues that understanding success requires the knowledge of success factors across various groups/sizes of microenterprise operators.

Another problem of MSE development policies in many developing countries is that MSE development packages are imported from successful economies with minimal regard to the existing reality in the importing country. There is little consideration of the underlying forces in the exporting country. For example, the subcontracting and networking strategies that have been a major policy pursued by small firms in South East Asia may not equally apply for Africa. It requires dynamic and efficient formal sector firms that seek subcontracting thereby creating markets for these micro and small businesses and helping them grow. In Africa, where the formal sector is less dynamic and efficient, the potential for large firms to create markets for smaller ones is very low. Effective and efficient implementation of these policies and strategies therefore requires knowledge of the characteristics of informal sector, determinants of small business success and attendant dynamics from a country-specific point of view. Researches on these issues are generally sketchy due to a number of factors, such as difficulty of obtaining data and the nature of the informal sector itself. This thesis tries to deepen the informal sector debate by analyzing determinants of microenterprise success based on Ethiopian data.

1.2 Statement of the Problem

Researches generally indicate that rural-to-urban migrants usually join the urban informal sector. They adapt to such a life and start their businesses by shoe shining, street vending, making local drinks, loading and unloading, daily labor, etc. (Van Dijk, 2006; Getinet, 2006). As such, the urban informal sector has been functioning as a major link between the rural sector and the urban sector. According to the CSA (2003), about 90% of the rural migrants join the unorganized economy in Ethiopian cities. In a country where there is hardly any social security for the most fragile segment of the population, the informal urban sector provides a welcome route out of poverty. This is evident from the fact that migrants who were once informal sector operators own many successful and, currently leading businesses in Addis Ababa.

Despite the many efforts to formalize microenterprises in the urban informal sector of Addis Ababa, evidence shows that this sector still contributes the largest share in employment creation. Efforts initiated by the then mayor of Addis Ababa, to formalize these enterprises by providing working premises, micro credit and forcing them to get registered, also seem not to be working as many of these enterprises have rented out their premises and opted to depend on income from the rent and other sources. Since the month of August 2011, the micro and small enterprise development agency of the city of Addis Ababa, through the media (radio and television), is urging these operators to return to their businesses.

Van Dijk (2006) argues for a cautious formalization of the informal sector on three grounds. Firstly, an effort to formalize such a sector will kill the sector itself as poor people engage in such activities to escape taxes and other government regulations. Secondly, the sector could serve as a good channel through which rural people may be stimulated to cities thereby benefiting from it. Finally, since the informal sector has its own dynamics, it will exist despite any efforts to kill it; the effort to prohibit this sector will simply be wastage of resources. Thus, one can argue that although the supply side effort to formalize or embrace microenterprises to grow seem to yield little result, this sector is important from both poverty reduction and equitable growth points of view. The most intriguing question at this point is why some microenterprises grow successfully when others remain stuck in the informal sector. This study is committed to finding answers to this important question using a multi-dimensional analysis of success.

The debate on firm growth was sparked following Gibrat's (1931) law of proportionate effect, LPE. According to this law, firm growth is entirely random. This law attests that there is no systematic influence of firm attributes that influence growth. Therefore according to this law, the observed skewness of firm growth is explained by some stochastic process. Following this law various studies have focused on testing relationships between firm growth and size/age. Evidences show that there is a systematic relationship between growth and firm attributes (Jovanovic, 1982; Mead and Liedholm, 1998; Bigsten and Gebreeyesus, 2007). These studies found evidence that younger and smaller firms grow faster.

However, most of these studies seem to advocate limited factors and hence are driven by limited perspectives such as the impact of firm age and size on growth. For example, the learning process perspective advo-

cated, first by Jovanovic (1982), was a dominant perspective in small business success studies. The perspective is based on the premise that firms learn about their true efficiency only after they enter a business with only the efficient firms surviving and growing. Jovanovic's learning model has the important implication that younger firms grow faster. A number of studies since then have investigated firm growth versus size/age mainly to prove/disprove this polarized debate on firm growth.

Subsequent studies on small enterprise success are also largely fragmented. Psychological perspectives focused on understanding business success largely from the entrepreneur point of view (Welter, 2001) drive many of the entrepreneurship studies. This view emphasizes that psychological quality, which differs among individuals and cultures, may create divergent preconditions for entrepreneurial drive and success. Some studies focus on supply and demand conditions as key determinants of success (Mead and Liedholm, 1998; McPherson, 1996). Other studies however, have emphasized networks, both formal and informal, as an important factor especially for firm success in developing countries (Annen, 2001; Kristiansen, 2004). The social network advocates, for example, contend that informal social networks serve as important resources in developing countries where formal institutions are weak.

This study argues that success is a complex process and that a combination of both internal and external factors together would better explain the success or failure of microenterprises in the urban informal sector. Rogerson (2001) argues that, unlike advanced countries firms who would conduct some prefeasibility studies, entrepreneurship in Africa is an enforced one where people start operation largely for survival. Thus, when entrepreneurship emanates from motives such as lack of other options, the role of external factors would become significant. This study therefore focuses not only on the character of the entrepreneur, but also the environment in which the business operates.

Of the existing studies of microenterprises in Ethiopia, none has investigated success using a multidimensional approach. Ageba and Amha (2003) looked into the impact of policy and regulatory challenges on the growth of micro and small enterprises in Ethiopia; Gebreeyesus (2009) focused on the impact of innovation on employment growth of microenterprises in the informal sector while Getnet (2006) analyzed the nature of self-employment in the urban informal sector in Ethiopia. This

study could therefore serve as a stepping-stone towards understanding microenterprise success in the urban informal sector of Ethiopia.

1.3 Objectives of the Study

The main objective of the study was to understand determinants of microenterprise success in the urban informal sector of Addis Ababa. Based on this basic objective, the specific objectives of the study were to:

1. Assess the characteristics of informal sector operators and their businesses in Addis Ababa.
2. Investigate the link between internal factors and microenterprise success in Addis Ababa.
3. Investigate how and to what extent external factors determine small business success in the urban informal sector of Addis Ababa.
4. Provide some policy recommendations.

1.4 Position in the Literature

Researches on urban informal sector in general take on three perspectives. The first is concerned largely with characterization of informal enterprises. Here, more emphasis is given to the definition of informal sector. In defining the urban informal sector, a number of socio-economic variables are explored. ILO (2000), for example, identifies several variables to characterize the sector. It is labour intensive, based on indigenous technology and highly competitive. There is also ease of market entry, owner occupancy and no book of accounts. Further, skills are gained informally while informal social links play a vital role in providing start-up capital and market opportunities. The businesses are micro-sized and subsistence in nature. However, some studies, e.g. Yamada (1996), challenge the subsistence nature of informal sector operators.

The second research perspective is largely devoted to the behavioural aspects of informal enterprises. It emphasizes the determinants of business success (defined as survival and growth of the enterprise) in the urban informal sector. Some of these studies advocate that learning by doing explains most of the successful businesses (Jovanovic, 1982). The motivation for start-up is also another variable the perspective emphasizes (Glancey, 1998). According to some studies, entrepreneurs who are profit oriented and join the informal sector for better opportunity dare

to take risks and that risk taking is an important factor for business expansion and growth (Casser, 2007). Most of these studies focus on entrepreneur character as a key variable for business success. However, due to an extremely diverse nature of informal enterprises, finding a common principle for entrepreneurship has become difficult (Nelson and De Bruijn, 2005). In addition, given diverse entrepreneurial skill, some businesses succeed while others exit, leading to the contention that external factors other than entrepreneur character could also explain success. These latter studies tend to reinforce the notion of external factors in enterprise development and success.

The third research perspective on the informal sector dwells on the effect of the institutional environment on business success (success defined in terms of growth). These studies accentuate the role that legal, regulatory and institutional frameworks play on microenterprise operators in the informal sector. These institutional environments influence business success by adding benefits and costs of operation. As such, firms decide to join the mainstream economy by adding into their equation the benefits and costs imposed from enabling business environments. This perspective takes the legalist school of thought popularized by De Soto in the 1980s and 1990s based on the notion that micro entrepreneurs choose to operate informally in order to avoid the costs of operating in the mainstream economy. According to this school of thought, firms will continue to operate informally as long as government procedures are cumbersome and costly. These studies assume that government rules and regulations are stifling private enterprise development (Loayza, 1997; Djankov et al., 2002).

Particular perspectives thus drove most of the microenterprise studies. Understanding small business success however, requires analysis from various dimensions since success is a complex process that comes because of a number of factors difficult to describe by a single perspective or dimension (Wiklund et al., 2007). This study aims to investigate business success using a multidimensional model. It emphasizes three dimensions: the individual, the business and external factor with emphasis on networks and enabling business environments.

This study defines informality based on size criteria and deals with businesses employing fewer than 10 workers following the country definition (MOTI, 1997). The World Bank (2007) report indicates that such a broad definition could help indicate appropriate size of the informal

sector in Ethiopia, as there are only a handful of high-tech and consultancy firms that may bias the definition. Such a size-based approach of defining informal sector has received a prominent position in small business success studies. In recognition of the size criteria, many scholars (Van Dijk, 1996; Mead and Liedholm, 1998; Gebreeyesus, 2009) use the term ‘microenterprises’ rather than ‘informal sector operators’. Accordingly, this study uses the term ‘microenterprises’ to refer to informal sector operators that employ fewer than 10 workers in line with the preceding definition.

1.4.1 Position related to method

This study argues that small business success is better understood if country-specific analysis is conducted as countries vary by culture, politics and economics. Furthermore, a multi-dimensional analysis, where a number of external and internal factors are taken into account would yield a clearer understanding of success. In many developing countries like Ethiopia where formal institutions are weak, legal enforcement is weak and information is asymmetric, other external informal institutions such as social networks play a significant role in providing information, thus reducing transaction costs all the way, leading to success for players in the network. This calls for the understanding of social anthropology and psychology to explain economic outcomes (business success in my case).

This thesis thus attempts to link social sciences such as social anthropology and psychology with economics. By doing so, the study provokes interdisciplinary thinking in understanding economic outcomes of enterprises run by individuals who are also social beings.

The empirical analysis used for this study recognizes the diverse nature of microenterprise operators. Besides the descriptive analysis, econometric analysis supports the study of microenterprise success. The study contends that application of quantile regression methods would yield better insights towards understanding success in the diverse population of the urban informal sector. Thus, average growth rates as well as growth rates across various deciles/percentiles are analysed.

1.5 Research Questions

Based on the preceding research problem, this study sought to answer a number of questions. Generally, the study investigated three main research themes: characterization, internal factors, and external factors with several questions under each theme.

1. Characterizing the nature of microenterprises in the urban informal sector of Addis Ababa based on answers to the following questions:
 - What are the background characteristics of microenterprise operators in Addis Ababa?
 - How do small business operators join the informal sector?
 - Why do small business operators join and stay in the informal sector?
2. Understanding internal determinants of microenterprise success by addressing the following questions:
 - What characters of the microenterprise operator are associated with business performance?
 - What are the business dimensions that influence microenterprise success?
3. Understanding external and business success factors by addressing the following:
 - To what extent does informal social networking influence microenterprise success
 - To what extent does business environment affect microenterprise success in Addis Ababa?
 - What is the influence of government support packages on microenterprise success?

1.6 Research Hypotheses

The section presents a general hypothesis related to major dimensions of the study. The research hypothesis derives from the objectives and research questions set for the study. The conceptual framework of this study set detailed hypotheses for each determinant of success. Accordingly, the study tested the following hypotheses:

1. Migration status defines higher probability of joining and operating in the informal sector as migrants have no other alternatives in Addis Ababa.

2. The urban informal sector serves as a means of survival only in the short-run; in the end, some migrants run a successful business.
3. Entrepreneurial behavior related to the owner has a significant impact on microenterprise success in Addis Ababa.
4. Firm character would have a significant impact on microenterprise success.
5. Informal social networks influence microenterprise success positively in Addis Ababa.
6. Enabling business environments do have little impact on microenterprise success in Addis Ababa

1.7 Thesis Outline

This study is organized in seven chapters. Chapter 1 introduces the study. In Chapter 2, a theoretical and conceptual framework of the study is developed as well as the methodology of the research. In Chapter 3, emphasis is given to a country background. More importantly, the background on micro and small enterprise development in Ethiopia is assessed. Chapters 4 and 5 focus on the descriptive analysis of the data: the former focuses on the internal factors, specifically the firm, and the entrepreneur, while the later analyzes external factors with a focus on enabling business environments and social networks. Chapter 6 brings together both the external and internal factors and conducts an econometric analysis to empirically investigate determinants of microenterprise success. Chapter 7 draws conclusions and some policy implications by also indicating areas for future research.

2

Theoretical Framework and Methodology

2.1 Introduction

In developing countries like Ethiopia, the informal sector contributes the lion's share in employing the urban labour force, thereby serving as a source of income. In Ethiopia for example, about 50.6% of the total urban labour force is employed in the informal sector (CSA, 2003). ILO (2002) estimates this figure to be about 70% for Sub-Saharan Africa. Most of these informal businesses are microenterprises run by owner-managers. Empirical studies concerned with analyzing business success in the informal sector rely on size definitions (e.g., Gebreyesus, 2009; Mead and Liedholm 1998; McPherson, 1996). However, studies concerned with formalization or institutional factors emphasize legality and define informality based on compliance to rules and regulations (De Soto, 1989).

However, defining the informal sector based on compliance to rules and regulations has been a difficult task as many firms opt to live with quasi-formality (Nelson and De Bruijn, 2005). Nelson and De Bruijn argue that firms conduct cost–benefit analysis in their decision to formalize voluntarily and, that these costs and benefits of formalization vary across sub-sectors/activities. According to the authors, firms consider opportunity costs of operating informally, entry and operational costs in the mainstream economy and compare them with the perceived benefits of formalization. Only when these perceived benefits exceed costs do firms decide to formalize voluntarily. Thus, the pace of formalization is higher for firms with higher perceived benefits of formalization (*pull factors*), and lower costs from doing so, or for firms with higher costs of operating informally than in the formal sector. On this point, Djankov et al. (2002) argue that in developing countries, where the perceived bene-

fits of formalization are low, firms join the formal sector mainly to avoid higher direct costs of operating informally (*push factors*). From this, it goes those informal sector operators who are more visible, put pressure on public services and compete with formal sector operators tend to formalize rapidly. Firms with such characteristics will endure pressure from government, formal sector operators and the public. Such pressure (harassment, confiscation, etc) will push these enterprises to acquire some sort of formality like business registration, allowing them to join the mainstream economy partially or fully, depending on the strategy of the firm. In most cases, when these firms opt for partial formalization, the decision for doing so is neither growth driven, nor due to attractiveness of societal institutions, but due to cost avoidance. These firms evade some rules and regulations despite their formality status. Thus, a large number of enterprises/ firms stay semi-formal to maximize from both status. This would make the definition of informality based on compliance to rules and regulations difficult, if not impossible. As a result, this study defines informality based on size criteria and deals with businesses employing fewer than 10 workers following the country definition as given by Ministry of Trade and Industry (1997).

Owing to the size of informal sector, one can argue that the GDP contribution of the sector, which largely constitutes microenterprises, can be a significant one. It then follows that economic growth and poverty reduction in developing countries would largely depend on how well small businesses perform (Mead and Liedholm, 1998).

A policy that triggers business success in the urban informal sector is thus very important in many respects. In the first place, it means arming the poor majority in the fight against poverty by supplying the necessary weapons they need. It also means development from below when macroeconomic policy instruments seem to fail in many countries. It means reliance on endogenous technology and labour-intensive methods of production. Hence, triggering success in the informal sector would mean equity while also achieving economic growth and good economic discipline. The knowledge of what determines microenterprise success (which is the theme of this study) would therefore mean a lot, making this study of a great relevance to policy or to the society.

It has also been argued that the sector may serve as a “seedbed” of entrepreneurship, with entrepreneurs graduating to run large industries (McPherson, 1996). Given the role of entrepreneurship in economic de-

velopment, this side of the argument lends paramount importance to the MSE sector.

Studies analyzing determinants of micro and small business success are wide and diverse. The subject has also demanded an interdisciplinary thinking as economics alone cannot explain small business outcomes. This section thus focuses on review of theoretical and empirical studies related to three dimensions of success determinants - the firm, the entrepreneur and the external environment.

Before discussing determinants, attention must go to the definition of 'success' used for the purpose of this study. This involves defining the unit of analysis and the nature of enterprises investigated in the study. Section 2.2 explores this aspect while Section 2.3 deals with review of literature on characterization of the urban informal sector. Subsequent sections deal with exploring theoretical and empirical studies of determinants of microenterprise success as well as the methodology of the research.

2.2 What is Success for Micro and Small Enterprises?

Small-business scholars define success from various angles. Some scholars apply a narrow definition of success owing to the difficulty of obtaining data on other indicators. The most commonly used measure of success for small firms is employment growth (Mead and Liedholm, 1998; Bigsten and Gebreyesus, 2007). In cases where there is no panel data, firms answer a retrospective question about past and present size of employment, to compute growth. According to these researchers' perception, a firm is successful if it increases in size (measured by number of employees). The implicit assumption is that growth in employment size is associated with higher profits (McPherson, 1996). The main justification for relying on employment growth as an indicator of success is that use of other dimensions of success indicators will become more complicated when, for example, firms do not keep complete books of records. Consequently, it is in rare cases that a multiple set of success indicators are measured for a given data set or a particular study. The argument here is that these small firms easily recall the number of employees over time than their turnover or profit.

However, other scholars such as Lumpkin and Dess (1996) argue for comprehensive measurement of success going beyond a single indicator.

According to these scholars, entrepreneurial activity or process may lead to a favourable outcome of one performance dimension and unfavourable outcome for another performance dimension. For example, an investment in research and development may enable a firm to engage in new methods of production which would enhance its future revenue. However, such an investment could have downward pressure on current profit; hence, a mere use of profit indicator for success may be misleading. The authors further argue that alternative measures of firm performance may compete depending on the type and size of these firms. For example, privately owned small firms may be driven by goals such as mere survival or subjective goals such as “being own boss”; while larger firms could be driven by profit motives. Therefore, the type and size of a firm could dictate which type of performance measure to use. However, the authors argue that the safest way, in this regard, is to use as comprehensive indicators of success as possible.

Employment growth is a conservative measure of firm success because a firm usually employs more labour long after it has realized profit (Parker, 1994). Owing to its objectivity and ease of obtaining data, many researchers study success using employment growth. However, use of employment growth as an indicator of success is not without a problem. It is especially challenging to obtain information on microenterprises as owner-managers usually run these enterprises. Moreover, as these firms are largely informal, they prefer downsizing and growing horizontally than vertically. This has the effect of concealing the size of employment generated by a firm. Use of employment growth usually requires obtaining panel data, which is difficult because, by nature, informal businesses lack fixed location and have higher degrees of entry and exit. Such entry and exit turbulence in the informal sector poses a big challenge to conduct an over-time study and complicates employment growth measurement for micro and small informal businesses.

Other scholars link success with survival/duration in business (Van Praag, 2003; McPherson, 1995). The more one stays in business, the more successful he or she is. Survival analysis, however, requires information on closed businesses, thereby posing a big challenge to cross-sectional studies. To illuminate the survival concept further, Van Praag (2003) distinguishes between voluntary exits and compulsory exits. Only compulsory exits were failures because some successful operators may switch to other businesses; therefore, they are not failures. For Van

Praag, survival was positively correlated with growth, reinforcing the notion that growing firms are at a survival advantage and leading to the conclusion that surviving and growing firms are more successful. McPherson (1995) also confirmed this finding.

Van Dijk (2005) views micro and small enterprise success of African entrepreneurs rather from a contribution that these businesses make towards the economy. For him, three indicators of success are important. The first one is profit. But since computation of profit for small businesses is difficult he proposes to proxy it with income of the operator. Employment creation by a business is also another second indicator of success according to him. Thus size of an enterprise viewed from the number of employees is an important indicator of success. Finally he adds the business turnover as another indicator of success especially when one is interested in understanding the macroeconomic contribution of the informal sector.

Wilson (1998) researched on small business start-ups and success factors in West Yorkshire, UK and cautions against the use of traditional analysis of success studies for small enterprise performance. He argues that traditional analyses of firm performance is based on statistical models of financial characteristics taken from established firms and therefore such analysis better analyzes performance of large firms than newly established businesses. According to the researcher, for small and newly starting businesses, skill and aspirations of the entrepreneur are of more importance than the financial ratios. For Wilson, survival in business is taken as key indicator of success for these new and small firms because they are more venerable in the infancy period (Wilson, 1998).

Applauding the importance of survival as an indicator of success, Mead and Liedholm (1998) propose two important methods to obtain data on business survival: returning to the same location and the same enterprise to observe changes in the enterprise activity and questioning households in a sample of locations about the enterprises they previously ran but that are no longer in operation. Clearly, the former approach is the most accurate measure of obtaining data on survival as the method relies on same enterprises over time. Nevertheless, in cases where obtaining panel data is difficult, the latter approach is employed (Mead and Liedholm, 1998).

Some researchers who rely on survival as an indicator of success employ tracer methods to obtain duration of stay in business. Abban (2009)

in a study of Ghanaian graduates in enterprises used a three-year consecutive stay in business as an indicator of success. He employed a tracer method to obtain data on number of years in business and other required information. All his sampled operators were successful, according to this criterion. The researcher did not use survival analysis because all enterprises survived the three year criteria and survival was not chosen as a plausible indicator of success by his respondents. Survival/duration studies implicitly attach more weight to survival in business than other indicators of small enterprise success. However, researches on survival analysis are highly constrained by lack of data as it is very difficult to identify the functioning and defunct firms over time. The problem becomes more complicated when one conducts survival analysis for micro and small businesses in the informal sector since enterprises in this sector are largely mobile and of no fixed location. Besides, some firms can survive in business for long period with little or no growth in employment or sales, hence mere survival may not indicate true performance as firm age increases.

Apart from indicators such as turnover, Robb and Fairlie (2007) use profit as an indicator of success. Profit, which also proxies net income from business, shows prospects of a given venture. It measures the difference between revenue and costs. Van Dijk (2005) mentions the difficulty of measuring profit by small enterprise owners on several grounds. He argues that, as these businesses do not keep complete books of accounts, they might not figure out the true financial values. Moreover, income from the business supports household consumption thereby complicating computation of revenues and costs accruing to the business. Despite such problems, profit is the most commonly used measure of small enterprise success.

McPherson (1996) argues that compared to other indicators, sales/turnover provides a more objective measure of success. However, due to lack of data on sales, McPherson relied on employment growth for his analysis of growth of micro and small enterprises in Southern Africa. In the analysis of small business success, where, for example, turnover is the dependent variable and several other dummy or continuous variables are explanatory, one might be concerned with the issue of comparability. However, this gets remedy by introducing logarithms, which could then yield discussion in terms of percentage change (Robb and Fairlie, 2007).

Rodriguez (2009) argues that success must be viewed as a step through which businesses pass and, states:

A business normally passes through several milestones that when achieved, proves that the business is on the right track. Some will say success is achieving independence, control and security. Others may say that it is power, acclaim and money. Still others say that it is having friendship, practice, even rising from failure. A successful business does not happen overnight. You do not start a business overnight and expect it to earn profit next day (Rodriguez, 2009:3).

Rodriguez proposes three indicators by which success must be measured following steps from start-up until the business becomes successful. The first indicator of success is the ability of the operator to figure out the feasibility of the business idea. At this stage, which is also called the pre-start-up stage, the entrepreneur is expected to develop the business idea, conduct market research, and compute the estimated fixed costs and variable costs of operation. The entrepreneur is also expected to make sure that expected sales can cover costs. In general, at this stage, the entrepreneur is expected to compute the break-even point of revenues and costs. Thus, the indicator of success for this entrepreneur at the pre-start-up phase is the ability of the entrepreneur to conduct a feasibility study for the project. In the second phase, which is also the second indicator of success, revenue from the business is expected to yield some living wage for the operator. At this point, the business has started generating some income and this income is consumed by the owner as a living wage. There is no real profit at this second stage but the business has demonstrated ability to generate return on investment. In the third stage, which is also considered as a third indicator of success, the business is expected to yield real profit. At this stage the entrepreneur earns not only a respectable wage, but starts reaping profits. The ability to earn real profit is the driving force between having a job and running an own-business. At this stage, the business is generating a return on investment and a positive cash flow.

The Rodriguez (2009) concept of measuring success can be challenged on many grounds. In the first place, such an approach is less practical from a developing country point of view. In these countries, small business start-ups do not always involve computation or feasibility study. Small business operators are largely driven by an interest to obtain in-

come for survival (Liedholm, 2002). They are less skilled, less educated and mostly, migrants scrambling for any type of work that could yield an income for survival. To highlight the situation, Rogerson (2001) notes:

Enterprise start-ups may occur because of supply-push or demand-pull considerations. The African experience appears to be that the majority of start-ups are the result of enforced entrepreneurship rather than the pull of market opportunities. A reversal of this situation will only be the result of a changed macro-economic environment (Rogerson, 2001:117).

Secondly, the approach does not answer the question “what is the length of time that an entrepreneur should stay in each of these stages?” For example, how long will it take for an entrepreneur to reach the third stage or last success level? In reality, many operators run a business just enough for a living, lifelong (Glancey, 2004). Thirdly, although such an approach is to remedy the concern of comparability in using conventional success indicators, practically its contribution to small business success studies seems biased towards explaining entrepreneurial success in advanced countries. Very few operators start businesses with entrepreneurial vision in developing countries. For example, Ageba and Amha (2003) note that in Ethiopia, less than 5% of informal sector operators are growth-oriented.

Critics of the indicators of success in the urban informal sector are concerned with the use of financial ratios (Berner et al., 2008). The concern is that entrepreneurs may define success differently and subjectively and that uses of financial ratios are simply driven by reductionism. Abban (2009), in a study of Ghanaian graduates in enterprise, took the view that success is better understood if defined from the personal view of the owner of the business. The argument is based on the fact that some operators define success as a self-fulfilment. Some operators give higher value, for example, “to being own boss” than profit. Therefore, success for these operators is linked to mental satisfaction, something that cannot be captured easily using financial ratios. Abban asked graduates to select three out of five indicators of success while also giving them an option to add their own perception of success. In the end, however, the usual indicators were chosen by these operators. Viewed in descending order of magnitude, most of the operators selected increase in the number of customers, business expansion, and profit, ability to satisfy personal and family responsibilities as indicators of success. Abban’s view of

measuring success has taken the subject a step further because it, at least, allowed operators to speak success themselves. However, the analysis of enterprise performance was based on only two indicators: number of customers and level of profit.

Various studies have used different indicators of success depending on the ease of obtaining data and research objectives. As indicated above, the safest way is to use as comprehensive indicators of success as possible. This study strives towards measuring success using various indicators. However success in the informal sector can also be analyzed by looking into the diversity and dynamics of these businesses over time and this is discussed below.

2.2.1 Survivalist versus growth oriented microenterprises

A number of studies have been trying to disaggregate the informal sector either qualitatively or quantitatively. The driving force behind such studies is the recognition of the heterogeneity of the sector and support for a specific group within the sector. Usually, scholars recommend support for high growth or growth-oriented firms as these businesses are assumed to be engines of growth (Liedholm, 2002). There are also studies that advocate support for the survivalist groups motivated by poverty alleviation orientations (e.g. Berner et al., 2008). In both ways, however, the method has the advantage of enlightening success studies as there are heterogeneous groups of operators with various motives and various backgrounds.

House (1984), in a study of the informal sector in Kenya, de-coupled the informal sector using income and productivity as criteria. The study compared *per capita* income of the informal sector operator with the national average and classified informal sector into three categories. The first group was named the “dynamic” sector as this group earned more than the national average in income per capita. The research used another benchmark to further decouple the informal sector: it used the national minimum salary scale and compared it against income of the informal sector operators. An operator was classified under the “intermediate” group if their income was between the minimum national salary and average national per capita income. The third group was called the “traditional” sector and, for this group, income was less than the minimum national salary scale. House called the “dynamic” group the most suc-

cessful operators. The study also measured productivity for each of these groups and observed that the dynamic sector was the most productive sector while the traditional sector was least productive. Income and productivity was the explicit indicator of success used. The dynamic sector was characterized as a highly productive and better income group while traditional sector operators were wage earners or low income groups in the informal sector.

Berner et al. (2008), in a study of the logic of survival entrepreneurs, distinguish the informal sector qualitatively in to two as 'survivalist' and 'growth oriented'. The distinction was based on several grounds (as explained in Table 1, below, but the critical factor was start-up motivation. They explain that survivalist entrepreneurs start businesses due to lack of alternatives while the growth oriented entrepreneurs possess an entrepreneurial vision and that such a difference in motivation is a key variable in business success. According to their findings, survivalist entrepreneurs show fewer tendencies to accumulate capital; instead they want to even consumption and strengthen security. Survivalists prefer diversification rather than specialization and vertical growth.

One can ask why survivalists deviate from rational economic decision making; the so-called 'profit maximization'. Berner et al. (2008), forward an explanation for such irrational decision making behaviour by survivalists. They note:

Conventional economic theory states that entrepreneurs are supposed to take risks, specialize, maximize profits, accumulate and do everything necessary to make their business grow. However, the survival entrepreneurs we met on our slum walk seem to obey a very different form of logic, preferring to minimize any risk that would jeopardize their household's survival. This means diversifying their economic activities in order to cushion income loss from any one source. They are also prevented from capital accumulation by reciprocal obligations which, in the case of success, make them subject to claims by less fortunate relatives, neighbours and friends. The result of these factors is that entrepreneurs often face insurmountable barriers to growth and graduation out of poverty. Priority for security and obligation to share are essentially cultural values; but not specific to any place or ethnic/religious group. They are fundamental elements of a universal 'culture of poverty' (very different from the one put forward by Oscar Lewis) that determines the activities of a large majority of entrepreneurs anywhere in the world (Berner et al. 2008:3).

The implication behind explanations such as this one is that success in the informal sector should be studied with caution. For some operators (survivalists for example), conventional success indicators such as profit may not be a plausible measure of success as these operators are not profit oriented. Therefore, success studies should disintegrate the informal sector before embarking on determinants of success. The conventional financial ratios such as turnover or profit could help as success indicators for growth-oriented firms. This is because growth oriented operators have profit motives and are also entrepreneurs by choice. However, within the growth oriented enterprises there are differences in performance as businesses vary by internal, external, environmental and other characteristics.

Table 2.1
Survivalist versus growth oriented microenterprises

Attributes	Informal sector	
	Survivalist	Growth oriented
Degree of informality	High	High proportion of sales undeclared and workers unregistered
Type of activity	Street vending, daily labourer and subsistence works	Small manufacturers, service distributors and contractors.
Start-up motivation	Lack of alternative	Entrepreneurial vision
Entrepreneurial motive	Involuntary entrepreneur	Entrepreneur by choice
Risk taking	Security and smoothening consumption; less tendency to take risks	Willing to take risk
Owner profile	Poor, low education, low level of skill	Poor and non-poor, Relatively high skill, profit oriented
Markets	Low barriers to entry, highly competitive, high product homogeneity	Highly competitive, some linkages with formal firms, some product differentiation
Finance needs	Working capital	Working capital, some investment capital and supplier credit.
Other needs	Personal insurance, social protection	Personal and perhaps business insurance.

Source: Adapted from various authors

Looking at Table 2.1 above, there are several policy and academic implications that could derive from such a classification. First, NGOs and support agencies should be aware of the diversity and strive to avoid “one jacket fits all” policy interventions. Second, that success studies should recognize such diversity while setting up indicators. Kanothi (2009) in a study of dynamics of entrepreneurship in ICT in Kenya, used a microenterprise scorecard to distinguish survivalist from growth oriented enterprises. The scorecard was developed based on a set of questions which the operators answered. A given threshold or score served as the dividing line between survivalists and growth oriented enterprises. The score of 10 points was used as a dividing line between growth oriented and survivalist entrepreneurs in Kenyan ICT. The advantage of such a method is that a combination of factors will help to decide whether the entrepreneur is growth oriented or survivalist. Moreover, one can attach various weights to each question in the questionnaire based on theory, to yield a sound and logical categorization of the informal sector.

A more explicit definition on the subject has been forwarded by Goedhuys and Sleuwaegen (2009) in their study of high-growth entrepreneurial firms in Africa. The definition of high-growth firms was defined using employment growth indicators. The researchers used a minimum average annual growth rate of 10 percent over a three year period to call a firm ‘high-growth’ in the case of Africa. To take account of firm size, the authors adopted Eurostat-OECD *Manual on Business Demography Statistics* (2007) and further modified the definition of high-growth firms as firms employing a minimum of 5 workers at the initial year of the three year period. Age of the business was also taken into account to control for the effect of age on growth. Thus, the authors defined “Gazelles”/ high-growth firms using the following three criteria: >10 percent annual growth rate, over the period of three years, > 5 employees at the initial year, a business with a minimum of 5 years of age.

The inclusion of age and size was to control for the effect of age and size on firm growth. Using this definition, Goedhuys and Sleuwaegen found that about 205 out of 947 entrepreneurial firms were high-growth firms for the 11 African countries studied. A quantile regression approach was used to identify determinants of success on these high-growth firms. The advantage of a quantile regression is that it allows for

analyzing factors that tend to generate high-growth firms. This is because unlike the OLS, quantile regression allows for the more general distribution of firm growth, not just distribution about the mean. In other words, quintile regression tells us what characteristics of a firm are associated with survivalist and growth-oriented businesses in a given sample containing both kinds of businesses. Another advantage of quintile regression is that it remedies the concern of determining the cutting point to categorize a firm as survival or growth-oriented since the method regresses dependent variables over explanatory ones at various deciles or percentiles or quintiles; and not just survivalist versus growth oriented.

2.2.2 Graduation a success indicator?

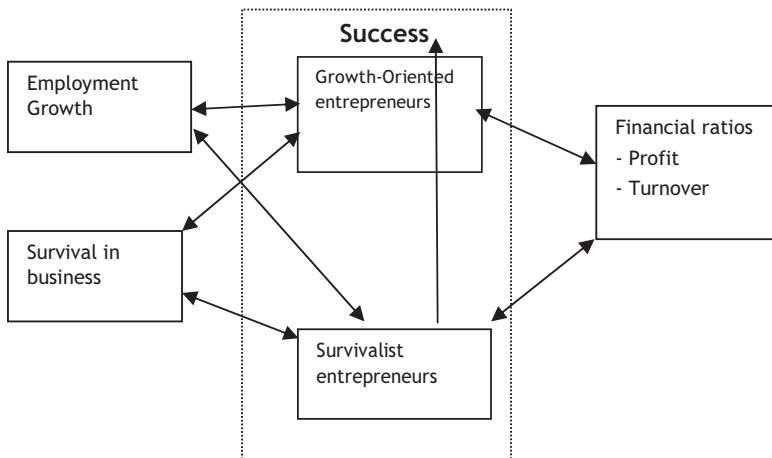
If one disaggregates the informal sector as a growth-oriented versus survivalist and measures success for each category depending on the socio-economic context of entrepreneurs, the next question will be whether there are growth-oriented entrepreneurs graduates from survivalist groups. This question provokes issues such as: is growth-orientation a stage that can be reached by survivalist operators or both categories are distinct groups of entrepreneurs that coexist in the informal sector? Researches on this front are generally of pessimistic. In this regard, from the surveys across Southern Africa, Rogerson (2001) notes:

A striking finding is that less than 1% of firms will 'graduate' from the microenterprise seedbed and become established enterprises which employ more than 10 workers.

The argument is based on the finding that survivalist entrepreneurs choose to diversify their income than capital accumulation and vertical growth (Rogerson 2001). Mead and Liedholm (1998), in a study of small firm dynamics in sub-Saharan Africa noted that graduation exists but only for few firms. According to the researchers, a firm with a higher tendency to hire labour is assumed to have a better growth potential and graduation is understood as a process of moving from a certain category of labour size to the next higher category. For example, if a microenterprise hires up to five employees this year, a firm will graduate to small-scale if it hires beyond this size threshold in the next year. Mead and Liedholm (1998) found that about 4 percent of microenterprises have graduated to the upper threshold in five sub-Saharan countries studied for the sample year.

Although graduation is possible but rare, studies seem to have ignored this rare group which graduated to the upper threshold. Policy makers and international donors advocate support for microenterprises with higher growth potential to alleviate poverty or as small business support although this view has challengers (Berner et al., 2008). However, the question is why this rare group graduate from survivalist to growth oriented or from microenterprise category to the small-scale one? In developing countries like Ethiopia, where entrepreneurship generally starts involuntarily, this question deserves greater attention. In these countries, unlike entrepreneurs in advanced nations who deliberately choose to start a business by, for example, conducting feasibility study, entrepreneurship starts involuntarily and largely as a means of subsistence, as argued by Rogerson, (2001). However, as discussed above, few entrepreneurs graduate to the upper group making the dynamics possible. The question then is why do these entrepreneurs graduate to the upper level when others stay as survivalists? While dealing with microenterprise success determinants, this study tries to answer this important question.

Figure 2.1
Indicators of success in the urban informal sector



Source: Own compilation from various studies

The summary of literature on disaggregating the informal sector, graduation from microenterprise level to small scale or survivalist to growth-oriented and summary of success indicators yields the diagram above. From Figure 2.1 above, operationalization of success is based on two dimensions: the first one being defining success itself. This is based on the review of literature discussed above and, this study adopts the same logic to disaggregate informal sector as survivalist and growth-oriented entrepreneurs (Table 1). Although scholars contend that graduation from survivalist to a growth-oriented category should be viewed more as an exception, success generally moves upward and this is indicated by the upward arrow. From the growth oriented entrepreneurs success again means attaining the next higher category or beyond and, that is why the arrow crosses the growth-oriented group.

The second dimension looks at what kind of success indicator to use for each category of entrepreneurs. This is also based on the extant literature review related to the subject. Some studies (e.g., Kanothi, 2009) argue for further disaggregation while discussing success in the informal sector. The author distinguishes survivalist entrepreneurs based on revenue enough to sustain a living. Thus, according to Kanothi, a survivalist entrepreneur can be called successful if she/he is able to earn an amount that is enough to sustain a living, measured by the amount enough to meet basic needs. Further operationalization requires comparing revenue from such businesses with the expenditure on basic needs such as food, shelter and clothing. Another method could be to compare revenues with standard poverty measures such as one dollar per day at purchasing power parity (PPP). Although such a classification is within the scope of this study (as we ask turnover for both groups), the main emphasis is to analyze determinants of growing versus survivalist entrepreneurs and thereby understanding success in the informal sector. Therefore, both financial ratios and other indicators of success will be employed for the purpose of this study as explained in Figure 1, above.

Liedholm and Mead (1993) distinguished between growing and non-growing small enterprises using employment growth as an indicator of performance. According to the authors, non-growing entrepreneurs are classified as survivalists because growth is assumed to be largely manifest through increase in employment size of the firm. The most striking finding was that, although the majority of small enterprises in countries studied (Botswana, Zimbabwe, Swaziland, Malawi and Lesotho) were non-

growing, net employment creation was positive and significant. The question is: where does such an expansion come from if the majority of enterprises are non-growing? The research found that the small, but growing, firms have contributed to the net expansion of employment in these countries. Although growing firms were small in proportion, they expanded at a rate of 40% to 48% (Liedholm and Mead, 1993). Such a rapid rate of growth of growing firms has more than compensated the stagnant and non-growing firms. The point is that, even if the size and proportion of growth oriented firms are small in developing countries, their contribution in terms of, for example, employment creation is a significant one. These findings provoked researches on determinants of small enterprise success by the same authors and others (Mead and Liedholm, 1998; McPherson, 1995, 1996; Liedholm, 2002). This study has similar motives but, it is induced largely by the nature of informal sector and successful businesses in Addis Ababa, Ethiopia.

2.3 Characterizing Microenterprises in the Urban Informal Sector

Many of the small business success studies emphasize success factors without first characterizing the nature of enterprises in their analysis. This study argues that many of the success factors are related to the characteristics that the informal sector operator exhibits and therefore the study of such a characteristic will provide a better insight into understand success factors in the country under study. For example, in developing countries like Ethiopia, microenterprises in the urban informal sector are predominantly owned and run by rural-urban migrants (CSA, 2003). Migration status influences business motivation, which is an important variable for entrepreneurial success. For migrants, their business is the only means they have to survive in the city. Unlike natives, who otherwise have some other options, migrants work with energy, determination and courage, all leading to success. However, migration status may adversely influence risk-taking, at least, at the initial stage as migrants strive to make a living first of all. Migration status is therefore expected to influence business success directly/indirectly through influencing motivation and risk-taking. Previous studies on the informal sector and migration focus on whether migration status determines the probability of engaging in the urban informal sector (Banerjee, 1984). This study investigates whether migration status has a significant impact on

microenterprise success. This study includes migration status as a socio-economic background influencing success from the individual dimension. Other individual dimensions such as personality traits, competence and growth motivations will be discussed in the later section. Understanding success in the Ethiopian urban informal sector therefore calls for the investigation of rural-urban migration and the informal sector. The following section therefore reviews the literature related to migration and the informal sector.

2.3.1 Rural-urban migration and the informal sector nexus

Many of the researches on migration and the urban informal sector date back to the industrialization era where cities were growing rapidly and attracting rural labour. A rural surplus labour with a zero marginal productivity tends to migrate to a city to look for a better employment and to make a better living (Harris and Todaro, 1970). In the past, the faster growing industries of the west during industrialization era have successfully absorbed the surplus rural labour. However, in countries trying to industrialize, there are numerous problems such as lack of capital, skill and rapid population growth rates posing challenges to governments. Industrialization in many developing countries started with imported foreign capital. Such an externally derived industrialization strategy led these countries to become dependent on foreign imports for their spare parts and skill. In many developing countries, imports of foreign machines and spare parts are eroding their foreign reserves. Since industrial growth is not endogenous, the capability of this sector to create more jobs is very limited in these countries. Given these problems, incorporating the urban informal sector, which mainly consists of microenterprises, in the development agenda of these countries, has become a crucial issue now. Not only is the problem forcing developing countries to give attention to the sector, but also is its significance or importance being noticed. When the macro variables fail, the micro variables serve as another source of growth. In fact, activities in the urban informal sector are endogenous and use labour-intensive methods of production. These issues could explain the importance of urban informal sector (UIS) development in currently urbanizing countries like Ethiopia.

Classical migration models such as the one by Harris and Todaro (1970), give three motives for migration, specifically: the rural-urban real wage gap, the urban employment rate and the responsiveness of mi-

grants to economic opportunities in urban areas. The rural out-migrant is tempted by a comparatively higher expected wage rate in urban areas. He/she migrates to urban areas in the hope of securing a formal sector job as soon as possible. In the mean time the urban informal sector provides the migrant the necessary funds to buy primary economic goods and to start-up an urban based search for a formal sector job.

The time spend working does not hinder the formal urban job search. In the first place, the model, implicitly assumes that generalized information, which only gives a summarized picture of the labor market, motivates migrants to move to urban areas. In the second place, it assumes that specific information regarding particular job opportunities is only obtained through stay in the urban area. Finally, these classical models assume that the UIS serves as a temporary employment opportunity (Harris and Todaro, 1970).

Banerjee (1984) criticizes the model by Harris and Todaro, asserting it does not adequately describe the migration process. In contrast to the above model, he views the urban labour market as segmented. He distinguishes between the urban formal sector and the rural informal sector, but does not see the informal sector as a stagnant and unproductive sector. In that view, it is economically rational for a low skilled worker to migrate to the informal sector without giving much attention to either formal sector employment opportunities or the relatively higher formal sector wages. Put differently, these rural to urban migrants are not blinded by formal sector amenities, because they are fully aware of their potential and the limited opportunities in the formal sector.

The informal sector provides job opportunities, which are on their own enough to attract agricultural workers, who work under harsh and uncertain conditions given their heavy dependence on rain. Although formal sector employment is likely to be preferred, informal sector employment is a more likely and practical alternative in the eyes of the low skilled migrant because it provides the badly needed income even if the income is irregular and secondary labour conditions are below every standard. According to Banerjee, only a relatively small number of unskilled migrants are directly absorbed in the formal sector. This minority of migrants is lucky enough to be at the right place at the right time or has the right urban contacts, who informed them of the vacancies.

Lewis (1954) emphasizes the role of the abundant rural labour as less productive and how it keeps the urban wage rate at a subsistence level

through migration. For Lewis, such a low wage rate increases industrial profits, leading to economic growth. Lewis' model predicts that through an urban biased development strategy (industrialisation), underemployment can be significantly reduced.

The dual-trade model by Alhuwalia (2005) also distinguishes the migrants as unskilled and skilled. For the model, unskilled laborers migrate to urban areas in response to higher informal sector wage rates. The skilled laborers migrate to cities in response to new job opportunities in the formal sector. This model emphasizes the important role that business deregulation and acceptance of the informal sector have on increasing the consumer welfare by providing cheaper goods to the upper and lower end of the consumer market.

In general, the function of the informal sector, rural urban migration and effects of government intervention based on different models as summarized by Alhuwalia (2005) are described below. As indicated in Table 2.2 below, the model by Gupta (1993) comes up with the explanation based on Indian data that capital subsidy was found to have a negative impact on the welfare of the society, while price subsidy was found to have a positive impact. In that analysis he found that if an additional capital subsidy is given to the informal sector, the price of the informal sector's product falls and the informal sector's wage rate and unemployment rises, leading to the overall downward effect to the welfare. Nevertheless, the importance of credit to microenterprises is being advocated all over the developing world. This supports the argument that intervention in the UIS needs country knowledge of the characteristics of enterprises.

On defining determinants of the probability of being engaged in the urban informal sector, some studies, e.g. Carmen (2003), make use of binary choice models, where the dependent variables are multinomial dummy (formal or informal modern and informal wage earner) and the covariates are a number of socioeconomic variables adopted from various studies or country cases. They usually use logistic regression models such as multinomial logistic regressions to estimate the variables of interest. The estimates of the exponential coefficients yield the degree by which informality is associated with the variable in the regression. In most of the countries for which regression was done with this model, migration status was found to be significant determinant of involvement in the urban informal sector, supporting earlier studies (Carmen, 2003).

Table 2.2
An overview of the migration models

Characteristic Development models	Function of the informal sector	Function of rural to urban migration	Effects of governmental intervention on consumer welfare
Two sector, Lewis model (1954)	The informal sector implicitly provides low productivity jobs to the residual labour force (=the underemployed).	It provides an unlimited supply of surplus rural labour, which can be efficiently utilized in the manufacturing sector. The production capacity of the economy expands.	Policies that stimulate industrialization in combination with migration enlarge the production capacity and consumer welfare.
Two sector, Todaro model (1970)	The informal sector implicitly provides low productivity jobs to the residual labour force (the underemployed).	The Harris-Todaro migration, which equilibrates expected wage differentials. Migration reduces agricultural output and increases urban unemployment, thereby shrinking the production capacity.	Policies that restrict migration directly and or through limited wage-subsidies increase consumer welfare.
Three sector, Gupta model (1993)	Segmented urban labour market. The informal sector provides intermediary goods to the formal sector. - the relationship is based on subcontracting	A Harris-Todaro type of migration, which equilibrates expected wage differentials.	A capital subsidy to the informal sector has a negative effect on consumer welfare, while a price subsidy has a positive effect.
Two sector, Dual Trade model	Segmented labour market and consumer market. The informal market mostly produces unskilled labour intensive consumer goods but also skilled intensive goods. - the relationship between the formal and informal sector is based on competition	(1)Unskilled labourers migrating to work in the informal sector in response to a higher informal unskilled wage, (2) skilled workers from rural areas migrating to work in the formal sector in response to new job opportunities in this sector. Migration makes further specialization in both sectors possible.	Due to policies regarding business deregulation and the acceptance of the informal sector further specialization in both sectors is made possible; this increases consumer welfare by providing cheaper goods to the upper and lower end of the consumer market.

Source: Adopted from Alhuwalia (2005)

2.3.2 Why do people join UIS?

Although rural-urban migration can still be counted as a cause for expansion of UIS, in many countries, other factors are being listed especially in recent times. The economic downturn, borderless trade and globalization can be mentioned as some of these factors. Liedholm (2002), for example describes a rapid expansion of microenterprises when macroeconomic performances are weak in Africa and Latin America. The sector, however, contracts when these economies perform better indicating that the size of UIS is the result of how well the economy is performing at macro level. Van Dijk (1996) describes how globalization adversely affects the livelihood of small enterprise workers such as tailors when second-hand clothes were dumped in Ouagadougou thereby pushing away many microenterprises such as tailors from joining the formal sector.

2.3.3 How do people join UIS?

This involves analysis of the push versus the pull factor. Unlike entrepreneurship in advanced countries where entrepreneurs join businesses largely for profit motives, entrepreneurship in developing countries is driven by other goals such as life sustenance (Rogerson, 2001). Entrepreneurship researchers that emphasize on new venture creation in advanced nations are concerned with start-up successes than actual business outcomes. For example, Gelderen et al. (2006) in their analysis of success and risk factors in the pre-start-up phase using a sample of 517 nascent Dutch entrepreneurs found that perceived risks of the market is a significant determinant of start-up success. The researchers also found intended start-up capital and characteristics of intended organization affect new venture success. According to them push motivations together with high ambitions deter start-up efforts. As argued above, new venture creation in developing countries is less likely driven by perceived factors ahead of start-up. The push and pull factors work together and force entrepreneurs towards venture creation. Other factors such as personality traits, business characteristics and environmental factors may come into play after the business has started.

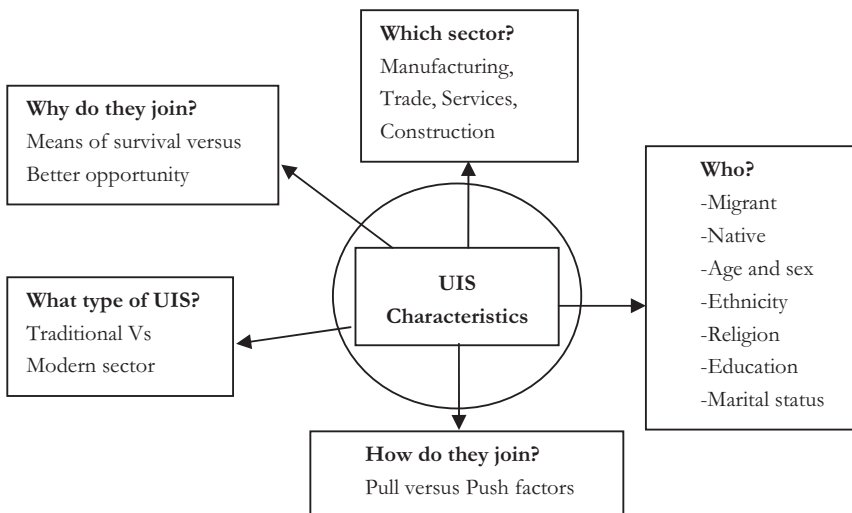
Some empirical studies conducted in Malaysia (e.g. Zaki et al., 2006) emphasize the role of spiritual factors and self development followed by wealth and search for better opportunity as factors driving entrepreneurship and success. A factor analysis was used to filter out from among

several variables that influence entrepreneurship. Spiritual factors and self development seem to significantly influence entrepreneurship in Malaysia.

Fransen and Van Dijk (2008) in a study of informality in Addis Ababa describe two forms of informality: exclusionary and voluntary. According to the scholars, exclusionary informality is the kind of informality that arises due to exclusion by institutions that force firms or small businesses to become involuntarily informal. They argue that these kinds of firms are usually survival oriented and need policy interventions with a poverty alleviation orientation. Voluntary informality is associated with deliberate stay in the informal sector mainly to escape from government bureaucracies and other regulations. It is a kind of informality by choice.

Incorporating these views, an investigation tree for the role of urban informal sector can be drawn as shown in the following diagram (Figure 2) below. A research requiring answers to the questions posed in the boxes would yield a clear understanding of the characteristics of UIS in a country under study, which is also the main task of this study.

Figure 2.2
Characterization of UIS based on literature review



Source: Compiled by author from various studies

2.4 Determinants of Microenterprise Success

As described in the introduction part, this section gives emphasis to three dimensions that influence microenterprise success: the individual dimension, the business dimension and external factors with special emphasis to networks and enabling business environment.

2.4.1 Individual Dimension

Small business success studies are largely biased towards the macro aspects of factors such as structural, finances and enabling business environments than just the individual entrepreneur while dealing with entrepreneurial performance (Johnson, 1990). However, the growth of a firm is, to a certain extent, a matter of decisions made by individual operators. This is very much pronounced for microenterprises that are run by owner-managers. Previous studies indicate that personality traits, motivation, individual competencies and personal background are important factors for the success of micro and small enterprises (Baum et al., 2001; Shane et al., 2003).

2.4.1.1 Personality Traits

Studies related to psychological factors of business success for developing country firms are very scarce (Nichter and Goldmark, 2009). Most of the macro based studies have tended to assume entrepreneurs with similar experiences and demographic characteristics. However, none of these factors alone can create a new venture or drive success (Baum et al., 2001). Accordingly, personality traits play a key role in driving ventures towards success.

The 'big five' model advocated for by Johnson (1990) is widely used as a robust indicator of personality traits. These big five factors that are generally agreed as personality traits or characteristics include: extraversion, emotional stability, agreeableness, conscientiousness and openness to experience. Based on the big five model, researchers have further classified entrepreneurial personality traits in to five categories: need for achievement, locus of control, motivation, risk-taking propensity, and self-efficacy. These traits are important psychological factors that would influence the success of microenterprises (Johnson, 1990).

A. Need for achievement

McClelland (1965) who asserts key entrepreneurial behaviour seems to lie in achievement motivation explains that a person endowed with high degree of a need to achieve always strives to do a better and quality job, is determined to grow and finally, will succeed.

However, McClelland's achievement theory is criticized for not directly connecting need for achievement with decision to own and manage business (Sexton and Smilor, 1986). Other critics look at economic development with achievement prevalence, implying that entrepreneurs are scarce in economically poor performing countries (Chell et al., 1991).

Some empirical studies lend support to McClelland's motivation theory that entrepreneurs possess a better need for achievement than non-entrepreneurs (Begley, 1995). The study conducted by Begley (1995) found that achievement motivation is more prevalent among entrepreneurs than non-entrepreneurs. The implication from this study is that there might be a positive relationship between need for achievement and small enterprise success.

Johnson (1990) summarizes various studies on achievement motivations and states that in 20 out of the 23 studies, achievement motivation and entrepreneurial success were positively related. The researcher argues that small business success studies should not ignore the individual because they are assumed to be energizers of entrepreneurial processes. The research suggests that operationalization of need for achievement should vary contextually; but it should consider validity and reliability. Valid and reliable instruments should be designed specifically to measure the operationalized psychological characteristics or motives.

Two new strands of measuring need for achievement have been proposed by Johnson (1990): the MSCS-Form T and the WOFO. The MSCS-Form T, which stands for the Miner Sentence Completion Scale-Form T, is the instrument used to assess motivation to perform a prescribed goal. It is a sentence completion scale comprised of subscales. The MSCS-Form T was introduced after the work of Miner (1982). The essence of this approach is that an individual must possess motivation to accomplish a role requirement of a given profession to be successful within the system.

The WOFO approach, which stands for Work and Family Orientation, treats achievement as a multidimensional construct. According to

Johnson, WOFO contains three sub-scales: Mastery needs, Work orientation and Interpersonal competitiveness. Each of these sub-scales focuses on different dimensions of entrepreneurial efforts. Thus, WOFO provides a more comprehensive and multidimensional view as related to entrepreneurial success. This study uses WOFO's approach of measuring need for achievement to understand success in multidimensional way.

B. Locus of control

Locus of control is the extent to which an individual believes that his/her actions can influence external/structural factors (Shane et al., 2003). It is the self-confidence of the person to think that his/her actions can significantly impact on external factors. If the individual has such confidence, then she/he is said to have an internal locus of control. On the other hand, if the person thinks that his/her actions cannot influence structural factors, then she/he is said to have an external locus of control because she/he thinks that outcomes (including business outcomes) are decided by external factors which he/she thinks are outside of his/her control. Individuals with an internal locus of control are dubbed 'entrepreneurs' (Shane et al., 2003). If an individual has an internal locus of control, she/he not only dares to open a venture but also, strives to grow since the person thinks that she can change the outside world. Thus, according to Shane et al. (2003), success is positively related with internal locus of control.

C. Risk-taking propensity

Risk-taking propensity is an important trait of the entrepreneur especially in Africa where entrepreneurs face uncertainties with regard to prices, demand, reliability of infrastructure and corruption (Bigsten and Söderbom, 2005). Empirical studies have shown a positive and significant relationship between risk-taking propensity of an entrepreneur and business success (e.g. Casser, 2007). Entrepreneurs with such a trait are not afraid to take risks even under uncertain conditions. Thus, they tend to invest in their businesses and strive to grow by taking risks. On the other hand, risk-averse entrepreneurs choose a conservative strategy mix which has a downward impact on profitability because these entrepreneurs fail to respond to uncertain future demands (Patillo and Söderbom, 2001). As entrepreneurs perceive risks differently and encounter various kinds of risks, measuring risk-taking propensity has been a diffi-

cult task (Corman et al., 1988). However, Corman et al. (1998) pose a direct question whether, for example, entrepreneurs tend to take risks or, whether the entrepreneur likes gambling as a measure of his/her risk-taking propensity. The inference that can be drawn from these studies is that, risk-taking propensity is positively and significantly related to business success or growth. This happens largely through investment in the firm.

D. Self-efficacy

Self-efficacy refers to the ability of the entrepreneur to coordinate, combine and organize skills, resources and his/her competencies to attain a certain level of achievement on a certain task (Bandura, 1997). It is the belief in one's ability to muster and implement the task. It thus involves making good strategic choices, openness to new ideas, setting up goals and working according to those goals. It also entails determination to lead implementation of new ideas, and launching new products or services. According to Shane et al. (2003) an individual with high self-efficacy for a given task will exert more effort for a longer time, persist through setbacks and design better plans and strategies for the task accomplishment. They argue that entrepreneurs with high self-efficacy have the ability to change negative feedback to positive feedback as well as productive purposes which would ultimately benefit the firm.

Baum (1994) in a study of the architectural woodworking industry in US assessed determinants of firm growth from various dimensions such as general motives, specific skills and competencies of the entrepreneurs, situation specific motivation, vision and strategies of the business. From the study, self-efficacy was the single most important predictor of firm growth, among all other traits. Self-efficacy was measured by the determination of the entrepreneur to grow the company.

2.4.1.2 Growth Motivation

Empirical studies contend that personality traits are reflected in individual motives to grow and hence these studies opt to use growth motivation as a key indicator of individual attribute in the firm success studies (Wiklund et al., 2007). Unlike large firms, strategic decision making for microenterprise firms regarding the allocation of scarce resources falls on the shoulders of the entrepreneur as owner-manager. For large firms, decision making falls on administrative managers and not on sharehold-

ers. The decision by the manager may or may not coincide with interests of the shareholders. For small firms, entire decision making falls on the entrepreneur. Thus, growth motivation plays a more important role in business growth for small firms than large firms (Glancey, 1998).

Nevertheless, the question is: how does growth motivation affect business growth? The answer to this question goes beyond the mere rationality assumptions of neo-classical economic theory and demands inter-disciplinary explanations from literature. The rationality assumption asserts that individuals pursue profit maximization goals and hence, business decision making is oriented towards meeting this goal. However, as indicated earlier, decision making may be driven by non-profit maximization motives such as “being your own boss”. In this case, even if the firm shows some tendency to grow, it will hardly move beyond a size manageable by the entrepreneur. A bigger firm size means that entrepreneurs need to delegate managers so that decisions will be made, not only by the entrepreneur, but also by delegated managers. Growth oriented entrepreneurs will decide to delegate and grow their businesses as they are driven by pecuniary rather than lifestyle demands. However, if the motive is based on non-pecuniary interests such as “being your own boss” entrepreneurs will be reluctant to delegate management decisions. This tends to keep the firm size smaller (Glancey, 1998).

In an attempt to analyze growth motivation versus firm growth, Glancey (1998), suggested investigation of relationships between asset growth and employment growth. Implicit in the analysis is that growth motivation is reflected by the entrepreneur’s action on employment than financial ratios. If a positive relationship is observed between employment growth and asset growth, then the entrepreneur tends to grow and delegate decisions. On the other hand, if asset growth is not accompanied by employment growth, the entrepreneur lacks growth motivation.

2.4.1.3 Individual Competencies

Baum et al. (2001) define individual competencies as the knowledge, skills and abilities required to perform a given task. Martin and Staines (1994) assign individual competencies into two categories namely, general competence and specific competence. General competence refers largely to management competence and includes the individual’s oral presentation skills, decision making ability, conceptualization ability and use of power; while specific competence involves technical and industry

skills. Martine and Staines (1994) conducted a factor analysis based on opinions of owners and managers to identify which of the two competences is more important for small enterprise success and found that for small business owners, technical competence was a more important factor than managerial competence. However, for managers it was the reverse. According to the authors, successful industry experience was the second most important competence cited by both owners and managers. While both competencies are important factors for firm growth, recent empirical evidence shows that technical competences are more important determinants (Baum et al., 2001).

2.4.1.4 Personal background

Owing to the difficulty of measuring personality traits, many of the small business success studies emphasize analysis of individual characteristics such as age, gender, education and experience of the entrepreneur. This study argues that both personality traits and personal background are important in influencing microenterprise performance. Age of the entrepreneur is among the most discussed determinants of entrepreneurial success. It has been argued that younger entrepreneurs possess a higher growth ambition compared to older entrepreneurs and that growth ambition drives success (Welter, 2001). The author argues that younger entrepreneurs are energetic, determined and willing to test their abilities and hence possess greater growth goals compared to older entrepreneurs. Similarly, Cortes et al. (1987) argue that although older entrepreneurs are likely to be more experienced than younger ones, they may also be less inclined to grow their firms. This leads to the hypothesis that age of the entrepreneur is negatively related to success.

Mead and Liedholm (1998) argue that gender of the proprietor may influence business success in many ways. First, MSEs headed by women are largely run from home as they have to bear other household responsibilities. Home-based MSEs tend to be overlooked and therefore face either demand problems or may not be visible to support agencies. Secondly, Mead and Liedholm (1998) argue that, women entrepreneurs are involved in a narrow range of activities that yield low profit. In their analysis on selected five African countries, they found that female operators were less likely to survive compared to their male counterparts. However, the difference was nullified when business failure was taken into account as a factor explaining closure. The authors observed that

women entrepreneurs closed their business not because their businesses failed, but largely due to other household responsibilities. Taking this into account, they found no significant difference between male and female entrepreneurs in terms of closure rates. McPherson (1996) argues that since, traditionally, female generated funds are used to cover family's basic needs; female entrepreneurs tend to avoid taking risks that may help firm expansion. Although some studies (Welter, 2001), contend that male entrepreneurs possess better growth ambitions than female entrepreneurs, the effect of gender on small enterprise growth is still ambiguous as other studies counter argue that female entrepreneurs do not underperform male entrepreneurs (DuReitz and Henrekson, 2000).

Schooling is another important personal background that influences small enterprise performance. Bates (1990) found that educational level of the proprietor is positively and significantly related to the firm's longevity, which is an indicator of success. Education helps entrepreneurs make good judgments, best use of information, exploit opportunities well; all leading to firm growth and success. Although this is the case, the impact of education on entrepreneurship selection is ambiguous. Goedhuys and Sleuwagen (2000), argue that higher education not only raises enterprise performance, but also increases outside options such as wage employment. The authors found that, for Côte d'Ivoire, lower education and vocational training significantly influenced the likelihood of being entrepreneurs rather than wage employees. Higher education was found to influence post-entry firm growth.

On-job training and industry experience are also advocated to be important factors in venture success (Campbell, 1992). Campbell argues that on job-training is even more important than formal education in that such training not only familiarizes entrepreneurs with processes and organizational functions but also establishes networks with suppliers and buyers. On-job training also boosts adaptation of new techniques as the entrepreneur gets exposure to recent technology while on the job. This could help the entrepreneur to apply latest technologies on her/his venture. Dahl and Reichstein, (2007) in a study of the Danish labour market from 1989-2000 noted that, not only was the level of industry experience important but also is the type of spin-off likely to emerge. Spin-offs were defined as firms founded by individuals, which were employed by an incumbent firm in the industry immediately prior to founding the new firm. Dahl and Reichstein found that spin-offs entrepreneurs from sur-

viving parents were more likely to survive and become successful compared to entrepreneurs from exiting parents companies. It has been argued that prior experience in surviving parents facilitates access to knowledge and routines. Thus, the performance of parent firms influences entrepreneurs when they found their new ventures implying not only the effect of industry-experience but also the source of such experience on business success. This implies the importance of the right type of experience than just experience from the industry (Dahl and Reichstein, 2007). Specific industry experience is also an important factor of venture success as entrepreneurs directly apply their previous knowledge, networks, routines and all other resources on their venture after start-ups (Baum et al., 2001).

2.4.2 Organizational Dimension

This part deals with determinants from the business/organization dimension. The study assumes the organizational dimension influences small firm outcomes more directly compared to other determinants. Many of the neo-classical economic theories on firm performance are more focused on this dimension and, especially, on firm attributes. However, this study explores not only firm attributes but also emphasizes other firm specific resources such as human and physical capital; innovation and strategies such as entrepreneurial orientation.

2.4.2.1 Firm attributes

One of the prominent classical theories on firm growth, measured in terms of employment growth, is the theory of supply and demand (Sullivan, 1990). According to this theory, a firm employs labour until the marginal product of labour equals the wage rate. Labour demand can increase due to a technology shock or price shock. An increase in profit due to either a technology or price shock would lead to a higher demand for labour resulting in firm growth. This theory, however, assumes that there is no supply side rigidity. In developing countries, where labour is unskilled, employment growth may not be so responsive to changing demands. Thus, this neo-classical theory of supply and demand largely explains growth of firms in advanced countries.

The theory of supply and demand was later extended by the “stochastic” theory of firm growth advocated first by Gibrat’s (1931) law of pro-

portionate effect. Although this theory is more dynamic than the theory of supply and demand, it posits that firm growth is random. However, this theory was discredited as many empirical studies revealed systematic relationships between firm growth and firm attributes (e.g. Bigsten and Gebreeyesus, 2007).

The stochastic theory of firm growth was disproved by Jovanovic's (1982) "learning model", which contends that efficient firms grow over time and, that these firms only get to know their true efficiency after they start operating. The less efficient ones exit or stagnate. Thus, firms update information about their businesses based on past growth. Jovanovic's learning model asserts that some firm attributes have direct effects on growth. Size and age of a firm is the most explained factor in this regard.

Regarding firm age, the explanation following Jovanovic's learning model is that aged firms tend to predict more accurate estimates of their efficiency and hence grow more slowly. However, for younger firms, the deviation between their prediction and their actual efficiency level might be large leading to more growth of these firms if they discovered that they are efficient. Thus, younger firms tend to grow faster than older ones.

The size-growth relationship following Jovanovic's learning model is based on the economies of scale and minimum average cost arguments. Large firms have already approached long-run minimum average costs or have attained economies of scale where production reached its most efficient level. Further growth for these large firms would imply diseconomies of scale as doing so will lead to a higher average costs. For small firms, however, they are far from the long-run minimum average cost curve. These firms will grow faster until they approach minimum average cost. Thus, the hypothesis that can be drawn from Jovanovic's learning model is that younger and smaller firms will grow faster (Bigsten and Gebreeyesus, 2007).

Packs and Erickson (1987) however, criticized Jovanovic's model for ignoring the human capital variable in the equation. Jovanovic's model assumes that managers learn about their efficiency level, but did not assume that efficiency of managers may change over time. The active learning model of Packs and Erickson thus criticized Jovanovic's passive learning model. The critique lies in the fact that even if human capital of

managers improves over time they will become more efficient and grows faster even if they attain higher sizes.

2.4.2.2 Entrepreneurial orientation (EO)

Wiklund et al. (2007) define EO as a firm's strategic orientation, capturing specific entrepreneurial aspects of decision-making styles, methods and practices. According to the scholars, EO serves not just as a direct determinant of small firm growth, but also helps mediate other dimensions such as environmental factors influencing growth. All that happens in the environment largely influences firms' strategic orientation and such orientation influences growth. The authors contend that EO mediates three perspectives that influence success, namely attitude, resource and environmental perspectives. Therefore, although EO is categorized as a firm dimension, it stands in the middle of individual, firm and environmental dimensions, serving as a mediator affecting small business growth. Studies that focus on indirect impacts of various dimensions emphasize the inclusion of interaction effects between EO and these variables (Covin et al., 2006).

Miller (1983) noted that firms and individuals can be entrepreneurial and characterized EO based on three dimensions: innovation, proactiveness and risk-taking. According to Miller, entrepreneurial orientation involves willingness to take risks, introduce new products or services, innovate in order to take advantage of market, and become more proactive compared to competitors in order to beat them and win in the market competition. Although Lumpkin and Dess (1996) expand dimensions of EO into five categories by adding autonomy and competitive aggressiveness, most of the empirical studies relied on Miller's three dimensions of entrepreneurial orientation (Wiklund et al., 2007). Researchers have also indicated a strong direct relationship between EO and various firm-level outcomes (e.g. Wiklund and Shepherd, 2003).

The overarching debate regarding EO is whether the EO dimensions should be taken concurrently (e.g., Miller, 1983) or separately (e.g., Lumpkin and Dess, 1996). For Miller, a firm is entrepreneurial if it exhibits the intersection of risk taking, innovation and proactive characteristics. A firm that engages in new product formation using new technique cannot be dubbed entrepreneurial if it does not take risks or if it is not proactive. Thus, Miller views EO as a one-dimensional construct because he views the three EO dimensions as components that should

not be treated independently. Multi-items selected and scaled for each dimension come together to measure one variable, EO. Wiklund et al., (2007) measured EO using Miller's (1983) original scale for measuring EO consisting of eight items. Two of these items describe risk taking behaviour, three describe innovativeness and another three describe proactiveness. For Lumpkin and Dess, EO components are viewed independently and hence a multidimensional view of EO is explored using this approach. For these researchers, a firm can be dubbed entrepreneurial if it exhibits high in either of five EO dimensions. The underlying assumption for Lumpkin and Dess (1996) is that EO dimensions may not necessarily be interdependent and should be seen as distinct dimensions of firm behaviour. In an effort to acknowledge and compare both views on EO, Covin et al. (2006) ran regressions for individual sub-dimensions of EO and found that risk-taking and proactiveness have a positive influence on growth; strategic decision making participation negatively moderates the effect of risk-taking and proactiveness on firm sales growth rates; while strategic learning from failure negatively moderates the effect of risk taking and innovation on firm sales growth rates. The authors also found a moderate-to-high correlation between risk taking, proactiveness and innovation; and supported Miller's contentions that EO should be viewed as a one-dimensional construct (Covin et al., 2006). In recognition of both methods, a review of literatures related to three EO dimension is presented.

A. *Innovation strategy*

The role of innovation for entrepreneurial success was first explained by Schumpeter, (1934). Schumpeter emphasizes that innovation leads to the introduction of new goods and services through a new combination of the existing resources. Schumpeter attests that firms that engage in this new method of production will grow. He argues that only firms that engage in innovation activities are dubbed to be entrepreneurial. Lumpkin and Dess (1996) augment Schumpeterian theory but add concepts such as novelty, creative process, experimentation and technological process. They argue that innovativeness represents willingness to depart from old methods of production or service delivery and does not necessarily mean a radical way of change in doing something. Currently studies emphasize on incremental innovation, where innovative activities are assumed to include not only introduction of new methods of production, but also

adoption of new product, process or method that have already been in use in other parts of the world but that are new to the country/firm that adopts the technology (Van Dijk and Sandee, 2002).

The impact of innovation on firm growth and success has rarely been investigated (Gebreyesus, 2009). However, some empirical studies support a positive and significant relationship between innovation and growth. Ernst (2004) contends that innovation helps microenterprises remain competitive, become profitable and succeed in graduating to the higher employment category such as small and medium-scale enterprises. According to him, innovation plays a key role in a highly competitive environment and constitutes an important part of a firm's strategy. Innovative firms will grow and succeed while non-innovative firms will be defeated in a stiff competition that small firms face either from similar or larger firms, especially in the context of Africa.

In an attempt to measure innovation, Gebreyesus (2009), indicated four main innovation activities: product/service innovation, process innovation, organizational and skill improvement and, marketing. Such a classification was within the spirit of incremental innovation advocated by Van Dijk and Sandee (2002). Gebreyesus entered an innovation dummy in the growth regression and obtained a significant and positive relationship between employment growth and innovation for microenterprises in Ethiopia. Thus, a positive relationship between employment growth (an indicator of success) and innovation can be hypothesized.

B. Proactiveness

This concept involves the vision and imagination to get involved in entrepreneurial processes or engage in opportunistic expansion. Lumpkin and Dess (1996) define proactiveness as anticipating and acting on future needs by seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle (planned obsolescence). Thus, proactiveness is about going ahead of competitors in looking for opportunities and, hence, serves as an important EO dimension. Although some studies (e.g., Covin, and Covin, 1990) tend to equate proactiveness with competitive aggressiveness, the difference between these two concepts has been clearly explained by Lumpkin and Dess (1996). According to Lumpkin and Dess, competitive aggressiveness is about responding to

actions of competitors; but proactiveness is about taking the initiative and taking the lead. Miller (1983) operationalized firm-level proactiveness by asking managers about their tendency to lead in the introduction of new methods or techniques of production rather than to follow other firms. Empirical studies (e.g. Covin et al., 2006) revealed a positive relationship between proactiveness and firm sales growth.

C. Risk-taking by the firm

Risk-taking is the concept used to reflect the quality of entrepreneurship as self-employment involves risks, unlike wage employment that provides regular payments. Since earning in the self-employment sector was uncertain, entrepreneurship was discussed from the view point of coping with such uncertain conditions. Operationalization of risk-taking was, however, not yet consolidated, as there are confusions in viewing the concept from the individual and firm level. Miller (1983) argues that at the firm level, risks are taken not by an individual member. Therefore, Miller's operational definition of firm-level risk taking was: firm's proclivity to engage in risky projects and manager's preferences for bold versus cautious acts to achieve firm's objectives. The implication from these arguments is that for microenterprises where owners are managers, the concept of firm-level and individual level risk-taking may overlap. Positive relationships between firm level risk-taking and small enterprise success (as represented by sales growth) were revealed (Covin et al., 2006).

2.4.2.3 Other factors related to the firm

Small enterprise growth could be influenced by factors that affect its supply and demand conditions because these factors have a direct implication on costs and benefits accruing to the business. Accordingly, factors such as location and sector of the business could have a direct influence on profitability, and success of small entrepreneurs.

Liedholm (2002) in a study of small firm dynamics in Africa found that businesses located in commercial districts and on roadsides were positive and statistically significant in influencing enterprise growth rates compared to enterprises located at home, the base category in his regression. McPherson (1995) also found similar results; but his success indicator was hazard rate. According to him, mobile MSEs, roadside locations and market locations were found to show a significant survival advantage

compared to home-based enterprises. McPherson (1996) also revealed similar findings but, this time, success was represented by employment growth. The author points to agglomeration externalities as factors explaining success related to location. Location of the enterprise affects demand conditions and degree of competition. Enterprises located at commercial districts may experience better demand but they could also face stiff competition. A positive relationship between location and success can be expected if enterprises produce complementary products and are located near final demand. However, if imitative products are located together, it will lead to a higher competition and hence very small market share leading to poor performance (Liedholm, 2002). Therefore, success related to location may depend on the net effect of both factors. However, following the above empirical studies, it can be hypothesized that home-based enterprises may perform poorly compared to those in other locations, *ceteris paribus*.

Many empirical studies reveal that microenterprise success varies across sectors (e.g., Liedholm and Mead, 1998; McPherson, 1995, 1996; Liedholm, 2002; Gebreyesus, 2009). For example, Liedholm (2002) found, for selected African countries (Botswana, Kenya, Lesotho, Malawi, Swaziland, and Zimbabwe) that manufacturing and service sector performed significantly better (higher growth rate) compared to trading sector. This could be because enterprises in different sectors face different demands and varying cost structures (Liedholm and Mead 1998). However, some empirical studies (e.g. McPherson, 1995) indicate that country context matters if one wants to know which sector is characterized by a higher growth rate and caution against pooling countries and conducting an aggregate analysis.

2.4.2.4 Formality/informality

Formality/informality is related to business success through its effect on costs and benefits accruing to the business. Hence, in this case more emphasis is given to the legality dimension. Viewed from legality dimension, Nelson and De Bruijn, (2005) define informality as an activity for which there is a legal counterpart, but that does not comply with regulatory systems such as tax, license, certificates and registration of activity. Sleuwaegen and Goedhuys (2002), attest that formality is positively related with success for small firms in Côte d'Ivoire. The explanations forwarded by the authors for an inverse relationship between informality

and firm growth were that of access to infrastructure, access to financial services and subcontracting. Using firm level data from Peru, Jaeckle and Li (2003), found a positive and significant relationship between revenue and registration or licensing indicating that successful firms tend to become formal.

2.4.3 External/Environmental dimension

Another third dimension advocated by small business success studies is the influence of environmental or external factors. In this section emphasis is given to enabling business environments and social networks. These two sub-dimensions are chosen because the study assumes that these are the most relevant external factors influencing small business success from the context of developing countries like Ethiopia.

2.4.3.1 *Enabling business environment*

Many studies emphasize enabling business environment as major factors determining small enterprise success in developing countries (e.g. Sethuraman, 1997; De Soto, 2001). The institutional, regulatory and legal frameworks are in these days the three important pillars shaping business environments (ILO, 2000). According to the ILO (2000) report, institutional frameworks determine effectiveness and efficiency of key business infrastructures such as business development support (BDS), micro-finance institutions, marketing and research and development. A good institutional framework enables access of these services to the needy with minimum cost.

Poor institutions in general, lead to higher transaction costs. ILO (2002) indicates signs of poor/good institutions based on several check-lists: the number of steps/ procedures to obtain a business license and the costs paid for it, enforcement of contracts and access to legal redress, ease of access to information about markets, access to credit facilities, ease of acquisition to land titles/ lease and tax costs to a business. In many developing countries, lack of enabling business environments has hampered the development of the informal sector and kept entrepreneurs mired in the informal sector (Sethuraman, 1997). Therefore according to Sethuraman, poor enabling environments are growth barriers and hence negatively influence success.

More recently, concepts such as inter-firm relations and flexible specialization, clustering and networking are being advocated in many parts of developing countries to boost the development of small and microenterprises (Van Dijk, 1996). Many East Asian economies have implemented and succeeded through this strategy. The idea is, clustering helps firms to reduce costs that they cannot shoulder if they stand alone. Exchange of information and technology diffusion can also take place within these clusters. This helps firms to specialize in technologies with which they are good at. The advantage is that every firm benefits from the formed mutual interactions. Flexible specialization or availability of equipment helps firms to respond to changing demands. When small firms own enough equipment, they can easily respond to whatever demand. This strategy also helps small firms to create linkages with formal firms through intermediate inputs. Many large firms require intermediate inputs for their main operations. Their profit margins largely depend on the price of such intermediate inputs. This implies that efficiency at micro level also determines productivity at the higher macro level. In addition, the dynamics and success of small firms depends on how far demand is created from large firms. If the formal sector is weak, which is a case in many parts of Africa; it is very difficult for these small firms to become dynamic actors. More dynamic and productive firms creating demand for small ones through subcontracting can explain the success in East Asian countries. Nevertheless, the role of national institutions in maintaining harmony among these varying firms is vital. A good institutional environment protects small firms from being exploited by large ones (Van Dijk, 1996, Sethuraman, 1997).

2.4.3.2 Social networks

In many developing countries, including Ethiopia, social links serve either as an enforcement or information device in the UIS. In an attempt to clarify this point, Kristiansen (2004) notes:

Networks are one way in which entrepreneurs reduce transaction costs and risks and improve learning and information-sharing possibilities. In a region where capital markets are rudimentary, financial disclosure limited, and contract law very weak, interpersonal networks are critical to taking risks and moving economic resources. Trust facilitates cooperation between entrepreneurs, which is just as important as competition in achieving efficiency (Kristiansen, 2004:1152).

Societies have their own socially constructed networks which also help them run their businesses even in the absence of interventions such as BDS. In countries with poor regulatory institutions and low capacity to enforce laws, social networks play a much more significant role. Anne (2007), for example, notes the importance of social networks over government driven BDS on several dimensions: BDS or MSE development strategy by default, supports established enterprises with some working capital and requires several procedures which are difficult for the majority of UIS operators such as recent migrants. Nevertheless, social links promote the start-ups and expansion of businesses right from scratch. In many African countries, the informal rotating credit and savings schemes based on ethnicity or region of origin is a vital tool for many migrants in their endeavour to start their businesses or serve as working capital. Annen (2007), notes that social networks are channels through which entrepreneurs secure resources for expanding their businesses. The impact of social networks on entrepreneurial performance is therefore through an indirect way by supplying inputs to the entrepreneur.

To analyze social network from the view point of contributions it makes to entrepreneurial endeavour, Kristiansen (2004), reviewed qualities of social network measures using four different variables: size, intensity, diversity and dynamicity. Network size is the number of relations an entrepreneur has with customers, friends, relatives and others. According to Annen (2001) an increased number of contacts increase the probability of accessing a resource useful for the business. Thus, network size is positively related to enterprise success.

Network intensity refers to the density of network or the strength of ties. Kristiansen contends that higher network intensity increases trust between players thereby simplifying transaction costs. Granovetter (1973), however, argues that larger size of weak ties is important than time consuming intensive networks because the later will expose the entrepreneur to variety of information. Network diversity represents the variety of contacts that the entrepreneur can access at differing social positions (Annen, 2007). The idea behind network diversity is that different networks provide different kinds of information. Thus, a person who involved in various social networks may be better exposed to a variety of useful information than an entrepreneur with a limited network access. Dynamism of network represents the frequency by which new networks are created and older ones abandoned. Johansson (1998) ar-

gues that this quality of network is especially useful for measuring development of knowledge-based firms. The higher the dynamism, the more knowledge is accumulated and, the more firms will become successful.

Regarding the influence of social networks on small enterprise success, studies that focus on multidimensional perspectives (e.g., Wiklund et al., 2007) emphasize the indirect effect of social networks on growth. Networks are treated as resources because they allow access to information and reduce transaction costs. The resource based perspective advocated by these researchers contends that availability of resources will increase risk-taking by the firm, or may lead to innovation, or provokes businesses to take proactive measures. Hence, resources are expected to influence small business growth through EO. Thus, according to Wiklund et al., EO is not only a direct determinant of growth but also, a conduit through which other dimensions influence business success. They argue for the inclusion of EO in the analysis of indirect determinants to better understand small business success.

Iyer and Shapiro (1998) in their study of ethnic entrepreneurial and marketing systems describe the role of social networking based on ethnicity and the role that such a networking has in linking global markets and spreading information to small businesses. The researchers argue that although some ethnic minorities, for example, Koreans in UK, are at a strategic disadvantage in accessing financial resources, the community business workers contribute money weekly or monthly so that a member withdraws cash at regular intervals to invest in his business or starts-up a business. Such a rotating savings scheme, which is common in many developing countries, forms a financial security system for these business people even though the formal systems work against them.

Annen (2007) compares the role of social networks for formal and informal firms in Bolivia and found that social networks affect sales more positively for the unregistered small firms than for registered businesses. The author argues that since informal businesses do not have sufficient legal enforcement devices, the social network helps operators largely as an enforcement device and to avoid problems of moral hazards. Annen (2001) analyzed the role of social capital and the role of inclusion versus exclusion on firm performance. The author found that inclusion, which implies the “strength-of-weak-ties”, was found to affect performance positively. According to the author, although there are trade-offs between gains from trade and inclusiveness of social networks owing to

complexity constraints, the former effect is minimum in a less complex exchange systems. Thus, the effect of gains from inclusive networks outweighs the problem of complexity that could arise due to extending social links in a less complex exchange system (Annen, 2001).

2.5 The Direct and Indirect Effects

In the preceding sections, the study explored determinants of microenterprise success from three dimensions, specifically the individual, the business and the environment. The intention was to maintain multidimensionality as opposed to studies that are driven by perspectives. However, success may not directly come through several of the above hypothesized relationships, although these factors could explain some of the variations in enterprise success. The application of multidimensionality may increase the explanatory power of the model that strives to understand success; but it does not fully explain success because there are also indirect relationships that must be considered (Wiklund et al., 2007).

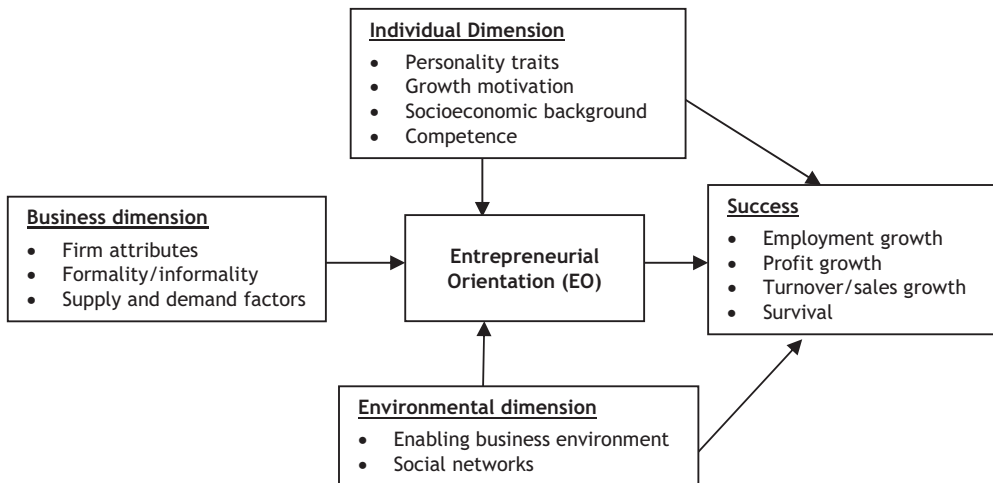
In an attempt to address issues of indirect effects, Lumpkin and Dess (1996) suggest four models through which entrepreneurial orientation influences firm performance: moderation effect, mediation effect, direct effect and interaction effect. Although the models largely rely on organizational structures which are relevant to larger firms, some of the models may be of use in analyzing microenterprise performance. For example, some studies (e.g., McPherson, 1996; Bigsten and Gebreeyesus, 2007) used interaction effect between firm age and size in an effort to explain firm growth. Baum et al. (2001) describes the role of indirect effects using the individual dimension. According to the author, personality traits could influence competencies of the individual and competencies could also influence motivation. Therefore, the effect of these traits on performance need not necessarily be a direct one. By introducing the indirect effect model, the author found a better explanatory model of firm performance.

Following Lumpkin and Dess (1996), several studies have emphasized on the mediating effect and interaction effects of EO and other dimensions. For example, Wiklund et al. (2007) propose indirect effects of various perspectives on firm performance through EO. The authors propose an indirect effect of resources on small business growth and this is mediated by EO. Therefore, according to the authors, entrepreneurial

resources like human capital, financial capital and social networks influence business success mainly indirectly by influencing EO. Their proposition is based on the contention that resources serve as a boosting mechanism towards EO while EO influences business success directly. For example, according to the authors, access to financial capital encourages the pursuit of resource intensive growth strategies thereby allowing the firm to exploit new growth opportunities as there are slumps in output due to resource availability. The authors, however, argue that growth motivation has both direct and indirect impact on small firm growth and the indirect effect is again mediated through EO because the goals of small business managers are likely to influence the firm's strategic orientation.

Indirect effects therefore operate across dimensions. The social network dimension explained above largely influences individual dimensions such as risk-taking propensity of an entrepreneur, thereby boosting an EO of the entrepreneur leading to success.

Figure 2.3
Conceptual framework for understanding microenterprise success



Source: Compiled by author

2.6 Conceptual Framework

Three dimensions have been discussed in the theoretical chapter: individual, business and external factors. Four main factors were reviewed from the individual dimension: personality traits, socioeconomic background, and competence and growth motivation. The effort here was to capture both psychological and socioeconomic factors. Regarding the firm, entrepreneurial orientation, firm attributes, formality/informality, and supply and demand factors have also been analyzed. Analysis of the external/environmental factor in this study is based on social networks and enabling business environments. As indicated by the arrow, both direct and indirect determinants of success have been emphasized. Following Covin et al. (2006), this method makes use of interaction effects for its analysis of indirect determinants and, this will be discussed in detail in the methodology part of the study. Success has been viewed using both financial ratios and non-financial ratios to maintain a comprehensive approach of defining firm performance.

The theoretical and empirical literature reviewed in the preceding sections allows us to develop not only the conceptual framework but also a detailed hypothesis across each dimension. Table 2.3 below, shows a hypothesized relationship between determinants and microenterprise success derived from the extant literature review for each determinant under each dimension. Although it is not possible to list all relationships and to list all factors that determine business success, the variables reviewed in the literature are also presented. Indirect effects are captured by interaction between EO and selected variables (resources) as reviewed in the literature.

Table 2.3
Determinants of microenterprise success and hypothesized relationships in the UIS

Category	Determinants	Expected sign
Individual Dimension		
Personality traits	Need for achievement Risk taking propensity Internal locus of control Self-efficacy	+ + + +
Individual competence	Technical& managerial training	+
Motivation	Growth motivation	+
Personal background	Migration status Individual age Experience Gender Education	+/- - + +/- +
Business Dimension		
Firm attributes	Firm age Firm size	- -
Strategy	(Entrepreneurial Orientation) Innovation strategy Proactiveness Risk taking by the firm	+ + + +
Supply and demand factors	Location Sector	+/- +/-
Formality status	Formal	+
External/ Environmental dimension		
Enabling Business environment	Microfinance BDS Sub-contracting Linkage	+ + + +
Social networking	Network size/quantity Network diversity Network intensity/density Network dynamicity	+ + +/- +
Indirect Effects	EO * Resources ^(a) EO * Growth motivation	+ +

(a): resources represent a set of variables including financial, human and social networks and therefore moves across dimensions.

2.7 Methodology

This section discusses the research method used to accomplish the objectives of this study. It especially describes the methodological approaches employed to test research hypothesis. The study relies on both qualitative and quantitative methods of data collection. As discussed in the theoretical chapter, small business success is achieved through a complex process and, therefore, it requires an integrated approach of collecting and analyzing data. Success factors may not be fully captured by quantitative questionnaires hence the need to complement them with qualitative methods to better understand the underlying issues. Therefore, as suggested by Glesne & Peshkin (1992), this study uses both qualitative and quantitative methods of data analysis.

The study made an effort to identify and measure success indicators in two ways. First, as suggested by Mead and Liedholm (1998), a retrospective question about past levels of employment, profit and turnover was used alongside the present levels of these same variables. This allowed computation of average growth rates and hence enabled obtaining of an indicator of success. Secondly, the study obtained panel data for these success variables based on a sample of operators collected by the researcher in 2008. The sampling design (discussed below) followed in 2008 helped the researcher to find the same operators even after two years. Therefore, although the study relies on the latest cross-sectional data for its analysis and, hence, utilizes the same data set, its success indicators rely upon data collected in 2008 and 2010. For this reason, the same sampling frame has been used in both years. Since the researcher employed a household survey in 2008 and knows the sub-city, Kebele, house number and names of respondents, these same respondents were traced, using the same addresses, for the latest data set. The latest (2010) questionnaire was filled by respondents who were also interviewed in 2008. This method allowed computing success measures comfortably without fear of respondent bias that arises when a retrospective method is employed. The average growth rate in employment size, profit and turnover between the years 2008 and 2010 were computed to serve as success indicators for each microenterprise operator. Employment size was defined as the number of full-time workers plus family members, and the owner. The difference between this method and the methodology applied by Baum et al. (2001), or Covin et al. (2006), is that while they relied on secondary sources to compute average growth rates and trace

back to respondents for success determinants, this method relies on an own-survey conducted in 2008 to compute average growth rates and trace back to respondents for its success determinants.

One of the most important factors that make urban informal sector (UIS) studies difficult is data limitation. Because of its diverse nature and definition inconsistencies, informality is defined based on country contexts (ILO, 2000). In Ethiopia, for example, an enterprise is informal if it is not legally registered, not licensed, employs fewer than 10 workers, and if it uses labour intensive methods of production. National surveys (secondary sources for the present study such as UIS survey) are based on this definition of informality. These surveys are usually carried out on an *ad hoc* basis because of the resource implications and complexity or difficulty in obtaining information on informality. Data on UIS in Addis Ababa is uniquely available as it is also for major cities in the country from these national surveys.

The secondary data sources for the study include Central Statistics Authority (CSA), Addis Ababa Chamber of Commerce (AACC), Ethiopian Urban Socio-Economic Survey (EUSES), and Plan for Accelerated and Sustained Development to End Poverty (PASDEP). Data from the CSA and AACC helped obtain information about the enabling business environments. Secondary data on socioeconomic characteristics of UIS operators was obtained from CSA, EUSES and PASDEP. The urban informal sector surveys conducted by CSA in 1996 and 2003 served as potential secondary sources of data for the study.

2.7.1 Primary data sources

The study makes use of both quantitative and qualitative data sources. Likert-scale questions were employed for personality traits while key informant interviews and focus group discussions were used to obtain qualitative data.

2.7.1.1 Quantitative data

Many of the small business success studies that employ a multidimensional approach and, hence include individual psychological factors as a dimension for success utilize a Likert-scale questionnaire, following Likert (1967), in order to measure individual perceptions of these psychological factors on business outcomes (Baum et al., 2001; Covin et al.,

2006; Shane et al., 2003). Likert (1967) proposed a method of attitude measurement and, today, this method is widely used for small business success studies.

Following Kothari (1985), for entrepreneur characters which are more psychological, a Likert-scale questionnaire survey was used as the main instrument for obtaining quantitative data and was designed around opinion statements as a means of exploring respondents' perceptions of their psychological factors on business success. Besides the Likert-scale questionnaire, other factors such as socio-economic, enabling business environment and firm related questionnaires were also included to provide a primary data source for the study.

Although there are several methods of collecting primary data (such as mail survey, email survey and telephone survey) for survey research, this study relied on personal interview survey as other methods are impractical in Ethiopia and especially for urban informal sector operators. Newman and McNeil (1998) note several advantages of using personal interview surveys although the method is costly and time consuming. According to the authors, the first advantage is that sensitive data may be easier to access using this method. Second, the interviewer may be able to understand why the respondent responded the way he/she did. Thirdly, complex and probing questions can be asked using this method since the interviewer can elaborate such questions and the interviewees their answers. Finally the method allows for both quantitative and qualitative data as there is a direct personal contact. For these reasons, and partly due to the difficulty of employing other techniques, this study used the personal interview survey.

2.7.1.2 Qualitative data

This study heavily relied on quantitative methods of data analysis and the survey method of collecting information. However, some qualitative information has also been used and analyzed to strengthen the findings of quantitative analysis. Qualitative data for the study was obtained using in-depth interview and focus group discussion.

A. In-depth interview

The qualitative data for this study was obtained through key-informant approach and focus group discussion. Key informant interviews are qualitative in-depth interviews with people who know what is going on in the

community (Babbie, 1995). Therefore such a method uses a purposive sampling to collect qualitative data. According to Newman and McNeil (1998), the purpose of key-informant interviews is to collect information from a wide range of people, including community leaders, professionals, or residents who have firsthand knowledge about the community. These community experts, with their particular knowledge and understanding, can provide insights into the nature of problems and practical solutions. Wright (1996) notes that the primary advantage of in-depth interview is that it provide detailed information on the subject as compared to survey methods. According to the author, in-depth interview also allows to obtain confidential qualitative data which is difficult to obtain using focus group discussion method.

Accordingly, in-depth interviews were conducted with three heterogeneous groups within the formal and informal sector: successful business persons who were once informal sector operators and who are currently categorized under medium or large scale industry owners, growth oriented microenterprises and survivalist operators. Although there is no standard number of in-depth interviews for a given study, usually 10 to 15 in-depth interviews are commonly applied in a given research enquiry (Wright, 1996). This study conducted 15 in-depth interviews, five from each of the three groups: formal successful, growth oriented and survivalist operators. The purpose was to understand the dynamics of success from heterogeneous groups of operators in a qualitative way. An in-depth interview may allow respondents to narrate the ups and downs in their business life and to qualitatively understand success factors and bottlenecks in the urban informal sector. Selected topics (as shown in Table 2.4 below) broadly guided the interview sessions. Besides note taking, upon the will of the interviewees, tape-recording was also used to facilitate careful analysis of the various qualitative variables. In addition, representatives of the Ministry of Trade and Industry, Micro and Small Enterprise Development (MSED) head, Addis Ababa MSED head, representative of Association of the Ethiopian Microfinance Institutions, ILO and UNIDO MSED specialists, as well as community leaders were interviewed to get qualitative insights about enabling business environments and social networking.

Table 2.4
In-depth interview schedule

No.	Interviewee	Topic
1	Federal Micro and small enterprise Development Agency head	<p>On the profile, trend and attitude towards microenterprise operators in the country/city.</p> <p>On the role of the agency towards the development of UIS.</p> <p>On the rules and regulations of operating informally.</p> <p>On the institutional frameworks, policies and strategies in the UIS development and formalization.</p> <p>On provision of BDS and other trainings</p> <p>On future plans and challenges</p>
2	Addis Ababa MSED Agency head	<p>About the situation of microenterprises in the informal sector in the city</p> <p>On the link between migration and informal sector</p> <p>On the strategies to embrace it.</p> <p>On the criteria for participation in the MSED program</p> <p>On the means of financing, linkages, future plan and challenges</p> <p>On the provision of BDS and other trainings</p> <p>About the impact of MSED so far.</p>
3	UNIDO/ ILO Micro enterprise development specialist	<p>The role of UNIDO/ ILO in MSED</p> <p>About the program</p> <p>On the provision of BDS and other trainings</p> <p>Areas of focus</p> <p>On the co-ordination with government</p> <p>New approach</p> <p>Future plans and major challenges</p>
4	Ministry of labour and social affairs	<p>On the situation of decent work deficits in UIS in the city</p> <p>On the government policy and strategy towards meeting the decent work agenda in UIS</p> <p>On the role of the Ministry in this regard.</p> <p>Future plans and major challenges</p>
5	Productivity improvement centre (PIC)	<p>On the type of training provided</p> <p>On the target group</p> <p>On the criteria of selecting trainees</p> <p>On the impact so far</p> <p>Future plans and major challenges</p>
6	Association of Ethiopian Micro-finance institution	<p>On financing Microenterprises in general</p> <p>On the criteria of providing credit</p> <p>Trainings provided on credit and saving</p> <p>Future plans and major challenges</p>

7	Addis credit and Saving institution	On financing microenterprises in general On the criteria of providing credit The target group/ area of focus, future plans and major challenges
8	Community leaders (“Shimagilles”) from some selected sub-cities	On the general support system Social copying strategies Social networking On their link with government institutions.
9	A. Selected Successful business operators B. Survivalist microenterprises C. Growth oriented microenterprises	Have you changed your previous activity? (Cases of business dynamics, learning from failure, learning from success) What strategies do you use to compete with neighbouring businesses? Do you take risks under uncertain conditions? (cases) Do you engage in innovative activities? (cases) Do you take proactive measures against your competitors? (cases) In period when revenues are higher, what do you do with it? Reinvest in the same lines of business, diversify to other businesses, consume, or invest in children or relatives etc. How can one move from one ladder to the other in the informal sector success route? (Steps in business success/failure you moved from the time you started business up to now, challenges, opportunities) Social networks (importance, purpose, challenges, and cases) Why do some people fail (bankrupt) after reaching a certain higher level in business income? (Cases, examples,) Does migration status have anything to do with success/failure? (Cases, challenges, opportunities) Attitudes of government towards microenterprise development (MSED support, BDS, or other interventions from NGOS)

Source: Compiled by the author

B. Focus Group Discussion

Focus group research is based on facilitating an organized discussion with a group of individuals selected because they are believed to be representative of some class (Kitzinger, 1995). According to Kitzinger (1995), discussion is used to bring out insights and understandings in ways which simple questionnaire items may not be able to tap. The interaction among focus group participants brings out differing perspectives

through the language and gestures used by the discussants. Krueger and Casey (2000), note that people get caught up in the spirit of group discussion and may reveal more than they would in the more formal interview setting. As discussants ask questions of each other, new avenues of exploration are opened. In discussions, multiple meanings are revealed as different discussants interpret topics of discussions in different ways. Interaction is the key to successful focus group discussions. In an interactive setting, discussants draw each other out, sparking off new ideas. The reactions of each person ignite ideas in others, and one person may fill in a gap left by others. One may even find a form of collaborative mental work, as discussants build on each other to come to a consensus that no one individual would have articulated on their own (Kitzinger 1994, 1995).

In this study the informal sector was divided into two: (survival and growth-oriented). Thus, two focus group discussions; one from each category was convened to maximize the information. Krueger and Casey (2000), indicate that a focus group is usually made up of 8-12 participants. The authors attest that use of a larger number of participants may complicate the analysis and confound the conclusions that can be derived from the discussions. Accordingly, the study's focus group comprised 8 participants selected purposively by the researcher. The qualitative criteria of disintegrating informal sector was applied to divide focus group participants into two groups, survivalist and growth-oriented. The focus group discussion (Box 2.1) is essentially deemed to provide a deeper understanding to issues such as social networking, support services, risk taking and other factors responsible for microenterprise success.

Babbie (1995) asserts that in order to analyze qualitative data the general guide is that one must focus on similarities and dissimilarities. According to the author, the focus must be on those patterns of interaction and events that are generally common to what the researcher is studying. This study also followed a similar method to analyze its qualitative data: themes were identified and the data classified into themes and categories.

Box 2.1
Topics for focus group discussion.

1. On the support service provision by government and NGOs on the following areas:
 - A. on the market linkage
 - B. Provision of credit facility
 - C. working premise
 - D. Information
 - E. Provision of Business development Services
 - F. Technical and managerial training
2. Social networks (importance, purpose, challenges, and cases)
 - 2.1. Social network variables:
 - Relatives
 - Friends
 - Neighbours
 - Fellow members of “iqub”
 - Fellow members of “Idir”
 - Fellow members of other association specify
 - Other businessmen(suppliers, clients ,in the same business)
 - Local business association
 - National business association
3. Risk taking and success (importance, challenges, cases)
4. Migration status and its impact on success/failure (Cases, challenges, opportunities)
5. Cases of success and failure

Source: Compiled by the author

For Zikmund (1990), research questions and problems will guide the procedure of analysis of the qualitative data. According to the author, the researcher collects and evaluates information gathered in relation to questions posed. This will help explanation of actual meaning of data and logical reasoning. The goal of qualitative analysis is thus to integrate themes and concepts into a theory that yields an accurate and detailed interpretation of the research arena (Babbie, 1995). This study favours and utilized the above procedures of analyzing its qualitative data for it mainly helps to guide the researcher in describing trends in the data and also determine whether there are relationships between variables of interests.

2.7.2 Sampling Design

A multi-stage cluster sampling method was used to obtain a representative sample. Addis Ababa is divided into ten sub-cities and 99 *kebeles*. *Kebeles* (N = 99) were taken as the first stage clusters of unequal size. The number of clusters was determined taking into account the similarity between clusters. Each *kebele* was again clustered into enumerator areas (EAs) based on a map for this study. Twenty-five *kebeles* (close to 25%) of the 99 *kebeles* were randomly selected. Since recent enumerator areas were not accessible, new enumerator areas were developed for this study using a map obtained from Ethiopian Mapping Agency (EMA). In this approach, roads were used as boundaries of enumerator areas to assess the preliminary survey to develop the sampling frame. Every other household in each enumerator area was asked and a sampling frame was developed by identifying households where at least one member in the household is engaged as a microenterprise operator. The study randomly selected 11 households per enumerator area (EA) from the developed sampling frame. It traced the randomly selected operators to their establishments and conducted personal interviews to obtain primary data. The 2008 sample survey (Table 2.5) was used as a frame of reference to trace back to same respondents after about two years since 2008.

The survey questionnaire covered a number of socioeconomic and all hypothesized dimensions of success determinants. Psychological factors were included under personality traits from the dimension of the entrepreneur. Business profiles such as years of stay in business, type of activity, start-up capital, source of capital, social networks, operating costs, revenues and profit were included in the questionnaire. Enabling business environment questionnaires such as registration costs, licensing procedures, utilities, access to premises, sub-contracting, business development support services and other formal sector benefits were also included in the questionnaire. The information on costs and revenues is presented in real prices/adjusted prices.

The questionnaire was prepared with an effort to obtain maximum information with minimum error. Twenty-five interviewers (previous MA students of the researcher) were deployed, one for each *kebele*. Training was given for three days for data collectors, with the researcher leading and supervising the whole activity during data collection. The questionnaire was converted into local language (Amharic) for the required information to be obtained comfortably.

Table 2.5
Proportion of sample households and enumerator areas by sub-city in both periods

Sub-city	Total existing kebeles	Sampled clusters (kebeles)	Total EAS	Sampled households			Proportion of respondents as of 2010
				Microenterprise operators (in both periods)			
				2008	2010	Difference	
Addis Ababa Ketema	9	2	8	88	14	74	4.9
Akaki	9	2	8	88	24	64	8.4
Arada	10	2	9	98	16	82	5.6
Bole	10	3	10	110	35	75	12.2
Gulele	10	3	10	110	31	79	10.8
Kolfe Keranio	10	3	11	110	26	84	9
Lideta	9	2	8	88	32	56	11.2
Nifasilk Lafto	10	2	8	88	37	51	12.9
Qirqos	11	3	10	110	33	77	11.5
Yeka	11	3	10	110	38	72	13.3
Total	99	25	92	1000	286	714	100

Source: Own survey result

2.7.3 Measurement of constructs (Likert-scale questions)

This section discusses the procedures employed in constructing the items used in the survey instruments. As discussed in the literature review, items chosen for each construct are taken from review of related literature. For example, the construct 'need for achievement' is adopted from Johnson (1990), who uses the work and family orientation (WOFO) approach of defining need for motivation. According to this approach, three sub-scales namely: mastery needs, work orientation and interpersonal competitiveness are used to measure the construct need for achievement. These sub-scales are translated into questions/items as shown in the first row, second column below in Table 2.6. A Likert-type question, employing five scales (5 for strongly agree and 1 for strongly

disagree), was used to quantify and compute an index for the ‘need for achievement’ construct. Since there were three items, a respondent may score a maximum of 15 (most favourable attitude) and a minimum of 3 (least favourable attitude) for the ‘need for achievement construct.’ Scholars (e.g. Covin et al., 2006) use the average of the item scores to measure the value of construct. Therefore, the average of the scores for three items measures the value of ‘need for achievement’ construct for a particular respondent. The same technique applies to all other constructs with a Likert-scale.

Table 2.6
List of items by constructs and sources

Determinants/ constructs	Question Items	Adopted from:	Likert Scale				
			SA	A	N	D	SDA
			5	4	3	2	1
Need for achievement (3 items)	- Even if I have achieved success in my business, I want to become better	Johnson, 1990					
	- I like to compare myself with others						
	- I do everything in order to reach my goal						
Risk taking propensity (3 items)	- I love gambling	Corman, Perles and Vancini, 1988, Cas-ser, 2007					
	- I am ready to take risk in my business						
	- I like to invest in business even under risky condition						
		Pattillo and Söderbom, 2001					
Internal locus of control	- Result of my business is strongly dependent on my own effort	Shane, Locke and Collins, 2003					
Self-efficacy (8 items)	- I can make good strategic choices	Bandura, 1997; Shane, Locke and Collins, 2003, Baum, 1994					
	- In discussions I come up with the important part						
	- I am open for new and non-traditional ideas						

	<ul style="list-style-type: none"> - I usually lead the implementation of new ideas, products/ services and processes - I ask questions that nobody else asks - I setup goals for myself and work according to these goals - I am goal oriented - In my work I concentrate on the work that has to be done to achieve my goals or the company goals 								
Entrepreneurial Orientation (8 items)	- The weighted sum of indices of innovativeness, proactiveness and risk taking by the firm measured below.	(Wiklund, Patzelt and Shepherd,2007), (Miller, 1983), (Lumpkin and Dess, 1996), (Van Dijk and Sandee,2002), (Gebreeyesus, 2009)							
Innovation Strategy (3 items)	<ul style="list-style-type: none"> - we search actively for innovative product/services and new production process - During the past 2 years we have introduced a number of new methods of production. -During the past 2 years our firm has marketed a very large number of new products or services. 	(Wiklund, Patzelt and Shepherd,2007), (Miller, 1983), (Lumpkin and Dess, 1996), (Van Dijk and Sandee, 2002), (Gebreeyesus, 2009)							
Proactiveness (3 items)	<ul style="list-style-type: none"> - we undertake the actions to which other companies must react. - our firm is characterized by the fact that we are growth, innovation and development oriented. - Our relationship to our competitors is characterized by the fact that we pursue a tough “undo-the-competitors” philosophy. 	(Wiklund, Patzelt and Shepherd, 2007), (Miller, 1983), (Lumpkin and Dess, 1996)							
Risk taking by the	- Our firm has a strong proclivity for high risk projects (with	(Wiklund, Patzelt and							

firm (2 items)	chances of very high returns). - Owing to the nature of environment bold ranging acts are viewed as a useful and common practice.	Shepherd, 2007), (Miller, 1983), (Lumpkin and Dess, 1996)					
Rate success subjectively	How satisfied you are in your life? 5= very satisfied, 4= satisfied, 3= neutral, 2 = dissatisfied, 1 = very dissatisfied.	World Bank (2007C)					

Source: Compiled from various authors

The goodness of measures for each construct was crosschecked using the methodology discussed in the next section. However, as this study relied on confirmatory factor analysis our task was restricted to testing construct validity. In confirmatory factor analysis, we determine, *a priori*, with the help of our knowledge from literature review, which questions of the questionnaire are used as a measure of a possible determinant. Item analysis, reliability (both stability and consistency), content validity and criterion related validity are tested and consolidated by previous scholars. In this case Uma (2000) suggests direct use of these items and constructs but, advises that researchers should cite the source (the author and the reference). All other constructs that are constituted of subscales/items are measured using similar procedures. However a detailed survey questionnaire was used for the operational definitions of other variables and indicators of success.

2.7.4 Data Analysis

The study has used descriptive statistics such as frequencies, percentages and tabulations for the first two descriptive chapters – Chapter 4 and Chapter 5. Line graphs, tables and bar charts were extensively used in the descriptive analysis.

The study has also used an empirical analysis whereby econometric methods are employed. This method has been used to consolidate the descriptive analysis part of the study. Estimation methods using econometrics, tools and measurements of success factors as well as success indicators have been explained in the chapter for empirical analysis. STATA and SPSS software packages were used for the analysis of quantitative data.

2.8 Conclusion

By reviewing the literature, this chapter has provided a theoretical and empirical framework for the study. From the theoretical and empirical framework, a conceptual framework that guides the study has been developed. Three important dimensions have been reviewed and put together as determinants of success. The conceptual framework which forms the basis for the research methodology has also been developed.

3

Country Background

3.1 Introduction

Measured by both incidence and depth of poverty, Ethiopia is still classified as one of the poorest nations on earth. Poverty measured in terms of one-dollar per day puts about 35% of Ethiopians below the poverty line and a two-dollar per day poverty line leaves about 80% of the nation poor, according to the Human Development Report (2009). According to the report, Ethiopia scored 0.414 and is ranked 171st out of the 182 nations in terms of the Human Development Index (HDI), which is a composite measure of life expectancy, living standard and education. The same report shows GDP per capita at purchasing power parity (PPP) for Ethiopia to be 779 USD, again putting the nation on the same rank.

Agriculture still contributes the lion's share of Ethiopia's GDP making about 46% of the total share. Moreover, the country heavily relies on agriculture exports, mainly coffee, for its foreign exchange earnings. The share of services sector has been surging from year to year leaving the industrial sector the least contributor to the GDP of Ethiopia. The heavy dependence on agriculture makes the nation vulnerable to external shocks such as drought and commodity price fluctuations. As the case for other developing countries, Ethiopia's exports suffer from a deteriorating terms of trade and income-inelastic demand (MoFED, 2006).

The challenge of employment generation in the country remains one of the long-term development objectives having a lot to do with the structure and rate of growth of the population, and the inherent characteristics of the economy. The rapidly expanding and predominantly young population has contributed to an increasing labour force more

than 80% of which is absorbed by the rural economy according to CSA (2003) report.

Urban areas have also experienced rapid expansion of open unemployment and informal sector employment. The extensive nationalization measures of the command economy in the past and, the subsequent endeavour towards the promotion of the socialized sectors had significantly reduced the sizes of the once thriving private formal sector employment. Urban formal sector employment had been marginalized during those years. Limited available job opportunities in the formal sector coupled with the increasing urban labour force on account of demographic and rural-urban migration has given rise to the ever-expanding informal sector employment in urban Ethiopia. According to the CSA estimates (2003), labour absorption by this sector in urban areas reaches about 60 % of the urban labour force in the country.

Since the current government took power in 1991, Ethiopia has pursued a market-oriented development strategy and implemented policies that began a shift from a state-controlled to a free-market economy. The government has embarked on a cautious program of economic reform, including trade liberalization, privatization of public enterprises and streamlining of the bureaucracy. According to Ageba and Amha, (2003), Ethiopia's reform program has achieved some success in stabilizing the economy and aiding the transition to a free-market system. Despite such performance, many critics, for example Getnet (2006) argue that such a half-hearted liberalization policy, where ruling party-owned parastatals dominate the economy would result in less efficient growths, at least, in the business sector.

Despite the odds, the environment seems to reflect that the country is in a move towards growth. The construction and service sector seem to have taken the lead in the country. Many new buildings are mushrooming in the capital city, exerting a strong pull effect to a disguisedly unemployed people in rural areas. Nevertheless, the question that remains is whether is it a growth that also creates jobs? The debate on this question is highly polarized. On the one hand, government officials advocate that this growth is attributable mainly to the agriculture sector and that as the sector employs the large majority of citizens, the country is experiencing growth with equity, disproving Kuznet's theory. On the other hand, however, some studies such as one by Ahmed and Doresh (2009) contend that such a bubble is not permanent, nor is it creating jobs. They

emphasize the fact that there are poor linkages between agriculture and industry in the country. Sustainable growth could only be obtained if growth in agriculture is also transferred to cities, but this is not the case in Ethiopia. Despite its recent bubble, owing mainly to good rain, agriculture has failed to create demand for cities. The demand driven industry fails to employ job seekers and this, again, pushes many migrants and urban job seekers to the urban informal sector (Ahmed and Doresh, 2009).

Result of the survey from CSA (2003) indicate that the major reason for joining urban informal sector in Ethiopia was that there were no other alternatives and that the sector was found to serve as a means of survival. The same report indicates that the informal sector was serving as an important source of supplemental income not only for the unemployed and destitute but also for the urban wage earners who found their salaries depressed as a result of the fall in real incomes. The questions that need to be raised are thus; what drives entrepreneurship in Ethiopia and what determines success in the urban informal sector? One of the major findings of World Bank Report (2007) is that in Ethiopia educated people tend to look for government jobs or would rather stay unemployed than becoming entrepreneurs. This leaves entrepreneurship in Ethiopia to largely derive from efforts to sustain life. It is also largely initiated by entrepreneurs with a low educational profile.

This chapter presents the country background on microenterprise success in the urban informal sector in Ethiopia. The next section starts with the general country profile. This is followed by a description of economic performance in the next section. The fourth section provides an insight into MSE development in the country followed by the conclusion of the chapter.

3.2 Country Profile

The Federal Democratic Republic of Ethiopia (FDRE), with Addis Ababa its capital city, is located on 3° N and 14° 8' N latitude and 33° E and 48° N longitude, in the Horn of Africa, eastern part of the African continent. Ethiopia, as a land locked country, shares borders with Sudan in the west and north-west, Kenya in the south, Somalia in the east and south-east, Eritrea in the north and Djibouti in the east. Ethiopia holds a total area of 1.14 million square kilometres (423,828 square miles).

Ethiopia's population growth rate is one of the fastest in the world with an average of about 2.7%. According to the CSA's projection, the size of Ethiopia's population was about 80 million in 2009 and in 2015 it is estimated to be about 94.5 million. Although population is an important source of labour and entrepreneurship, a population growing too fast can be a hindrance to economic development and growth. According to EEA report (2008), the fast growing population of Ethiopia has resulted in a declining per capita income and fall in agricultural land productivity.

According to EEA (2009) report, only about 16% of the total population lives in cities, leaving the great majority of Ethiopians rural residents. This reveals that the country is in a very low level of urbanization compared to many sub-Sahara African countries. However, the same report shows that the rate of urbanization is one of the fastest in sub-Saharan Africa averaging to 4 percent annually. According to the report, rural-urban migration has been cited as one of the factors most responsible for a rapid expansion of the urban population in Ethiopia. Poor economic conditions in the agriculture sector, coupled with urban economic attractiveness have had, respectively, the push and pull effect on migrants to gravitate towards cities, according to a study by Ahmed and Doresh (2009).

According to the World Bank Report (2007), urban Ethiopia is characterized by a high rate of unemployment estimated to be about 14%. There is also a high earning differential between the formal and the informal sector in the Ethiopian urban labour market. The report shows that the informal sector is found to be a last resort and that this sector hosts the large majority of new entrants and the unemployed. The report finds that the "dynamic" component of the urban informal sector in Ethiopia is very small and that this "dynamic" component is concentrated in trade/hotels/restaurants sector than in manufacturing. According to the same World Bank Report, earnings in the urban labour market differ across the type of employer, the sector and worker characteristics. Government and parastatals pay higher wages with the financial sector, real estate and transport sectors providing better earnings. The findings of the report highlight the fact that domestic employees are the least paid in the urban labour force of Ethiopia.

The industrial development strategy set in 2003, considered MSEs to be the springboard of industrialization and private sector growth as an

engine for achieving the goals of the strategy. There was a strong perception that industrial development at macro level can be achieved if local and lower level entrepreneurs are capacitated in a sustained manner. As a result, efforts to link local entrepreneurs with foreign investors were underway with the objective to enhance the capacity of local entrepreneurs to become internationally competitive. Under this strategy, government support to micro and small enterprises included basic training in technologies and business skills, development of low-level serviced working premises, the provision of micro credit and information on markets and techniques, and working with producers to identify constraints and bottlenecks (MOTI, 2008).

Table 3.1
Comparison of business environment in Ethiopia and Sub Saharan Africa (2006)

Issues	Ethiopia	SSA	Issues	Ethiopia	SSA
Number of start up procedures	7	11.1	Time to enforce a contract (days)	690	581.1
Time to start a business (days)	16	61.8	Costs to enforce a contract (as % of debt)	14.8	42.2
Costs to register a business (as % of income per capita)	45.9	162.8	Time to resolve insolvency (years)	2.4	2.6
Minimum capital requirement (as % of income per capita)	1083.8	209.9	Cost to resolve insolvency (as % of estate)	14.5	16
Procedures to enforce a contract	30	38.1	Employment laws index range (100=very rigid, and =1 very flexible and simple)	34	47.1

Source: World Bank (2006)

3.2.1 Private sector development

The World Bank's *Doing Business* (2006) indicates that Ethiopia has shown significant improvement over time, after subsequent revisions of the procedures required to start a business and the time it takes to do so. The report shows the country is relatively better in all other doing busi-

ness criteria except that it needs to make a substantial improvement on the time to enforce contract and minimum capital requirement. Table 3.1 below shows the details of the World Bank's *Doing Business* report for Ethiopia in comparison with Sub-Saharan Africa. The table reveals that entrepreneurs are required to deposit about 1083% of their income per capita in order to obtain a business registration number. In a capital-scarce nation such as Ethiopia, this minimum capital requirement needs to be reconsidered. Furthermore, the time to enforce a contract is about 690 days compared to the 581 average for Sub Saharan Africa. These could pose challenges for starting a formal business in Ethiopia and could partly contribute to the proliferation of informal businesses.

According to MOTI (2008), the ease with which private entities are established is an issue of most important concern as it has direct links with job creation and size of the informal sector in Ethiopia. Also, according to World Bank *Doing Business* (2006), economies which tend to have least barriers to business establishment tend to show better economic progresses as capital and skill can easily flow to these economies.

Business enterprise establishment procedures in Ethiopia have improved through time although it was the major bottleneck for business development in the country in the past. More barriers for business establishment in the past have suppressed private sector job creating performance and has caused proliferation of the urban informal sector. By and large, the procedure seems to have improved but practically, the structure and capacities of implementing institutions still hamper the pace and proper delivery of services adhering to the rules outlined (MOTI, 2008).

3.3 Economic Performance

An over-time observation of Ethiopia's economic performance in the past three-and-half decades shows stagnating or poor performance trends in all frontiers of economic growth and development. As has been indicated in the introduction part, not only vulnerability of the economy due to reliance on agriculture but also bad economic policies and civil war has contributed to the poor economic situation the country has experienced.

Currently, in economic terms, Ethiopia is among the top performing countries in the Sub-Saharan Africa. The Ethiopian government, as well as the IMF, has confirmed an average GDP growth rate of about 10% in

the last consecutive five years, according to MoFED and National Bank of Ethiopia (2008). This is shown in Table 3.2 below.

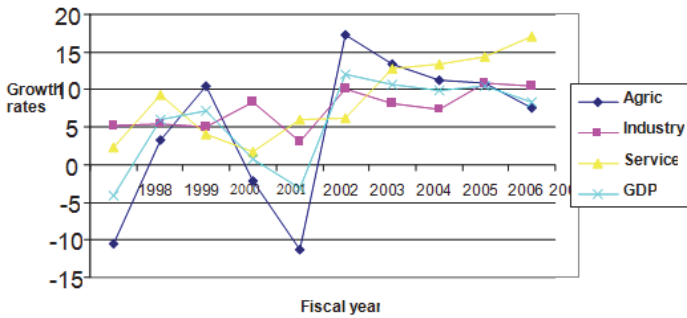
Table 3.2
Sectoral contributions to GDP growth rates

Year	Agriculture growth rate (%)	Industry growth rate (%)	Service growth rate (%)	GDP growth rate (%)
1998	-10.6	5.2	2.3	-4.2
1999	3.2	5.4	9.4	6
2000	10.4	5.1	4	7.1
2001	-2.1	8.3	1.8	0.7
2002	-11.4	3	6	-3.2
2003	17.3	10	6.2	12
2004	13.4	8.1	12.8	10.6
2005	11.2	7.4	13.3	9.9
2006	10.9	10.9	14.3	10.4
2007	7.5	10.4	17	8.3

Source: NBE (2008)

All sectors have contributed to this relatively good economic performance in the recent past. According to the National Bank of Ethiopia (NBE) annual report (2008), although in the past GDP growth was hampered due to sole reliance on agriculture, this has now been improved over time especially since the 2003/04 fiscal year. This means that the percentage contribution of other sectors has also increased and contributed to the sustained growth in GDP. However, a closer observation of the growth rates in GDP over time and other contributing sectors reveals that it is driven predominantly by the growth rate of agriculture, still putting agriculture in a significant place. This is shown in the diagram below (Figure 3.1).

Figure 3.1
Sectoral contributions to GDP growth



Source: Own computation from NBE (2008) data

The GDP growth rate over time and the agriculture growth rate over time diagrams move together with the agriculture growth leading the GDP. This shows that growth in GDP of Ethiopia is derived largely from growth in the agriculture sector and justifies the policy strategy, Agricultural Development Led Industrialization (ADLI). In the recent past and especially since 2003, the services sector has been showing a rapid growth rate and has surpassed both sectors since 2004. The industrial sector has however stagnated at around 13% average growth rate over the last five-year period. The government has dubbed the dominance in growth rate of services sector as ‘unhealthy growth’ and started focusing on industrialization as a strategy towards sustained growth.

The government has now started focusing on making sustainable economic growth by transforming agriculture-led economic growth to industry-led economic growth. The aim is to increase the percentage contribution of all sectors. Although industry’s contribution stagnates at about 13% of the GDP, the government seeks to reverse this trend. A closer look at the current and past trends of the percentage contribution of sectors however reveals that it is not a simple task to make industry lead Ethiopia’s economy in the short run. This is shown in Table 3.3, below.

Table 3.3
Percentage contribution to GDP

Year	Agriculture (% share of GDP)	Industry (% share of GDP)	Service (% share of GDP)
1998	49.9	12.9	37.2
1999	47.4	12.8	39.8
2000	48.9	12.5	38.6
2001	47.3	13.4	39.3
2002	43.4	14.3	42.3
2003	45.5	14.1	40.4
2004	46.6	13.8	39.6
2005	47.3	13.5	39.2
2006	47.7	13.6	38.7
2007	44.1	13.0	42.9

Source: NBE (2008)

From this it can be argued that in the short run, the service sector will continue to take the lead in the percentage contribution towards GDP. Growth in the service sector is largely the outcome of wholesale and retail trade services, real estate renting and various business activities, transport and communication as well as education sub-sectors, according to an annual report on the Ethiopian economy (EEA, 2009)

A shift from agriculture-led to industry-led economic growth would thus require a shift of resources for investment which could be a difficult task under the present situation where 80% of the Ethiopian population depends on subsistence agriculture and land is under the absolute monopoly of the government. However, there are early signs that this could be realized as the growth rate of industry has started exceeding the growth rate of agriculture as shown in the diagram above (Figure 3.1). In the year 2007, when agriculture achieved a 7.5 percent growth rate, industry grew by about 10.4% taking the lead in the growth rate. If this trend continues, the effort towards making industry a leading sector could be realized. The NBE (2008) annual report indicates that a huge investment in hydroelectric power generating stations and expansion activities has contributed to the recent growth in the industrial sector, lead-

ing to a question whether the country can afford such expenditures through time.

According to CSA (2009) report, inflation which was not an issue of major concern in the Ethiopian economy prior to 2007 has now become the most important macroeconomic challenge for the country as it registered a double digit since then. A rise in international food prices and a subsequent export of these major agriculture goods have had significant contributions according to the same report. The government has taken a number of actions such as a ban on export of wheat, pepper, *teff* and corn; facilitating the importation of sugar from abroad; subsidizing domestic fuel retail prices despite persistent rises on the international market; raising minimum saving deposit rate from 3 to 4 percent; adjusting the reserve requirement from 5 to 10 and from 10 to 15% twice; lifting of value added tax (VAT) and turnover tax on food grains; administrative measures to restrain unfair oligopolistic pricing and hoarding behaviour such as requiring traders to use price tags; and introducing the Ethiopia Commodity Exchange. The national bank of Ethiopia and MoFED (2008) contend that these measures have contained inflation as well as its impacts on the Ethiopian economy.

3.4 Micro and Small Enterprise Development

The definition of microenterprise according to Ministry of Trade and Industry is based on how well government policies and programs are directed at supporting the lower bottom of the enterprise owners. Hence the Ministry of Trade and Industry definition relied on a paid-up capital. This is in contrast to the CSA definition that relied on size of employment as criteria of defining micro, small and medium enterprises. However, the World Bank Report (2007) reveals that as there are less than a handful of high tech consultancy firms in Ethiopia the size criteria would be appropriate to classify enterprises as micro, small, medium and large.

The definitions outlined in the MSED strategy (MOTI, 1997) are as follows:

- Microenterprises are those business enterprises with a paid-up capital of less than Birr 20,000, and excluding high tech consultancy firms and other technology establishments.
- Small enterprises are those business enterprises with a paid-up capital of above Birr 20,000 and not exceeding Birr 500,000, and

excluding high tech consultancy firms and other technology establishments.

- Large and medium enterprises, by default, are those with more than Birr 500,000 in paid-up capital.

CSA's working definition for microenterprise is one with fewer than 10 employees; small enterprise is one with 10-50 employees; and large and medium enterprises are those with more than 50 employees. A summary of definition based on both approaches is indicated in Table 3.4 below.

Table 3.4
MSE definitions employed in Ethiopia

Type of enterprise	Paid-up capital (fixed asset)	No. of workers
Micro-enterprise	Less than birr 20,000	Under 10
Small enterprise	Birr 20,000-500,000	10-50
Large and medium enterprise	More than birr 500,000	More than 50

Source: MOTI (1997)

The definition indicated in the table above still stands and is used by government to classify enterprises in the course of intervention. However, the definition employed by Ethiopia's Ministry of Trade and Industry needs to be adjusted in that costs of fixed assets are prone to inflation. The paid-up capital criteria set up in 1997 might have currently excluded dynamic entrepreneurs in the micro-enterprise sector although they employ less than 10 workers. Hence this study relies on the number of workers as criteria to define microenterprises.

3.4.1 Profile of the MSE sector

Data on enterprises in Ethiopia is full of gaps. There is no unified national registry of enterprises. Also in the past regimes, government attention was on large firms and cooperatives so there were little efforts exerted on quantifying MSEs. There was also a perception that the informal sector is a transitional issue that would disappear as more jobs are created in the formal sector. Hence there is no organized data on

firm entry, survival and growth of Ethiopian micro and small enterprise sector. The first comprehensive effort to collect data on micro-enterprises in the urban informal sector was conducted by CSA in 1996.

Evidences (such as CSA, 1996 and 2003) show that informal sector in Ethiopia is rather flourishing. Economic down turn in the past, rapid population growth rates and urbanization as well as structural adjustment policies following the “Derg” regime has been responsible factors. It is thus not surprising in Ethiopia that 50.6 percent of the urban employed are in the informal sector according to CSA (2003).

A comparison of sample surveys for the years 1996 and 2003 indicates that in less than a decade time, the number of people engaged in the urban informal activities in Ethiopia has increased by about 37%. In both periods female operators exceed their male counterparts in terms of engagement in the informal sector activities although the share has declined from 64% to about 60%. Table 3.5 below shows the number of persons engaged in the urban informal sector and changes over the two survey periods.

Table 3.5
Urban informal sector employment trend in Ethiopia

Survey Period	Number of persons engaged		
	Sample Size	Total	% Female
1996*	13,162	30,969	64.92
2003**	15,035	997,380	59.99
Changes between survey periods (%)	14	3120.5	8

Source: * CSA, (1996); ** CSA (2003)

Although the contribution of MSEs in terms of employment generation has been surging, in reality the sector suffers from poor productivity. According to the CSA (2003) estimates, although about 50% of the work force is engaged in the urban informal sector, its contribution to GDP is about 18% making the sector low productive. According to the same report, as entrepreneurs initially start businesses mainly for subsistence, they sell anything by the roadside, or on a structure attached to

home and hence participation in this sector requires little investment. As a result productivity deteriorates and earnings decline compared to the small or medium enterprises.

A closer look at the structure of microenterprises in the urban informal sector in table 3.6 below reveals that on the average about 1.5 workers are employed by a given micro-enterprise and about 3.3 workers are employed by a small scale enterprise. This may indicate that entrepreneurs in Ethiopia show little interest to devolve business decisions. As Glancey (1998) noted, business growth, measured in terms of employment size could be affected by motivation, one of which is 'being your own boss'. These entrepreneurs feel reluctant to delegate power and decision making to lower level employees. Hence, even if their businesses remain profitable they may not show tendency to grow.

Table 3.6
Structure of microenterprises in the urban informal sector

Features	Microenterprises	Small scale enterprises
Number of establishments	974,676	39,027
Average working capital (Birr)	3,528	38,354
Average employment	1.3	3.3
Major activities	Manufacturing, retail trade, cottage and informal handicrafts	Food manufacturing, wearing apparel and fabricated metals.

Source: CSA (2003)

Most of the microenterprises in manufacturing activities (55% of the total) are engaged in food and beverages (of which 65% are women), followed by textiles (23%). Whereas in the small scale manufacturing sector 85% are grain mills, 4% metals, 3.5% furniture, 3% wearing apparel and 2% food products and rest in other sectors. When it comes to ownership 74% of micro producers, 17.5% of small scale and 0.2% of Medium and Large manufacturing businesses belong to women business operators (CSA, 2003).

Average gross value of production and value added per person engaged in microenterprises in urban areas were Birr 2,619 and Birr 865

respectively. The same report indicates that about 87% of the surveyed microenterprises started their operation with a start-up capital of less than 250 birr while only about 0.4% commenced operation with a capital ranging from birr 5000 to birr 10,000. This could be interpreted positively when viewed from poverty alleviation orientation because a small investment is required to start a business and that this investment is by and large affordable by poor. However, the fact that initial investment is small may adversely affect competitiveness of products and services rendered by microenterprise operators and hence could put these entrepreneurs in vicious circle of low productivity and poverty.

MSEs also absorb the large pull of the country's less skilled labour force according to the same CSA report. In this regard, 47.3% of the male and 29.37% of the female employees in small scale manufacturing have completed primary (grade 1-6) education, while 44% (out of which 38% male and 6% female) of the total have completed grade 7-12. Moreover only about 1.60% of the males and 3.53% of the females has attained educational level of above grade 12 (CSA, 2003).

3.4.2 Constraints facing the MSE sector in Ethiopia

A survey by Ethiopian Development Research Institute in (2003) which was studied by Ageba and Amha indicate a number of bottlenecks facing the MSE sector in Ethiopia. According to the authors, firstly there is lack of clear and pragmatic policy that favours development of MSEs. The authors contend that although there is a national MSE development strategy that was set in 1997, in practice government policies are aimed to regulate the private sector and privatization is so cautious and gradual. Hence it seems that the government has been favouring cooperativization and partnerships than sole-ownership for business developments. This means that micro and small enterprise operators need to organize in groups to get supports such as credit and working premises. This might have an adverse impact on entrepreneurial success as entrepreneurship is largely driven by individuals and not by groups. Moreover entrepreneurial success factors such as personality traits and growth motivation could be suppressed under a cooperative ways of doing businesses. Thus according to the 1997 MSE development strategy, government support policies are in practice not on the side of entrepreneurs with a sole-ownership striving for success.

Lack of access to credit and capital has also been indicated as another second major challenge to MSE expansion in Ethiopia. According to the study by Ageba and Amha (2003) about 30% of the MSE operators interviewed replied that high collateral requirements to access credit have hampered their businesses. Since most MSEs do not have a track record with banks and as they do not have the experience in dealing with financial institutions banks are reluctant to give loans to micro and small scale enterprises. This could force entrepreneurs to borrow from informal financial markets at higher interest rates. The same study has also indicated lack of premise and land as a major bottleneck for MSE growth. About 25% of the sampled entrepreneurs reported that lack of business premises has adversely affected growth and survival of their businesses. The issue of land provision and the land lease system has greatly constrained the chances of micro and small enterprises who aspire to start up businesses (Ageba and Amha, 2003).

Stevenson and St-Onge (2005) in a study of support for growth-oriented women entrepreneurs in Ethiopia mention three major challenges for entrepreneurial success in Ethiopia. The first one relates to linkages. According to the authors, in Ethiopia the large and small firms compete rather than cooperate. Business cooperation through networking is not common in Ethiopia. The authors also mention that the institutional framework that enables outsourcing from large to small firms is also weak. The second major challenge for business success in Ethiopia according to the authors relates to lack of entrepreneurial and management skills. In this regard Ageba and Amha, (2003) describe that most MSE operators in Ethiopia are characterized by a low education profile so that ability to coordinate production, engage in innovate activities, and adopt to new and advanced technology is hampered. There is also general lack of entrepreneurial and marketing skills among Ethiopian entrepreneurs. This could in part be related to the fact that educated and better skilled Ethiopians show a tendency to join government jobs than becoming entrepreneurs according to a finding by the World Bank (2007) report. The third major challenge according to Stevenson and St-Onge (2005) is arbitrary and subjective tax system. According to the authors since Ethiopian micro and small enterprises do not keep complete book of records they are prone to subjective taxation. Ageba and Amha (2003), also found that about 37% of the interviewed MSE operators mentioned high taxes as a major bottleneck for business expansion.

3.5 Conclusion

This chapter has provided a country background relevant to microenterprise development in Ethiopia. Past economic trends and recent progresses have been reviewed. Although there are signs that the country is progressing in terms of both economic growth and poverty reduction, a comparison with similar Sub-Saharan African countries still places Ethiopia at a low level.

Regarding MSE development a special attention has been given to the sector with knowledge of the significant contribution the sector makes towards poverty reduction and employment creation. However, MSE development efforts are less focused. Also, the 1997 MSE development strategy needs to be revised and implemented as there have been some major institutional changes as well as economic variables since then.

4

Structure and Growth of Microenterprises

4.1 Introduction

This chapter analyzes the structure and performance of microenterprises in the urban informal sector of Addis Ababa based on two surveys. The first section describes the data. The second section deals with socioeconomic and demographic characteristics of sample respondents. The third section analyzes enterprise characteristics. The fourth section deals with the dynamics of microenterprises and the characteristics associated with these dynamics. The fifth section provides an insight on high-growth versus survivalist enterprises. Finally, the last section concludes the chapter.

4.2 The Data

A conceptual framework for the design and analysis of data has been explained in Chapter 2. Based on the framework, two surveys were conducted within a period of about 28 months as earlier indicated in Chapter 2. The first survey was conducted in the months of April, May and June 2008. This was followed by a second round survey on the same enterprises in the months of July, August and September 2010. This method of obtaining a firm's performance indicators can be contrasted with Liedholm (2001), Baum et al. (2001) and Covin et al. (2006). While Liedholm used a retrospective question about past levels of employment size, Baum et al. and Covin et al. relied on a tracer survey method to compute average growth rates of firms. Moreover, the success/performance indicator used by these authors was also limited to employment growth. However, use of employment growth only, would lead to a bias as demonstrated by Parker's (1994) analysis of MSE growth in Kenya who found that sales growth was almost double the growth in

employment among the surveyed firms. The analysis concluded that employment growth is the most conservative measure of firm success.

This study uses not only employment growth but also sales and profit growth as an indicator of success. Moreover, respondents were also asked to subjectively report if they considered themselves successful. This is to capture the subjectivity of “what success means” for various respondents. This is because financial ratios may not be able to capture all that human beings value as success. For this reason, this study used a more comprehensive indicator of success measures compared to the previous ones which merely relied on one or two indicators.

The first round survey identified 1000 respondents using the sampling methodology explained in Chapter 2. The questionnaire was designed in such a way that all the entrepreneur, firm characteristics and external factors were systematically obtained as well as success indicators. The second round survey in 2010 traced previous respondents and posed similar questions but added some entrepreneurship related questions such as personality traits and growth motivation. Multi-stage cluster sampling helped to trace back to residence and establishment areas of previous respondents. Although the major part of the analysis of the study relied on the 2010 data, success indicators have now been measured over the period of 28 months. In the second round survey, a qualitative questionnaire was also designed to collect information on subjective indicators of success as well as to understand the dynamics of success qualitatively. This involved in-depth interviews with successful formal sector operators who were once in the informal sector and a focus group discussion and an interview with heterogeneous groups of informal sector operators. Representatives of the relevant institutions were also part of the process of gathering qualitative information.

The second round survey yielded a total of 286 previous respondents. Among these, 11 operators (1.1%) have moved to the upper category because they were found employing more than 10 workers including the proprietor. The turbulence in the informal sector can be evident at this point as in just two years, more than 70% of the informal sector operators cannot be traced from the previous sample. Although one expects net firm expansion and net firm creation against firm contraction and firm closure (Liedholm 2001), as the most important determinant for the size of microenterprises in the urban informal sector, the difficulty of tracing informal sector operators largely emanates from the poor work-

ing conditions, structure of the sector and the economy as a whole. From among the 714 previous operators who the second survey could not trace, 47% have left Addis Ababa, 35% have changed previous residence, and about 28% have quit operating their 2008 informal businesses, according to information obtained from other household members, neighbours and previous colleagues.

The most important issue related to this situation is to test if there is any systematic difference between ‘droppers’ and the ‘stayers’. Differences in characteristics between those who prematurely drop out of a study (‘droppers’) and those who remain in the sample (‘stayers’) can be assessed by conducting a logistical regression analysis. Since both groups participated in the first wave of the study, data on which to compare the two groups is available. A dichotomous dependent variable was created with 1 representing the stayers and 0 representing the droppers. Variables from the first wave of data were used as explanatory variables in the analysis. These variables included key demographic factors, such as ethnicity, age, and education, as well as important variables such as firm size, sector, and migration status. A statistically significant coefficient for any of the variables means that there is a difference between the stayers and the droppers, indicating attrition bias.

This test was carried out using the logistical regression (see Annex 2). The result shows that almost all variables in the regression are statistically insignificant. Exception is network size and retail trade dummy which are significant at 10% level. Thus, since it is hard to claim absence of systematic difference in characteristics between the ‘stayers’ and the ‘droppers’, to be on the safest side the analysis of success in this study is conditional on survival.

The study analyzes success determinants from three major dimensions: the entrepreneur, firm character and external environments such as social networks and enabling business environments. This chapter is devoted to the entrepreneur and firm character. The next chapter deals with the external environment. Tools of measurements for each of these determinants have been discussed in chapter two. The survey strived to capture entrepreneur characteristics by asking questions related to personality traits, socio-economic and demographic characteristics of respondents. Need for achievement, risk taking propensity, internal locus of control and self efficacy were used to explain personality traits. Item questions were developed to measure these factors using a Likert-scale

method. Among the socioeconomic and demographic factors, migration status, age, experience, gender and education of respondents were included in the questionnaire. Growth motivation and individual competence also appear as important individual dimensions in the questionnaire and included for analysis.

The second part of the survey focuses on information related to the enterprise that is from the dimension of the business. Under this section efforts are made to gather information on firm attributes such as age and size, firm strategy mainly entrepreneurial orientation and issues related to supply and demand factors such as location and sector of the enterprise. The status of formality of the enterprise has also been included under this category. The third part of the survey questionnaire deals with external/environmental factors affecting business success in the informal sector. In this part emphasis is given to enabling business environments which are proxied by questions related to access to microfinance institutions, business development support services, subcontracting arrangements and linkages with formal or big firms. As a determinant of business success social network has also been included in the questionnaire. Questions related to network size, diversity, intensity and dynamicity have been posed to respondents on this dimension. Growth barriers such as questions related to excessive taxation, regulations and penalties for informal activities have been included under this category of success determinants. Besides the survey questionnaire the study is supported by qualitative information using an in-depth interview and focus group discussion as discussed in chapter two.

4.3 Demographic and Socioeconomic Characteristics of Respondents

This section discusses entrepreneur characteristics related to age, sex, education, migration status, ethnicity, marital status and vocational and technical training. These personal background characteristics are hypothesized to have a direct impact on microenterprise success. The following sections discuss these factors.

4.3.1 Age and sex of respondents

Age of an operator is an important factor for it has something to do with entrepreneurial success through its effect on growth ambition, determi-

nation and willingness to test abilities (Welter, 2001). Gender of an operator also has an effect on enterprise success in many ways such as through bearing family responsibilities, growth ambitions and location of the enterprises (Mead and Liedholm, 1998). The data reveals that about 84% of the operators are aged less than or equal to 35 years. About 98% of the operators are in the productive age range according the United Nations human development report criteria. From the data women account about 53.5 % consolidating the findings by CSA (2003) that women dominate informal sector shares in Ethiopia. This dominance is much pronounced in the age category of 25-35 years. In all other age categories the gender difference is not that much significant and even male proportion has exceeded their female counterparts after 55 years of age as shown in Table 4.1 below.

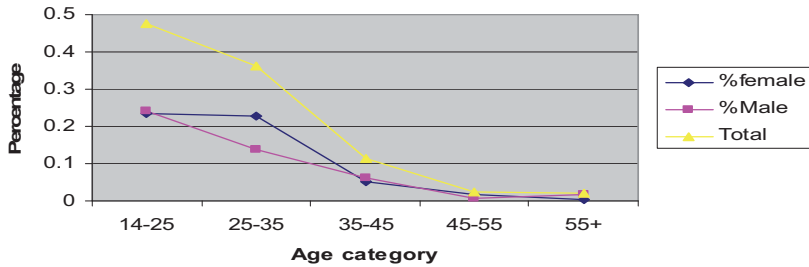
Table 4.1
Respondent age category by sex

Age	Female	% Female	Male	% Male	Total	% Total
14-25	67	0.23	69	0.24	136	0.47
25-35	65	0.22	39	0.13	104	0.36
35-45	15	0.052	18	0.062	33	0.11
45-55	5	0.017	2	0.0069	7	0.024
55+	1	0.003	5	0.017	6	0.020

Source: Survey by author

This is shown using the diagram that portrays percentage sex composition against age category. An overall observation of the graph shows that as age of respondents increase there is a decline in the proportion of respondents participating in the urban informal sector. Therefore age (after 14 yrs) and participation are found to be inversely related, lending support to the findings by the World Bank (2007).

Figure 4.1
Age and sex composition



Source: Survey by author

From the data, the mean age of respondents is about 28 years with a standard deviation of 8.76. CSA (2008) indicates that although the percentage of Ethiopian population below age 15 account for about 42.8%, the percentage of population with an age ranging from 25-29 account only about 8.1 percent. Hence, it can be argued that the more productive age group population participates in the urban informal sector because the average age of 28 is the relatively independent age category according to CSA report. It is assumed that people with less than 15 years old and greater than 65 years old are economically dependent on the other productive age category. This implies the growth potential of the informal sector. Mobilizing the sector would mean increased productivity and hence greater efficiency which could contribute to the overall growth of the economy. Thus an emphasis on informal sector could be justified not only from poverty alleviation dimension but also from efficiency, and local economic development point of view.

4.3.2 Education of respondents

The role of education on enterprise success is explained through its effect on exposure to new information and processing of this new information, which has an ultimate positive impact on production and/or distribution of goods and services. Bates (1990) advocates the positive impacts of education through its effect on making good business judgments, exposure to new technology, exploiting opportunities well and thereby contributing to business longevity and success.

Table 4.2
Education level of respondents

Education	Total		Male		Female	
	No.	%	No.	%	No.	%
illiterate	28	0.097	9	0.031	19	0.066
Non-regular	11	0.038	4	0.014	7	0.024
Primary school	142	0.49	59	0.206	83	0.29
Junior secondary school	30	0.10	22	0.077	8	0.027
High school	57	0.19	39	0.136	18	0.062
Grade 12 and above	18	0.062	13	0.045	5	0.017

Source: Own survey

The data (Table 4.2) reveals that majority of microenterprise operators in the urban informal sector are not illiterate. Only about 28 (10%) of the operators are illiterate according to the data. However, there is a gender gap in terms of education level. The percentage of female operators exceed male in three education categories namely, illiterate, non-regular and primary. But at higher levels from junior secondary school and above male dominates the percentage education share. On the average male operators are more educated than female. About 6.3 percent of the total operators have completed grade 12 and above (Table 4.2). Gender wise about 4.6 percent of male and 1.7 percent of female operators have completed grade 12 and above.

Hence, based simply on the level of education of operators by gender, the probability that male operators run a successful business could be higher than their female counter parts. However this hypothesis will be tested later. CSA (2003) has also found out that illiteracy levels have been declining in the sector. A surging coverage of school enrolment in the country might have also been reflected in the urban informal sector as school drop outs have joined the sector. Primary Gross enrolment ratios have now reached above 95 percent at country level according to a report from MoFED (2010). Although there are evidences that educated people show less tendency to become entrepreneurs in Ethiopia (World Bank Report 2007), lack of job opportunities in the private and government sector might have forced skilled workers towards the informal sector.

4.3.3 Migration status

The data on migration status (Table 4.3) shows that the majority of respondents are migrants. Only 32 (11.2%) of the total operators are natives (born in Addis). The remaining 254 (89.8%) of the respondents are migrants. About 116 (40.6%) of the respondents are migrants from Southern nations and nationalities regional state (SNNPR). Two important arguments can be derived from this data. One is that informal sector is a channel through which migrants learn urban life. The findings on education level of respondents as shown above reveals that although the proportion of illiterates is only about 10% of the total, the proportion of those who completed grade 12 and above is also only about 6.3%. Thus the chance for migrants of joining formal sector jobs is constrained by their level of skills and education leading to a contention that migrants expect informal sector jobs a priori. This is evidenced by an interview with respondents No.11 shown below (Box 4.1). It is a breeding room for migrants in their journey towards successful entrepreneurs.

Table 4.3
Migration status

Place of Birth	No.	%
Addis Ababa	32	11.2
Tigray	11	7.7
Oromia	59	16.8
Amhara	57	20
SNNP	116	40.6
Other	11	3.8

Source: Own survey result

This supports the argument by Van Dijk (2006) that informal sector could serve as a way of redistributing growth from urban to rural poor. In cases where the rural sector fails to accommodate an extra labour, the informal sector could serve as a buffer. Secondly, the fact that about 40.6% of respondents migrated from SNNP hints that a strong push factor could drive migrants to informal sector. SNNP is known for its

densely populated area in the country. Interviewed migrants from the region also responded that lack of farmland and other opportunities have pushed them away from their place of birth.

Box 4.1
Migrants' expectation of the urban labour market

Respondent No. 11 is a migrant from Hadiya zone of SNNP who is living in Addis for three and half years. He obtained some information about Addis from senior migrants who visited families back home on *Meskel*. He is captured by both surveys because he did not change his previous residence and place of work. He was only engaged in shoe shining in the first survey. Now he is engaged in shoe shining and loading and unloading around CMC, one of the affluent areas in the city. His shoe shining activity is limited to only morning and afternoon times (this is a peak hour for the demand of his service). He is sharing a small room from around Kotebe area with four other migrants who are also from the same *kebele*. Most of them are relatives. The renter is also originally from Hadiya zone and he is a retired high school teacher. He supplements his living by renting five small sized classes each for 280 birr.

Our respondent, when asked whether he expected this activity before coming to Addis Ababa, replied, "Yes, I expected it because my senior migrants informed me of their jobs when they visited their families back home during *Meskel*. I am only completed Grade 5. My senior migrants who attended school up to Grade 9 are also engaged in this same activity. My father could not teach me at home. I have four sisters and three brothers who are all dependent on that small plot of land. I was using exercise books of my elder brothers to write on. My family buys me only five or six exercise books for the year but we learn about ten different subjects. So I take two different notes on a single exercise book which is not enough even for a semester. Generally speaking life at Hadiya was not good. I am now fine. We have a rotating savings by five where I contribute 10 birr per day starting from September 2009. My contribution for home rent is 50 birr per month and I can afford that. Three of my senior migrants pay 60 birr each per month. I have new clothes and new shoes and eating twice a day." Informal sector activity is "a do or die business" for all of us because we have no one who help us. We are always ready to load or unload or do any assignments that bring income. We are also serious about saving because we have no security from outside. Come next *Meskel*, I have a plan to go home and bring one of my younger brothers to Addis and engage in similar activity"

Source: Interview by author

The finding in Box 4.1 above supports the analysis forwarded by Banerjee (1984), who argued that rural-urban migrants are aware of their abilities and limited opportunities in the formal sector. According to Banerjee the informal sector by itself is enough to attract migrants whose living condition is worse in the rural sector. This contradicts Haris and Todaro's (1970) argument that urban informal sector is a transitory and that the ultimate purpose of rural-urban migration is the search for formal sector jobs. According to the findings of interview above in *box 4.1*

however, migrants have full information about their skills and the sector that fits their skills a priori. Moreover there is strong commitment in their activities and savings which are important inputs for success. The above respondent mentions lack of security and support from outside their group as a factor that drives savings. Thus migrants are determined to work hard and save better because they know no one else is out there to help them in case they bankrupt and this is an important factor that drives migrant operators towards success.

4.3.4 Marital status, ethnicity and religion

The composition of sample respondents across age, ethnicity and marital status shows that respondents vary greatly across these social and demographic characteristics (Table 4.4). Ethnic wise Gurage dominates the share by 34.9% followed by other ethnic groups (28%). From other ethnic group category Walayta, Hadiya and Kambata ethnic groups make 95%. These are the latest ethnic groups to involve in the informal sector. In the past informal sector activities such as shoe shining, loading and unloading, street vending was largely occupied by the Gurage and Amhara ethnic groups as shown for example on CSA (1996). Now it seems that the share of other ethnic groups is surging and that the Gurage are moving to higher level activities such as restaurants and retail trade. Activity wise from among the interviewed respondents 90% of the shoe shiners were from *Hadiya* and *Walayta* ethnic groups. On the other hand about 75% of retailers and restaurant businesses operators are *Gurage*. So it seems that MSE operators specialize in activities where their ethnic group is involved to a larger extent. A survey at establishment level also reveals that operators with the same ethnic group are located in the same area. For example, shoe shiners at around CMC area all belong to Hadiya ethnic group. A survey at three different areas in *Kebele* 14, 15 and 16 of the Bole Sub-city shows all shoe shiners speak the same language and belong to the same ethnic group (Hadiya). Around Megenagna area, the shoe shiners are all from Walayita. On the other hand more than half of sampled street vendors around Merkato belong to the Gurage ethnic group.

Table 4.4
Marital status, ethnicity and religion

Ethnicity	N		Percent
Oromo	19		6.6
Amhara	70		24.4
Gurage	100		34.9
Tigray	11		3.8
Somali	6		2.1
Others	80		28
Total	286		100

Religion	N		Percent
Orthodox Christian	131		45.8
Protestant	26		9
Catholic	7		2.4
Muslim	119		41.6
Traditional	3		1.05
Total	286		100

Marital status	Male	Female	Total	Percent
Never Married	80	49	129	45.1
Married	41	47	88	30.7
Divorced	6	28	34	11.8
Widower	6	29	35	12.23
Total			286	100

Source: Own survey result

The questionnaire has also posed questions on marital status and religion. Large number of operators are orthodox Christians (45.8%) followed by Muslim (41.6%). Large numbers of respondents are unmarried (45.1%). Male dominate the percentage share of the unmarried group by 62% to 38% while female dominate the share of married (53%), divorced (82%) and widower (82%) indicating that female operators are more involved in family responsibilities associated with civil status.

4.3.5 Vocational Training

Campbell (1992) argues that on-job training is an important input for entrepreneurs in that it not only familiarizes entrepreneurs with process and organizational functions it also helps entrepreneurs to establish networks with suppliers and buyers. Vocational trainings are also advocated to help entrepreneurs to get acquainted with new techniques while on the job. Vocational training in Ethiopia is at its infant stage. Moreover trainings are driven on ad hoc basis by some donor initiatives such as ILO who work towards sustaining decent work programs in the urban informal sector. About 20% of our respondents have obtained trainings (table 4.5). More than half of them were on the job while receiving these trainings. About a third of those who obtained trainings were graduates of vocational schools who are working as entrepreneurs. All operators who obtained vocational trainings are working on their respective fields.

Table 4.5
Vocational training

Type of vocational training	Male		Female		Total	
	N	%	N	%	N	%
Wood or bamboo work	5	3.8	2	1.3	7	2.4
Electricity	4	3	2	1.3	6	2
Metal work	6	4.5	1	0.6	7	2.4
Auto or mechanical	5	3.8	2	1.3	7	2.4
Weaving	1	0.7	5	3.2	6	2
Commerce	3	2.2	5	3.2	8	2.8
Carpet work	1	0.7	1	0.6	2	0.7
Tailoring	2	1.5	2	1.3	4	1.4
Beauty works	0	0	3	2	3	1
Carpentry	3	2.2	3	2	6	2

Source: Own survey result

A total of 30 (10.5%) males and 26 (9.1%) females have received vocational trainings. Male trainings were focused more on metal work, electricity, and wood and auto mechanics while women operators have re-

ceived more training on the areas of weaving, commerce and beauty works. The majority of operators have received trainings in commerce (2.8%) followed by wood (2.4%), metalwork (2.4%) and auto mechanics (2.4%).

Box 4.2
Training on product development

Trainings have been given by ILO and FeMSEDA to about 30 women weavers from Shirome-da area in Addis Ababa city with an aim to upgrade their skills in product development. The training was focused on imparting new technical and design skills, and also new products that have international demands. A personal observation and an interview have been held with six of these trainees. The trainees were happy with their new skills owing to the training. They learned how to produce new designs, how to use materials from the surrounding with little worry for inputs and last but not least is that they gained knowledge of recycling products. Old and thrown away weaving products can be reused given the knowledge.

The women weavers appreciated the fruits of training. But they have a great concern regarding its sustainability. About one year after the training was held they have not exercised doing those products again. In the first place the training was held with modern machineries from the FeMSEDA and hence they do not have an access to these machineries currently. In the second place, they are not organized to purchase or request such machineries and to keep on producing these new products. All the interviewed respondents replied that no one looked after them after the training ended. The issue of sustainability is among a big concern by most training participants.

Since the new product is expected to fetch high income from both domestic and international markets, trainees have shown a keen interest to proceed with it. But lack of access to modern machineries, lack of associations (cooperative designed for these trainees) and lack of proper follow up after the trainings, have negatively influenced the courage and involvement in new product developments gained through trainings such as this one.

As they cannot practice the design skills and new products most of the women trainees have forgotten these new skills. They also tend to show a negative attitude to other similar trainings. It is not clear also who is responsible to follow up and consolidate the product and skill development trainings received through for example ILO. This could indicate that there is a discrepancy or coordination failure among stakeholders such as FeMSEDA and ILO

Source: Own survey

The sustainability of trainings conducted is the most pressing issue that needs to be explained at this point. Trainings although conducted on ad hoc bases lack responsible body to overtake the job. There are also coordination failures between donor agencies and Federal Micro and small enterprise development Agency (FeMSEDA). The pilot study conducted by the author in 2008 reveals this same problem (Box 4.2).

4.3.6 Why the present activity?

Earlier studies such as those on migration and the urban informal sector emphasize on the push and pull factors for the proliferation of microenterprises in the urban informal sector of developing countries, especially for Africa. The general conclusion that is derived from these studies is that informal sector is employment of last resort. However, this hypothesis is challenged by empirical studies from Latin America (e.g. Yamada, (1996) based on data from Peru; and Douglas et al. (1997) based on data from Mexico). According to these empirical studies informal sector is a better opportunity sector and that operators join it to escape the cumbersome bureaucracies and other tough regulations in the formal sector. Also according to these studies the legal aspect (related to compliance with government rules and regulations) of informality is more emphasized than the size/growth aspect of the informal sector.

As a result a need to address the question of why operators have joined the informal sector is issue of major concern. The following table provides the result from the survey.

Table 4.6
Reason for choosing present activity

Reasons for choosing	Male		Female		Total	
	N	(%)	N	(%)	N	(%)
Family tradition	8	6	22	14.3	30	10.5
I like the activity	22	16.5	13	8.5	35	12.2
Activity brings high income	16	12	12	7.8	28	9.8
Small investment	39	29.3	45	29.4	84	29.4
No other alternatives	45	33.8	59	38.6	104	36.4
Other reasons	3	2.2	2	1.3	5	1.7

Source: Own survey result.

From the survey (table 4.6) an involuntary choice dominates reasons for joining the informal sector. If one considers an involuntary choice as composed of small investment needed and no other alternatives, this accounts for about 66% of the total respondents. Lack of alternatives alone

accounted for about 36.4% of the total respondents and this figure is higher for female (38.6%) than male (33.8%). Family tradition accounted for 10.5% of the reasons and this is higher for female (14.3%) than male (6%), so more female operators are driven voluntarily by family tradition than male. It could be that female operators have little freedom compared to male to try something different from what the family practices. If one considers voluntary choice as a union of family tradition, liking the activity and activity brings high income, then about 32.5% of the total operators have joined the sector voluntarily. Only about 9.8% of respondents replied that activity brings high income implying that indeed informal sector is employment of last resort for the majority of operators in Addis Ababa. However this figure is higher for male than female implying that more male join the informal sector voluntarily compared to female.

Table 4.7
Reasons for choosing the present activity by previous activity

Previous activity	Family tradition	I like the activity	Activity brings high income	Small investment needed	No other alternatives	Other reasons	% of total
Agriculture	5	-	1	28	48	3	29.7
Self owned informal activity	4	13	9	15	9	-	17.5
Formal activity	-	5	5	6	6	-	7.7
Civil servant	-	4	4	4	2	-	4.9
Employee in an informal activity	6	3	4	1	7	1	7.7
Other private sector employee	1	2	2	1	1	-	2.4
Unpaid family worker	7	3	-	2	2	1	5.2
student	5	2	2	11	18	-	13.3
House maid	1	2	1	7	3	-	4.5
Unemployed	1	-	-	7	1	-	3.1
Other	-	1	-	2	7	-	3.5
Total	30	35	28	84	104	5	100

Source: Own survey result.

Analysis of previous activity versus current activity and reasons for choosing the present activity yields a more interesting result as indicated in table 4.7.

From this table previous activity of about 29.7% of the total respondents is agriculture followed by self-owned informal activity (17.5%) and students (13.3%). The effect of push factors is apparent when agriculture sector workers and students join the informal sector and reinforces the above finding that the sector serves as employment of last resort. However, from among 28 respondents who replied activity brings high income there are 9 self-employed workers 5 formal sector activity workers, 4 civil servants, 2 private sector employees and 4 employees in the informal sector. For these operators the informal sector served as a better opportunity sector compared to their previous activity and hence it is not employment of last resort. Operators whose previous activity is self owned informal sector were found to show higher tendencies for voluntarily joining the informal sector. May be these operators are experiencing benefits in the informal sector and are weighing the benefits and costs of joining the formal sector. An in-depth interview with respondent No. 53 who replied that he is voluntarily working in his current activity reveals that there are dynamic microenterprise operators who are more successful and who earn more income than private sector or formal sector employees (Box 4.3).

Tables 4.6 and 4.7 thus suggest that microenterprise operators are heterogeneous by motives to engage in business and capitalize on the importance of recognizing this heterogeneity. Since business motives are important inputs for success (Glancey, 1998) success varies across motives and hence across microenterprises with varying motives. A study that emphasizes on determinants of microenterprise success thus needs to dismantle various growth groups and analyzes determinants across each growth category. This will be emphasized in the subsequent sections when I discuss dynamics of microenterprises.

Box 4.3
Dynamic microenterprise operator

Kidane, who is 22 years old, has joined Addis 10 years back when he was 12 years old. He is originally from Gurage zone of SNNP. He was from poor family with very small plot of land. Following death of his father the family fell under crisis and contributed to Kidane's migration motive to Addis. Like others he joined previous migrants who returned back home for Meskel holiday and headed to Addis. First he settled with these migrants and started shoe shining from around Megegnagna area. For about two years shoe shining was his major income earning activity. After two years he was contacted by his senior migrant, who is also from Gurage Zone, Kemal to vend contraband clothes on street and agreed to share from the profit. However, Kidane also works on shoe shining although it was not a major activity. Kidane's income has increased by more than three folds since he started vending on street. His saving has also risen proportionally. His contribution to IKUB (rotating savings) increased from 60 birr per week to 200 birr/week after two years of stay in Addis. Accumulated rotating savings helped him open a shop (household consumption goods excluding clothes and durables) around Megegnagna area. As it was not on main road, the rent was affordable. However, the respondent has done an assessment and has gathered information about the market and other competing enterprises before opening the retail trade in that specific area. As he expected the turnover from the retailing business was great. He was weekly visiting wholesale distributors at Merkato since he has high turnover. He gives goods for some customers including civil servants who cannot afford to pay cash on hand, on credit bases and this has boosted his reputation in that area. After three years of stay in this business he started of thinking opening this same business on the main road. He realized his plans after six months of search for a place on the main road around Megegnagna. He brought his younger brother from home and delivered him the previous shop. His brother has worked as an apprenticeship in the same shop for about six months before becoming fully responsible for the business. The respondent was paying about 1500 birr per month for this later shop, about three times of what he pays for the other shop.

A profit growth from both businesses encouraged Kidane to diversify his activities. Now, he is engaged in retailing fruits at around CMC area with a very high turnover. He is currently paying 4000 birr per month for this fruit business. His current contribution for the rotating savings is 2000 birr/week. He has bought a two-bedroom condominium house for about 80,000 birr. He is currently unmarried and is just focused on his businesses. He employs 11 workers currently, although in the first round survey this was only 5. Only his fruit business is registered and none of his other businesses are licensed. He says it is easy to operate without a license and in case questions arise, it is also easy to "shut their mouths" by delivering some kickbacks. His future plans are to obtain a land through leasing or buying and expand his current businesses.

Source: Own interview.

4.3.7 Personality traits

As has been discussed in the theoretical framework, other than the personal socioeconomic background, personality traits which are more psychological factors need to be assessed and included in the function of microenterprise success factors. These factors could make a difference on small enterprise success. Although (as noted by Nichter and Goldmark, 2009) psychological factors are generally ignored in the small

enterprise success studies for developing countries, this study considers the importance of these factors and tests if any significant relationship exists between enterprise success and personality traits. Emphasis here is given to need for achievement, locus of control, risk taking propensity and self-efficacy.

4.3.7.1 *Need for achievement*

The role of achievement motivation on enterprise success is advocated through its effect on determination for growth, which drives efforts and energy of the entrepreneur towards the business ultimately leading to success (McClelland, 1965). Following Johnson (1990), the Work and family Orientation approach of measuring need for achievement has been used for this study. Hence, three items based on five-scale Likert method were used to measure need for achievement. These items (described in chapter two) are deemed to measure mastery needs, work orientation and interpersonal competitiveness. The following table (table 4.8) provides results of the survey on need for achievement based on respondents' perceptions. Using a confirmatory factor analysis, this study has conducted a test on whether factors which are made up of several items are reliable. A Cronbach alpha value of greater than 0.6 was used to determine the internal consistency. Subsequently, factors with Cronbach alpha of greater than 0.6 are deemed consistent (DeCoster, 1998). The result reveals that need for achievement is consistent with a Cronbach alpha value of *0.716 with 3 items*.

The data reveals that respondents show a higher tendency for achievement motivation. More than 80% of the respondents either agree or strongly agree with possession of mastery needs (NA1) and work orientation (NA3) while about 80% of the respondents either agree or strongly agree with possessing interpersonal competitiveness (NA2). While the variation of enterprise success across achievement motivation will be discussed in the subsequent section, Table 4.8 shows there are positive signs of personality traits that could drive enterprises towards success. Only about 20% of the operators perceive that they do not have achievement motivation or are neutral on the subject.

Table 4.8
Need for achievement (NA)

Responses	NA1		NA2		NA3	
	f	%	f	%	f	%
SDA	6	2.1	8	2.8	12	4.2
DA	16	5.6	12	4.2	17	5.9
NANDA	10	3.5	13	4.5	31	10.8
AG	138	48.3	127	44.4	120	42.0
SA	116	40.6	126	44.1	106	37.1
Total	286	100	286	100	286	100
Mean	4.1958		4.2273		4.0175	
Mode	4.00		4.00		4.00	
Std. Deviation	.90425		.92571		1.04783	

Source: Own survey result

Note that SDA= strongly disagree=1, DA= Disagree= 2, NANDA = Neutral=3, AG= Agree=4, SA= strongly agree =5.

NA1= Even if I achieved something I want to become better

NA2 = I like to compare myself with others

NA3 = I do everything in order to reach my goal

4.3.7.2 Locus of control

According to Shane et al. (2003), individuals with internal locus of control perceive that their business outcomes solely rely on their own efforts and talents. Hence, success in this case depends on how one perceives of the impact of own effort on business outcomes. A perception that business outcomes are a function of external factors would lead to failure according to Shane et al. (2003). Following these authors, internal locus of control is measured by an item; *result of my business is strongly dependent on my own effort*. Table 4.9 below shows that again respondents' perception that they think they can influence their enterprises is very strong. Only 5 (1.7%) of the total respondents perceive that their business outcomes is determined by external factors.

Table 4.9
Internal locus of control (ILC)

	Frequency	Percent
SDA	3	1.0
DA	2	.7
AG	89	31.1
SA	192	67.1
Total	286	100.0
Mean	4.6259	
Mode	5.00	
Std. Deviation	0.63514	

Source: Own survey result

Table 4.10
Risk-taking propensity

Responses	RTP1		RTP2		RTP3	
	f	%	f	%	f	%
SDA	27	9.4	28	9.8	4	1.4
DA	69	24.1	73	25.5	142	49.7
NANDA	68	23.8	77	26.9	50	17.5
AG	63	22.0	60	21.0	58	20.3
SA	59	20.6	48	16.8	32	11.2
Total	286	100	286	100	286	100
Mean	3.2028		3.0944		2.9021	
Mode	2.00		3.00		2.00	
Std. Deviation	1.27		1.23		1.09	

Source: Own survey result

4.3.7.3 Risk-taking propensity (RTP)

Risk taking and enterprise success are related through investment on assets (Casser, 2007). The importance of risk taking according to Bigsten and Soderbom, (2003) is much more a critical factor in Africa because there are many business uncertainties resulting from institutional and structural problems. Therefore risk taking could make a big difference between enterprises in African countries.

Following Corman et al. (1988) a three item and five scale Likert question has been used to measure risk taking propensity of the respondents. The items are attached in the questionnaire in chapter two. The reliability test of the items as indicated by cronbach alpha reveals that the items are reliable at alpha value of 0.857 . Thus it has been confirmed that these three items could serve as a measure of risk taking propensity of microenterprise operators in Addis Ababa.

Respondents were asked to tell their perception on each items of the risk-taking propensity. The data (Table 4.10) reveals that in general risk-taking propensity is low among microenterprise operators in Addis Ababa. About 42% agreed or strongly agreed with RTP1, about 38% agreed or strongly agreed with RTP2 and about 32% agreed or strongly agreed with RTP3 indicating that the great majority of respondents do not tend to take risks. This is supported with a restaurant owner from around Merkato (Box 4.4). Although risk taking is a critical success factor for micro and small enterprises as advocated by researchers, lack of it might have hampered enterprise successes in Africa. Poverty and dire conditions force operators to take conservative actions than taking bold investment decisions. These conservative actions will force operators to remain subsistent putting them in vicious circle of poverty and risk-taking.

Box 4.4 *Risk-averse operator*

Respondent No.118 (Asnakech) is a 27-year old woman who is engaged in a restaurant business around Merkato. She is widowed with two children both attending elementary school. She joined Addis with her husband named Dejene, 9 years back. Lack of farm land partly and conflict of her husband with neighbourhood (mainly) in Gojam area of Amhara region contributed to her migration to Addis. Before migration her husband was engaged in blacksmith and other non-farm activities. A bad word (insult) from a neighbourhood calling Dejene *Ketkatch*, meaning a blacksmith-man has resulted in a physical harm by Dejene on his neighbour Alemu and contributed to Dejene's migration because he thought Alemu was dead during the fight. *Ketkatch* is a taboo word and it is an insult that could lead to a fight.

Asnakech's cousin, who had stayed longer in Addis, helped Asnakech and her husband to obtain a 20sq meter house rent made of mud and old teen roof for 50 birr per month eight years back. The same person helped Asnakech to start selling *Shiro* (Injera and a sauce made of beans) by lending her some money and finding her a small room for this informal restaurant. Daily labourers, vendors and low income earners are main users of her product; however some less paid civil servants also consume her *Shiro*. She has taken full responsibility of leading her family after the death of her husband by car accident five years after their stay in Addis.

Although her turnover is increasing from time to time she does not want to take risks and diversify or expand her business. She cancelled a number of opportunities offered from her cousin and other friends to get rented and run her restaurant business on the main road with a fair price. She also refused to pay a small proportion (about 5000 birr) of initial instalment for condominium houses and missed the opportunity of owning a house although she can afford to pay for it because she did not believe it is true that the government gives her a one bedroom house with that price.

When asked are you willing to take risks related to your business she replied "I fear taking risks related to my business. I do not imagine any other business or any other place than this confined small restaurant. I have many customers and good turnover. I can afford school fees for my children. I think that I will lose all my customers if I change place of my work or even diversify my product from *Shiro* to *Key wet* (with meat sauce). Many of my customers can only afford *Shiro*. *Key wet* is prepared only during holidays. I cancelled a quest to open a restaurant at around Kwasmada because I feared I could not sale as much enough *Shiro* as I am now selling. Any shock to my business means that I and my children will fall under crisis. So I fear taking any risks because no one is out there to help me in case I bankrupt. I am praying God not to give this plot to investors who demolish old houses such as this one and build towers here and there in Addis Ababa."

Source: Own survey result

4.3.7.4 Self-efficacy (SE)

Self-efficacy, which measures task specific self-confidence, reflects the mastery of operators over their businesses. The ability of operators to pull resources, skill and their competence to achieve some success is reflected through self-efficacy (Bandura, 1997). Shane et al. (2003) noted that self-efficacy is a robust predictor of an individual's performance for a specific task.

Following the theoretical framework, self-efficacy has been measured using eight items, five scale Likert method. The items are attached in the questionnaire. The items are also reliable as indicated by a Cronbach alpha value of *0.688*. Thus, self-efficacy has been retained as a determinant of success for this study. Moreover, the items reliably measure this factor.

Table 4.11
Self-efficacy

Re-spon-ses	SE1		SE2		SE3		SE4		SE5		SE6		SE7		SE8	
	f	%	f	%	f	%	f	%	f	%	f	%	f	%	f	%
SDA	35	12.2	36	12.6	1	.3	33	11.5	33	11.5	30	10.5	34	11.9	1	.3
DA	90	31.5	112	39.2	160	55.9	91	31.8	116	40.6	116	40.6	116	40.6	162	56.6
NAN DA	84	29.4	84	29.4	66	23.1	79	27.6	81	28.3	75	26.2	89	31.1	67	23.4
AG	50	17.5	25	8.7	27	9.4	54	18.9	28	9.8	47	16.4	24	8.4	32	11.2
SA	27	9.4	29	10.1	32	11.2	29	10.1	28	9.8	18	6.3	23	8.0	24	8.4
Total	286	100.0	286	100.0	286	100.0	286	100.0	286	100.0	286	100.0	286	100.0	286	100.0
Mean	2.8042		2.6469		2.7517		2.8427		2.6573		2.6748		2.6014		2.7063	
Mode	2.00		2.00		2.00		2.00		2.00		2.00		2.00		2.00	
Std. Devi- ation	1.15019		1.12598		1.02833		1.16366		1.11516		1.06748		1.06386		.97212	

Source: Own survey result

The data (Table 4.11) reflects that self-efficacy (SE) of respondents is not stronger as other traits such as need for achievement. On the average only about 21% of the respondents agreed or strongly agreed to all positively stated items indicating that most respondents do not perceive that they possess mastery and self-confidence over their businesses. This could raise the issue of if entrepreneurs start their businesses by first getting equipped with the necessary knowledge and skill needed to do the task. The finding from this data reinforces the conclusion that enterprise start-ups in Africa are the result of enforced entrepreneurship rather

than driven by market opportunities as advocated by Rogerson, (2001). A survival oriented entrepreneurs are usually less skilled and possess less mastery over their businesses. Their products or services will also remain less competitive and then success will be adversely affected. Therefore these operators run an enforced entrepreneurship with little know how a priori rather than a carefully designed feasibility study before commencing operations.

4.3.8 Factor Analysis

This study has carried out a factor analysis for personality traits and entrepreneurial orientation. The procedure is that, first correlation analysis is done to see if carrying out factor analysis is justified. Only if most items are correlated, that we proceed with factor analysis. Following correlation analysis, we test the general validity using the Kaiser-Meyer-Olkin (KMO) and Bartlett's test on the SPSS. This study has used a minimum of 0.5 for the validity of these tests. Factor analysis was then applied to summarize the factors that measure each of the personality traits and entrepreneurial orientation. Eigen value of a minimum of 1 is used to determine the number of factors to be retained for analysis. Furthermore, the internal consistency (reliability) of the items was measured using Cronbach's alpha. A minimum of 0.6 is used to accept the internal consistency of these items. Following these steps, average summated scales are used for regression analysis if each Likert-scale possesses a normal distribution. Thus, the test for normality has been carried out before using these Likert-scale variables for further analysis in the regression. The results for principal component analysis are presented (Annex 3).

4.3.8.1 Factor analysis for need for achievement

As shown in Annex 3, Table 1, all items for need for achievement are significantly correlated. This justifies that we can proceed with factor analysis. The KMO and Bartlett's test also indicates its general validity because the scores are 0.65. The principal component analysis (PCA) indicates that only one variable has an Eigen value of more than one. The result suggests that these items can be used together to form a composite variable for need for achievement. The internal consistency for need for achievement has been found to be a Cronbach alpha value of

0.71 suggesting that these items can be used together to create a composite variable for achievement motivation.

4.3.8.2 Factor analysis for risk taking propensity

As shown in Annex 3 Table 2, all variables are significantly correlated suggesting that we can proceed with factor analysis. The KMO and Bartlett's test also indicates its general validity because the scores are 0.64. Again, only one factor is retained indicating that risk taking propensity can be represented by the composite of these three items taken together. The Cronbach alpha value is 0.85 indicating a strong internal consistency of these items.

4.3.8.3 Factor analysis for self-efficacy

The result for factor analysis of self-efficacy is also shown in Annex 3, Table 3. Most of the items are correlated and hence conducting factor analysis is justified. The KMO and Bartlett's test also indicates its general validity because the scores are 0.59 implying it is in the acceptable region. The principal component analysis reveals that three factors instead of one are retained because they appear to have an Eigen value of more than one. The Cronbach for the entire scale was 0.68 indicating that the entire scale is reliable.

4.4 Enterprise Characteristics

As has been discussed in the introduction, small business success determinants have been analyzed from three angles: factors related to the entrepreneur, factors related to the business and factors related to external environment. The conceptual framework for this study has included entrepreneurial orientation of a firm as a factor linking these determinants together. This will be discussed by analyzing interaction effect between entrepreneur characteristics and the entrepreneurial orientation of a firm. This section discusses characteristics of the business such as, enterprise locations, ownership structure of the business, facilities, financial system, future plans and major challenges.

4.4.1 Sector/activity of the enterprise

The sectoral breakdown employed for this study is based on the definitions used by researchers such Liedholm and Mead (1999) and (2001),

McPherson (1995) and (1996). These authors have found variations in enterprise and owner characteristics across sectors and used sector dummies in their regression to take account of sectoral variations that would have an effect on enterprise success. The World Bank report (2007), based on data from CSA of Ethiopia, also analyzes the distribution of gender, education and other characteristics across sector composition and posits that there are observable variations in these characteristics across sector.

The sectors in this study were defined broadly as in for example the definition employed by CSA. Accordingly, each sector is defined as follows for the purpose of this study:

Construction: Daily labourers and contractors engaged in building houses.

Manufacturing: Manufacture of food products and beverages, manufacture of wood products, weaving, handicrafts

Service sector: Restaurant, hotel, shoe shining, loading-unloading, transport (driving), etc.

Retail trade: Vending, Retailing of clothes, goods etc.

From the data (Table 4.12) construction sector workers were found to show high churning up with an exit rate of about 84.5% followed by the manufacturing (76%) and retail trade (70%) sector operators within the data period. The service sector is found to be relatively stable with only 52.8% exit rate. Exit here is defined on the basis that operators are not included in the second round survey although an effort to trace them had followed similar procedure.¹ It could be that the service sector (especially hotel and restaurant business) is paying better as evidenced for example by the World Bank (2007) report based on the CSA (2003) data. The construction sector in the informal sector is largely composed of daily labourers who could become mobile across cities or across regions resulting in high exit rates for the sector. A rapidly rising prices of construction materials have also had a downward effect on the current pace of the construction sector leading the push away of these operators to other sector or other city. Construction sector operators with fixed loca-

¹ The procedures are from Sub-City to Kebele, from Kebele to Enumerator area, from enumerator area to household and from household to establishment level.

tion such as brick and beam producers, metal and wood working operators in the informal sector were included in both surveys. However, it could also be that hotels and restaurants in the service sector are less mobile compared to construction sector and easy mobility could have contributed to the high exit rate of the construction sector operators.

Table 4.12
Sector/activity and exit rate across activity

	Fre- quency (2010)	Percent (2010)	Fre- quency (2008)	Percent (2008)	Exit across sub sector	
					Exit	Exit Rate (%)
Retail Trade	90	31.5	300	28.7	210	70
Manufacturing	52	18.2	220	21.1	168	76
Services	118	41.3	250	23.9	132	52.8
Construction	26	9.1	168	16.1	142	84.5
Other	-	-	62	5.9	-	-
Total	286	100.0	1000	100	-	-

Source: Own survey result

4.4.2 Ownership structure

Ownership of a business influences success through risk taking and thereby affecting investment on enterprises. Family owned enterprises do not tend to take risks as compared to enterprises owned through partnership. Moreover, for partnerships the enterprise usually is an independent entity run by employed managers thereby reducing the chance of diverting from investment on the business to consumption by the household. Ethiopian Chamber of commerce (2006) report notes that business ownership in Ethiopia is dominated by family owned businesses even among larger enterprises. The report notes that the probability that family owned enterprises obtain loans from financial institutions is less compared to those owned through partnerships.

A questionnaire was posed to respondents to reveal the form of ownership structure of their enterprises. About 95% of the enterprises are

owned by the sole proprietor and a small fraction (5.2%) of the sampled enterprises is owned by partners. This is consistent with the analysis made by Ageba and Amha (2003) who found that about 94% of MSEs were owned by sole proprietors.

Table 4.13
Ownership structure

		Frequency	Percent
Valid	Partnership	15	5.2
	Sole ownership	271	94.8
	Total	286	100.0

Source: Own survey result

From Table 4.13 above, it can be deduced that sampled enterprises could be adversely affected because of their ownership structure and this could be one reason why these businesses are largely run by income from own savings or borrowings from friends and relatives. The chance of accessing banks could be limited if enterprises are owned by a single operator or a family and hence these operators resort to informal sources which could hamper profits since informal loans usually lead to high interest payments. Many of the respondents say they do not trust partners on their enterprises and want to run by themselves. There are also few operators who do not trust even family members. For example Respondent no. 17, Ayalew, was operating a retail shop from Shola Market, the second biggest open market next to Merkato. He says he does not trust his wife and his son in his business. He complains about his wife saying *she is not serious about this business. He says she lends and, sometimes grants money for her parents who come to visit her at this shop. Everything is done beyond my knowledge. At times, I was even thinking of a divorce. Last Meskel, she gave her father 5000 birr from this business, a two months profit, when I was at Harar looking for some contraband goods. I heard this, long after the event. She is totally destructive and the same is my son. Now, in my absence the shop stays closed. I do not have an interest to form a partnership with others. Who do you trust more than your wife and son?*

4.4.3 Location of the enterprise/activity

Enterprise location affects success through its impact on demand for goods or services produced (Liedholm, 2002). From the supply side enterprise location affects costs of inputs and thereby affects competitiveness. Enterprises located near competitors face stiff competition and may experience lower profits compared to those enterprises located further away from competitors. According to Liedholm, enterprises located in rural areas face less competition and sometimes even possess monopoly power over goods and services they provide. This will allow rural enterprises to reap profits and grow faster compared to urban based businesses that usually face tough competition. Respondents as well as own observation method helped reveal data on the location of enterprises. A question on why they are located at their present place is also asked. The data shows that enterprise location varies across sector/ activity in the city of Addis Ababa. About 59% of the respondents do not operate from home and with enough space. For enterprises operating from home with space, manufacturing and the service sector takes the lion's share with 45% and 40% respectively. It could be the nature of the activity since for example restaurant and hotel services require home with space. All the 'Gazelles' based on the definition (see Chapter 2) were operating from home with enough space. The majority (74%) of retail traders are operating either in open space on street, open space in market area or mobile with no fixed location.

As expected demand and supply factors were important forces behind enterprise location (Table 4.14) below. About 41.6 percent of the respondents mention access to market as an important factor influencing location followed by owner lives here (21.3%) and access to raw materials (16.1%). Thus in as long as businesses are located in commercial districts, operating from home with enough space could fetch better income compared to businesses that operate on the roadside. About 6.6% of the operators responded that they are currently located here because they cannot afford other sites. Female dominate the percentage share of respondents reporting that enterprises are located because owner lives here by about 69%. Out of the 61 respondents reporting owner lives here 42 were female operators. This could indicate the family responsibility associated with female operators. These operators are maximizing from both business activity and household responsibilities such as cooking, taking care of children and so on and could report that they are suc-

cessful because they are able to meet both functions as argued for example on the World Bank's subjective definition of success. However, lack of concentration on enterprise activities could affect success adversely.

Table 4.14
Why located at present site?

	Frequency	Percent
Near to market or customers	119	41.6
Near to competitors	41	14.3
Near to raw materials	46	16.1
Owner lives here	61	21.3
Cannot afford other site	19	6.6
Total	286	100.0

Source: Own survey result

Respondents were also asked about the ownership of the structure on which they are operating. About 71% of the operators have either rented or partially owned the structure. 26 operators (9.1%) were provided free. These operators were once engaged in the microenterprise development programs run by the Addis Ababa's ReMSEDA. After only two years of stay in the program they left it voluntarily but were provided a working premise freely. The agency has no interest to take back the current structure from these operators according to the interview held with many of them and head of the ReMSEDA.

4.4.4 Business income and capital

A poor financial system among MSE operators deterred detailed collection of information on business income and capital. Since only small proportion of operators keep accounting records, information on business income is largely obtained through questioning operators in both data periods and then computing financial ratios based on the two observations. MSE operators were asked if they keep any book of accounts. The survey result shows that about 85% of respondents do not keep accounting records while 9 percent keep partial books of accounts and on-

ly 6 percent keep complete books of accounts (Table 4.15). Information on the age of the enterprise, amount of start-up capital, source of finance for the start-up capital, values of profit, revenue and expenditure were gathered during the survey in both periods.

Table 4.15
Do you keep accounting record?

		Frequency	Percent
Valid	no account kept	180	62.9
	yes full accounts	12	4.2
	partial accounts	94	32.9
	Total	286	100.0

Source: Own survey result

Fransen and Van Dijk (2008) mention five dimensions of informality; and keeping an accounting system was one of these dimensions. According to the authors, firms that do not keep complete accounting records can be dubbed informal. Viewed from this angle about 96% of our sampled MSEs are indeed characterized by informality. This could pose problems on planning by the firm and could lead to failure to report profits and sales.

Table 4.16
Financial performance

	Total capital	Revenue	Expenditure	Profit
Mean	23486.0424	22035.3737	18001.7483	4035.8042
Median	10000.0000	20000.0000	15200.0000	3500.0000
Std. Deviation	26311.65339	14618.05860	13578.11125	3035.50335

Source: Own survey result

The financial performance of these operators indicates (Table 4.16) that the average value for total turnover is about 22,035 while for gross

profit it is 4035 birr. However, there is a strong variation among the enterprises as can be evidenced by high values of standard variation across each category. This again leads to the investigation of which firms perform better and what characteristics they exhibit.

Table 4.17
Mean and median start-up capital

Mean	6830.0874
Median	2000.0000
Std. Deviation	12186.68095

Source: Own survey result

4.4.5 Start-up capital

Start-up capital has been among the basic characteristics of microenterprises. Many MSEs start operations with very low amount of capital owing to the nature of operators. The push and pull factors argument and reasons for choosing the activity indicates that initially MSE operators start businesses with a very low amount of capital. It was originally meant to sustain life of operators who are in a worse situation. Through time however, some operators turn this into a more profitable and better opportunity sector. Thus, the smaller the start-up capital does not necessarily lead to low performance although it means non-levelled playing field. The average start-up capital for our sampled operators is found to be 6830 birr with a median value of 2000 birr and a standard variation of about 12000 birr (Table 4.17). The median value is comparable to the findings by Ageba and Amha (2003) who found 2077 birr.

The large majority of operators (71.7%) started businesses with less than 5000 birr. About 28.3% of the MSEs have commenced operations with less than 100 birr and only 12.6% have started operations with an initial capital exceeding 10,000 birr (see Table 4.18, below).

Table 4.18
Start-up capital range

Star-up capital range	Frequency	Percentage
10-1000	81	28.3
1001-5000	124	43.4
5001-10000	45	15.7
>10,000	36	12.6

Source: Own survey result

Table 4.19
Source of finance for the start-up

		Frequency	Percent
Valid	Personal saving	101	35.3
	inheritance	42	14.7
	Friends or relatives	125	43.7
	Microfinance institutions	18	6.3
	Total	286	100.0

Source: Own survey result

4.4.6 Source of finance for the start-up capital

An assessment of source finance for the start-up capital has been carried out by asking a close ended question. The table below shows results of the source of finance for the start-up. The data (Table 4.19) reveals that friends/relatives (43.7%) and personal savings (35.3%) make major parts of the source of finance for the start-up. This is in contradiction to the findings by Ageba and Amha (2003) who obtained 58% for personal savings followed by 17% for friends and relatives. None of the operators mentioned a bank loan as a source of finance although it was in the alternatives. Only 18 operators (6.3%) mentioned microfinance institutions as source of finance. Many respondents either do not know or have the view that they are not fit for borrowing from banks and micro-finance institution.

4.4.7 Entrepreneurial orientation of a firm (EO)

Entrepreneurial orientation is a key characteristic of a firm because it reflects firm's strategic orientation and that this orientation plays an important role for success. Moreover, EO is advocated not only to be a direct determinant of success but it also mediates other factors such as attitude, resource and environmental factors (Covin et al., 2006). As argued by Wiklund et al. (2007), eight items were used to measure EO. A five point scale (from Strongly Agree to Strongly Disagree) item using Likert method was employed. The items are attached on the methodology part.

Table 4.20
Entrepreneurial orientation (EO) of a firm

Re-spon-ses	IS1		IS2		IS3		PA1		PA2		PA3		RT1		RT2	
	f	%	f	%	f	%	f	%	f	%	f	%	f	%	f	%
SDA	14	4.9	13	4.5	15	5.2	34	11.9	58	20.3	30	10.5	39	13.6	17	5.9
DA	117	40.9	121	42.3	50	17.5	106	37.1	125	43.7	143	50.0	52	18.2	130	45.5
NANDA	74	25.9	94	32.9	27	9.4	65	22.7	65	22.7	81	28.3	109	38.1	62	21.7
AG	48	16.8	31	10.8	95	33.2	46	16.1	17	5.9	16	5.6	43	15.0	57	19.9
SA	33	11.5	27	9.4	99	34.6	35	12.2	21	7.3	16	5.6	43	15.0	20	7.0
Total	286	100.0	286	100.0	286	100.0	286	100.0	286	100.0	286	100.0	286	100.0	17	5.9
Mean	2.8916		2.7832		3.7448		2.7972		2.3636		2.4580		2.9965		2.7657	
Mode	2.00		2.00		5.00		2.00		2.00		2.00		3.00		2.00	
Std. Dev.	1.10761		1.02351		1.24586		1.20850		1.09574		.95329		1.21828		1.05847	

Source: Own computation from data

The scale reliability test was also carried out to see if the items are reliable together. The Cronbach's alpha value for all items taken together yields 0.689 indicating that the items are reliable and can be retained as a measure of firm's EO.

From the data as indicated in table 4.20 above, Entrepreneurial orientation is generally weak among MSE firms. Only the third item for inno-

vation strategy (which says, *during the past 2 years our firm has marketed a very large number of new lines of products or services*) has been found to score highest with an average of 3.75. Most operators disagree with the positively stated items indicating that this key success factor is weak among our sampled enterprises. However, some enterprises are found to possess a higher score leading to the analysis of EO across various growth groups and this will be analyzed in the later sections.

Result of the correlation matrix (Annex 3, Table 4) reveals that the majority of the items are related at the 0.01 level and at the 0.05 level, which provides an adequate basis for proceeding with factor Analysis. The KMO measure of sampling adequacy value falls in the acceptable range with a value of 0.54 suggesting that Factor Analysis can be continued. Factor Analysis of the items suggests a three-factor solution, which accounts for 66.2% of the variance. The internal consistency of the entire model as measured by Cronbach alpha is 0.68 indicating that the items taken together are reliable measures of entrepreneurial orientation.

4.4.8 Future plans and major challenges

Besides the objective analysis of enterprise performance firms were asked about their own future plans. This was meant to understand the intention of expansion and factors that deter or boost this outcome from the viewpoint of proprietors themselves. A question: do you want to continue with present activity, was posed to all second round surveyed operators. About 79.4% of the operators reported a 'yes' answer and showed less tendency to shift to another activity. However there are observed sector specific variations on the tendency to continue current activity (Table 4.21, below). The service sector (86.4%) followed by the manufacturing sector (82.7%) showed a better tendency to continue with present activity. There is a very slight difference between retail trade and manufacturing. The construction sector operators were found to show fewer tendencies to continue with present activity. May be the sky rocketing prices of inputs for this sector has discouraged operators.

Table 4.21
Future plans

	Retail trade		Construction		Service sector		Manufacturing	
	N	%	N	%	N	%	N	%
Want to continue	73	81.1	9	34.6	102	86.4	43	82.7
Don't want to continue	11	12.2	14	53.8	12	10.1	6	11.5
Do not know	6	6.6	3	11.5	4	3.4	3	5.8

Source: Own computation from data

A question seeking a response on whether enterprises want to make business expansion however came out with relatively small proportion of respondents tending to expand by next year. Thus it can be deduced that even the non-growing enterprises want to continue with their present activity. Lack of alternatives and family responsibilities may force these operators to stay mired in the informal sector even when the business is not expanding. On the other side some operators may not want to delegate decision makings and hence may opt not to expand even if they make profits. According to own observation both ways could explain microenterprises in Ethiopia. However, a further investigation into enterprises that have tendency to discontinue operation yields a number of various reasons. The most explained reasons were shortage of capital, lack of working premises and inability to compete with others. Other reasons include lack of raw material, health related problems, harassment, and to continue education.

Operators were also asked to disclose major challenges during operation. Harassment and strict government regulations are not significant problems contrary to expectations (Table 4.22 below).

Table 4.22
Major constraints

Major constraints	Retail trade		Construction		Manufacturing		Service	
	N	%	N	%	N	%	N	%
No problem	3	3.3	--		---		13	11
Heavy governments tax	4	4.4	---		--		9	7.6
Government rules and regulations	4	4.4	---		---		11	9.3
Unfair competition from large enterprises	21	23.3	4	15.4	2	3.8	12	10.1
Inadequate supply of raw materials	---		19	73.07	12	23	3	2.5
Lack of working place or structure	26	28.8	2	7.7	13	25	31	26.2
Lack of production equipment	---		--		9	17.3	--	
Lack of working capital	24	26.6	--		14	26.9	34	28.8
Lack of credit facilities	2	2.2	1	3.8	---	--	---	
Shortage of market	6	6.6	--		2	3.8	2	1.7
Lack of up to date business information	---		--		---		3	2.5

Source: Own survey result

However there are observed sector specific variations related to problems of expansion during operation among microenterprises. A question was posed to respondents to report sever problems they faced on a scale of 1-5 during operation. Table 4.22 above presents the most severe problem MSEs encountered across sectors. For retail trade enterprises lack of working premises (28.8%), lack of working capital (26.6%) and unfair competition from large enterprises (23.3%) take the major proportion. For construction sector enterprises inadequate supply of raw materials (73.07%) followed by unfair competition from large enterprises takes the major share. For manufacturing sector operators however lack of working capital (26.9%), lack of premises (25%) and inadequate supply of raw materials (23%) account for the major constraints in that order. Lack of working capital and problem of premises is also among the most pressing problems reported by service sector operators. Although sector specific analysis was not carried out, Ageba and Amha (2004) found tax administration and government regulations as the most critical problem for MSE expansion. In the current analysis however, these fac-

tors are insignificant. This could lend support to the World Bank (2007) that the enabling business environment has improved in the country. However issues of working premises, competition from large enterprises and supply of working capital, the major constraints observed among all sampled operators, need attention and policies should give emphasis to resolve these constraints. In so far as various observations are carried out by the researcher organized MSEs have access to most of these constraints and did not report these factors as major problems. A mere support for cooperative MSEs could stifle not only the unorganized MSEs, but it also could have a negative repercussion on private sector development in general.

4.5 Dynamics of Microenterprises

Liedholm (2002) mentions of the dynamics of small and microenterprises in terms of net expansion that arise from net entrants and net expansion from growth of existing firms. One of the pressing findings of his study is that enterprise expansion from existing firms has contributed more to the overall expansion in the size of MSEs than the net new firm addition. This finding provokes the study of dynamics of small and micro enterprises from the dimension of the existing firms. In fact the study of micro and small enterprise success relies heavily on understanding the characteristics of these existing firms. This study also relies on this methodology and investigates those firms that are captured by the two round surveys. The dynamics is thus observed within 28 months of the data period.

This study has relied on multidimensional aspects of success. The argument is based on the fact that only a single indicator of success is not enough to explain small and micro enterprise dynamics. First, since the data period is so small to observe real dynamics the study has opted to diversify its indicators of success. The analysis of correlation has also been carried out between indicators of success (Table 4.23). The data reveals that although correlation is significant, it is not so strong. Pearson correlation is less than or equal to 0.5 for all of our success measures. This reinforces the contention by this study that success indicators should be analyzed separately than indexing together. Changes in sales and profit are positively correlated with employment growth. This supports Parker's (1994) findings for Kenya. Although she emphasized on

sales growth versus employment growth only, the correlation is even stronger for profit growth based on our data set. The correlation is stronger for profit than for sales indicating that enterprises are sensitive to profit growth than sales growth while deciding to hire an additional labour force.

Table 4.23
Correlation matrix for success variables

		Average employment growth	Average profit growth	Average Sales growth
Average employment growth	Pearson Correlation	1	.504**	.450**
	Sig. (2-tailed)		.000	.000
	N	286	286	286
Average profit growth	Pearson Correlation	.504**	1	.196**
	Sig. (2-tailed)	.000		.001
	N	286	286	286
Average Sales growth	Pearson Correlation	.450**	.196**	1
	Sig. (2-tailed)	.000	.001	
	N	286	286	286

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

Source: Own computation from data

Following Liedholm (2002), all the success indicators were measured by averaging the yearly growth rates. The firm's first appearance in the data set is taken as the base year for computing growth rates as advocated for example by Dunne et al., (1989). Thus average annual growth rate for all success indicators is calculated using the following formula:

$$G = [(size\ at_{2010} - size\ at_{2008}) / size\ at_{2008}] / 2.33$$

Where, G = average annual growth rate for all success indicators, size at₂₀₁₀ represents real values for profit and sales, and employment size on 2010 (last data period), size at₂₀₀₈ represents real values for profit and sales, and employment size on 2008 (initial data period), 2.33 is the time (in year) elapsed between two data periods.

Table 4.24
Average growth rates of success indicators

Average growth rate category	Proportion of respondents (%)		
	Sales growth	Employment growth	Profit growth
< 0	2.8	9.4	13.3
0-10	42.6	51.04	9.43
11-20	17.5	1.75	12.2
21-30	9.4	4.5	9.8
31-40	5.6	1.04	8.04
41-50	5.2	16.8	7.3
51-60	3.8	3.1	9.09
61-70	3.5	3.1	5.6
71-80	0.7	1.04	3.8
81-90	4.2	5.2	6.7
91-100	0.7	0	3.5
>100	3.8	2.8	10.8

Source: Own survey result

Table 4.24 above shows the summary of enterprises' average annual growth rates for sales, employment and profit respectively. A direct question was employed to obtain the values of these dependent variables at establishment level for both periods. Moreover a direct observation method was also used to confirm on the size of employment in both periods. As expected, many respondents were not able to figure out the values of their enterprises profits and sales for 2008 when asked for the second time after 28 months. Only 25 (8.7%) operators had recorded fully or partially their monthly sales and profits and responded comfortably to sales, profit and employment sizes of the past. For those with accounting record, the 2008 data was almost congruent with theirs. As argued by Van Dijk (2005), about 178 (62%) of the respondents were consuming from profits of their enterprises and are unable to disclose sales and profit values for 2008 when asked in 2010. But many of these respondents reported the values for 2010. A question on the monthly consumption and another source of income helped to capture estimates of the profits from enterprises for those who could not be able to remember/figure out monthly profits or sales for 2010. Also a question

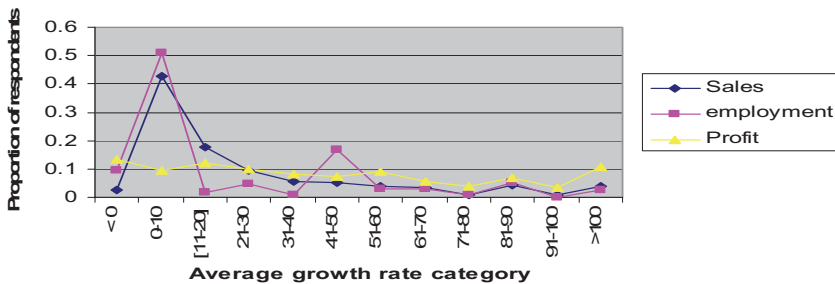
was posed to reveal data on weekly bases and a combination of these methods were used to yield yearly estimates of success indicators for those with no accounting record and for those who cannot remember their sales and profit values for the latest data period. All respondents were able to report size of employment comfortably for both data periods.

Table 4.24 reveals the dynamics of microenterprises for the existing firms. About 2.8% of enterprises have experienced a negative annual average growth rate for sales and about 9.4% of the enterprises have cut jobs/reduced employment and about 13.3% of the enterprises have experienced a negative annual average growth rate of profit over the past 2.33 years. Employment growth based on our data is comparable to African figures. Liedholm (1993) computed the annual average growth rate of microenterprises for 11 sub-Saharan African countries and obtained about 5.3% of firms for Botswana, 2.8% for Kenya, 8.2% for Lesotho, and 17.8% for Niger were experiencing a negative growth rate (contraction) using employment growth as an indicator of success. The same study reveals that on average about 65% of all microenterprises in the selected countries have remained stagnant. Our data reveals that 101 (35.3%) enterprises have stagnated or achieved a zero growth rate in employment indicating a relatively better performance compared to the average of African countries mentioned above, although there are significant time gaps between the study periods. However, only 27 (9.4%) of the MSEs have achieved a growth rate ranging between zero and ten percent annually. None of the MSEs have achieved exactly zero growth rate in profit implying that employment expansion comes long after firms have experienced profit. Hence, the data confirms the contention that employment is a conservative indicator of success. However, as argued by Covin et al. (2006), Liedholm, (2001) and Parker (1994) employment growth need not be deflated and can easily be recalled by respondents.

The trend against proportion of respondents has been revealed using the diagram below (Figure 4.3). Profit growth has been consistent and smoothly growing for all enterprises. Also profit growth lies above employment growth except for the two categories: the 0-10 category and the 41-50 growth categories. In all other growth category most respondents reported higher profits growths. In the first growth category (less than zero) the proportion of respondents reporting a negative profit

growth is higher than the one reported for employment. A closer look into the data for the 0-10 growth category shows that about 101 (35.3%) enterprises have achieved a zero employment growth rate or remained stagnant while the proportion of respondents reporting profit is about 9.43. Out of the 101 enterprises reporting a zero employment growth, 87 (86.1%) of the stagnant enterprises (in terms of employment) were incurring a positive growth in profit. This indicates that although there is a positive and significant correlation (shown in Table 4-24) between profit growth and employment growth the effect of profit on employment is not instant. A more direct relationship between sales growth and profit growth is observed except in the growth category of 0-10%. Large number (42.6%) of enterprises has incurred a growth rate of sales ranging between 0 and 10%.

Figure 4.2
Micro-enterprise growth



Source: Own survey results

Few firms have experienced a more than 100 percent growth in employment, sales and profit. This figure shows 3.8 percent for sales, 2.8 percent for employment and 10.8% for profit (Table 4.24). An analysis of “Gazelles” based on the employment criteria shows that indeed there are few firms that exhibit the criteria advocated by *Euro stat-OECD (2007)* and later modified by Goedhuys and Sleuwaegen (2009) for Africa. As explained in the theoretical framework “Gazelles” were defined as those firms exhibiting a more than 10% growth rates in employment over a period of three years, a minimum of 5 employees at the initial year

and a business with a minimum of five years of age. Based on the data period for this study and a minimum of 5 employees about 8 firms were identified. Table 4.25 reveals some characteristics associated with Gazelles from the sample respondents.

Table 4.25
“Gazelles” and associated characteristics

Gazelles	Annual ave. employment growth rate (%)	Sex of owner	Age of the proprietor (yrs)	Education Level of the enterprise owner	Sector
1	42.8	Male	28	Junior secondary	Service
2	60	Male	22	High school	Service
3	51	Female	25	Junior secondary	service
4	68.5	Male	31	High school	Retail trade
5	35.7	Female	24	High school	Retail trade
6	25.7	Male	38	Diploma (vocational)	Manufacturing
7	51.4	Male	27	Diploma (Vocational)	Service
8	30.6	Male	25	Diploma	service

Source: Own survey result

Gazelles are experiencing a very high growth rate in employment and indeed could contribute to the poverty reduction efforts through job creation if greater emphasis is given. A minimum of about 25.7% of annual average growth rate of employment is registered. However the distribution of Gazelles is not uniform across sector, gender and education of the respondents. Sector wise Gazelles are concentrated on the service sector. Five of the eight Gazelles were service sector operators. They were all engaged in hotel and restaurant businesses. An in-depth interview with a restaurant operator at around CMC area (Box 4-5) yields a summary of Gazelles in this sector. The operators are young with an average age of 28.75 years. Gazelles are also relatively better educated. There are three diploma holders, three high school graduates and two junior secondary graduates. Diploma graduates have taken vocational and technical trainings in hotel and tourism management. Gender wise only two of the eight identified Gazelles are female indicating that there

is a significant variation in employment growth among Gazelles across gender.

Box 4.5
An example of Gazelles

Respondent No. 30, Melaku, is originally from Gurage zone of SNNP. When he first arrived Addis, he was employed as a waiter in uncle's restaurant located at central Merkato 10 years ago. It took him only two years to open own informal restaurant selling *shiro* and *Key wet* around the same area where his uncle's restaurant is located. He mentions of a financial support from his uncle, and accumulated savings (*iqub*) as big factors for his business start-up. His cousin Almaz was great help to manage the kitchen, preparing spicy *shiro* and *Key wet* and attracting customers. After a year since he started operating own business, Melaku went further away and opened a restaurant and butchery at around CMC area. Initially he rented for 2000birr per month and started with 3 employees including Almaz who followed him to CMC and who is still overseeing the kitchen. In 2008 (the first round survey) there were about 6 full time employees and he was paying 12000 birr per month for rent only. He has a very high turnover and was comfortable with the price for rent. In the second round survey there are 12 employees including the proprietor and he is currently paying 15000 birr per month. But still he is happy as he has large number of customers.

When asked how profitable his business is, he says, 'I am fine and I am really profitable. I have customers who don't go back when I increase price of a kilo of meat by 50% or even sixty percent. In a day I sell two hundred kilos of beef on average except during the fasting days. A kilo of meat is sold at 90 birr currently. I roughly earn about 2000 birr per day profit only from butchery. I sale beer, alcohols and other soft drinks. I am registered by trade and industry office because otherwise it is impossible to obtain a certificate from veterinary officials about the health status of oxen meat I retail. I have not renewed it since 2006 because there was no tough enforcement as such. Many sub-city officials come and visit my restaurant. At times, they are served free of charge, so no one wants to put tough regulation on my restaurant business. Thanks God I am making good money now and in the near future I have a plan to build a G+ something here around my business.'

Source: Own interview result

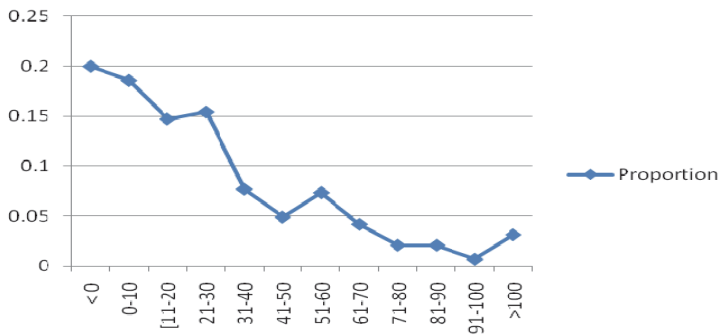
4.5.1 Value Added per Worker and Firm Productivity Growth

The computation of value added per labourer could rather enlighten the success of microenterprises. In most of the cases productivity growth or value added per labourer is usually computed for medium or large sized firms than for microenterprises. The problem relates to lack of recording and keeping complete book of accounts by these small and micro and firms. Thus success studies are very much focused on understanding survival and employment growth over time than dealing with financial variables. Although this is the case the availability of financial variables

has allowed us to compute the ratio of profit per labourer and turnover per labourer growth.

The difference between the sale price and the production cost of a product is the value added per unit. Summing value added per unit over all units sold is total value added. Total value added is equivalent to revenue less total expenditure assuming that expenses are external. Hence value added per worker can be computed by dividing the difference between the two by the number of employees. This means that growth in value added can also be computed based on the two data periods. The following graph (Figure 4.3) portrays the trends of the growth of value added per worker for firms across various growth clusters. The y-axis represents the proportion of enterprises while the x-axis shows the percentage growth category (cluster) that firms scored over the period of 28 months.

Figure 4.3
Value added per labourer growth



Source: Own computation from data

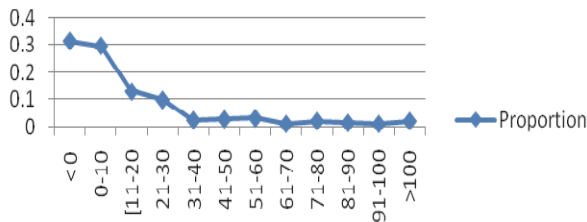
The diagram illustrates that about 20% of microenterprises in the urban informal sector run a negative growth in value added per labourer over the study period while about 18.5% achieved a growth rate in value added ranging between 0 to 10%. Only about 3% of the enterprises have achieved a more than 100% growth in value added per labourer. About

80% of the enterprises experience a growth in value added per labour of less than 50%.

The trend shows that the proportion of microenterprises that see a growth in value added per labourer is declining. This has a big implication for growth and expansion because poor labourer productivity would lead to fewer tendencies to hire by small businesses which would affect general employment growth adversely.

Analysis of turnover growth over labourer growth has been done as a proxy to measure the productivity growth over the study period. The following diagram shows that this is also in a declining trend.

Figure 4.4
Turnover per labourer growth



Source: Own computation from data

The turnover per labour growth also reveals that large number of enterprises (about 31%) run a negative turnover per labour growth. About 2% of the enterprises run a more than 100% growth in turnover per labour while only about 10% run a more than 50% growth. If we proxy productivity by turnover per labour growth this means that the large majority of our sample enterprises are less productive.

4.5.2 Cases of some successful formal sector operators

Understanding determinants of microenterprise success in the urban informal sector requires investigation of how some successful operators have achieved present state from the lowest bottom of the success route. Accordingly, this study has conducted a qualitative in-depth interview

with successful formal sector operators who were ones engaged in the informal sector. Five successful operators were purposively chosen. Each topic prepared for this purpose was posed with researcher moderating and directing questions towards the needed objective.

There are some observable commonalities among successful formal sector operators who were ones in the informal sector. The level of education of these businesspersons ranges from Grade 7 to high school completed. They are all migrants, although at present they have lived more than 25 years on average in Addis. Almost all of them tend to diversify their businesses than expanding the current one. For example, Zenebe Frew who started business with lemons vending 30 years ago started diversifying his activity from that infant stage. Within one year since his arrival in Addis from Gurage zone, he was already acquainted with three various activities: shoe shining, lemons vending and retailing bread. His activity was scheduled against time: lemons vending during day times, shoe shining between 7: am and 9: am in the morning, retailing bread: early in the morning between 5: am and 6: am to supply for travellers around the bus station. The same is true in the case of other respondents. Yirga Haile was engaged in shoe shining and street vending of second hand clothes, Nega Bonga was a shoe shiner and street vender. Another most important commonality among these operators is the culture of saving. All of them are serious on saving and valuing coins even today despite a milestone income gap between today and the start-up time. For example, Zenebe Frew started operations with 3 birr donated from his uncle who brought him here to Addis. He says: "Three birr that time was almost the same as 3000 birr today; however, to speak frankly I give equal value to coins and birr in the past, now or in the future. I know the value of money declines with time, but I am always serious in savings. I remember during the first two years of my stay in Addis I was saving coins through my uncle since I was not member of rotating savings (*Iqub*) that time. All that helped me open small shop at around bus station after two years is my own personal savings". In the same token Mr. Said, owner of Ambassador real state and Garment factory credits his saving habits although he focuses on the importance of *Iqub* to accumulate savings, while he was working as an informal tailor in Addis.

Important personality among these successful operators is the courage and determination they possess even after failure. Yirga Haile, owner of a big Mall in central Merkato, owner of sponge factory and a number

of other businesses says he has passed through a number of ups and downs. He emphasizes on the importance of learning from failure. He says "I was bankrupt three or four times but I have a quality of learning from failure and this is what I am telling my sons and daughters. I do not see much of the spirit of courage and business determination I possessed 30 years ago among my children. They all want things done smoothly. But success cannot be achieved in a smooth way. You have to face hardships, challenges, and also failure so that you will become a strong, shock resistant business man. These are all good schools I passed through and reached the present stage. My total capital is now estimated to about hundred million birr but imagine I was a shoe shiner and vendor just here in this area 30 years back. I have changed a number of activities from shoe shining, to street vending to butter retailing, to whole sale and name it. But central to my success is my determination, saving habit, learning from failure and trust for others and hence strong network."

The issue of competitive strategy, risk taking and re-investment of the capital was among the pressing agenda discussed with successful formal sector operators. Almost all of the respondents reported of re-investment of saving on a diverse business than expanding the currently successful one. This could be related to the risk-averse nature of operators even if they remain successful. Mr. Said has opted to diversify his business to real state than competing internationally and fetching the highly demanded hard currency through exporting garment. He says such a competition is very tough although there are some initiatives. He emphasizes on re-investing on issues, which the domestic economy is badly in need. He argues for his investment on real state as he is contributing to efforts of solving housing problems besides his business. Others diversify between hotels, factories, wholesale and real states domestically than expanding and competing at international level. Asked about competition with other firms, they do not have any clearly defined strategy but they mentioned of networking with friends and close business men. All of them have their own networks and success was significantly influenced by the strength of this network. For example, Yirga Haile mentions of the strength of his network on a number of fronts. During the military regime an investment capital of more than 500, 000 birr was not allowed. However, son of his sister Endrias, who was working in the then Ministry of Trade helped him undervalue his capital and established a medium scale industry, which is now a leading sponge factory in the

country. Zenebe Frew has a network, which extends from Dubai down to small retailers for import and sale of his construction materials. All operators have in one way or another some networks with friends, relatives or ethnic groups that have helped them solve bottlenecks.

4.5.3 Success defined by own perception

The contention that success is a subjective concept and better be explained by respondents, (Berner et al., 2008; Abban 2009; World Bank 2007) has been recognized by this thesis. On the latest questionnaire, respondents were asked if they are successful in their life based on their perception of success. World Bank (2007) advocates that understanding how people perceive their jobs is an equally important indicator of success as objective measures. Objective responses (such as profit, employment and sales growth) were checked against the subjective responses given by the enterprise owners. A five scale measure on “how satisfied you are in your life” is cross checked with growth rates of our objective success indicators. The scales range from one to five, where 5 stands for very satisfied, 4 stands for satisfied and 3 stands for neither, 2 = dissatisfied, and 1 = very dissatisfied. A correlation test was performed between each of the objective indicators and the scaled subjective response on satisfaction. The following, Table 4.26, reveals the result of the correlation.

Table 4.26
Correlations between definitions of success

		Average employment growth	Average profit growth	Average Sales growth	Satisfied
Average employment growth	Pearson Correlation	1	.504**	.450**	.464**
	Sig. (2-tailed)		.000	.000	.000
	N	286	286	286	286
Average profit growth	Pearson Correlation	.504**	1	.196**	.417**
	Sig. (2-tailed)	.000		.001	.000
	N	286	286	286	286
Average Sales growth	Pearson Correlation	.450**	.196**	1	.300**
	Sig. (2-tailed)	.000	.001		.000
	N	286	286	286	286
Satisfied	Pearson Correlation	.464**	.417**	.300**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	286	286	286	286

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

The correlation analysis reveals that satisfaction varies directly with objective indicators of success and this is significant at the ($p=0.01$) level of significance. From the correlation table it can be deduced that there is a tendency that enterprises with growth rates in employment, profit and turnover perceive themselves as successful based on their own definition of success. This is higher for those enterprises experiencing a positive employment growth followed by those with a positive profit growth as shown in the table. The conclusion that can be drawn here is that the success indicators used by this study seem to be multidimensional and are in conformity with the subjective definitions of success.

4.5.4 Firm growth and exit rates based on employment growth

A number of studies showed whether there is systematic relationship between firm growth (usually explained by employment expansion) and firm size and age. Although the stochastic nature of firm growth as advocated by Gibrat's law contend that there is no relationship between firm growth and other firm attributes, this has been disproved by a number of studies (e.g. Jovanovic, 1982; McPherson, 1996; Mead and Liedholm 1998). Bigsten and Gebreeyesus (2007) studied the growth of Ethiopian medium and large manufacturing firms using a panel data and found that there is systematic relationship between manufacturing firm growth and some attributes such as age and size of a firm; again disproving Gibrat's law. The authors found out that younger and smaller firms grow faster. However, the authors left untouched whether this relationship holds for informal sector enterprises in Ethiopia.²

The analysis of size, age versus growth relationship is based on the 2008 and 2010 data. Enterprises were categorized into age and size groups following Liedholm (1993) and Bigsten and Gebreeyesus (2007) shown in table 4.27 below. The table portrays the analysis of which firms have grown faster based on the data set.

² Their definition of informal sector relied on CSA's employment size criteria. Hence firms employing less than 10 workers were considered informal according to this definition.

Table 4.27
*Firm growth by size and age from 2008-2010**

Employment Size category	Age category (in years)			
	1- 5	6 -10	11-15	Total
1	137 (-2.3)	19 (-2.8)	3 (0)	159
2-5	86(31.1)	24(27)	5 (24.3)	115
6-10	7(25.4)	5(25.1)	----	12
Total	230	48	8	286

Source: Own computation from data

*Note that numbers in the parentheses represent the average growth rates while numbers not in the parentheses refers to the number of firms in that specific size and age category.

The data shows that age and size are inversely related to employment growth except for the first size category. Firms that started employing only one person (the proprietor) in the initial data period (2008) were found to have a negative growth rate on average for the first two age categories and a zero growth rate for the last age category (11-15). For example in the first category, there are 137 firms with a size of only one operator and an age ranging from 1 to 5 years in the initial data period. Average employment growth rates for these firms yielded about -2.3 percent over the past 28 months. Enterprises that started operation with this size at initial data period did not show progress in terms of employment growth and these enterprises are generally stagnant. One would wonder with the meaning of a negative value especially when we are discussing about employment size of one person. However, this figure is about the average of 137 firms whose growth rate added together can be positive, negative or zero and it is not the growth rate of a single firm. The interpretation is that the average growth rate of firms who started up with size of one employee and with an age category of ranging from 1-5 years exhibited a negative growth value. Under the second column and third row, about 86 enterprises have achieved an average growth rate of about 31.1% together. This figure is about 25.4% for the size category of 6-10 under the same age category.

Horizontally, the average growth rate is declining with age except in the first size category. Contrary to bigger firms, this data shows higher

percentage growths across size and age. This is largely because a smaller increase in the number of employees leads to a higher percentage growth for informal sector enterprises, as their initial size is very small³. These data goes against Gibrat's Law in all size and age categories except in the size category of one. The data thus shows that even for the microenterprises there is evidence for a systematic relationship between size-age and growth. This relationship is especially pronounced for enterprises employing more than one person.

The data also enables an analysis on which firms have exited operations within these 28 months of data period. Exit was defined as firms that disappeared from the data before the end of the sample period (Bigsten and Gebreeyesus, 2007). Hence, firms that did not appear in the 2010 data but that were interviewed in 2008 data were classified as exit firms. From among 1000 operators interviewed in 2008, only 286 operators were re-interviewed and employed for the analysis of this study. Thus, there are 714 (71.7%) firms that exited based on the sample for this study.

Table 4.28
Firm exit rates by employment size

Employment Size	Enterprise Age			
	1-5	6-10	11-15	Total
1	235 (0.63)	129 (0.50)	33 (0.38)	397 (0.556)
2-5	72 (0.19)	64 (0.25)	32 (0.37)	168 (0.23)
6-10	65 (0.17)	63 (0.246)	21 (0.244)	149 (0.20)
Total	372 (0.52)	256 (0.36)	86 (0.12)	714

Source: Own computation from data

Note that numbers in the parenthesis shows the ratio of specific size category to the total age category. Numbers not in the parenthesis are firms that exited from that specific age and size category within the period of 28 months.

³ For example if an entrepreneur adds one worker over the period of 28 months with its initial employment level being one, this is about a 42.8 percent increment over the specified period as explained by the growth rate formula above.

An important point here is which firms have survived and which firm has died⁴. The data (Table 4-28) clearly shows that exit rate is higher among younger and smaller firms. For example from the second row-second column, 235 enterprises exited the age category of 1-5 with a size of one operator within the 28 months of data period. A total of 397 (55.6%) exiters are originally enterprises run by one person. The number of exiters declines as the size of enterprise increases. The data shows similar results for the age-exit relationship. As enterprises get older and older exit rates decline. The survival analysis of small enterprises conducted by Van Praag (2003), and McPherson (1995) revealed similar results.

The mobility of firms across size-group has been investigated based on the two periods. Table 4.29 below shows the percentage of firms that started with size in the first data period (2008) and ended with that size category in the last data period.

Table 4.29
Transition matrix of firms by employment size category

Size ₂₀₀₈	Size ₂₀₁₀				Total
	1	2-4	5-10	>10	
1	101(0.87)	58(0.45)	-----	-----	159(0.56)
2-4	15 (0.13)	69(0.54)	27(0.87)	4(0.36)	115(0.40)
5-10	-----	1(0.1)	4(0.13)	7(0.64)	12(0.04)
>10	-----	----	----	-----	
Total	116	128	31	11	286

Source: Own survey

Note: The numbers in parentheses represent the ratio of firms that started in the size class of the row and reached the size class of the column at the end of the given period, while the numbers not in parentheses give the number of firms that belong to the given size category.

⁴ Although some firms might have changed residence and enterprise locations and may still be in operation they are considered exiters in as long as they are not included in our second round survey.

A large proportion of firms remained at their initial size. Among the 159 enterprises that started with size one, 101 stayed in that category and 58 enterprises moved to the next higher size category (2-4). No enterprise with initial size of one has moved to the size category of 5-10 and > 10. For enterprises that started with 2-4 size category, about 15 of them has downsized and moved to the lower size class, 69 enterprises stayed under the same size class, 27 of them graduated to the next higher class and 4 of these enterprises have jumped two steps and moved to the last size category.

A total of 11 enterprises graduated to the small scale enterprise level based on the CSA's definition within these 2.33 years of data period. However large proportion of enterprises remained under the same size category. A total of 174 (60.8%) enterprises did not change size classes leading to the contention that the overall mobility of microenterprises is limited. This finding is in consistent with a study by Bigsten and Gebreyesus (2007) who came out with the result that about 64% of manufacturing firms stagnated under their respective size classes. Sixteen (5.6%), enterprises have downsized and moved to the next lower size category. However, a significant number (33.6%) of enterprises have seen employment growth within this time period implying that there are also dynamic enterprises in the sample.

4.6 High Growth versus Survivalist MSEs

A number of studies (e.g. Berner et al., 2008; Cunningham and Maloney, 2001; Rogerson, 2001) emphasize on heterogeneity among microenterprises largely based on the growth motivation that these enterprises possess. These studies can be classified into two groups: the first group trying to explain growth orientation subjectively and psychologically (e.g. Berner et al., 2008; Rogerson, 2001; Stewart and Ranis, 1999) and the other group of literature explaining growth motivation quantitatively using some specific criteria and threshold (Goedhuys and Sleuwaegen, 2009; Cunningham and Maloney, 2001; Mead and Liedholm, 1998). For example, the World Bank report (2007) adopted the methodology applied by Cunningham and Maloney and analyzes dynamics of Ethiopian MSEs. Using this methodology MSEs were classified in to two clusters: the upper tier and the lower tier. These clusters were counterchecked against some variables that are associated with dynamicity of microen-

enterprises. Some of these variables are education level of operators, experience, why they have chosen current activity and future plans of the enterprise. The basic distinction of the 'upper tier' and the 'lower-tier' clusters however relied on the poverty line definition. 'Lower tier' clusters were assumed to lead a subsistence life below poverty while growth motivation among the 'upper tier' firms is expected to be significant and they are above the poverty line. Based on this criteria, about 4% of the enterprises were found to be dynamic for informal sector operators in Ethiopia according to the World Bank report (2007) using the CSA (CSA) data set.

For Mead and Liedholm (1998), enterprise growth rate was used as criteria to classify firms into survivalist and growth motivated firms. Enterprises whose growth rates are zero or negative are assumed to be survivalists. According to the authors graduation is assumed to be movement from lower class category to a higher class category. Thus only growth oriented firms can graduate to next upper level. For their analysis of Sub-Saharan African firms for example, only 4% graduated to small scale level.

4.6.1 Focus group discussion

Besides an in-depth interview, a focus group discussion was held with survivalist operators and dynamic informal sector operators. Although enterprises were classified across various growth rates yielding the study of success across the continuum than just two, qualitative understanding of the nature of survivalist and growth oriented firms requires making such a distinction based on some criteria. The criteria of choosing these operators for FGD was based on the judgment of the researcher: close observation on the activity of the business, start-up motivation, risk taking propensity, turnover, age of the enterprise, growth rates of employment and profit growth helped the researcher choose eight survivalist operators and eight dynamic operators to yield two FGD separately. Topics of the FGD included broader issues such as Risk taking, social networking, support services, and other bottlenecks and success factors. For the purpose of this chapter, topics related to the owner character and the enterprise is reported here. In Chapter 6, social networking and external environment will be reported.

4.6.1.1 Growth oriented operators

All of the participants of the focus group discussion were migrants and all of them were from SNNP. Ethnic-wise, four Gurage, two Hadiya, two Wolayita ethnic groups participated in the discussion. Their duration of stay in Addis ranges from four to 11 years. The same is true regarding age of their enterprises. Their level of education is also above junior secondary school and they are all male. Average size of a business is 6.5 persons. Six of them are unmarried and bear no family responsibility. Many of them mentioned of the strong push factor in the rural area that brought them here. Only two respondents reported of temptation by returning migrants.

Reasons for choosing the activity varied across time. All respondents reported that it was employment of last resort when they first started operating in the informal sector. Now, all of them responded it is a better opportunity sector because activity brings high income. Offered a monthly salary of 5000 birr, no one was voluntary to quite his present job. One participant said this could be earned in three days, and invited me to visit his business on Sunday. The other participant said, “frankly speaking I was of the view that teachers and salaried people are generally rich when I was in rural area. I now notice that I am by far better than many of them with this level of education. Thanks to *Adu-Genet*, meaning “Addis the Heaven”. They are all happy with their current business. For example, Desalegn, one of the FGD participants said, ‘look when I first came to Addis 9 years back, I only had my hands and legs. Thanks God I am a healthy man. I started loading and unloading the next day following my arrival in Addis. I was very much surprised when I earned 30 birr that day. I had not ever owned that amount before. But look I did not have a tendency to drink or abuse that money. All I did was saving through *iqub*. I was doing everything: loading-unloading, shoe shining, vending and what have you but the next day you will see me saving some amount. I am currently retailing car-decor materials at three different places all informal, no license, and no registration. I have good customers and hence good turnover...” The discussion was interrupted when Tsedeke interfered and said “look Desalegn, I know you were fully supported by your Gurage relatives who are highly networked and controlled Addis and other cities. I was a very poor guy like you when I first arrived here five years ago. I am from Hadiya ethnic group and we do not have as such strong senior migrants who can help us like what they

did for you. We junior migrants help each other. The thing is I am determined to achieve something because otherwise I know the consequences of failure. I would opt killing myself than returning home back to Hadiya and leading that miserable life again. While performing my activity here, my rural life comes to my mind. It gives me energy, courage and determination like a “Hyena bitten in its tail”, running forward and forward.” All participants laughed and applauded Tsedeke’s argument that although they were survivalists during their arrival in the informal sector, their background and of course personal characters had given them the courage and determination leading to the ultimate impact that they became dynamic operators running their businesses voluntarily because now activity brings high income. They all have tendencies to hire more workers and expand businesses. The successful formal sector operators interviewed above revealed similar paths: they were migrants, they started with a very small initial capital, they involved in networks, they were running diverse activities but keen on saving, and determined to grow.

4.6.1.2 Survivalist operators

Unlike the dynamic group, survivalist operators point fingers to biased external factors such as government rules and regulations, harassment, lack of premises, poor utilities and so on. Average enterprise age of the participants was 6.5 years. Six of these participants are migrants from various regions. Three female and five male operators participated in the discussion. There are three elementary school graduates, two junior drop-outs and three high school drop-outs in the FGD. Many of them raise the issue of leading difficult life in Addis having dependants and their business is targeted towards sustaining life of their family. Average size of a business measured in terms of employment is 1.53.

For example, Tolasa a participant who is originally from Oromia region, west Shoa zone is a survivalist operator whose mere focus is sustaining the life of his family from his retail shop business. He says “I started this business 8 years back but could not be able to move beyond this. I asked government officials several times to give me a place to work on the road-side but you know I was not a perfect guy to get such a support....’ The other participant interfered and said “yes we are deliberately excluded; I know many of my friends getting support from the government and running better businesses. I know I am not active like

others to run here and there and make money. My handicraft business, the skill that I acquired it at home back in Amhara region can only sustain my family. The bigger retailers at around Kazanchis are more benefiting than I do. However, imagine they purchase all their finished goods from me and my friends. These intermediaries sell cultural handicrafts made by us to Diasporas and foreigners. My quest to Qirkos sub-city for a premise has not obtained any solution since 2006. I am leading five dependants and imagine how difficult it is this time when the price of everything has gone up.”

Most respondents were in a dire situation and had the view that their failure emanates from both government and themselves. They do not have any plans to expand business nor do they want to hire workers. Asked about the networks, most replied their survival is based on it. Mr. Tolasa mentioned of support by his cousin from USA. Zinash explains strong support from her uncle who is engaged in wholesale trade at central Merkato. But, the surprising fact is the support was not business oriented. It was oriented towards fulfilling the consumption needs of these operators and sustaining their life. It also adds to poor working habits and deters achievement motivations.

Asked about risk taking they all replied: any failure of the current activity means begging. Zinash mentioned of the adverse effect of risk taking by citing an example of a neighbourhood who opted to change a business from manufacturing local drinks to serving food. She says they were not competitive at the new activity. A bankruptcy however led to a devastating impact: two young women are now involved in commercial sex, the father went back home to rural area and only the mother is struggling from at home.

4.6.2 Analysis of microenterprise dynamics at various growth clusters

The continuity of dynamicity of firms has however been emphasized by Goedhuys and Sleuwaegen, (2009). According to these authors, firms possess varying growth rates and hence the analysis of dynamic firms should consider various growth rates than just two distinct groups of operators. The analysis of survivalists and growth-oriented firms will then be based across the continuum according to the methodology advocated by these authors. Each traits of the enterprises associated with

success will be analyzed against various growth rates. This method is superior in that one would not have to wonder about grouping survivalist and growth oriented firms under strict criteria as this one at least considers various growth rates. For example, the quintile regression model followed by Goedhuys and Sleuwaegen, (2009) classify microenterprises into 10 different growth rates groups and analyzes characteristics associated with each growth rate category. This methodology will help understand determinants of success by decoupling success in to various groups than just two. Most dynamic enterprises are located in the 90th percentile of the growth continuum and least survival enterprises are located in the lower bottom of the 10th percentile. For example based on their analysis, product innovation was found to determine enterprise success significantly only for the 90th and 80th percentile firms while it is not a significant determinant for other quintiles. This study adopts the methodology advocated by Goedhuys and Sleuwaegen, (2009) and analyzes success determinants by classifying enterprises into various growth rates. Two indicators namely, employment growth and profit growth are analyzed for the purpose of brevity. This part of the study analyzes success determinants using a descriptive method. Econometric analysis will also be employed to test the significance of these as well as other determinants of the microenterprise success against each growth rate category. Key variables representing the entrepreneur and the enterprise are assessed against each growth rate category in the data set. The following tables portrays the findings of such analysis. In the first part, owner characteristics are analyzed using two of the success indicators. This will be followed by the analysis of enterprise characteristics and selected determinants of growth. These determinants are selected because of the important roles they play on enterprise success as reviewed in the theoretical framework of the study. All other determinants that are related to the owner and the enterprise and excluded from this analysis are analyzed using econometric tools. For example the location dummy would better be explained using econometrics than tables and percentages. The same applies for other factors such as migration status and competence measures such as technical and management skills dummy.

Table 4.30
Employment growth and owner characteristics

Employment Growth %	Owner Characteristics							
	Av. NA	Av. RTP	Av. SE	Av. Growth Motivation.	Av. Experience	Average age	Gender (Higher proportion)	Education level with highest proportion
< 0	2.67	3.54	3.5	2.35	2.55	28.5	Female	Elementary
0-10	3.3	2.8	2.75	3.25	3.55	27.75	Female	Elementary
11-20	2.75	2.5	3.5	3.81	4.25	26.4	Female	Junior
21-30	2.75	3.68	3.75	3.5	3.45	25.5	Female	Illiterate
31-40	3.66	3.65	3.23	3.65	3.66	19.75	Male	Elementary
41-50	3.45	3.33	3.02	4.24	4.5	25.7	Female	Elementary
51-60	3.54	3.45	3.56	3.76	4.6	23.5	Male	Junior
61-70	3.6	3.56	3.23	3.25	4.5	18.75	Female	High school
71-80	3.75	3.43	4.01	4.12	3.75	21.3	Female	Junior
81-90	4.25	3.45	3.56	3.75	4.12	23.5	Male	High school
91-100	4.55	3.66	3.45	3.66	4.25	22.5	Male	Grade 12 & above
>100	4.55	3.75	3.66	4.12	4.63	24.5	Male	High school

Source: Own survey result

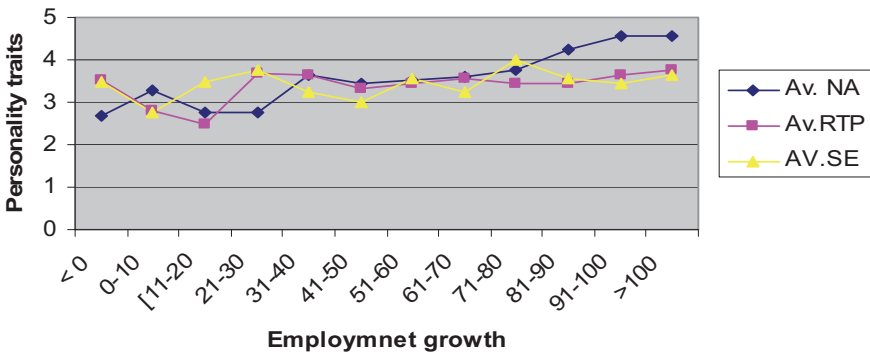
Key characteristics chosen for the descriptive analysis of this study following Cunningham and Maloney, (2001) are, education level, gender, age, experience, growth motivation, self-efficacy, risk taking propensity and need for achievement (Table 4.30). Personality traits are measured using a five-scale Likert method. Average of the score of items for each factor is taken for the individual to compute the score under each trait.⁵ For example for enterprises exhibiting a growth rate of between zero and 10, the average score for Need for achievement motivation was about 3.3. This means that first the score for each enterprise is computed based

⁵ There is a big debate on whether the Likert scale numbers should be regarded as intervals or taken as ordinal values. This study takes the position that Likert scale items can be considered as parametric in as long as the data is not skewed, as advocated for example by Knapp (1999).

on the three item-five scale Likert method as discussed in the methodology and theoretical framework. Then the average of the score for enterprises under this growth category is computed and presented in the table above. Growth motivation is computed on a one item five scale Likert question asking operators on whether they have tendency to hire more employees next year. Average experience is measured using the number of years of working experience that operators have in the industry in which the current business is located following Dahl and Reichstein (2007).

Relationship between personality traits and employment growth is graphically shown below (Figure 4.5). The data shows that although there seems to be a direct relationship between personality traits and employment growth as a whole, it may be the case that this is not so stronger for risk-taking propensity (RTP) and self-efficacy (SE). The relationship between need for achievement (NA) and employment growth seems stronger from the graph showing that enterprises with high need for achievement scored higher values of average employment growth rate.

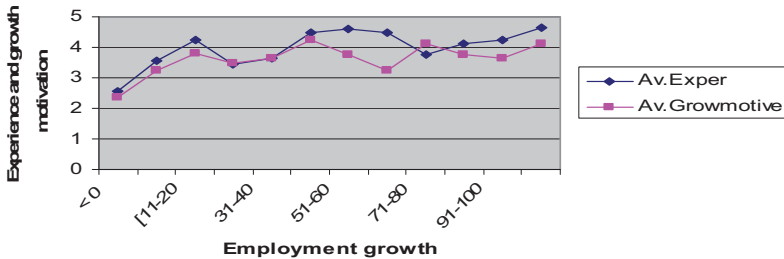
Figure 4.5
Success versus own characteristics



Source: Own survey result

The descriptive finding above supports McClelland's (1965) and Begley's (1995), argument that key entrepreneurial behaviour lies in achievement motivation, although this will be tested further using econometric analysis. The authors argue that successful enterprises possess higher need for achievement compared to the non-successful entrepreneurs, success being explained as employment expansion. A more or less horizontal curve for risk taking propensity deserves an explanation. From both the table and the diagram, there is little variation in the score for RTP for firms at various growth categories. Risk-taking propensity has little impact on creating more jobs by enterprises. However, risk taking propensity is found to show a strong and positive association with profit growth as shown below (Table 4.31). May be the higher uncertainties associated with inputs and demand for the product outweighs the tendency to hire workers although enterprises remain successful. Or it could be that employment growth takes place long after enterprises have achieved profit growth.

Figure 4.6
Owner character and success

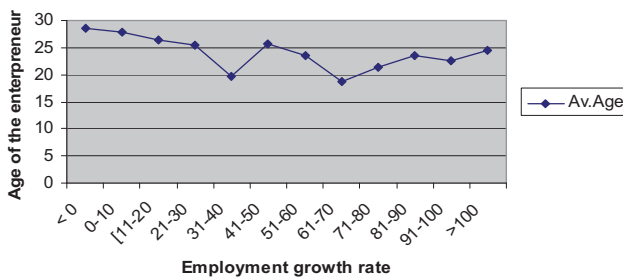


Source: Own survey result

Experience and growth motivation tend to show a positive and stronger relationship with employment growth as shown on the diagram above (Figure 4.6). Enterprises with higher growth motive and better experience in the industry in which they are currently operating, are found to hire more workers.

Education and gender of the operators were also analyzed in the data set. The result shows that male dominate the percentage share of the highest growth category. On the other hand, the proportion of female is higher in the lower growth category implying that male operators tend to show higher tendency in hiring workers. This could be related to the general performance of enterprises owned by both sexes. Female owned enterprises generally perform less largely due to the household responsibilities and other deterring social factors. Education also matters when considering success from the point of employment growth rates. Entrepreneurs that are more educated showed better association with employment growth. Enterprises with employment growth rate of above 80 percent were all owned by either high school graduates or 12 and above education level. On the other hand, elementary school graduates or elementary school leavers own enterprises with a negative employment growth rate dropout. This descriptive result supports the finding by Bates (1990) who contended that schooling is an important personal background that affects enterprise success.

Figure 4.7
Age of the owner versus success



Source: Own survey result

Regarding age of the entrepreneur the data reveals that although it seems that there is an inverse relationship between employment growth and age of the owner, this relation is not so strong (Figure 4.7). However, most successful entrepreneurs are found within 20-25 years of age on average.

Table 4.31 portrays success versus key owner characteristics when success is defined in terms of profit growth. Clearer and reinforcing findings are drawn from the analysis using this second indicator of success.

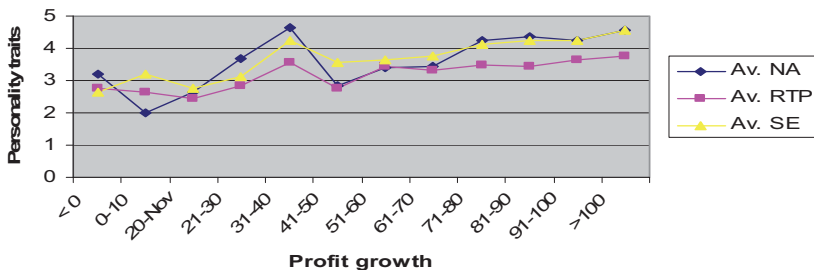
Table 4.31
Profit growth versus owner character

Profit Growth %	Owner Characteristics							
	Av. NA	Av.RTP	Av.SE	Av. Growth. Motivation	Av.Exper	Av. age	Gender with highest proportion	Education level with highest proportion
< 0	3.2	2.75	2.66	3.45	2.45	27	Female	Elementary
0-10	2	2.66	3.2	2.67	3.25	28	Male	Elementary
11-20	2.63	2.43	2.75	3	3.66	26.5	Female	Elementary
21-30	3.7	2.85	3.12	4.1	3.66	27	Male	High school
31-40	4.66	3.58	4.25	3.5	4.25	22	Male	Elementary
41-50	2.85	2.75	3.56	3.75	4	23.6	Female	Elementary
51-60	3.41	3.45	3.66	4.76	4	23.5	Male	Junior
61-70	3.45	3.33	3.75	4.55	4.5	25	Female	High school
71-80	4.25	3.5	4.12	4.25	4.66	22	Female	12 and above
81-90	4.35	3.45	4.25	4.12	4.66	21	female	High school
91-100	4.24	3.66	4.25	3.75	4.25	23.25	Male	Junior
>100	4.55	3.75	4.56	4.66	4.75	22.75	Male	Junior

Source: Own survey result

All the three components of personality traits are now positively related to profit growth as shown in Figure 4.8 below.

Figure 4.8
Profit versus personality traits



Source: Own survey result

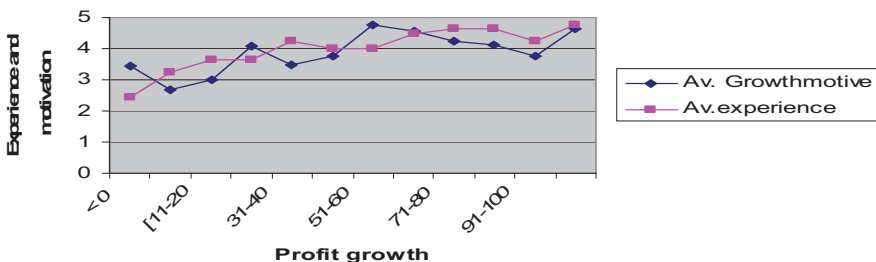
The score for risk taking propensity is lower than both need for achievement and self-efficacy implying that overall microenterprises tend to take less risk even if they possess strong need for achievement and possess strong self-efficacy. This could partly explain the low investment and horizontal growth by small firms in Ethiopia. Enterprises prefer a downward and horizontal growth because they do not want to take risks and partly because they do not see benefits of growing vertically and getting recognized by the government. This is evident by an interview with an operator conducted in both survey periods by the researcher (Box 4.6).

Box 4.6
Poor risk-taking propensity

Amhed Taju is an informal sector operator who is not paying tax, not registered and not licensed although he owns five different shops at five different places in Addis Ababa. He was interviewed two times. He is now employing 12 workers for all his five retail shops. His capital is now estimated to be about 1.5 million birr, a one million birr increment within 28 months. When asked “what is your plan for the future?” he says: “I am very careful. Things are not certain these days. I want to maintain this property very safely and pray to “Allah” to give me health. Money comes and goes. What is important is your attachment to “Allah” who gives everything you ask him. I told you last time that I want to become an exporter. But you cannot be an exporter simply because you have the money. It needs some networks and only people who can access that network can succeed in that sector. I do not want to take such risks now. I do not also want to become a wholesaler. I am fine with my current status.”

Source: Own survey result

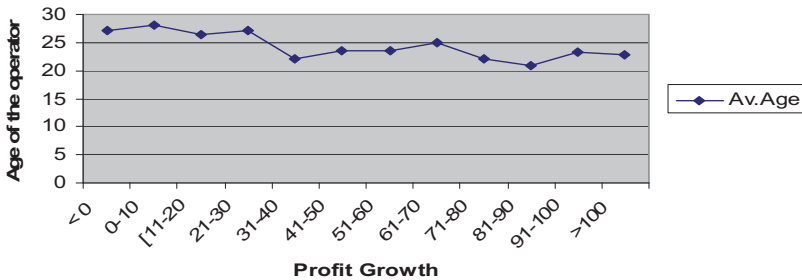
Figure 4.9
Profit growth versus experience and growth motivation



Source: Own survey result

Again there is a positive relationship between growth motivation and average experience (Figure 4.9) reinforcing the above findings that these personal background characters are important entrepreneurial success factors. Previous experience in the same industry might be an important factor because entrepreneurs not only gain the skill and know-how but they may possess networks of customers and suppliers, which could lead to success of their present enterprises.

Figure 4.10
Entrepreneur age versus profit growth



Source: Own survey result

The relationship between owner age and success is clearer when a profit indicator is used (Figure 4.10). In this case, there is an inverse relationship between age and profit growth for operators with an average age of between 20 and 30 years. Younger operators tend to show better performances lending support to the findings by Welter (2001), who found out that young entrepreneurs performed better than older entrepreneurs in his analysis of growth intentions and growth profiles of nascent entrepreneurs in Germany. The growth ambition and willingness to test abilities might have outweighed the effect of experience gained through age and led to the finding that age is inversely related to micro-enterprise success; although this will be tested further using econometric analysis in the presence of other determinants.

Table 4.32
Enterprise characteristics and employment growth

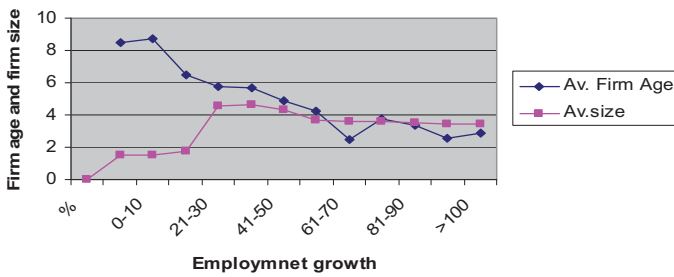
Employment Growth %	Enterprise Characteristics						Sector with highest proportion
	Av. Firm Age	Av. Firm size	Av. IS	Av. PA.	Av. RT	Av. EO	
< 0	8.5	1.5	2.5	3.3	3.1	2.88	Manufacturing
0-10	8.7	1.53	3.4	3.7	3.75	3.6	Manufacturing
11-20	6.5	1.75	3.33	3.5	2.75	2.75	Construction
21-30	5.8	4.58	3.55	3.75	3.73	3.66	Manufacturing
31-40	5.7	4.67	3.32	3.45	3.33	4.3	Retail trade
41-50	4.9	4.35	3.56	3.58	3.75	4.25	Retail trade
51-60	4.25	3.65	3.82	3.88	3.22	4	Service
61-70	2.45	3.60	4.2	3.67	3.95	4	Retail trade
71-80	3.75	3.57	4.12	4.01	4.25	4.36	Retail trade
81-90	3.33	3.51	3.88	4.6	4.4	4.56	Service
91-100	2.56	3.43	4.32	4.65	4.73	4.66	service
>100	2.88	3.41	4.66	4.35	4.28	4.46	Service

Source: Own survey result

Key dimensions chosen for descriptive analyses (partial analysis) from organizational dimension include firm age, firm size, Entrepreneurial Orientation (EO) and sector of the enterprise (Table 4:32). Firm age represents the number of years since the firm's establishment; firm size is the number of employees including the owner and apprentices working for the enterprise; Entrepreneurial orientation is computed based on an eight item five scale Likert method as advocated for example by Wiklund et al., (2007). The items are attached on the methodology part of chapter three whereby three of these items measure innovation strategy of a firm (IS); three items measure proactiveness (PA) and two items measure risk taking by the firm (RT). The average values of these items as well as the EO are presented against each growth cluster. The sector with highest proportion is also checked against each growth cluster to yield some analysis about which sector is showing better performance relative to others.

Figure 4.11, below reveals some relationship between firm age and size and success when success is viewed as employment growth. It is clearly shown that an inverse relationship exists between employment growth and size and age of enterprises

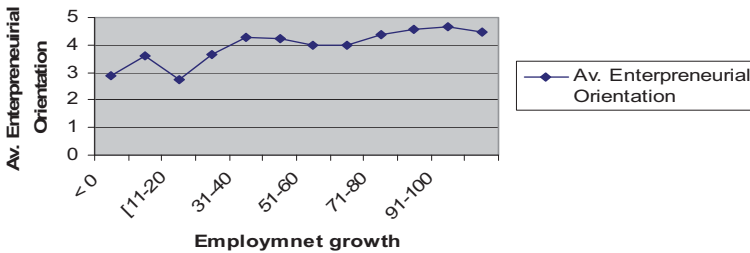
Figure 4.11
Success versus firm attributes



Source: Own survey result

Entrepreneurial orientation of a firm has also been assessed against growth categories or clusters (Figure 4.12). The data clearly reveals that entrepreneurial orientation moves directly with enterprise success being defined in terms of employment growth.

Figure 4.12
Entrepreneurial orientation and success



Source: Own survey result

Thus, the partial analysis of EO with employment growth reveals the two variables are positively related. However, the impact of EO on success will be analyzed using econometric tools in the presence of other internal and external factors influencing firm success. Thus, although it seems that a positive association exists here on the diagram the impact of EO on success may or may not be stronger when other factors are simultaneously included in the analysis. The same thing holds true for all other determinants. A conclusion will be made when a multidimensional analysis of success determinants is conducted simultaneously using econometric methods in the empirical analysis part of the study.

Table 4.33
Enterprise characteristics and profit growth

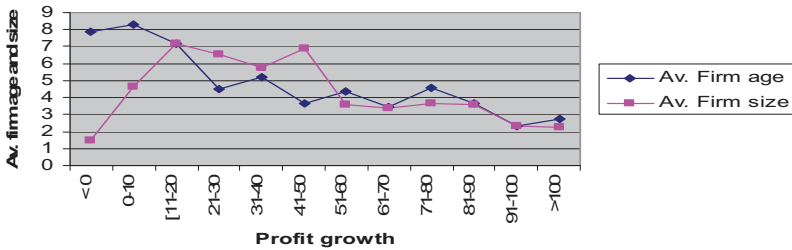
Profit Growth %	Enterprise characteristics						Sector with highest proportion
	Av. Firm Age	Av. Firm size	Av. IS	Av. PA.	Av. RTP	Av. EO	
< 0	7.9	1.45	2.01	2.35	3.25	2.43	Manufacturing
0-10	8.3	4.65	3.25	2.56	3.66	3.33	Manufacturing
11-20	7.2	7.2	3.27	2.12	2.08	2.15	Service
21-30	4.5	6.57	3.47	3.24	3.45	3.65	Manufacturing
31-40	5.21	5.78	3.52	3.35	3.85	4.01	Retail trade
41-50	3.65	6.88	3.45	3.67	3.75	3.87	Retail trade
51-60	4.35	3.58	3.91	3.27	3.22	4.1	Service
61-70	3.45	3.36	4.01	3.75	3.95	3.85	Retail trade
71-80	4.57	3.67	4.25	3.92	3.75	4.22	Service
81-90	3.65	3.56	4.32	4.28	3.68	4.34	Service
91-100	2.34	2.35	4.45	4.35	4.53	4.43	Retail trade
>100	2.75	2.3	4.54	4.56	4.67	4.82	Service

Source: Own survey result

The test for the effect of organizational dimension is repeated for a profit indicator of success (Table 4.33). Age and size of enterprises are shown in the following diagram (Figure 4.13). The diagram shows that

there is clearer evidence that age and size of a firm are inversely related to profit growth lending support to findings by Bigsten and Gebreyesus (2007); McPherson (1996) and Liedholm and Mead (2001).

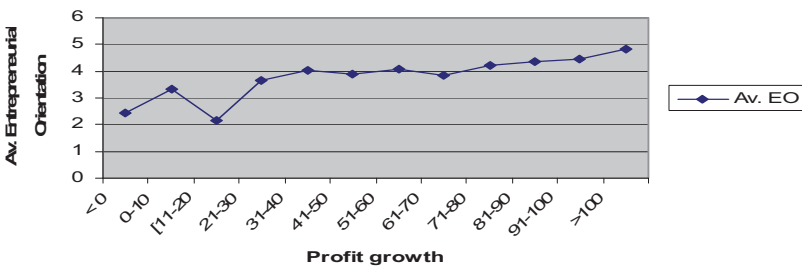
Figure 4.13
Success versus age and size



Source: Own computation from data

Again, there is evidence that Entrepreneurial orientation is directly related to profit growth (Figure 4.14). The sharp rise in the EO curve may show that the effect of entrepreneurial orientation is much more pronounced on profit growth compared to employment growth although it has a direct relationship on both indicators of success.

Figure 4.14
Entrepreneurial orientation and profit growth



Source: Own computation from data

The sector analyses against growth clusters in both tables reveal that service sector is most successful followed by retail trade. Manufacturing sector is not doing well. Using both indicators, manufacturing sector dominates the proportion of lowest cluster enterprises. Since the cluster for this study is based on annual average growth rates, it indicates the performance of the enterprise. A poor performing manufacturing sector at the microenterprise level has huge implications at least for the growth and transformation plan (GTP) that the country is poised to implement. Employment creation through MSE development is one of the most important pillars of GTP. However, with manufacturing sector performing very poorly at this lowest level, efforts to make industry a leading sector may remain with little result. A “development from below” principle requires making the lowest bottom of the sector dynamic. The lowest bottom of the industrial sector is curtailed by a number of bottlenecks such as poor linkages between firms of various sizes and less emphasis on the medium and large-scale industries which could lead to a ‘missing middle’ problem. Making industry a leading sector thus requires making manufacturing MSEs more dynamic and more growth oriented. Nevertheless, it seems that GTP is not explicit on this while advocating employment creation and making industry to play the leading role.

4.7 Conclusion

This chapter has discussed the structure and growth of microenterprises based on the sample of 286 respondents surveyed two times in a period of 28 months. The character of the operator and the business has been analyzed based on the framework set for the study. A descriptive method has been used to assess the partial analysis of success factors against success indicators. However, this descriptive analysis needs to be supported by an empirical analysis whereby all the hypothesized determinants of success are taken together to strengthen the findings of the analysis. Thus, a multidimensional analysis using econometric technique will be used to analyze determinants of success empirically. This is discussed in Chapter 6.

5

External Environment and MSE Success

5.1 Introduction

A multidimensional approach to microenterprise success has been adopted by this study. The previous chapter emphasized internal determinants of microenterprise success. This chapter analyzes success determinants from another dimension: the external environment. As such especial emphasis is given to microfinance in the first section, enabling business environments (licensing, registration, Linkages, taxation, sub-contracting, BDS and formality/informality) in the second section and social networking in the third section. The final section concludes the chapter.

5.2 Microfinance and Microenterprise Success

The role of microfinance on poverty alleviation has been described by many authors e.g., Gulli (1998) through its effect on financing micro and small enterprise operators. Important factors that drive policies currently are that first the poor cannot provide collateral and other formal requirements of the financial institutions and hence are excluded from such services. On the other hand macroeconomic policy tools in many developing countries are less effective forcing these countries to shift attention to development from below or local economic development. The effect of microfinance on poverty alleviation is however debatable as many studies contend. On the one hand studies (e.g., Pitt and Khand-er, 1998) advocate that microfinance has positive impacts to increase income of the poor. These studies contend that an increased income has not only increased consumption but it also has helped poor people to send children to school thereby boosting up the human capital of the poor. There are also studies that challenge the conventional wisdom of

the poverty impact of microfinance (e.g., Getaneh, 2005). According to these studies microfinance is said to play insignificant role in mitigating the multifaceted problems of the poor. These studies further contend that poverty reduction is the function of a number of factors and that the impact of microfinance is meagre.

Respondents were asked if they are beneficiaries of any microfinance institutions based on a 'yes' or 'no' response. This question was followed by if the credit from the microfinance institution has solved financial problems that these MSEs face. Only 21 operators (7.3%) have used microfinance as a financial source. All operators (beneficiaries and non-beneficiaries) complain the criteria set by microfinance institutions. About 19 of the 21 beneficiaries were customers of Addis credit and saving institution (ADCSI). From among all the beneficiaries 13 replied that the credit and saving service provided by ADCSI did not solve their financial problems. They reported that loan repayment is usually asked before investment brings any fruit. Moreover they complain about the interest rate (which is 10-15%), and that they usually fail to meet the deadline or to repay the amount required over a specific period of time (usually weekly). An interview with ADCSI representative on the practice of the institution has been explained in Box 5.1. According to ADCSI representative, although the actual objective is support for microenterprises to meet their financial needs, there are also financial sustainability objectives so that outreach can be enhanced. According to the representative *"...in the early periods, the criteria were not strict and any viable MSEs could get access to ADCSI's service. But that was followed by a high rate of loan default problems. Now, the criteria are a bit tight. We think that this will encourage MSEs to work harder and achieve success because they always think of repaying loans and leading their own enterprises successfully."*

Box 5.1
Practice of microfinance institutions case of ADCSI

Target Groups:

Targeting beneficiaries of the microfinance institution usually involves client selection criteria with an aim to avoid the non-target groups. The target is to make poor benefit from the program, thus criteria is set to achieve this target. The targets are

1. Unemployed and new business start-ups
2. ADCSI targets to reach MSE operators, potential operators: unemployed youth and women, legally registered cooperatives, local CBOs, and new business start-ups such as those by fresh college graduates.
3. Such borrowers shall be recruited or selected by the credit and savings committee of their respective woredas (local administration). ADCSI reaches its target groups through the 10 branch offices established at sub-city level and service delivery posts established at woreda. Added to this there is credit and saving committee to select clients. This opens doors for government to use microfinance institutions for a political game. Hence although efforts are being made to exclude the non-poor and to maintain the gender balance of beneficiaries the criteria seems to fall under the complete discretion of saving and credit committee who are usually political appointees.

The loan product/service provided by ADCSI includes loan, saving, consultancy and managing third party money. A number of activities are supported by the loan service; among these the main ones are weaving, tailoring, metal and woodwork, food processing, hair-dressing, trade activities, construction materials, leather works, urban agriculture etc. The amount of loan provided varies depending on the nature of the loan. Accordingly there are six kinds of loan services: micro business loan (for high turnover activities), small business loan (for vocational and technical school graduates), micro-lease loan (loan in kind), consumer loan product (for government and related employees) and short term loan (for clients facing very urgent financial problem). Also two kinds of savings service is rendered by the institution: compulsory savings (by clients only) and voluntary savings (by both clients and non- clients).

ADCSI follows a group lending modality. The advantage of this modality is that it reduces the risk of default because group collateral is required to obtain loan. However many MSE operators are mobile and may be regarded as high risk by the group compared to those with land, family and settled life. This lending modality thus marginalizes poor MSE operators. ADCSI employs a frequent /regular (usually on weekly basis) repayment model: Advantage is that this method helps to secure repayment. But this method works against women and the poor who at least need grace period before the investment brings some fruits.

Selection Criteria:

1. Letter of approval from woreda which shows they are residents in AA
2. Certification letter for cooperatives and CBOs from trade and industry bureau.
3. License and registration for joint ventures
4. The activity should be implemented in AA city only
5. Loan taken from the institution or similar institutions should be settled before hand
6. Preparation and submission of business plan/proposal
7. Comments and decisions by the Credit and saving committee

Source: Own survey from ADCSI

However, many MSE operators live in rented houses or dependent on someone else. The renter may not be willing to sign, leading to the difficulty of obtaining Addis Ababa's identification card. Secondly MSE operators may face difficulty of passing through the bureaucracy of registration and licensing requirements. Thirdly many MSE operators fall short of preparing the detailed business plan/proposal as they are less educated. Hence MSE operators face difficulties of getting loan and other microfinance services because many of them are migrants and mobile, falling short of fulfilling the criteria set by ADCSI. Thus it can be deduced from the criteria that ADCSI follows a financial sustainably approach than the poverty alleviation approach. Moreover the decision by the credit and saving committee is very important to qualify for micro financing by a given MSE operator. As will be discussed later all other support services provided to MSEs pass through the scrutiny of the *woreda* level or *kebele* level committee. Representatives of these institutions were not willing to discuss the criteria of selecting MSE operators, although there are clear indications that political membership factor plays decisive role.

5.3 Enabling Business Environment and MSE Success

External factors considered for the purpose of this study are enabling business environment and social networks. These are assumed to be the most relevant external factors for microenterprise success in the context of Ethiopia. Each is discussed in the sections that follow.

5.3.1 Business development support

Business development services refers to the wide range of services used by entrepreneurs to help them operate efficiently and grow their businesses with the broader purpose of contributing to economic growth, employment generation, and poverty alleviation, according to ILO (2000).

BDS is thus any non-financial service to business, offered on either a formal or informal basis. These services include: training/skills development, design, advertising, network brokering, courier delivery, computer services, business consultancy, security services, legal services, commission sales, accountancy/audit, market research, technical information,

website design and management, equipment repair and maintenance and conference organizing (ibid).

In our survey, respondents were asked to report if they have ever received any other supports than the financial services. This was followed by asking respondents with the type of service they received and if they have received any training in technical and managerial skills. Only 57 (19.9%) operators have ever received supports other than financial services throughout their business life. Among these about 33 were offered training on marketing skill. 14 operators have received training in technical skills, designing, new product development and record keeping. 20 operators have received managerial training and record keeping. Although this is the case, respondents who obtained such a business development support raise issues of sustainability. Only 44% of those operators who obtained training on marketing and record keeping reported of a positive feedback after the BDS. Other operators did not see any extra benefit or change of operation on business after they received training. The most common reasons are lack of equipments at their disposal (for those who obtained technical skills training) and the dominance of informal institutions (for those who obtained managerial, record keeping and marketing skills). For example Sara, from around Piazza, was a respondent who obtained training on marketing, and accounting record. She has received training twice, thanks to her cousin Dereje, who is working as an officer in FeMSEDA. When asked are you applying what you trained on your business she said... *yes at first yes. But it never lasted long. Whatever training you received you cannot easily break the informally structured norms and established systems of our country. The morning I finished training I started keeping records, and applying some marketing techniques I acquired through training. But frankly speaking, I started losing my customers because they are not happy with my registering debts for goods they buy on credit bases. The usual trend was they take goods they want and pay me back whenever they get money. There is a strong sense of trust and people value this trust more than my record keeping. I gradually have forgotten record keeping and returned back to normal trends. You know usually there is no written agreement when we do transactions of any amount of money with both whole sellers and customers. If you trust them they will trust you and you will be part of the game, otherwise.....*

For the remaining 80% of the operators, lack of opportunity and poor awareness about the program has deterred from participating in any BDS services and this can be due to both demand and supply side weak-

nesses. Poor awareness could be related to demand side weaknesses in the sense that *MSEs'* recognition that a solution to a problem is required – the degree to which *MSEs* have identified a problem and are ready to seek a solution to that problem (although they may not know what the solution should be). But here, the level of sophistication of *MSE* knowledge or information determines this recognition.

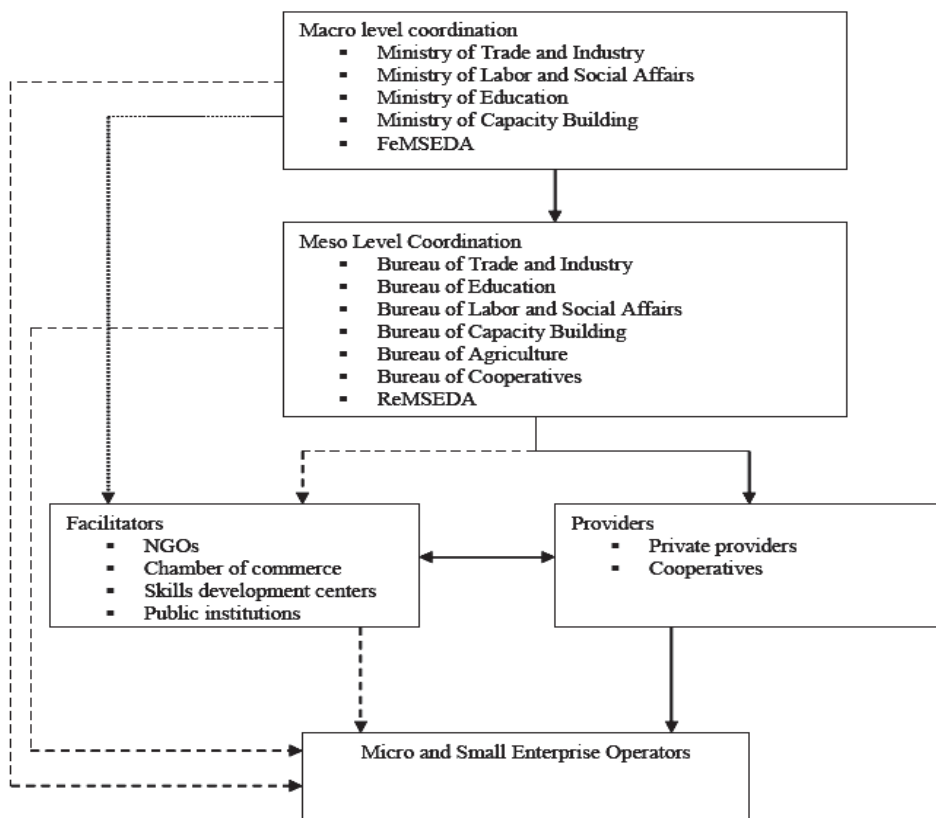
There are also supply side weaknesses: Service providers' capacity to solve business problems - the degree to which service providers possess skills, knowledge and capacity to solve *MSE* problems. The availability and nature of capacity (skills, knowledge, technology, and resources) is critical. According to MOTI (2008), although there are efforts to enhance capacities of service providers, they are still falling short of the required standard.

According to an interview with representatives of ministry of works and urban development and ministry of trade and industry, there are efforts related to *BDS* development on four fronts. Firstly efforts are being made on executing *MSE* development policies and programs. This part relates to policy making and overseeing the regulations in such a way that targeted *MSEs* become beneficiaries of *BDS* interventions. The second activity relates to conducting marketing analysis for *BDS* services. Issues that are addresses under marketing analysis are: why the market isn't functioning effectively, the rationale and objectives for intervention, the nature of intervention required. The frameworks presented serve as a conceptual framework upon which more detailed, specific market analysis can be conducted (market research). In the third place there are efforts of designing intervention strategies. This strategy focuses on demand and supply side instruments. The most important activity under this category involves building capacities of *MSE* promotion agencies and focusing on sustainability strategies. Finally, efforts of linking, coordinating and networking *BDS* services are underway according to the interview with these representatives.

The FeMSEDA and Ministry of trade and industry officials have detailed on the institutional frameworks related to *BDS* development (figure 5.1). The figure reveals that there are coordinated efforts at different levels of the government. Moreover, concerned ministries have taken *MSE* development into the equation of their overall objectives. The ministry of trade and industry is mandated to promote the expansion of enterprises and facilitates the provision of assistance to micro and small

enterprises. In the same way the regional bureaus that are delegated to develop and promote the MSE sector in the respective regions are held responsible to coordinate all activities related to the promotion and development of MSEs within the region and also to create proper networking within business associations, regional chambers and other stakeholders to strengthen the flow of information, and assess and evaluate the development of MSEs within the regions and initiate policies.

Figure 5.1
Institutional framework for BDS in Ethiopia



Source: FeMSEDA (2009)

The Regional Micro and Small Enterprises Development Agency (ReMSEDA) has the duties of providing extension services to MSEs at regional level, zonal level and woreda level. These services include human resource development, information and consultancy, facilitation, technical and marketing services. Also NGOs with funding from local or foreign sources are encouraged to provide supports to MSEs at various levels.

Despite these frameworks and strategies, urban local governments fall short of power to implement these strategies. In Section 4.4 it has been shown that major challenges facing MSEs relate to lack of capital, working premises, and poor credit facilities. It seems that these challenges persist unless more coordinated efforts to curb these problems are exerted. The basic problem is lack of confidence among officials and poor sense of ownership of these strategies. According to representative of the ReMSEDA, actual implementation as per this framework is usually a difficult task. According to the representative, every official waits for higher level officials for decision making that requires resource commitment. Various ministries have various priorities and efforts to rapidly strengthen BDS to MSEs usually fall behind the schedule.

5.3.1.1 MSE heterogeneity and interventions for success

As has been discussed earlier failure to recognize diversity within the informal sector leads to the ineffectiveness of policies and strategies since various groups of MSEs require various modes of interventions. This is the lacking element for Ethiopian MSEs since interventions are carried out without due regard to the diversities existing among MSE operators. For example the criteria set by microfinance institution does not consider this diversity. Enterprises that can fulfil the criteria set by the institution can get the loan; irrespective of their growth orientation. This might partially explain the loan default problem that is very common among MSEs in Addis Ababa. These days due to a high rate of default, the criteria has been becoming tight by many MFIs and then further excluding the lower bottom of the MSE operators.

Studies that disaggregate microenterprises into survivalist and growth oriented propose various support mechanisms for these diverse groups of operators. For example, Loayza (1997) advocates that at the lower bottom, micro enterprises require a kind of safety net support and policies should focus on poverty alleviation strategies. The author criticizes

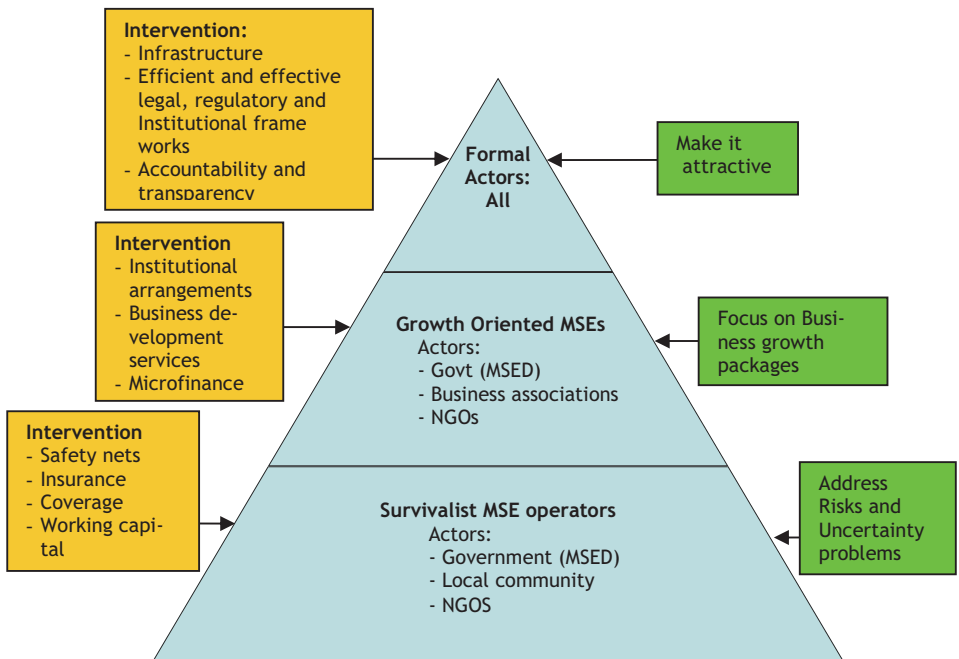
interventions that provide complex packages targeting business developments at this stage when operators do not have necessary basic needs. According to Loayza, at this stage interventions should target addressing issues of risks and uncertainty problems.

Chen (2004), argues that policy interventions for micro and small enterprises should target the needs of these enterprises because some unnecessary interventions may work against their need and may stifle growth. She argues that after decoupling interventions in the informal sector, the formal sector should be made attractive so that firms can voluntarily join it. Thus the legal, institutional and regulatory environments should be emphasized by government to make the formal sector attractive. Esther and Kappel (2006) decouple informal sector in to subsistence and dynamic firms and propose different kinds of interventions for these two groups of enterprises. According to the authors for dynamic microenterprise operator important interventions include provision of investment capital, business insurance, business development services such as trainings and provision of market information, linkages with formal enterprises. However the authors argue that for the subsistence or survivalist operator interventions should provide working capital, social protection and personal insurance. The authors argue that interventions that disregard diversity within the informal sector would remain ineffective. A summary of these literatures is explained using the pyramid in Figure 5.2 below.

A question was posed to concerned officials and bureaus with this background on microenterprise development intervention. An interview was held with head of Federal micro and small enterprise development Agency (FeMSEDA), and Head of the Addis Ababa Micro and small enterprise development Agency. For the FeMSEDA the questionnaire was focused on the institutional frameworks, policies and strategies for the development of MSEs, the role of the Agency in the success of micro-enterprises and on the provision of various supports to these enterprises. The institutional framework has been displayed in figure 5.1 above. The Agency head reported that there are coordinated efforts to address issues of MSEs at Macro, Meso and micro level. At Macro level various ministries are held responsible and this responsibility cascades down to the respective bureaus at Meso level. Intervention is facilitated at micro level through NGOs, chamber of commerce and various skill development centres and this service is provided by both private sector

and organized cooperatives. Regarding decoupling of MSEs in the course of intervention, the agency head replied that the perception concerning micro enterprises in the country is usually that they run businesses for subsistence and hence interventions are targeted to address these subsistence operators. According to the head, the agency and various other concerned ministries work to address the poverty alleviation objectives the country is poised to by providing various support mechanisms such as microfinance, business developments and trainings. He reported that all what we do is choose MSEs that fit to the support packages and intervene accordingly. He further added that there is no explicit distinction among MSEs in the course of intervention in as long as they are qualified for support.

Figure 5.2
Summary of interventions across various groups of MSEs



Source: Compiled by author

The interview was interrupted when the researcher asked the agency head in the middle saying ‘what criteria qualify MSEs for support?’ The Agency head continued replying: *‘this of course is the work of lower level government officials. This is done at Kebele and woreda levels. The basic criteria in as far as I know is that MSEs need to be organized to get a good package of support. However to be organized you need to be resident of that specific kebele, and should pass through the scrutiny of the committee that finally decides on whether a given MSE is fit for support.’*

The agency head was not willing to respond to a question on the detailed criteria followed by the selecting committee; although there are many complaints among MSEs that political membership is seen as the most important criteria to qualify for support. As a result many MSEs are left out without support. Addis Ababa’s MSE development Agency head also was not willing to report on these criteria although he mentioned *“this is the criteria set by the government in as long as the support package passes through the government. Our objective is poverty alleviation through MSE development and hence we need to support responsible operators who work towards helping themselves and hence the country at large. From my experience, there are many private operators who got supports from us without getting organized. However, I tell you many of them have left operations or hidden themselves after getting supports. In addition, it was difficult to follow up MSE progresses in Addis Ababa if they are not organized. That is why we focus more on organized cooperatives. After the criterion was set by the government we have at least started tracking the progress of some MSEs although this is not detailed.”* The Addis Ababa’s ReMSEDA head also reported that there is no distinction between survivalist and dynamic micro enterprise operators during intervention. According to the Agency head, what is important is whether a given MSE qualifies for support and not on the kind of support provided. *‘We think that any support adds up to the success of any MSE operator. Moreover, given the limited resources, we have little options to choose from among the various support packages.’ We provide financial supports, trainings, information services and so on for those who qualify. However, we do not usually make any distinction on which MSEs need what kind of support. MSEs usually face similar problems: lack of capital, Problem of working premises, and information asymmetries; and our support packages usually strive to address these problems.’*

The findings from the interview clearly show that officials are biased with the perception that MSEs are uniform (usually subsistence), with similar problems and requiring homogenous support packages. This, as

argued by Loayza (1997), and Esther and Kappel (2006) would make interventions ineffective because MSEs are heterogeneous and with varying needs and motives for growth. Moreover, the criteria set by the selection committee are unclear and this could de-motivate MSEs seeking support even if they are growth oriented.

5.3.2 Registration and licensing

The importance of enabling business environment in small enterprise success has been advocated by a number of studies (e.g. Sethuraman 1997; Loayza, 1997). Policy interventions usually target enabling environments with an objective to set level playing fields and providing support to the needy. However in most cases such interventions do not consider the diversity that exists within the micro-enterprise sector. More importantly business supports such as micro financing in Ethiopia are prone to decisions by committee who have some predetermined goals and who could be biased based on the objectives they want to achieve.

As mentioned in the theoretical chapter, signs of poor/good institutions is measured using several checklists such as the number of steps/procedures required to obtain a business license and the costs paid to it, enforcement of contracts and access to law, ease of access to information about marketing, access to credit facilities, ease of acquisition to land titles/ lease and tax costs to a business (ILO, 2000). Sethuraman (1997) contend the absence/presence of these factors could bring real impact on micro and small enterprise success. The pressing observation from our survey is that both smaller and larger enterprises are experiencing similar business environments. Enabling businesses are equally absent for larger firms as well as smaller ones. For example, many micro enterprises interviewed are located in the same area where larger firms are operating, sharing the same services provided by the government. Thus, the supply side of the business environment is poorly set to distinguish larger and smaller firms or formal and informal firms. Respondents were asked to disclose the number of steps required in obtaining a license (if any), registration at various levels and the amount paid in each office as described in Table 5.1 below. Very few (about 21) operators have received a license although about 83(29%) of all enterprises are registered by the industry and trade bureau of the Addis Ababa city administration. All registered enterprises reported that they have done so involuntarily. They mentioned that non-compliance to registration means

closure of the business by the authorities. However, they reported that registration was done only once and no one came to them after they are once registered. They did not pay taxes either although for some enterprises their paid-up capital surpasses the exemption limit that is set by the government. Micro enterprises with a paid-up capital of less than 5000 birr are exempted from tax, according to bureau of finance and economic development of the city of Addis Ababa.

Table 5.1
License and registration

Institution	What License or registration have you obtained? (number saying 'yes')	How much does the government charge for this license (in Birr)	How long did it take to acquire a license? (in days)	Do you have to pay for an assistant or an agent to help you with the license? (number saying 'yes')	How much in total did you have to pay to obtain license/ registration? (average per micro enterprise)
Ministry of industry license	-----	-----	-----	-----	-----
Registration by the industry and trade bureau	83	50	1 day	26	150birr
Investment certificate	-----	-----	-----	-----	-----
Regional office of industry license	21	60	1 day	3	360 birr
Municipality license	-----	-----	-----	-----	-----

Source: Own survey result

The enabling environment related to registration and licensing is thus not a significant problem or bottleneck for the success of microenterprises. As indicated in the table above simple registration at industry and trade bureau can guarantee operation of these businesses. Moreover significant number of enterprises are operating without a registration or licensing. Cost wise respondents reported of an average amount of 150 birr for registration and 360 birr for licensing per enterprise. These include costs related to stationary, photography, transport and the like.

5.3.3 Enabling environment and formality/informality

Formality/informality has been argued to have an impact on business success largely because the status of informality/formality influences access to resources by these firms, which would influence their cost functions and demand functions (Jaeckle and Li, 2003). However, as argued by Chen (2004), the status of formality/informality is influenced by the existing enabling business environments. This is because firms make the cost-benefit calculus of operating formally/informally against the obligations of doing so. According to Djankov et al. (2002), there are three types of costs that firms calculate during the transaction with government: opportunity costs, entry and operating costs. They compare these costs with the benefits they perceive in the formal sector.

Although informality can be explained in many different ways, as argued by Fransen and Van Dijk (2008), this study focused on licensing, registration, record keeping and tax as symptoms of formality/informality. Respondents were asked to report on whether they have any intention to obtain license and registration at all levels of government. Implicitly local registration and licensing implies less formality as compared to registration and licensing at Federal/ ministry level. A number of questions related to taxes were posed to see if operators want to pay more taxes voluntarily and hence want to formalize by doing so. Among these questions, operators were asked to report if they have moved from one taxpaying category to the other and if they have done so voluntarily; and to report if there are differences in supply of institutional incentives between tax payers and non-payers. Almost all operators reported that they are paying taxes, obtaining license and getting registered simply because they are forced. They did not see any benefits of doing so.

The finding in Box 5.2 reveals that micro or small enterprise operators strive for formality long after they have achieved business growth. This means that the status of informality is not that much a significant hindrance for business success because enterprises can run successful businesses for long period of time without possessing strong formality status. The institutional environment is weak to exclude informal enterprises from obtaining services provided by the government. This discourages firms from striving for formality and escalates informality. Forced registration or licensing is also ineffective in as long as firms do not demand it because enterprises always design mechanisms of escaping

from the regulation in as long as they do not believe in its advantage. Thus for microenterprises in Addis Ababa the entry and operating costs are not important factors for formalization. It is lack of benefits/poor institutional incentives that proliferates informality in Addis Ababa.

Box 5.2
Formalization motives

Respondent number 74, Samuel, is a retailer of imported goods located in Kazanchis. His retail shop is located on the main road. Such a location advantage has contributed to a high turnover of his business. The business was registered in 2007 when the City Administration was very strict on businesses operating without a registration or license. Such a strict regulation has now been eased partly because the government has shown some sign of tolerance to micro-enterprises related to informality. According to Samuel, he was asked to formalize his business only ones since registration and no official in the sub city clearly knows his turnover and he has no license. He employs 8 workers. The official who asked him for formality (to pay tax, to obtain a license and to renew his registration) in 2008 is still working in the same sub city and he has become a close friend of Samuel just because of the business. When asked do you want to become a formal sector operator, meaning paying taxes, licensing and renewal of your registration? , Samuel replied: *...My brother, I am 'paying tax' only for one official in the sub city and I may pay for another person who takes his position in the future. But, this tax is not more than a lunch and two glasses of draft beer occasionally,. What do you think is my benefit from paying taxes or licensing? If you tell me the benefits I can pay the government more than a tax. Let me tell you one thing, I have already bought an ISUZU (for freight transport business) just from the profit of this one. No one knows this except the guy I am telling you now. My ISUZU fetches a good amount of income. I know I have to pay something for the government because these days there are some progress on roads and other infrastructure. But look, other bigger businesses are also paying nothing. Even if I say ok and pay tax, I know that I do not get any special advantage. Let alone me, the bigger ones where I bring all these goods pay only meagre amount of tax. People start paying taxes after they already became millionaires, usually when some connections to the outside world begin, through exporting or importing. Otherwise, for the domestic transactions there is no incentive for paying taxes or for licensing because you can run your businesses without incurring all these costs.*

Source: Own survey result

5.3.4 Sub-contracting

A situation where the firm offering the sub contract requests another independent enterprise to undertake the production or carryout the processing of materials, components, part or sub assembly for it according to the specifications or plans provided by the firm offering the sub contract (ILO, 2000). As argued in the theoretical framework competitiveness among bigger firms will pave the way for micro and small firms to

obtain sub-contracts from bigger ones. Such arrangements will not only increase the tendency of firms to specialize, but it also will increase the overall efficiency of firms. Sub contracting from government owned services has been seen as a mechanism of encouraging formality in many developing countries including Ethiopian MSEs. Theoretically, informal enterprises do not tend to obtain subcontracting because they fail to submit the minimum requirements such as licensing and registration. In practice however, only organized MSE cooperatives obtain access to this service according to an in-depth interview with operators.

Respondents were asked if they did get any access to sub-contracting from private firms or government and to report what criteria was very important to qualify for sub-contracting. Only 35 (12.2%) of the total operators have obtained access to sub-contracting. The activities were municipal services (waste collection), construction (bricks and beam), and electricity installations for condominium houses. They all obtained this service from the government when they were operating as organized cooperative MSEs. They are no more beneficiaries since they are not member of the cooperatives in both data periods. Although they report of a positive business growth from the sub-contract, strict policies, meetings with government officials, and free rider problems were major deterring factors in cooperatives. Most significant problem according to the respondents was their market was regulated. They can only sell their products to government projects at a price determined by the government. As a result growth of these organized MSEs is curtailed and largely depends on the will of the government. This could be one important reason why people contend that cooperatives are government manipulated enterprises usually meant for political purposes. The remaining 87.8% of the respondents did not have received sub-contracting arrangements. Lack of opportunity was the most significant reason reported.

5.3.5 Linkages

The importance of linkages for enterprise success has been discussed by many researchers. For example, Parker (1994) argues that although clustering and linkages of firms are important for micro and small enterprise success, lack of trust among firms in Africa has severely affected linkages. Most of the clusters in African firms are independent firms with no or little linkage among one another according to the author. This is in

sharp contrast to small firms in East Asian economies whose linkages between small and larger firms is so strong that it added to the general competitiveness of the economy. Larger firms create big demand for smaller firms in the East Asian countries. Moreover, the higher competitiveness and export orientation of these bigger firms in Asia have continuously boosted growth of smaller firms through linkages. Unlike large firms with high initial capital, small firms can easily be forged to the demands of the current market making the linkage between small and larger firms stronger in this region.

Liedholm and Mead (1998) argue that linkages between firms in Africa are very much limited. The researchers further argue that MSEs sell their products to final consumers than to firms. Direct sale of output to final consumers means that demand for output and hence growth of these enterprises is curtailed. The authors argue that lack of competitiveness among larger firms in Africa has hampered subcontracting arrangements between smaller and larger firms. They found that the nature of clustering in Africa is that independent firms in the same industry are selling similar goods to the final consumer. Hence, clusters in Africa are competing over the same demand than complementing each other in supplying inputs and other required resources.

This study has asked respondents on if they have linkages with larger/formal sector firms (Table 5.2). This was followed by a question about the nature of linkages. About 74.5% of the MSE operators reported that they have linkages with formal sector. Among these 151 operators (52.8%) of the total respondents reported that their linkage is through selling their final products.

Table 5.2
Does the enterprise have linkage with the formal sector?

		Frequency	Percent
Valid	No	73	25.5
	Yes	213	74.5
Total		286	100.0

Source: Own survey result

A cross tabulation of enterprise linkage has been carried out against sector of the enterprises (Table 5.3). The data shows that the service sector dominates the percentage share of enterprises having linkages by 41.3%. This is followed by retail trade sector (31.5%) and manufacturing sector. The construction and manufacturing sector are at a linkage disadvantage implying that much work needs to be done to strengthen these sectors by forming networks and links both vertically and horizontally.

Table 5.3
Linkage with the formal sector across activity

Sub sector/activity	Does the enterprise have linkage with the formal sector?				Total	
	no		yes		N	%
	N	%	N	%		
Retail Trade	47	52.2	43	47.7	90	31.5
Manufacturing	12	23	40	76.9	52	18.2
Services	7	5.9	111	94	118	41.3
Construction	7	26.9	19	73	26	9.1
Total	73	25.5	213	74.4	286	100

Source: Own survey result

Customers of informal sector operators are not only the informal sector employees but also the formal sector workers who cannot afford sky rocketing prices of staple foods. Prices of consumption goods are relatively cheaper among MSE operators compared with Medium or large scale restaurants. An in-depth interview (see Box 5.3 below) with an operator on the service sector yields that informal sector is also serving a low income employees in the mainstream economy.

Box 5.3*Linkages of informal sector with the formal sector*

Asegedech, respondent Number 35, owner of a small informal restaurant has placed her operation in Bole Sub-city Kebele 12/13. She has 6 employees including herself. Her business is located in front of Bole sub-city Administration office. Her customers vary from civil servants to daily labourers. She has her premise rented for 600 birr per month and gave it a name "Sheraton". During lunch time she is busy selling *Shiro*, *key wet*, *tibsi*, tea, coffee and soft drinks. She is preparing a delicious food whose quality can be compared to other formal restaurants. But she is selling at about half of the price of what is sold in the formal market. After 5:30 Pm however she sells local drinks such as *Tella* and *Katikala*. When asked who here customers are, she says: "Oh they vary from big guys to little ones. You know everybody knows my 'Sheraton'. During lunch time I have now started serving people at their offices since my restaurant is too small, as you can see. Most of the customers from government are low payees, I think. I am planning to employ more waiters so that I can serve these posted officials there in their offices. In general, civil servants, teachers, students, daily labourers, you name it! - love my 'Sheraton'. I have not seen Yohannes only the chief executive of the sub-city. I hope one day he will come and taste my spicy *Shiro* and then I will ask him for small premises. Thank God! I am making good money. No one has asked me of registration, licensing or whatever legal issues. Who is going to ask me to pay a penny to government while living in this narrow home made of mud?"

Source: Own survey result

From among the 52 enterprises reporting that they are linked to the formal sector through selling of raw materials, most of them (92%) are concerned about the sustainability of selling their raw materials. About 83% of those linked through raw material purchase were in the construction and manufacturing sector. In most cases, demand for products of larger firms fall leading to a sharp decline in raw material demand from micro and small firms. This is serious in the construction sector. Almost all of the construction sector enterprises reported that they have unsustainable demand for their bricks and beams. Since micro enterprises were unable to purchase cement and sand at market prices, they⁶ made an agreement with government on the basis that they sell bricks at a lower price when the government supplies cement and other inputs at subsidized price. However, all respondents reported that housing agency buys them only two to three times within a year and hence their demand is

⁶ Most MSEs in the construction sector with fixed location in Addis Ababa and all of our sampled construction sector respondents were contacted by government officials to supply their products as an input for condominium houses executed by housing agency in Addis Ababa.

curtailed. As a result, many construction sector MSEs⁷ have cancelled their agreements with government and started own businesses, borrowing money from friends, relatives and *Iqub*.

Table 5.4
If yes, what is the linkage?

		Frequency	Percent
Valid	Selling products	151	52.8
	Buying raw materials	62	21.7
	Total	213	74.5
Missing	System	73	25.5
Total		286	100.0

Source: Own survey result

All the weaving operators in the manufacturing sector sampled for this study⁸ were linked through import of Yarn with bigger firms. Micro enterprises in the weaving sector face challenges from both input supply as well as product outlet. The most important input in the weaving sector, yarn, is imported by bigger firms who dictate its price to these smaller or micro-firms. Since there are only few⁹ yarn importers in the country they exercise monopoly power. Weavers have no option than buying yarn at dictated price. On the demand side, the middle men purchase their products, usually at lower prices and sell it to exporters. No one in the sample has had a contact with exporters of weaving products. A value chain analysis conducted during the pilot study by the researcher also revealed that weavers were getting only small percentage of the total value of their product. This indicates that even the existing linkage between large and smaller firms is not in such a way that one supports growth of

⁷ 95% of sampled construction sector operators have cancelled their deal with government and have started their own businesses.

⁸ Six weaving sector operators were obtained and interviewed using two round surveys.

⁹ There are only 5 importers of yarn in 2010 in the city of Addis Ababa.

the other. In contrary, larger firms want to become bigger and bigger at the expense of smaller firms.

5.4 Social Networks and Microenterprise Success

As argued in the theoretical framework, social networks provide operators with resources serving either as an information device or as an enforcement device through building trust, reputation and mutual dependence. Networks also help to identify opportunities and threats, raise social supports, and serve as a safety net for MSEs. This is because the primary social relationships are transformed into business relationships and help avoid uncertainties. Social networks are distinct from industrial business networks in that in the former informal inter-personal relationships play key roles in providing necessary assets for micro and small enterprises success (Annen, 2007). The focus of this section is thus on informal networks based on enterprise owners. As advocated by Kristiansen (2004) networks are specific sets of relations among various groups of actors/operators. Thus for an enterprise network is contextualized as entrepreneur's personal relationships with her external actors.

5.4.1 Social networks

The social network perspective of small enterprise success emphasizes that networks among key components of enterprises are vital for entrepreneurship development and success in general (Granovetter, 1973). Thus, according to Granovetter, the social network approach is viewed as being embedded in social context, channelled and facilitated or constrained and inhibited by people's positions in social networks.

Social networks help entrepreneurs from conception to growth (Renzulli et al., 2000). These researchers contend that before starting any operation, an informal sector operator is largely influenced by the surrounding friends, families and ethnic groups to embark on a specific activity. The operator usually starts a business where his friends or relatives operate. Social cohesion and mutual support help firms to survive and learn their surroundings. This business-to-business support lasts longer because the relationship was primarily based on personal ties. Thus, social ties serve as crucial assets for firms at both start-up and during growth processes.

According to Granovetter (1985), benefits of social networks include provision of opportunities to new business ideas and markets, encouraging entrepreneurs to take risks and innovate, leading to success. The author argues that understanding how business relations are embedded in a society is vital towards understanding success of small firms in developing countries. All the focus group discussions held among various groups of entrepreneurs acknowledged the great significance of social networks for the success or even survival of enterprises. Asked about the importance and challenges of social networks on microenterprise success, all respondents synonymously replied it is the most significant factor both for the success or survival of their businesses. From among the growth oriented operators one respondent said “... *from the time I arrived Addis, I have been surrounded by friends and relatives of my Gurage ethnic group. To be frank, I was not even able to speak Amharic well ten years ago when I came to Addis. But, I started vending second-hand clothes the next day following my arrival here. I was cooperative and earned respect among my local community at home, same as my father. The moment I tell our people my name and my father’s name, they give me high respect. After a year of stay in Addis, I contacted a rich person whom I knew only by name and told him my name and my family back home. My father had supported this guy in paying for transport and other costs when he migrated to Addis, 26 years ago. He was a Gurage migrant who is currently engaged in the export-import business and who is also engaged in the wholesale trade. It only took him two days to provide me a shop full of imported clothes on the condition that I paid back the money after I become established(self sustained).The capital was estimated at about 50,000 birr. Imagine the value of this money nine years ago! It took me only two years to repay the money. There was no interest payable, no time schedule and no contract signed. I paid the money back when I was able to. This formed a turning point for the success I am talking about today. I now have four similar shops: one at 22 Mazoria, one at Shola, and two at Merkato. Next year, God willing I have a plan to engage in importing car spare parts from Dubai. So far, only one of my businesses is registered. To be frank, I have not ever paid tax to the government....”*

Many of the focus group discussion participants in the growth oriented group have highly benefited their social network opportunities as well and have utilized the social network resources. In other words the growth oriented group seems to have supplemented their personality traits with their network opportunities and that has been driving these operators towards success. This can be evident from the fact that some survivalist groups are highly networked but fail to run very successful

businesses. Asked about the importance, cases and challenges of social networks almost all of them replied social network is very important but it also has some cons. Mr. Hailu, a participant in the focus group discussion reported, “... since we are highly networked through various local groupings such as Iddir, Iqub, Mabeber, ethnic Iddir etc, this connection is sometimes counter-productive. The morning they see you becoming profitable in a given business, everybody knocks at your door and asks for credit, support or gift. This time you cannot say ‘no’ because the other day you also expected the same thing to happen for you. So, the sense of reciprocity has mired us in poverty even though we have a number of useful networks that can overcome market imperfections such as uncertainties and transaction costs.”

The argument by Mr. Hailu in the survivalist focus group discussion above indicates that social network can also lead to a lock-in whereby people stay mired in poverty. Thus, it can be argued that social network may be sometimes counterproductive as argued for example by Portes, (1998).

As argued in the theoretical framework, social networks can be measured using a number of dimensions. The theoretical framework focused on Kristiansen’s four indicators of networks: Density, size, intensity and dynamism. Although this is a case, for practical reasons only network size that also recognizes diversity is used for analysis. Respondents were not able to figure out the intensity and dynamism of relationships they have been making with their customers and business networks. They were only able to identify the number of social associations they possess. Thus, network size here is represented by the number of these social channels which the operator is using for business related matters such as information and resources. These variables are discussed below.

To analyze which of these social network variables have more significant impact on growth, a dummy variable indicating membership in a social group has been employed. Thus, in order to analyze the impact of social networking on enterprise performance, each dummy variable is associated with success. This information is obtained by asking respondents if they use any of the social network variables to acquire any business information. The following, Table 5.5 reveals the number of respondents having networks related to social groupings. The detailed explanations of some of the dimensions of these social networks are explained in Section 5.4.2 below. The data here shows that almost all oper-

ators use social networks in one way or another. In addition, that a single operator uses a variety of networks.

Table 5.5
Social networks

Social Network variables	Number of respondents	Percentage
Customers	81	28.3
Friends and Relatives	87	30.4
Neighborhoods	47	16.4
IKUB	153	53.49
IDDIR	126	44.05
Local Associations (<i>Mahaber</i>)	59	20.6
National associations	33	11.5
Community	45	15.7

Source: Own survey result

The data also shows that *Iqub* (53.49%) and *Iddir* (44.05%) are the most commonly used networks for business purposes followed by friends and relatives (30.4%). The explanation and the purpose for each of these network variables are given in the subsequent sections.

Although the data on Table 5.5 allows obtaining information on network size, it does not tell which network variable is most importantly valued by respondents for their businesses. To remedy this, respondents were asked to rank the most important social network variable for their businesses. The following table (Table 5.6) summarizes most important business network used by respondents.

Table 5.6
Most important social network variable

Most important social network variable	Frequency	Percentage
Friends and relatives	30	10.5
Fellow member of <i>iqub</i>	148	51.7
Fellow members of <i>iddir</i>	108	37.76

Source: Own survey result

The results indicate that *Iddir* and *Iqub* are most important social network variables for our sampled respondents. The following section explains these network variables.

5.4.2 Dimensions of social networks

An *Iddir* is a traditional financial institution like *Iqub*. In contrast, it is established for the purpose of providing mutual help on the occasion of funeral ceremony. *Iddir* is wider than any other local organizations where regular fees are paid and all members are obliged to attend funeral ceremonies and must always be ready to help.

Iddirs are general associations with a typical membership of households that live in the same neighbourhood. In a city like Addis Ababa, their number could be thousands while it is not uncommon to have several of them in a single *kebele*. A single operator can be a member of various types of *Iddirs*. These different kinds of *Iddirs* have various powers of generating trust, reciprocity and mutual dependence. But the issue of which one provides a better social capital still boils down to the debate on 'Bonding' and 'bridging' social capital. The smaller the size, the greater is the bond, but the higher the size the better is the scope for variety of information useful for a business.

Being voluntary grass root groupings, the membership typically cuts across ethnic, religious and gender divides although one can come across the old men- only or women – only *Iddir*. The variation depends on the type of services that they devote to the members and the type of members. These *Iddirs* includes community based *Iddir*, work place *Iddirs*, believers' *Iddir* (usually between same religions), youth *Iddir*, old friends'

Iddir, friend's *Iddir*, ethnic *Iddir* and family *Iddir* (Ministry of Labour and Social Affairs, 2008).

When looking into the distribution of *Iddirs* by size of members, the information obtained from Ministry of Labour and Social Affairs reveals that the proportion of community *Iddir* is highest followed by believers' *Iddir* and work place *Iddir*. The proportion of friend's *Iddir* and ethnic *Iddir* comes at the fourth and fifth stage respectively. Family *Iddir* is the smallest of all.

Although the principal role of *Iddir* remains unchanged, both the survey and focus group discussion revealed that they could make a difference as an agent of local economic development and a strong security for MSE operators. One particular area where they have proven to be effective in this regard is mobilizing the communities for their common good, especially when helping to build consensus and to raise funds for neighbourhood upgrading and rehabilitation works. Another most pressing issue related to *Iddir* is the support they provide when a member bankrupts. *Iddir* now days have become a strong business security. However, the operator should be well known and trusted by members to get contributions to restart a business. Thus, a bankrupt operator discusses all the developments (ups-and-downs) about his business with leaders of *Iddir*. This will be communicated to members at large. *Iddir* committees will set the minimum contribution that must be made but members can contribute any amount depending on the convincing power of the case and their trust for the person (Box 5.4) below.

Iddirs do have their own by-laws expressing the duties, obligations and rights of members. The by-laws are strictly implemented so that every member is aware, beforehand, to minimize complaints if some sort of sanction is imposed for not fulfilling the duties which every member is expected to do. Membership in such a group requires regular contribution of money. Though there are variations among different *Iddirs*, the contribution ranges from 10 to 30 birr. *Iddirs* in a very poor localities have lower contributions compared to the better-offs contributing more. Payment usually takes place every week or every month. However, *Iddirs* with strong ties and that are business related (family and work related *Iddirs*) usually take place every week on Sundays.

Box 5.4 *Role of iddir on microenterprise success*

As argued above, the large majorities of operators are members of *Iddir* and have been using this social grouping for business purposes in one way or another. For these operators, being a member of *Iddir* means a lot. A respondent from a focus group discussion for growth oriented group responded saying....*Iddir for me means a father, a mother or a brother. I was running a jewellery welding business of second hand copper, silver and light metals and earning good money in a small shop around Piazza before 2005. In 2005 during election time, I was robbed and beaten on the head by the robbers. I think they thought I was selling real gold and silver just like bigger shops surrounding me. I lost everything, including hope for any business. I explained this to a representative of my Iddir and he explained the case to all members. There are about 63 members and it was decided that each member should contribute 20 birr. However, almost all members contributed more than 50 birr each and I received about 4000.00 birr. I asked my friend Tahir, to lend me an equivalent amount of money and started a café business around Meganagna area with a start-up capital of about 9,000 birr in the same year. It was really a good business with a good demand since we were located on the main road although the room was of poor quality. Thank God, I am now running my own cafe business from three different corners in Addis. I employ 9 workers and earn a good amount of money. The café business is by far better than the welding business, but for me, the contribution that Iddir members made in 2005 is always unforgettable and was the stepping stone for my success today.*

Source: Own survey result

An *Iqub* is a rotating fund. It can be a temporary or recurrent saving association. *Iqub* has a very strong power of connecting operators because its purpose is usually for expansion of a business. Intense business related discussions are common among *Iqub* members. The financial strength of an individual is usually reflected by the amount of savings s/he makes every period through *iqub*. Although, in principle members can be of any ethnic group or any social class, in practice *Iqub* members belong to people of similar earnings and similar social classes.

Iqub is a local grouping supporting business and survival needs among people in almost all communities in Addis Ababa. It is a rotating fund, which usually commences among groups based on strong linkages such as intimate friends, business associates, kinship and peer groups or a locality (neighbourhood). Being a rotating fund, it can take short term duration or it lasts a year or so. Usually members of *Iqub* contribute or pay some amount of money on a regular basis agreed upon by members at the start of the deal to be involved, as a member, in the association. Members pool their savings together and hand them over to one mem-

ber on revolving rotation. Moreover, the saving proceeds until every member gets back his/her all investments.

In one of the focus group discussion held in the study area, participants explained the practice of *Iqub* going like this: the person he/she, to get the collected money is prioritized according to needs and wants until the turn of each reaches. The other practice, which mostly is the case, mentioned by participants was drawing a lottery when needs to take the collected money have not been prioritized among the members.

Members receiving the money use it for so many purposes such as expanding small-scale businesses, furnishing their houses and fulfilling different service needs (purchase of household furniture, telephone lines and others). The most important purpose reported by both survivalist and growth oriented entrepreneurs in the focus group discussion was business expansion.

Most *Iqub* members pool their money on a week basis while it is not uncommon to find members pooling their money every ten, fifteen days or on monthly basis. Majority of people participating in *Iqub* pointed out the fact that, had it not been for the existence of *Iqub*, most of them would not have saved enough money in their lifetimes to meet their different types of needs. All members in the focus group discussion reported of the courage, determination and hard working spirit that *Iqub* sparks on participants. Zelalem is one of the growth oriented group discussant and said... *when you are member of Iqub you work day and night because every Sunday you think that you have to save some amount. So Iqub makes you stronger and grows your business. I started Iqub six years back and I am still member of Iqub with big folks. With the first saving, I bought a taxi together with my father; with the second and third saving I used it for expansion of my business. To be frank, every successful businessperson is a member of Iqub. If you are not member of Iqub you see you will be lazy because there is no force from behind that pushes you to work hard. So Iqub is more than saving your money in a bank. A bank does not force you to save but Iqub does because if you fail to save every period your membership will be in jeopardy. So it is in my view the most important social grouping that leads business men and women towards success.*

Tekemach is putting/saving/ones money in another very trusted person temporarily or on recurrent basis. There is no obligation on the amount and interval of savings. The operator prefers to put his earnings with someone who is trusted because he may consume and run bankrupt if kept by himself. The trusted person is preferred to bank because oper-

ators can get their money every 24 hours up on demand. Moreover, they can ask for the trusted person more than the amount saved in times of hardship or bankruptcy.

Tekemach is a unique grouping with slight resemblance with *Iqub*. In such a grouping people bring whatever amount of money ranging from Birr 5 to hundreds or thousands to put them in the hand of an individual. The individual is the person who may have his own business in the community (usually a well established one) and people trust him/her for his/her good doings, manners and trust worthiness in the locality/neighbourhood at large. Most people keep their money in those individuals because they could get their money immediately when something urgent or hazard occurs. The importance and practice of *Tekemach* was well explained by an in-depth interview with local community leaders from around Shola area. Mr. Gizaw is a resident of that specific area and has lived there for about 32 years. He has a number of well established businesses from around Shola and other places. He has two Caccamali buses serving people for cross-country transport. He says, *"You know why I am the community leader? It is because I do respect everybody. You know I am humble and do not want to see people suffering. Many of these small enterprise workers come and save their money with me. I have a record of each and I trust them and we trust each other. You see when they trust me and save every penny they earn with me, I feel more than that. I do not urge them to save but when they ask me to borrow more than the amount they saved I am always ready to help. So far there are about 65 operators from around Shola saving their money with me and everybody is fine. They are happy and I am happy. I think this is why I am serving as a local community leader for more than 12 years in this locality. Every case of this locality that is not resolvable at kebele or woreda level comes to us and we give solutions because we have strong social power and we can easily enforce it. I sometimes think that I have more power than even a woreda administrator."*

Tekemach can target short-term (temporary) goals or a recurrent occasions running throughout the year. Short term goals or targets involve like purchasing clothes and covering some costs of festivals among money others. However, in most cases *tekemach* serves as a security against bankruptcy.

Mehaber is an association or local organization, and is used for religious and non-religious gatherings. It is possible that important business related cases be discussed within members. Although it is a local associa-

tion with social function, it has a good power of generating trust and mutual dependence.

Traditionally, *Mehaber* are religious gatherings made to honour a saint in one of the apostolic doctrines (Samson, 2004). Such *Mehabers* are celebrated turn by turn following a saint day. Each member of the *Mehaber* is expected to invite some food and drink when his/her turn appears. Usually, it is the case that not only members but also non-members living in a specific community are invited to have some food and drink in the *Mehaber* and enjoy the occasion.

Outside religiously shaped *Mehabers*, the contemporary understanding of the word *Mehaber* takes the form of associations like old friends *Mehaber*, family *Mehaber*, peer groups *Mehaber*, etc. City dwellers or professional associations could also be, conversely, named as *Mehaber*. One thing in common for all the sort of different *Mehabers* is their use as a centre for expressing and discussing the needs and interests of their respective members. Although business related discussions are not tense as *Iddir* and *Iqub*, *Mehaber* has the power of generating trust among operators having a downward effect on transaction costs.

5.4.2.1 Network size and success

Understanding the groups and networks that enable people to access resources and collaborate to achieve shared goals is an important part of the concept of social capital. Informal networks are manifested in spontaneous, informal, and unregulated exchanges of information and resources within communities, as well as efforts at cooperation, coordination, and mutual assistance that help maximize the utilization of available resources. Informal networks can be connected through horizontal and vertical relationships and are shaped by a variety of environmental factors, including the market, kinship and friendship. Another kind of network consists of associations, in which members are linked horizontally. Such networks often have clearly delineated structures, roles and rules that govern how group members cooperate to achieve common goals. The social network variable used for the purpose of this study as described above is the size of network as explained by the number of social groupings a given respondent participates. There are a total of eight different kinds of social associations identified as portrayed in Table 5.6 above. Respondents participated in at least three different kinds of net-

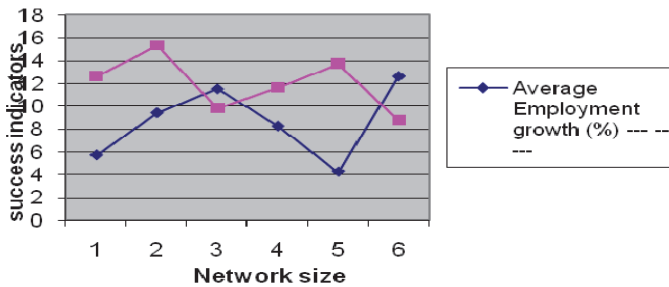
works (Table 5.7 below). About 32 respondents are members of eight social groupings.

Table 5.7
Network size and success

Size of network	Number of respondents	Proportion	Average Employment growth (%)	Average Profit growth (%)
1	----	----	---	-----
2	----	----	---	-----
3	26	9.09	5.72	12.6
4	63	22.02	9.4	15.3
5	55	19.23	11.5	9.8
6	52	18.18	8.23	11.6
7	58	20.27	4.25	13.7
8	32	11.18	12.6	8.75

Source: Own computation from data

Figure 5.3
Network size and success



Source: Own computation from data

The relationship of network size against success is portrayed using a graph (Figure 5.3). Employment growth and profit growth were chosen for the purpose of this analysis. For each group of network size average

growth rate is computed and analyzed together with all other network size clusters. For example there are 26 operators reporting only three networks. The average growth rate for these 26 operators was computed (5.72% for employment and 17.82% for profit) and compared with other network size clusters. The overall trend is systematically presented below using a line diagram.

The diagram reveals that the partial effect of network size on employment growth and profit growth is unclear despite the theoretical contentions that the two are positively correlated. There may be the case that some network variables are counterproductive and may not help for business purposes. It could also be the case that as connections and networking expands it costs participants the time and energy they would have exerted on their businesses. In many network size clusters, however, profit growth is above employment growth. This has been argued in Chapter 5 to reflect the lag effect of employment. The overall conclusion that can be drawn from this diagram is that some social network variables are more useful for business purposes than others are and mere expansion in size of network may not lead to success. Moreover, entrepreneurs should be able to utilize the available networks in a more productive ways and hence requires some elements of personality traits besides these networks. Trust, cooperation and mutual dependence also strengthens as operators expand size of networks leading towards success in as long as entrepreneurs cautiously used it for productive business purposes.

From the focus group discussions and in-depth interview with *Shimagiles* (community elders), we noted that people are very much interconnected through these groupings. This shows the prevalence of a higher density of network although it was found to be difficult for respondents to report on the intensity of these networks. The discussion also revealed that social networks get much importance when decisions are interdependent and collective action would be enhanced when the network feature is understood.

The focus group discussions also revealed that majority of the respondents are very active in terms of participation in formal and informal networks. When respondents were asked about their participation in informal networks like family/village/neighbourhood festivals or ceremony, most respondents participated several times in a year and it is part of a social obligation that they should meet. Thus, social networks and

interaction among inhabitants in the city of Addis Ababa is high and has at least served as an important instrument for business survival although the partial effect on success is unclear.

5.5 Conclusion

This chapter has tried to assess the important roles that external environment play for microenterprise success in the urban informal sector. Focus has been given to social networking, microfinance, BDS and subcontracting arrangements and other dimensions of enabling business environments such as registration, licensing and taxation. Although the impact of each of these variables will be analyzed empirically using econometric method, this chapter has tried to describe the relationships between success and the underlying issues that would affect the effect that these variables have on microenterprise success.

From the analysis, it can be argued that first microenterprise development policy strategies such as BDS should be revisited. Their approach is by default not holistic for every operator. As such, it ignores the distinctions between different kinds of informal sector operators.

It has been observed that since enabling business environments are also poor for larger / formal firms, informal businesses do not strive to join the mainstream economy. They graduate to the formal sector only when their business expands such as to produce in large amount or to engage in wholesale distribution. It is their own performance that pushes firms to join to the formal sector, not the incentives established in the mainstream economy. Firms do consider the opportunity cost of formalization that is the lost benefits in the informal sector. It is only when the benefits of formalization exceeds these costs that firms join the mainstream economy. Thus if it is assumed that formality benefits firm growth then incentive mechanisms should be established in the mainstream economy and the enabling business environment should be set towards this goal.

In the absence of strong formal support institutions social networking could serve firms for survival and success although this will be proved empirically in the coming chapter. The informally established networks could also address market failures such as information asymmetry, transaction costs, and contract enforcements. Trust and mutual dependence can be created by these networks and could serve as an important input

for business transaction and success. Sense of reciprocity, cohesion and collective actions may urge informal sector operators to become members of the social network. Thus, it can be argued that in the absence of strong formal institutions social networks may serve business success.

6

Empirical Analysis of Success Determinants

6.1 Introduction

The preceding two chapters have emphasized the descriptive analysis of success factors and were supported by some qualitative methods such as in-depth interviews and focus group discussions. Success is a complex phenomenon and requires a variety of tools and methods to yield a good insight towards understanding it. This chapter emphasizes the empirical analysis of success determinants using econometric techniques. The preceding chapters thus serve as a stepping stone for the empirical investigations this chapter is poised to make. However, the conceptual framework needs to be summarized as it will provide the framework for testing a number of hypotheses made earlier in the theoretical chapter. Pursuant to this, the first section provides the conceptual framework of the study while the second introduces the method of data analysis and the variables used in the regression analysis. The third section will focus on results and discussions of the empirical analysis while the fourth section concludes the chapter.

6.2 The Conceptual Framework Revisited

Owing to the complexity of success, this study contends that both direct and indirect factors are important. The literature has been reviewed for each dimension of success determinants along with control variables. For the entrepreneur dimension, four important factors were chosen for the analysis. These are personality traits, growth motivation, socioeconomic background and competence. These factors are internal to the business as they solely influence the entrepreneur and his/her success related to the business. Personality traits, although inadequately studied in developing countries, appear here as key success candidates possessed by the

entrepreneur. Despite many studies that ignore personality traits for success factors for developing countries' firms, this study hypothesizes that these factors are as important as other variables because the entrepreneur is the master-mind of the business and his/her personality traits matter for success. Four factors are chosen to represent personality traits for the purpose of this study: need for achievement, internal locus of control, risk-taking propensity and self-efficacy. These traits were measured using a 5-point Likert-scale – and confirmatory factor analysis. The average of the item scores was taken for each factor and used for the analysis. Socioeconomic and demographic factors such as age of the entrepreneur, education and sex were assumed to influence business success directly. Growth motivation, which measures the tendency of the enterprise to hire more workers, is hypothesized as a variable influencing success because it determines the degree to which entrepreneurs want to delegate decision making to other people and expand the business (Glancey, 1998). Ethnicity and migration status are among key variables hypothesized to influence business success because these factors have, one way or another, a strong impact on resources influencing business success.

Two important factors were analyzed from the dimension of the enterprise. These are firm attributes and the status of formality/informality. Firm attributes are the most discussed dimensions of a business. A large body of literature on firm studies emphasizes testing if the law of proportional effect advocated by Gibrat's law holds true. Thus, size and age of the firm are investigated as are other variables. However, as will be shown in the model below, interaction effect between size and age is thought to exist and show a positive effect on success. This is because firms that started larger tend to regress slowly over time, compared to smaller firms (Goedhuys and Sleuwagen, 2009). Hence, a positive association is expected between the interaction of firm age/size and success. To account for the effect of reputation on firm growth over time, a non-linear variable (firm size squared) is used for employment regression. The status of formality/informality is advocated to affect success through its impact on access to resources (Jaeckle and Li, 2003). This is based on the argument that formal firms have access to resources that are vital for expansion. Inversely, the hypothesis can be interpreted as informal firms are excluded from the necessary inputs because of failure to abide by the existing regulatory frameworks such taxpaying, registration and licensing. This would place informal firms under the lower

growth league. There are also control factors that influence demand for products sold by microenterprises and inputs purchased by these firms. Factors such as location and sector of enterprises have a strong impact on demand and hence business growth (Liedholm, 2002). These are assumed to be control variables for this study.

The third dimension relates to external factors. Emphasis here is given to enabling environments and social networks. The impact of government driven services such as BDS, microfinance, subcontracting arrangements and linkages with formal firms are addressed under the category of enabling business environments. These are the tools through which governments strive to achieve micro and small enterprise development and hence are hypothesized to influence business success positively because they are assumed to remedy the major bottlenecks of business expansion (Djankov et al., 2002). Membership in various associations and the number of these associations that a given operator belongs to would influence business success because these networks serve either as an information source or as an enforcement device (Annen, 2007), thereby reducing the cost of transaction incurred by a firm.

This study recognizes the important role that indirect effects play on business success. A special focus is given to entrepreneurial orientation (EO) of a firm which reflects a strategic orientation of that firm. Lumpkin and Dess, (1996) suggest that EO reflects how a firm operates rather than what it does. Wiklund et al. (2007) suggest that the indirect effects of resources, attitudes and environmental factors would be best explained through its influence on EO. These factors either can directly or indirectly influence firm growth through EO. Thus, the interaction effect of EO with these resources together with direct determinants would yield an integrated model of micro and small firm growth. Following the theoretical arguments, resources assumed to have an indirect effect on success through EO are human capital resource, explained here as managerial and technical training received, attitude of the entrepreneur represented by growth motivation, and size of network to reflect the interaction effect of social network on EO and thereby on business success. These variables are deemed to capture the indirect effects of resources and the business environment on business success (Wiklund et al., 2007).

6.3 Estimation Methods

This section describes the methodology followed to test the hypotheses of the research. As discussed above, this study relies on cross-sectional data for most parts of its constructs, although there were efforts to obtain a panel sample for outcome/dependent variables such as employment growth, profit growth and turnover growth. The study also emphasizes both direct and indirect determinants of success and tries to examine all the possible determinants from three dimensions: the individual, the organization and the enabling environment. For this reason, a multivariate analysis is used to test the hypothesis of the study. The general form of the model is:

$$\text{Success} = \alpha + \beta_1 \text{individual dimension} + \beta_2 \text{firm dimension} + \beta_3 \text{external factors} + \beta_4 \text{controls} + \varepsilon$$

Where:

Success represents employment growth, profit growth and turnover growth over the period of 28 months.

Individual dimension represents personality traits, growth motivation, socioeconomic background and competence of the entrepreneur.

Firm dimension represents firm attributes (firm size and firm age) and the status of formality/informality of the firm.

External factors represent social networks and enabling business environment variables such as BDS, microfinance, subcontracting, business licensing and certificate.

Controls represent variables that are entered into regression to partial out their effects from the relationships of principal interests and ε is the stochastic error term. Control variables used for the empirical analysis are sector and location of the enterprise. These are assumed to be factors that are less likely categorized under the three dimensions mentioned above but could have a significant bearing on success.

However, not only a linear relationship but also some non-linear relationships between the dependent and explanatory variables have been hypothesized in this study. The regression model applied therefore took account of this non-linearity as well. As such, the model used in this study model takes the following specific form:

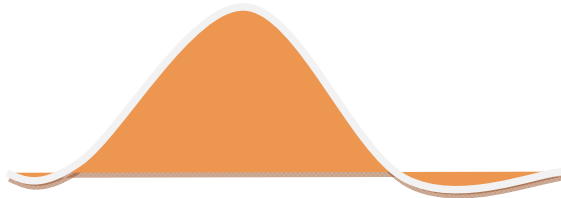
$$\begin{aligned} \text{Success} = & a_0 + a_1 (\text{size2008}) + a_2 (\text{size2008})^2 + a_3 (\text{firm age}) + \\ & a_4 (\text{firm age})^2 + a_5 (\text{size2008} * \text{firm age}) + \\ & \sum b (\text{individual dimension}) + \sum c (\text{firm dimension}) + \\ & \sum d (\text{external factors}) + \sum e (\text{controls}) + \varepsilon \end{aligned}$$

Where, the dependent variable success corresponds to average annual growth rate of employment, profit and turnover over the period of 28 months. Initial size of a firm is represented by size in 2008; firm age is measured as of the last data period in 2010. The interaction effect between size and age and the non-linear relationship is represented by multiplicative effect and the squared effect, respectively. The coefficients $a_0 - a_5$ represent estimated values of the firm size–age effect on performance. In the same token, coefficients b, c, d and e represent the estimated values for the effect of various dimensions and control variables. Control variables are such factors as start-up capital, sector and location dummies and ethnicity.

6.3.1 Estimation methods in a heterogeneous population: Quantile regression approach

In cases where there exists a diverse and heterogeneous group of operators, application of linear regression may lead to biased estimates (Koenker and Hallock, 2001). According to Koenker and Hallock, ordinary least squares (OLS) regress to the mean and hence is unable to take account of the heterogeneity that exists in a given population. The least squares estimator measures the effect of explanatory variables at the average firm growth, assuming a well shaped normal curve (Figure 6.1 below).

Figure 6.1
Normal curve



However, in the analysis of microenterprise success, the issue of heterogeneity is one of the defining features of operators in the urban informal sector. Some microenterprise operators are growth-oriented while others are survivalists. Therefore application of the OLS method may not yield a clear answer to the question: why some operators so successful while others grow at a very low rate or stagnate to grow.

To remedy the problem of regression to the mean in a heterogeneous population, Koenker and Hallock (2001) apply a quantile regression approach. According to the authors, quantile regression models depict the relationship between a set of predictable variables and specific quantiles (percentiles) of a response variable. They specify changes in the quantiles of the response; not average changes of the response variable. Thus, according to the authors, quantile regression assumes a skewed distribution (see Figure 6.2, below) and allows for analysis at these different quintiles.

Figure 6.2
Skewed distribution



Similarly, Goedhuys and Sleuwagen (2009), on their analysis of high-growth entrepreneurial firms in Africa, employed a quantile regression approach to identify entrepreneur characteristics and firm attributes that tend to generate high-growth firms. For Goedhuys and Sleuwagen, although “Gazelles” were defined based on some criteria such as a minimum of 10% annual growth rate over a period of three years, the application of quantile regression yielded results for firms at any deciles. For example, according to Goedhuys and Sleuwagen, using quantile regression, high-growth-firms at 90th percentile that engage in product innovation were found to show a 6-percentage point increase in employment

growth. Using the OLS approach, however, product innovation was found to lead to only 2 percent increase in employment growth. Therefore, the effect of product innovation on enterprise success (explained here by employment growth) is higher for high-growth firms than low-growth or survivalist firms. The OLS approach does not provide any clear distinction regarding the impact of product innovation on these heterogeneous groups of firms because the OLS simply provides the average effect of product innovation on firm success (Goedhuys and Sleuwagen, 2009).

In large samples, the estimated coefficients can be normally distributed even without normality of the error term. However, the quantile regression technique, as argued by Coad and Rao (2008) has an advantage in that while conventional regressions focus on the mean, quantile regressions are able to describe the entire conditional distribution of the dependent variable. This study has special interest in high growth and survivalist firms and, as a result, does not dismiss such firms as outliers. Instead, this study believes that these outliers deserve attention and could also be the focus of a study. Thus, the coefficient estimates at various quantiles tell us these results. In addition, the quantile regression approach avoids the restrictive assumption that the error terms have constant variance. When this assumption is relaxed, it allows us to acknowledge firm heterogeneity and consider the possibility that estimated slope parameters vary at different quantiles of the conditional growth rate distribution.

To illustrate the situation, following Goedhuys and Sleuwagen (2009), if \mathbf{g} represents the dependent variable, firm growth (success indicator), and the explanatory variables including the constant term are represented by a vector \mathbf{X} , the OLS estimator results from minimizing the sum of squared residuals i.e. from minimizing:

$$\begin{aligned} & N \\ & \sum_{i=1} (g_i - \mathbf{x}_i \mathbf{b})^2 \end{aligned}$$

Where, i stands for the observations 1 to N , \mathbf{b} is the vector of estimated coefficients. Ordinary least squares thus estimate the mean effect of explanatory variables x_i on success.

Instead of minimizing the sum of squared residuals, quantile regression coefficients results from minimizing the following criterion function.

$$N N \sum_{i=1} \rho/g_i - x_i b / I(g_i \leq x_i b) + \sum_{i=1} (1-\rho)/g_i - x_i b / I(g_i > x_i b)$$

Where, $I(\cdot)$ is an indicator function taking the value of 1 if the condition in brackets is met and zero otherwise *i.e.*, $I(g_i \leq x_i b) = 1$ if $g_i \leq x_i b$ and $I(g_i \leq x_i b) = 0$ if $g_i > x_i b$

The left term represents a weighted sum of all negative residuals *i.e.* the stagnant or survivalist microenterprises, while the right term is the weighted sum of all positive residuals *i.e.* the growth-oriented firms.

ρ is a weighting factor ranging from 0 to 1. If $\rho = 0.5$ both terms are equally weighted and minimizing the criterion function leads to the 50 percent quantile.

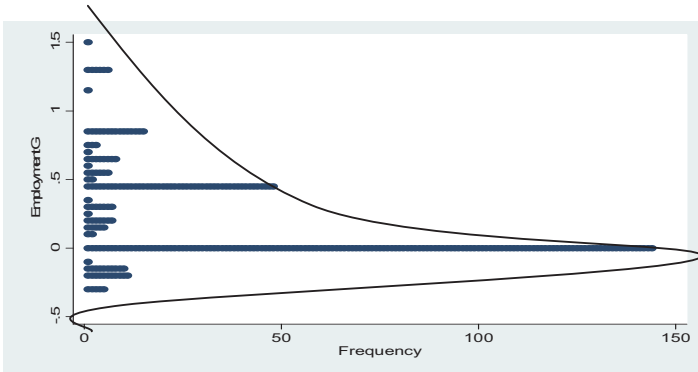
If $\rho = 0.1$, the negative residuals in the left term have a lower weight than the positive residuals in the right term of the expression. Minimizing the criterion function will then lead to estimated coefficients whereby 90% of the residuals are negative; by definition the 90% quantile or upper deciles of growth-oriented firms. Survivalist or stagnating microenterprises can be examined setting $\rho = 0.90$. The positive residuals in the right term have lower weight than the negative residuals.

Minimizing the criterion function will lead to estimated coefficients where 90% of the residuals are positive, *i.e.*, the distribution is evaluated at the 10 percent quantile of first deciles or stagnant/survivalist firms. Quantile regressions computations use the STATA software package.

6.3.2 Assessing the distribution of response variables

The deviation from the normal curve and the distribution across the mean served as a testing tool on whether we have to utilize quantile regression for the analysis of the data. Figures 6.3 to 6.5 below, reveal the nature of distribution of response variables as computed from the data using STATA software application.

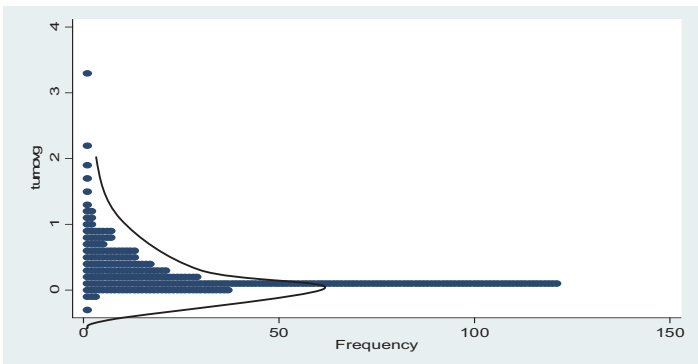
Figure 6.3
Distribution of employment growth



Source: Own computation from data

The figure provides evidence that the distribution of employment growth based on our data is skewed. Large number of enterprises has experienced a zero employment growth and very few operators have seen employment growth higher than 100 percent. The graph is skewed to the left indicating that regressions to the mean may not yield plausible results.

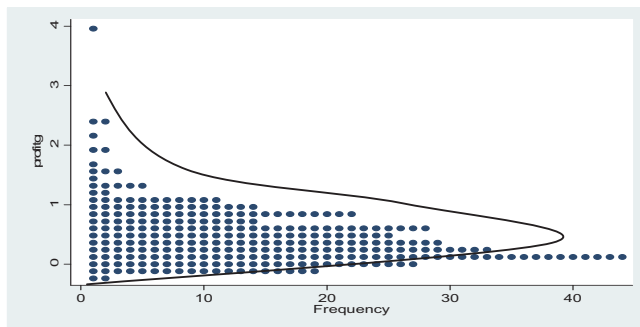
Figure 6.4
Distribution of turnover growth



Source: Own computation from data

Figure 6.4 shows that turnover growth is skewed to the left with large number of operators running a turnover growth near zero to 10% and very few operators exhibiting a growth in turnover of more than 100%. Clearly, this distribution justifies the application of quantile regressions.

Figure 6.5
Distribution of Profit growth



Source: Own computation from data

The profit data also reveals that the distributions of response variables are skewed, although not as strongly as the preceding indicators of success. The growth rate distribution is concentrated between zero and 100% with few outliers. However, for comparison, the OLS regressions are presented together with quantiles.

6.3.3 Variables and their measurement

In the theory and methodology part, operational definitions of all variables have been detailed. This part of the chapter describes the summary and the average values of these variables based on the data. Hypothesized relationships between success indicators and explanatory variables have also been detailed in the theory chapter. As a result, this part of the chapter is limited to a summary of these relationships (Table 6.1 below). Regarding the measurement, with the exception of the dummy variables, all other variables are changed into natural logarithmic form so as to

simplify comparison between variables and also to discuss results in terms of percent changes.

Table 6.1
Summary of variables and their measurement

Category	Main covariates and dependent variables	Hypothesized Relationships (For Explanatory variables)	Definition	Mean value
Dependent Variables				
	Employment growth		$LNL = [(\ln \text{employment at}_{2010} - \ln \text{employment at}_{2008}) / \ln \text{employment at}_{2008}] / 2.33$	0.19
	Profit growth		$LNP = [(\ln \text{profit at}_{2010} - \ln \text{profit at}_{2008}) / \ln \text{profit at}_{2008}] / 2.33$	0.46
	Turnover growth		$LNT0 = [(\ln \text{turnover at}_{2010} - \ln \text{turnover at}_{2008}) / \ln \text{turnover at}_{2008}] / 2.33$	0.27
Covariates				
Individual Dimension				
Personality traits	Need for achievement	+	Made of a three item Likert-scale and changed to natural Logarithm	1.39
	Risk taking propensity	+	Made of a three item Likert scale and changed to natural Logarithm	1.37
	Internal locus of control	+	Made of an item Likert scale and changed to natural Logarithm	1.51
	Self-efficacy	+	Made of eight item Likert scale and changed to natural Logarithm	1.4
Individual competence				
	Technical skill and managerial skill	+	Dummy =1 if the entrepreneur possesses technical skill =0 otherwise	0.28

Motivation	Growth motivation	+	Dummy =1 if the entrepreneur wants to employ more labor=0 otherwise	0.77
Personal background	Migration status	+/-	Dummy =1 for naives born in Addis=0 otherwise	0.32
	Individual age	-	Natural logarithm of age of the entrepreneur (in years)	3.27
	Experience	+	Natural logarithm of the general experience of the entrepreneur	1.33
	Gender	+/-	Dummy=1 for male entrepreneurs= 0 for female	0.46
	Education	+	Dummy =1 illiterate = 0 otherwise	0.12
Business Dimension				
Firm attributes	Firm age	-	Natural logarithm of age of a firm (in years)	0.85
	Firm size	-	Natural logarithm of initial employment size	0.46
Strategy	(Entrepreneurial Orientation)	+	Made of eight item Likert scale and changed to natural Logarithm	1.02
	Innovation strategy	+	Made of a three item Likert scale and changed to natural Logarithm	1.10
	Proactiveness	+	Made of a three item Likert scale and changed to natural Logarithm	0.87
	Risk taking by the firm	+	Made of two item Likert scale and changed to natural Logarithm	1.01
Controls	Location	+/-	Dummy =1 for home with space = 0 otherwise	0.23
	Sector	+/-	Sector dummy for construction, service, retail Trade and Manufacturing respectively	0.09
				0.41
				0.31
				0.18
Formality status	Formal	+	Dummy =1 if the enterprise wants to join formal sector= 0 otherwise	0.59

External/ Environmental dimension				
Enabling Business environment	Microfinance	+	Dummy =1 for entrepreneurs with access to Microfinance = 0 otherwise	0.13
	BDS	+	Dummy =1 for entrepreneurs with access to BDS = 0 otherwise	0.08
	Sub-contracting	+	Dummy =1 for entrepreneurs with access to sub-contracting arrangements = 0 otherwise	0.17
	Linkage	+	Dummy =1 for firms having linkages (both horizontal and vertical) = 0 otherwise	0.74
Social networking	Network size/quantity	+	The natural logarithm of the number of networks possessed by a firm.	0.80
	Network diversity	+/-	Dummies for Iqub, Idir, and friends and relatives respectively	0.29 0.36 0.31
	Network intensity/density	+/-	-----	----
	Network dynamicity	+	-----	----
Growth Barriers				
	Barriers	-	Dummies for tax, business license and registration respectively	0.29 0.29
Indirect Effects				
	EO * Resources	+	The multiplicative result of entrepreneurial orientation and resources such as human capital and network size respectively.	0.35 1.27
	EO * Growth motivation	+	The multiplicative result of entrepreneurial orientation and Growth motivation changed into its logarithmic form	1.02

Source: Own computation from data

6.4 Estimation Results

The main objective of the study is to analyze determinants of success from various dimensions using an integrated approach whereby both direct and indirect effects are considered in the regression analysis. Empirical results of regression analysis are presented separately for each indicator of success chosen for this study (see Annex I to III in the appendices).

Multicollinearity is an important econometric issue that needs to be addressed. It is a correlation that exists between explanatory variables, making the coefficient estimates unreliable. Variance inflation factor (**VIF**) and **tolerance** are two important measures that can guide in identifying multicollinearity in a regression model (Wooldridge, 2000). The higher VIF or the lower tolerance index means that the higher the variance of ($\beta_{i \text{ hat}}$) the greater the chance of finding the coefficients (β_i) insignificant, which means that severe multicollinearity effects are present. Thus the variance inflation factor (VIF) is a useful instrument to identify multicollinearity. In cases of serious multicollinearity problems, researchers recommend the dropping of a variable with the least significant coefficient. By rule of thumb, VIF value of 10 or tolerance index of 0.10 has been used as a critical point to indicate excessive or serious multicollinearity. Only variables that passed these criteria were retained for regression analysis.

6.4.1 Fitness of the model

Fitness of the model as it relates to variable specification and model specification as well as multicollinearity issues has been tested for all indicators of success used in this study. Only when the model was found fit was it used for further analysis. The following sections illustrate these issues for the three indicators used in this study.

6.4.1.1 *Employment growth regression*

Results of employment regression analysis are presented in Annex I. The first column stands for OLS regression, while columns 2-9 stand for quantile regression results. Since our dependent variable is continuous, interval values of the overall fitness of the model for the OLS regression is tested using R^2 (Wooldridge, 2000). This test tells us the degree to which our model was able to explain the variation in the dependent vari-

able (employment growth in this case). The table shows that (adjusted $R^2 = 0.60$), implying that our model has fairly explained the variation in the response variable. For quantile regression models, the fitness of the model is explained by Pseudo R^2 .

Results from the data show that VIF ranges from 1.34 to 5.6 and that the tolerance index ranges from 0.74 to 0.18. It thus suggests that employment regression coefficients are not seriously disturbed by multicollinearity. The omitted variable bias test was also carried out to see if the specification problem arises from some variables missing in the equation. This was carried out using Ramsey RESET test which uses powers of the fitted values. Initially, the null hypothesis that *the model has no omitted variable* has been rejected with $F(3, 257) = 12.22$ and $Prob > F = 0.01$. In such a case, Achen (2005) suggests the inclusion of non-linear (higher order) variables and the exclusion of some variables that are deemed irrelevant or that may seem to be correlated with the error term. Following Achen (2005), the inclusion of age of the operator squared and experience squared in the regression and the exclusion of growth motivation yielded $F(3, 273) = 2.09$ and, $Prob > F = 0.005$ indicating that this later model has no omitted variable bias. The test for heteroscedasticity yielded a $chi^2(1) = 132.16$ and $prob > chi^2 = 0.000$ with the null hypothesis that *the model has constant variance*. The null hypothesis that the model has constant variance was thus rejected. The heteroscedasticity (non-constant variance) problem was contained by using *robust* regressions so that the standard errors were adjusted to provide *robust coefficients*. In general the test for specification related to both the model and the variables indicate that the model is *robust* to run employment regression using the hypothesized variables and the model.

6.4.1.2 Profit Growth

Scholars have used a variety of indicators such as employment growth, sales growth, profit growth, asset growth and equity growth to represent success achieved by firms. However, as argued by Baum et al. (2001) it all depends upon the ease of availability of the data and the discretion of the researcher. However, they note that the safe way is to have comprehensive measures of success than relying on a single indicator. As noted earlier, this study relies on employment growth, profit growth and turnover growth indicators of success. This is important especially because

the effect of some success determinants could vary across various indicators.

In this section, success has been defined by the annual average growth rates in profit over the two data periods. The advantage of using the profit indicator over turnover is that, in some cases, even if the turnover is high, businesses could run a zero or negative profit if the cost of raw materials or other inputs surpassed the turnover. For this reason, profit serves as a better indicator, although there are difficulties of computing profit even among larger firms, let alone microenterprises with poor record keeping. However, as argued above, the two-round survey was of great importance to compute this variable irrespective of whether operators recall past values.

The regression model has included initial profit levels alongside other determinants to control for the impact of the lag effect of profit. Non-linear relations in size and age of a firm were dropped because of multicollinearity problem as evident through the variance inflation factor. Robust regression helped to adjust the heteroscedasticity problem. After correcting for all factors that influence the *robustness* of our results, the OLS regression model appeared with adjusted R^2 - value of 0.53, a VIF value ranging between 2.46 and 6.8. Initially, Ramsey RESET test rejected the null hypothesis that *the model has no omitted variable bias with $F(3,251) = 51.87$ and $Prob>F = 0.01$* before including the squared effects of age and experience. The inclusion of the variables age squared and experience squared yielded $F(3,272) = 2.31$ and $Prob>F = 0.005$ indicating that this later model has no omitted variable bias. The test for heteroscedasticity yielded a $chi^2(1) = 199.16$ and $prob>chi^2 = 0.000$ with the null hypothesis that *the model has constant variance*. The null hypothesis that the model has constant variance is thus rejected, justifying the application of *robust* regressions so that the standard errors are adjusted to provide *robust coefficients*. Thus, both the model and variable specifications fairly well explain the dependent variable, profit growth. Regression results are explained below.

6.4.1.3 Turnover regression

As a third indicator of success, turnover was defined by the volume of sales over a period of one year. In other words it is the price of a good or service multiplied by the quantity of that good or service. Hence, turnover reflects the demand curve for a given product or service and thus,

can serve as an indicator of success because higher demand means higher turnover, leading to higher profit, although the degree of profit generated depends on the costs and existing competitors. Compared to the profit indicator, turnover can be easily computed or can relatively be better recalled by entrepreneurs and this could be one reason why many small business success studies prefer to use it as an indicator of success.

Similar to the profit regressions, the turnover regression tests have passed through the scrutiny of robustness in order to yield unbiased coefficients. The VIF test for multicollinearity rejected the non-linear variables for firm size and age because, with these variables, *tolerance* was less than 10%. To take account of the impact of initial turnover on the current value, this later variable was included in the regression. Ramsey RESET test was conducted to see if there is any *omitted variable bias*, and *robust regression* was conducted to contain the problem of heteroscedasticity.

After adjusting for all issues that could prejudice our estimates, OLS regression results show an adjusted R^2 -value of 0.57. In the initial test, the Ramsey RESET test was $F(3, 251) = 67.72$, with a null hypothesis that *the model has no omitted variable bias*. This indicates that the model has some omitted variable bias. However following Achen (2005) the inclusion of age squared and experience of the operator squared in the regression equation yielded $F(3, 270) = 2.73$ and $Prob > F = 0.044$ indicating now that the variable has no omitted variable bias. Tolerance was within a range of 0.17 to 0.85 and hence it is in the acceptable region for multicollinearity test. The test for heteroscedasticity yielded a $chi^2(1) = 271.51$ and $prob > chi^2 = 0.000$ with the null hypothesis that *the model has constant variance*. The null hypothesis that the model has constant variance was thus rejected. The heteroscedasticity (non-constant variance) problem was contained by using *robust* regressions. Thus, the model and the variables are expected to yield unbiased estimates.

6.5 Results and Discussion

This part of the chapter deals with empirical findings related to the hypothesis of the study. Each hypothesis was tested across various measures of success and a general conclusion will be made based on the findings across these indicators.

6.5.1 Entrepreneur character and success

The following sections analyze regression results for the entrepreneur and indicators of success used for the purpose of this study. Focus is given to significant variables across each indicator of success.

6.5.1.1 *Entrepreneur character and employment growth*

The OLS employment regression in the first column reveals that from hypothesized variables representing the *individual dimension*, three variables were found to be statistically significant: migration status, experience and gender of the operator. For migration status, it has been found that keeping other factors constant, compared to migrants, being native is associated with a 4 percent lower employment growth. This is statistically significant at $P < 0.05$. Thus, on average, being a migrant is associated with higher employment growth compared to natives.

The overall experience of the operator was found to be statistically significant determinant of employment growth using the OLS regression. It was found that controlling for other variables on the average a one percent increase in the overall experience of the entrepreneur leads to an increase in employment growth of about 3 percent statistically significant at $P < 0.05$. It was also found that male operators run a more successful business compared to female counterparts. Being male is associated with 11% higher employment growth compared to female statistically significant at $p < 0.01$.

Internal locus of control was positive and significant at 10% level of significance. Need for achievement and risk taking propensity have been dropped from regression analysis because of their correlation with entrepreneurial orientation. Growth motivation was also dropped from the regression because of its correlation with migration status. Contrary to expectations education appeared to be an insignificant determinant of employment growth using the OLS regression approach. Age of the operator appeared with a negative sign although it was statistically not significant. Ethnicity was also found to influence average employment growth. It was observed that the *Tigre* ethnic group followed by *Gurage* performed better in terms of employment growth. Being *Tigre* is associated with 7 percent higher employment growth compared to other ethnic groups. This is about 4.5 percent for *Gurage* ethnic group.

A closer observation into the quantile regression results yields more interesting findings. Columns 2-9 of Annex I reveal the results for quintile regressions. The results deviate significantly from OLS regressions for many variables. For the *individual dimension* the impact of education on business success appeared to be positive and statistically significant at 2nd, 3rd and 4th deciles of the quantile regression. The interpretation at these deciles is that, compared to illiterates, educated entrepreneurs run a successful business and that this is statistically significant. In other deciles however, although the coefficient is in favor of education the difference between literates and illiterates is not statistically significant. This means that the impact of education on business success is more pronounced for lower growth firms than the average, median or higher growth firms. Although education is an important factor for all firms to succeed (to create more jobs in this case) it is more important for the lower growth businesses than for the average business. A policy that targets educating lower growth firms may appear with a better result on job creation compared to a policy that target educating average firms or high growth firms. It could be that high growth firms may seek for a better outside options as they get educated or that as they get educated the ability to utilize capital intensive and labor saving machines may be boosted thereby leading to the downward effect on employment growth.

Results on personality traits are mixed. Internal locus of control appeared to be positive and significant at average, 2nd, 3rd and 4th deciles indicating that at the average and lower bottom, operators who perceive that result of their businesses are strongly dependent on their own efforts were found to be more successful. Self-efficacy was negative and significant at 2nd and 3rd deciles.

The variables - experience and age of the operator - were found to impact on employment growth for lower deciles and for median firms. However, the gender gap of microenterprise success goes beyond the lower deciles. Being male is associated with higher employment growth compared to female operators under both lower and upper categories. This is statistically significant for the 20th, 30th, 40th, 50th and 80th percentiles indicating that female entrepreneurs are at success disadvantage under all growth categories. In almost all deciles the impact of ethnicity on success was very strongly significant in favor of the *Gurage* ethnic group. The coefficient for *Tigre* ethnic group was statistically significant for average, median and higher growth firms. Migration status was found to be

statistically significant for average, lower deciles and median regression. At these deciles being a migrant is associated with a higher employment growth compared to natives (*significant at $P < 0.05$*).

6.5.1.2 *Entrepreneur characteristics and profit growth*

Result of the OLS profit regression (Annex II) reveals that from *individual dimensions*, personality-traits appear with insignificant coefficients and mixed signs. Internal locus of control and self-efficacy appeared with a positive sign for the average firm, similar to the findings in employment regression. The impact of personality traits is not very pronounced for profit growth indicator using regression to the mean. Thus, the average impact of these factors on success is not so strong. Again, natives appeared with a negative and significant coefficient for the average firm. Thus, migrants seem to perform better on both employment and profit indicators for an average firm.

From profit growth regressions again, it was found that male perform better compared to female operators. Being male is associated with a 6 percent higher profit growth rate as compared to female entrepreneurs statistically significant at $P < 0.05$. The entrepreneur's overall experience is also observed to have a positive and significant impact on average profit growth. However, the impact of operator age was insignificant. Education appeared with expected sign (positive) using regression to the mean (OLS) but it was not statistically significant.

Ethnicity was also considered in the regression because the study hypothesizes that social networks and resources associated with them could vary across various ethnic groups. Two ethnic dummies were retained and were compared with other ethnic groups. Result of the profit regression reveals that the ethnic factor is strongly significant. Being *Gurage* is associated with a 12% higher profit compared to other ethnic groups and this is about 10% for *Tigre* ethnic group. The coefficients are statistically significant at $P < 0.05$. Thus, the *bondage effect* of social networks seems to play a positive role as these ethnic groups are relatively small and, if any, they could play exchange of information and resources within the respective ethnic groups.

The impact of *personality traits* on profit growth across various deciles does not lend much support to theories advocating these factors, at least based on this data. In almost all deciles, personality traits were found to show no significant impact on profit growth. Exception is the 2nd deciles,

median regression and the 7th deciles. In the 70th percentile (higher growth group), internal locus of control appeared with a negative and statistically significant impact on success. This last finding is surprising and worth an explanation. The finding indicates that for the upper growth league, firms that perceive “result of my business is entirely dependent on my own effort” have experienced a negative and statistically significant influence on profit. This indicates that business confidence is less likely prevalent on the individual entrepreneur but rather on the environment in which she/he operates. As shown above the most probable candidate for such an environment is the social network variable because external environments related to government supports are not so significant in many quintiles and regression models. In fact social network variables related to ethnicity, and memberships in associations were found to have a significant and positive influence on success thereby eroding individual confidence that success depends on own effort.

An interesting result emerges from the analysis of migration status and ethnicity using the quintile regression approach for profit. It was found that at the lower deciles, especially at first and fourth deciles and also at the median regression natives were at a profit disadvantage compared to migrants while the *Gurage* and *Tigre* ethnic groups appeared with a positive and significant coefficient at these deciles. However, at higher deciles, and especially at 7th deciles, only *Gurage* and natives appeared to show a statistically significant impact on profit. At this quantile, being *Gurage* is associated with a 12% higher profit compared to other ethnic groups, keeping other factors constant. In the same way, being a migrant is associated with a 10% higher profit compared to natives and this is statistically significant at $P < 0.10$. Thus, the ethnic factor and migration status seem to bear a difference on microenterprise success in the urban informal sector.

The profit impact of education and gender is concentrated at the lower quantile. For the upper growth group, these factors are less significant although they appear with expected sign in many deciles. Thus, training the lower growth group would emerge with a result that large number of microenterprise firms becomes profitable.

6.5.1.3 Entrepreneur character and turnover growth

The OLS turnover regression for *the entrepreneur dimension* reveals that only migration status and ethnicity were found to be statistically significant

using OLS regression. It was found that being *Gurage* is associated with an 8.2 percent higher turnover growth at ($P < 0.05$) compared to other ethnic groups keeping all other factors constant. The average turnover growth regression was negative and statistically significant for *Tigre* ethnic group although average profit growth was positive and significant indicating that higher turnover does not necessarily mean higher profits. This means that firms with lower turnover may experience profit growth if their input costs remained much lower. Gender was found to show a statistically significant impact on average turnover growth. Being female is associated with a 5.8 percent lower turnover growth compared to male and this is statistically significant at $P < 0.05$. Literacy appeared with unexpected sign but it was not significant for average turnover growth.

The impact of personality traits on turnover growth is not plausible using quantile regression. In all the deciles, these traits were found to be insignificant statistically. Migration status appeared to be insignificant for turnover growth across all deciles. Interesting finding is that again ethnicity is found to be positively and significantly related to turnover growth across many growth groups. *Gurage* ethnic dummy appeared with a positive and significant coefficient under the 2nd, 3rd, 6th and 7th deciles indicating that this ethnic group is again at turnover advantage compared to other ethnic groups such as *Ambara* and *Oromo*. The impact of education and gender difference is not felt across all deciles although it was observed that male perform better and literacy effect is mixed.

6.5.2 Firm characteristics and success

In this section success is analyzed against the dimension of the firm. Firm attributes and strategic orientation of the enterprise are important factors discussed under this section.

6.5.2.1 Firm characteristics and employment growth

From among the *firm dimensions* firm size appeared with a negative sign and the interaction of firm size and age came out with a positive sign meeting the expectations with theory. It was argued earlier that firms starting at larger size regress more slowly than firms that started with smaller size. However, these variables were not statistically significant under the OLS employment regressions. The same is true for firm age although the non-linear relationships appeared with expected signs. En-

entrepreneurial orientation by a firm was also found not to influence employment growth for our sampled firms using the OLS.

Using quantile regression, firm size and firm age were found to influence the lower growth league. However, the results are mixed. This means for microenterprises and nascent entrepreneurs with already smaller sizes and short life span; although systematic relationship exists between firm age-size and growth, this relationship does not hold for the average firm. If any it holds for the lower growth category at the 2nd, 3rd, and 4th deciles. Contrary to expectations a positive relationship was observed between firm age and firm growth under many deciles. A closer look into the data reveals that mean and the variance of firm age are too small to yield plausible relationships. The average firm age was about 3.45 years with a standard error of 0.16, indicating that little variations are observed between firm age variables to yield plausible results. Entrepreneurial orientation by a firm when it stands alone was found not to positively influence business success under any growth category. If any, it was negatively related to growth indicating that there is a lack of strategic orientation among striving microenterprise firms in Ethiopia and something else is driving success. As will be shown later the interaction effect of entrepreneurial orientation with social network size was found to significantly influence higher growth firms.

6.5.2.2 Firm characteristics and profit growth

For profit growth, the average effect of firm size and age was mixed. We noted that microenterprises with initial employment size of more than one employee have grown faster than an owner managed businesses with only the owner operating the business. Thus entrepreneurs that had already started employing labor in the initial data period appeared to be employment responsive to gains in profit while single operator managed businesses seem to be less responsive to employment growth irrespective of profits. The firm age-profit relationship however supports the contention that systematic relationship exists and that firm age is negatively related to profit growth. The result is significant at $P < 0.1$. The interpretation is that as firm age increases by one year then the profit exercised by a firm declines by about 6 percent until the firm achieves minimum efficient scale.

Enterprise location and sector again appeared to influence profit growth. The service sector remained the most profitable sector and en-

terprises with working space from at home also appeared with a profit advantage. The strategic orientation of firms does not seem to support profit growth. As argued in the employment growth regression, it seems that EO, when it stands alone is not so important for success; it is useful when firms use their EO to exploit the existing resources such as social networks. This can be evidenced by the coefficients for the interaction effect of EO with human capital and social network size. The coefficients are positive and statistically significant indicating that the average effect of EO is better reflected through its influence on networks and human capital of the operator.

The quantile regression result reveals that the effect of firm character across various deciles is not so plausible. Firm age was negative and significant at median regression and firm size was positive and slightly significant at the seventh deciles of the quantile regression.

6.5.2.3 Firm character and turnover growth

For turnover growth firm age and size appeared with negative signs with firm size being statistically significant lending support to studies that contend for the existence of systematic relationships between growth and firm size and age. The service sector has been found to show a strongly significant turnover growth rate advantage compared to all other sectors. Operating in the service sector is associated with about 15% higher turnover growth compared to other sectors and this is statistically significant at $P < 0.05$.

Firm size and firm age appeared with expected signs under many quantiles with firm size being statistically significant at lower deciles. Enterprise location and sector were found to be important factors influencing business turnover. It was found that enterprises with home and with enough space for operation experienced a better turnover growth over enterprises with other locations and this is significant statistically at almost all deciles indicating the important role that business location play for success. Sector wise service sector was found to show a better turnover performance especially for enterprises at higher growth group. It was statistically significant at 60th, 70th and 90th percentiles lending additional support to our findings in the descriptive part of the study that many *Gazelles* are found in the service sector.

In conclusion, this study initially hypothesized that microenterprise character has a significant impact on success. The finding from the em-

irical analysis reveals that firm character is important for lower growth league enterprises for employment growth indicator of success. For profit indicator of success, only firm age was significant for lower growth and median growth firms. For turnover regression, firm size was significant at mean, lower growth and higher growth firm. Thus, although the degree of the strength of its influence varies across success indicators and across growth deciles generally speaking, this study has proved that firm character influences microenterprise success. The study has witnessed that even for microenterprises the smallest and the youngest firms were found to perform better.

6.5.3 Social networks and success

The third important dimension analyzed was the impact of *external environment* on business success. Social network is dubbed under the external environment influencing business success. The following sections discuss the role of social network against each indicator of success.

6.5.3.1 Social networks and employment growth

The OLS employment regression result revealed that membership in *Iqub* and the interaction effect of social network size with entrepreneurial orientation are significant determinants of success. It was found out that being a member of *Iqub* is associated with a higher chance of experiencing employment growth by about 21.5 percent compared to other local associations such as *Idir* and friends and relatives. This was significant statistically at $P < 0.01$. Entrepreneurs with a higher network size coupled with a better score for entrepreneurial orientation were found to show higher (by about 10 percent) employment growth rate, significant at $p < 0.05$. This further reveals that entrepreneurial orientation alone, may not help business success in Ethiopia; if any its impact is reflected through the social networks.

The most pressing result emerges from quantile employment regressions using social network variable. This was captured by asking respondents to indicate the most important information source obtained through social grouping for their business purpose. These included membership in *Idir*, *Iqub* and relatives and friends. They were taken as dummy variables. The quantile regression result revealed that in almost all growth categories membership in *Iqub* was found to be a statistically

significant variable. No other determinant except the EO-network size interaction and *Iqub* dummy was found to influence employment growth at all categories. *Iqub* was found to be positive and very strongly significant under almost all growth deciles compared to memberships in other associations. This capitalizes the importance of membership in *Iqub* for business success. Another interesting finding as highlighted above was that although both network size and entrepreneurial orientation were insignificant when they stand alone, the interaction effect of the two however was found to influence firm growth at both lower and upper deciles. It was statistically significant at 2nd, 3rd, 4th, 5th, 6th, 7th and 8th deciles, again strengthening the contention that network size plays a more important role given some entrepreneurial orientation by the firm. In line with Wiklund et al., (2007) entrepreneurial orientation was interacted with resources and growth motivation. Resource indicators were social network size and the human capital variable, represented here by technical and managerial training dummy. However, as shown on Annex I, only the EO-social network size was found to bear a significant and positive impact on employment growth.

6.5.3.2 Social networks and profit growth

For profit growth, from the external variables related to social networks, membership in *Iqub* appeared with a positive and significant influence on success compared to other social associations. *Iqub* was positive and significant at second, fourth, median and seventh deciles indicating that its impact is not concentrated at a given growth group. Membership in *Iqub* is thus found to serve as key input for microenterprises at all growth categories to remain profitable. This shows the important role that *Iqub* plays in saving, business expansion, and initiating operators to work hard because they are required to save a given amount every week or every month.

6.5.3.3 Social networks and turnover growth

For turnover growth, the average effect of social network variables was insignificant although it was positive for *Iqub* and negative for *Iddir*. The stronger impact emerges from the interaction effect of EO-social network size and EO-human capital. These two variables appeared with stronger and statistically significant coefficients again consolidating the findings in profit regressions that the indirect effects of EO are more

important than the direct effects and the best candidate for such an indirect effect for urban informal sector in Addis Ababa is the social network.

6.5.4 Enabling environments and success

Enabling business environments are hypothesized to influence business success in the Ethiopian context. Access to micro finance, BDS, subcontracting, taxation and business license and certificate are among the mostly discussed factors from this dimension. These are discussed below.

6.5.4.1 *Enabling environment and employment growth*

Source of finance for start-up capital was another important element of the external dimension that was analyzed using the OLS regression. A microfinance dummy was used to represent formal sector financing sources against informal sources such as friends and relatives or inheritance. It was found that businesses with a start-up capital from microfinance are at employment growth disadvantage compared to businesses from other sources, although this was statistically insignificant. It could be that microfinance institutions rather follow a financial sustainability approach than poverty alleviation approach; because the former approach puts micro enterprises under strong pressure leading to bankruptcy or failure. In the same token, business development support services and linkages with formal sector did not have any significant influence on employment growth indicating that government efforts towards micro and small enterprise developments appear with a disappointing result at least based on this data and regression technique.

Government driven support services such as microfinance and BDS appeared with an insignificant impact on employment growth under all growth categories. However, the impact of subcontracting is felt at lower growth firms. It was found out that at the 20th, 30th, 40th and 50th percentiles subcontracting appeared with a positive and significant effect implying that subcontracting could have a good impact on employment growth for lower growth firms. Linkage was found to have a negative and significant effect on employment growth at lower and median regression implying that even those firms with a link to formal firms are at employment growth disadvantage consolidating the findings on the de-

scriptive part of chapter five. Formality was only positively and significantly related to firms in the 3rd deciles while its impact on firms at other growth category was insignificant statistically.

6.5.4.2 Enabling environment and profit growth

From the enabling factors, subcontracting was significant at lower and median regression. However, enabling business environment variables pose no or little influence on profit growth. In the same token, the average affects of social network variables were found to be insignificant although they appeared with expected signs. As argued above, these networks were positive and significant when coupled with entrepreneurial orientation.

6.5.4.3 Enabling environment and turnover growth

From the *external dimensions*, it was found that firms that obtained business development support services were on the turnover disadvantage. Firms with access to BDS are associated with an eight percent lower turnover growth (*significant at $P < 0.10$*), keeping other factors constant. The average effect of social network variables was insignificant although it was positive for *Iqub* and negative for *Idir*. The stronger impact emerges from the interaction effect of EO-social network size and EO-human capital. These two variables appeared with stronger and statistically significant coefficients again consolidating the findings in profit regressions that the indirect effects of EO are more important than the direct effects and the best candidate for such an indirect effect for urban informal sector in Addis Ababa is the social network.

6.5.5 Control variables and success

As discussed above location of the enterprise and the sector in which the firm operates are considered as major control variables although initial turnover and start-up capital are used besides these factors. The results for each are discussed below.

6.5.5.1 Control variables and employment growth

Control variables showed a rather significant influence on success, reinforcing the findings by Liedholm (2002) and McPherson (1996) who analyzed growth of micro and small enterprise sector in Sub-Saharan Af-

rica. Location and sector of the enterprise were found to be statistically significant. Businesses located at home and with enough space are associated with 18% higher employment growth compared to businesses in other locations such as mobile and open streets. This was significant at $P < 0.05$. In the same token, sector differences were observed. Compared to construction sector all other sectors were found to show a better tendency to create jobs implying that the construction sector is being severely hit by inflation during the data period. The result shows being a retail trade operator is associated with a six percent higher employment growth compared to the construction sector significant at $P < 0.05$. The service sector was significant at 10% level of significance. As expected, start-up capital of a firm was positively related to success although it was statistically insignificant.

Formality was not found to significantly influence business success contrary to assertions by Jaeckle and Li (2003). In fact, it appeared with a negative sign indicating that formal firms are at a success disadvantage compared to informal firms. However, it confirms the findings on the descriptive analysis part of this study where it was observed that the status of formality/informality was irrelevant to business success because many informal firms were also running successful businesses.

The impact of location and sector was concentrated at the average and lower growth category. These factors have little impact for firms in the upper tail of employment growth. For the average firm, the construction sector was at employment growth disadvantage. Nevertheless, for firms less than the median regression, manufacturing appeared to be at employment growth disadvantage. Under all growth rate categories, the service and retail trade sector performed better in creating more jobs in the urban informal sector. Location was found to influence success both at average and at the lower growth group. It has little impact on higher growth firms. The impact of start-up capital was magnified for firms at the lower bottom than for the average firm. It was statistically significant under second, third and fourth deciles.

6.5.5.2 Control variables and profit growth

From among the major *control variables*, start-up capital appeared with a positive sign and it was statistically significant. Businesses with higher start-up capital possess the potential of producing more goods and services, or may appear with better access to technology, which could give

them a profit advantage. Enterprise location and sector again appeared to influence profit growth. The service sector remained the most profitable sector and enterprises with working space from at home appeared with a profit advantage.

6.5.6 Indirect determinants of success

In order to account for the effect of indirect determinants, the interaction effect of entrepreneurial orientation with resources and growth motives was analyzed using human capital (technical and managerial training), social network size (the number of business related associations) and growth motivation (tendency to employ more labour).

6.5.6.1 *Indirect determinants and employment growth*

As revealed above, only the social network-entrepreneurial orientation variable was found to be statistically significant. The EO-growth motivation variable appeared with a positive sign but it was insignificant statistically.

6.5.6.2 *Indirect determinants and profit growth*

A more interesting finding emerges from the indirect effect. Entrepreneurial orientation was found to play an insignificant role on profit growth in almost all regression when it stands alone. In many cases, it even appeared with negative sign. However, when this variable was interacted with social network size the profit impact appeared with a positive and significant coefficient at many deciles representing all growth categories. The interaction was positive and significant at 2nd, 4th, 5th and 7th deciles. In the same way, the interaction effect of EO with human capital was found to be statistically significant at 2nd, 4th, 5th and 7th deciles. Both network size and human capital variables were dropped due to multicollinearity problems. Thus, their effect is reflected indirectly through an interaction with EO. The interaction effect of growth motive with entrepreneurial orientation was found to be negative and insignificant under almost all profit deciles except the median regression indicating that enterprises with a motive to hire more labour and who possess entrepreneurial orientation are not necessarily more profitable firms. In fact, these firms have experienced a negative although insignificant coefficient against profit growth. In other words, more profitable firms are

less likely to show tendencies for hiring workers or that the lag effect of profit growth cannot be seen at the moment, lending support to the earlier argument that businesses employ labour long after they have realized profits.

6.5.6.3 Indirect determinants and turnover growth

The indirect effect of EO through social network and human capital appeared to strongly influence turnover growth. In almost all deciles, the interaction effect of entrepreneurial orientation with social network size and human capital was statistically significant, thereby lending additional support to the findings in employment and profit regressions. The interaction effect of entrepreneurial orientation through growth motivation is however less plausible. Under almost all deciles, this variable was insignificant.

6.6 Value Added per Worker and Firm Productivity Growth

Most micro and small enterprise studies focus more on employment growth or survival analysis than other financial variables. This is because microenterprises hardly recall their financial values, as they do not normally keep accurate accounting records, if any. As a result, computation of firm productivity and value added variables were largely limited to large and medium firms with better accounting records. However, the data for this study allows for computation of some of these variables. The analysis of turnover per laborer and profit per laborer has been made. For turnover per laborer growth regression, using a forward selection regression method, seven variables were retained for analysis as shown in Annex 4. These are migration status, self-efficacy, ethnicity, firm-size, entrepreneurial orientation, microfinance and the interaction of social networks with EO. Regression to the mean and four quantile regressions were done to account for the variation in the distribution of these variables. The result shows that almost all of these variables strongly influence the average turnover per laborer growth. It seems that natives are at turnover per laborer growth advantage compared to migrants and that self-efficacy is negative. The *Gurage* ethnic group is not doing well compared to other ethnic groups. This confirms earlier findings in the employment growth regression, which proved that the *Gurage* is doing better in employment growth. This means that the ratio of turnover

per laborer growth could decline if the pace of growth of employment exceeds that of turnover.

Entrepreneurial orientation is now found to be a positive and significant determinant for average, lower league and median regression. However, its interaction with social networks is negative and significant implying that these variables do much more impact on employment growth than productivity (if we proxy productivity by turnover per laborer) growth.

Microfinance has been proved to perform better in turnover per laborer growth at average (OLS), lower (25%), and higher (75%) regressions. This is interesting because it was found that in the previous regressions using employment, turnover and profit indicators of success, most of the enabling business variables including microfinance dummy were not so significant. In this regression, however, it seems that microfinance could have a positive impact on productivity growth.

The same procedure was applied for profit per laborer analysis. The forward selection method yielded seven important variables influencing value added per laborer. These are ethnicity, start-up capital, firm size, entrepreneurial orientation, and location of the enterprise, interaction of EO with social network and interaction of EO with growth motive. The result of the regression analysis shows in Annex 5.

Start-up capital was found to significantly influence the average, lower growth and also higher growth firms. This is an important finding which supports studies that advocate the importance of start-capital for micro-enterprise success. Regarding the firm size, relatively larger firms were found to perform better in value added growth and this was significant for all growth clusters. Entrepreneurial orientation was again found to be a key factor for value added growth. It was found to be positive and significant for all growth categories. However, its interaction with social network and growth motivation does have a negative impact.

6.7 Summary of Regression Analysis

Tables 6.2 to 6.5 below, show a summary of significant variables using the methodology discussed above. For the general analysis, of this study relies on the three indicators of success. This is because value added per worker and productivity are represented by proxy variables instead of real values. The data does not allow computation of real value added fig-

ures because it was very difficult for respondents to recall the cost of all inputs purchased. For productivity, the data does not allow computation of output/quantity produced. Instead, focus is given to sales and profit variables.

We have generally classified regression results into four categories. The first is regression to the mean. This is based on the OLS results. The quantile regression result is grouped into three categories: the lower growth league (10th, 20th, 30th and 40th), the median (50th percentile) and the upper growth category (60th, 70th, 80th and 90th). Variables that are significant at two and more than two growth category (based on the definition given here) are assumed to be more important and are retained for further discussion. Accordingly, Table 6.5 summarizes these variables and all the three indicators of success. It has been found from the regression analysis that a number of entrepreneur-related, firm-specific and external factors appeared to influence success across all indicators. Generally, ten factors were found to be the most important determinants of success. These are: ethnicity, gender, migration status, firm size, location, membership in *Iqub*, sector, experience, interaction effects of entrepreneurial orientation with social network size and with technical and managerial training received. From among these ten factors, four factors were found to influence all the success indicators used for the purpose of this study (see Table 6.5 below). These four factors are ethnicity, gender, location, and interaction effect of entrepreneurial orientation with social network size. Considering location to be a control variable for the regression analysis, this study concludes that an entrepreneur character related to ethnicity and gender and an external factor especially social networking, coupled with entrepreneurial orientation, are more important for microenterprise success in Addis Ababa.

Table 6.2
Significant variables for employment growth

Category	Significant variables and growth category				Sign of the variable
	Average firm (OLS)	Lower growth firms (<50 th percentile)	Median growth firms	High growth firms (> 50 th percentile)	
Personality Traits					
	Internal locus of control	Internal Locus of control			+
		Self efficacy			-
Competence					
		Technical and managerial training			+
Demographic character					
	Migration Status	Migration status	Migration status		Migrant (+)
	Ethnicity	Ethnicity	Ethnicity	Ethnicity	Gurage (+) Tigre (+)
		Age of the operator	Age of the operator		-
	Experience	Experience	Experience	Experience	+
	Gender	Gender	Gender	Gender	Male (+)
		Formal Education			+
Firm attributes					
		Firm size			-
		Firm age			-
		Firms size squared			+
		Firm age squared	Firm age squared		-
		Firm size* Firm age			+
		Entrepreneurial Orientation (EO)	Entrepreneurial Orientation		-
	Location	Location	Location	Location	Home with space (+)

	Sector Retail trade (+) Service(+)	Sector Manufacturing (+)	Sector Manufacturing(+)		+/-
External/Environmental					
		Network size			+
		subcontracting	Subcontracting		+
		Linkage	Linkage		-
	IQUB	IQUB	IQUB	IQUB	+
		Business License	Business License		+
Indirect effect	EO*SNW	EO*SNW	EO*SNW	EO*SNW	+

Source: Own computation from data

Table 6.3
Significant variables for turnover growth

Category	Significant variables and growth category				Sign of the variable
	Average firm (OLS)	Lower growth firms (<50 th percentile)	Median growth firms	High growth firms (> 50 th percentile)	
Personality Traits					
Demographic character					
	Migration Status				Migrant (+)
	Ethnicity	Ethnicity	Ethnicity	Ethnicity	Gurage (+)
					+
		Gender	Gender	Gender	Male (+)
Firm attributes					
	Firm size	Firm size		Firm size	-
					-
	EO	EO			-

		Location	Location	Location	Home with space (+)
	Sector Service				Service (+)
External/Environmental					
	BDS	BDS			BDS (-)
		IQUB		IQUB	+
		subcontracting			-
Indirect effect	EO*SNW	EO*SNW	EO*SNW	EO*SNW	+
	EO*TCMT	EO* TCMT	EO* TCMT	EO* TCMT	+

Source: Own computation from data

Table 6.4
Significant variables for profit growth

Category	Significant variables and growth category				Sign of the variable
	Average firm (OLS)	Lower growth firms (< 50 th percentile)	Median growth firms	High growth firms (>50 th percentile)	
Personality Traits					
		Internal Locus of control		Internal Locus of control	-
Demographic character					
	Migration status		Migration status		Migrant (+)
	Ethnicity	Ethnicity	Ethnicity	Ethnicity	Gurage (+)
		Age of the operator			-
	Experience	Experience	Experience	Experience	+
	Gender	Gender	Gender		Male (+)
Firm attributes					
		Firm age	Firm age		-
	Location	Location	Location	Location	Home with space (+)
	Sector	sector	sector		Service (+)

External/Environmental					
		subcontracting	Subcontracting		+
		IQUB	IQUB	IQUB	+
Indirect effect		EO*SNW	EO*SNW	EO*SNW	+
	EO*TCMT	EO* TCMT	EO* TCMT	EO* TCMT	+
			EO*Motive		+

Source: Own computation from data

Table 6.5
Summary of common factors across growth category

Success Indicators	Significant at two categories only	Significant at three categories	Significant for Higher Growth firms
Employment Growth	Internal locus of control, Age of the operator, Firm age squared, subcontracting, Linkage, Business License.	Ethnicity, Gender, Migration, Location, IQUB, EO*SNW, Sector, Experience.	Ethnicity, Gender, Location, IQUB, EO*SNW, Experience.
Sales Growth	EO, BDS, <i>Iqub</i> .	Ethnicity, Gender, firm size, Location, EO*SNW, EO*TCMT	Ethnicity, Gender, Firm size, Location, <i>Iqub</i> , EO*SNW, EO*TCMT
Profit Growth	Internal Locus of control, Migration status, Firm age, subcontracting	Ethnicity, Gender, Location, <i>Iqub</i> , sector, EO*SNW, Experience, EO*TCMT	Internal Locus of control, Ethnicity, Location, <i>Iqub</i> , EO*SNW, Experience, EO*TCMT
Common factors for all indicators	-----	Ethnicity, Gender, Location, EO*SNW.	Ethnicity, Location, IQUB, EO*SNW

Source: Own computation from data

6.7.1 Discussion

This study used an integrated approach and was not limited to the mean effect of growth distributions. Liedholm (2002) analyzed the performance of micro and small enterprises for six African countries using only OLS regression but he did not look into the various growth distributions that these firms exhibit. The analysis conducted by McPherson (1996) is also limited to the average effect of various factors on employ-

ment growth for selected Sub-Saharan African firms. The analysis conducted by Bigsten and Gebreeyesus (2007) was much more focused on testing the impact of firm age and firm size on employment growth. Goedhuys and Sleuwagen (2009) used quantile regression approach to account for the heterogeneity in growth distributions, but they were focused largely on the impact of innovation, transportation and technology and none of the personality traits were mentioned, let alone the interaction effect of these traits on resources.

Baum et al. (2001) have emphasize the importance of multidimensional analysis to understand venture growth but the analysis across each dimension was based on testing the effect of determinants on mean employment growth. Moreover, in most of these studies only a single indicator of success is used and that single indicator is employment growth. However, this study is more comprehensive in its approach to small business success study. This following discussion emphasizes determinants that appeared significant under two categories, three categories and for higher growth firms against the hypothesis of the study. It should be noted that the first and the second hypotheses have been proved true in the descriptive part of this study.

Hypothesis 1: *Migration status defines higher probability of joining and operating in the informal sector as migrants have no other alternatives in Addis Ababa.*

Among the 286 randomly selected respondents only 32 operators were born in Addis, leaving the large majority to migrants. Moreover, more than 65% of the respondents reported that they joined the informal sector involuntarily. This hypothesis could have been tested empirically using logistic regressions had we interviewed both formal sector and informal sector operators in the sample. However, the focus group discussion and the descriptive analysis in Chapter 4 provide evidence that Hypothesis 1 cannot be rejected.

Hypothesis 2: *Urban informal sector serves as a means of survival only in the short run; in the long run some migrants run a successful business.*

Almost all of the regression analyses have shown that migration status is strongly associated with microenterprise success. Migrants performed better in all indicators of success lending strong support to earlier findings in the descriptive part. Although migrants run a *forced entrepreneurship* initially, where they start operations for survival, as there are no other alternatives, through time, the motives and performances change. Unlike

natives who have supports to fall back on from family and relatives, for migrants their business is the only way-out. Business failure for natives could mean search for other opportunities or schooling with little worry about daily expenses while business failure for migrants means disaster. Failure, for migrants, could lead to begging or looting as they have no family supports close at hand. This has strengthened some ties within the migrants themselves and placed rotating savings such as *Iqub* in the highest rank for success. Therefore, the fact that firms start operations because *there are no other alternatives* does not necessarily lead to failure. Rather it could serve as a motivating factor making operators to come together, share information, devise own financing mechanisms such as *Iqub*, ultimately leading to success. Probably this could serve as a way out of poverty for rural migrants who are largely in cities because of the *push factors*. This was also evident in Chapter 5 which showed that almost all of the successful enterprises in Addis Ababa are owned by migrants who initially started businesses as a means of survival. In rapidly urbanizing countries such as Ethiopia, this issue deserves greater attention. Policy makers need to investigate if benefits of growth can be redistributed from cities to rural areas through the urban informal sector such as through micro and small enterprise development. Research on this area is generally limited and there is a need for further investigation on this issue.

Hypothesis 3: *Entrepreneurial character related to the owner has a significant impact on microenterprise success in Addis Ababa*

The impact of personality traits on micro and small enterprise success in Ethiopia is generally low. The findings from all the three regressions go against expectations, leading to the conclusion that external factors play a more important role on business success in Ethiopia. It seems that business confidence is embedded largely within the social network thereby eroding the impact of personality traits as they stand alone.

However, results of this finding should be taken with caution. The data on personality traits was available only for firms that were traced in the second survey/survivors. This means that no much variation in personality traits is identified. This could be one possible reason why personality traits do not appear to have a significant bearing on success. As Nichter and Goldmark (2009), noted studies on personality traits are

very rare for small firms in developing countries and hence, there is a need for further investigation of this aspect.

There is evidence of a gender gap in microenterprise success. Gender was significant for average, lower growth and median firms in most regressions. Female operators were at a disadvantage owing to a number of household responsibilities. In most cases, female operators are married or widowed and with children, making it difficult to search for high income fetching activities.

There is also evidence in the study that schooling has a positive, but weak, effect on success. Only in the employment growth regression and for lower growth firms that schooling has been found significant. In fact, there is clear evidence in Addis Ababa that most of the successful operators are either elementary school graduates or high school dropouts. It could be that educated people show fewer tendencies to become entrepreneurs, although recently, the increased gross enrolment is also felt in the informal sector. It could also imply that the quality of education itself is weak since education in Ethiopia is more theory focused, all leading to insignificant impact of literacy on success.

Ethnicity was also found to be a very important factor for success in Addis Ababa. The *Gurage* ethnic group showed a relatively better chance of succeeding in business compared to other ethnic groups. The possible explanation is that the *Gurage* could be better in utilizing social networks which have also impacted their business success positively. This means that their ethnic based bondages are probably geared towards success. This is true when, for example, larger wholesalers from Merkato provide small retailers of the same ethnic group (*Gurage*) capital or other inputs on concessionary terms. There is no legal contract nor any interest payment for the money or equipment borrowed. The smaller business is trusted by larger one. Every small business that received a loan either in money or in kind will pay back at ease. As long as one is credible in the ethnic group, there is no worry to get money to start a business or to get a guarantee in times of bankruptcy. This might have kept businesses owned by the *Gurage* at a success advantage compared to other ethnic groups. This finding is in line with studies that propound on ethnic minorities and success. For example, Robb and Fairlie (2007) observed that Asian minorities performed better even compared to white Americans of similar business category. Although the authors credit better human capital and higher start-up capital for success, the role of networking should

not be belittled. Iyer and Shapiro (1999) have clearly explained how Asian ethnic minorities bridge international marketing and globalization through strong connections. In a study of small-scale wood business in Tanzania, Kristiansen (2004) found that people belonging to Asian sub-culture possess a better striving for business, better group cohesion and higher level of education, leading to the success of this group. The author warns that unless a level playing field is made for all citizens; such an issue could lead to conflict and unrest.

This study argues that government should neutralize the impact of bondages based on ethnicity as this may lead to exclusion and even conflict. Many business people from various ethnic groups are unhappy of the ethnic based exclusion that the *Gurage* exercise in central Merkato and other places. It is really difficult for other ethnic groups to compete in Merkato because of subtle and deliberate exclusion (including turning customers away from competitor businesses to even harassing the operator) practiced by the *Gurage* although, without a doubt, they are hard working people by themselves. Hence, government effort to neutralize such exclusion (through for example discussions with local leaders) would create a level playing field, goodwill and mutual understanding for all operators of various ethnic groups in Addis Ababa.

Hypothesis 4: Firm character would have a significant impact on microenterprise success.

From the analysis, it appears that the systematic relationship between age and growth and size and growth holds, although the statistical significance is not so strong. In some regressions, a positive coefficient for size was observed, appearing against the economies of scale arguments. There could be some explanations for this. First, this data is based only on microenterprise firms in the informal sector (with a small deviation from the mean size). Since large and medium enterprises are excluded from the analysis, the size-growth regression could appear with a biased estimate. An inclusion of larger or medium sized firms would give a clear indication of which firms grow most, with respect to size.

The study has found that location is an important variable for success. For all indicators of success, location was found to be significant in four categories (for average, median, lower growth and higher growth firms). Businesses with enough space to operate from home were found to be more successful than businesses in other locations. This finding lends

support to studies such as the one by Liedholm (2002) which advocate the importance of working premises for microenterprise success.

Evidence from the regression above shows that the service sector, followed by the retail trade sector is doing better in employment creation, profit and turnover, compared to all other sectors. This reflects the demand side of the economy. The consumer market basket is largely tilted towards food consumption than investment and this is typical of developing countries. A higher consumption propensity means that the service sector, especially hotels and restaurants, remain profitable. This sector is also labor-intensive, thereby contributing to higher employment growth in the sector.

The manufacturing sector is at a success disadvantage compared to all other sectors except construction. All other sectors are positively and significantly performing better than manufacturing. It could be the case that large manufacturing firms are competing with these small firms than subcontracting or supporting these small businesses. Shoe-sole makers in Merkato were driven out of market because larger firms sued these small operators claiming that “small businesses posed unfair competition because they do not pay tax and they are illegal”. Failure in small manufacturing sector jeopardizes the Growth and Transformation Plan (GTP) that the country is implementing. Nevertheless, it does not seem, at this point in time, that government driven support strategies are working nor is the market system favoring growth of small and micro manufacturing sector. The trend seems that nothing stops the leading role of the service sector, putting a severe challenge on the GTP. The construction sector seems to be highly vulnerable to international prices as most inputs are imported. It was found to perform poorly largely due to a sky-rocketing prices of imported materials.

Hypothesis 5: Informal Social networks influence microenterprise success positively in Addis Ababa.

A social network variable represented by *Iqub* dummy has strongly and positively influenced success. May be operators are using *Iqub* not only for rotating savings but also for exchanging information and new opportunities which could help to boost up success. It could also be that membership in *Iqub* motivates operators to work hard as they have to pay their share every week.

The study has found that entrepreneurial orientation has an impact on success indirectly. As it stands alone, the coefficient of entrepreneurial orientation was either negative or insignificant. However, in most cases, when EO is combined with resources it is a significant and positive determinant of success. Observation of the interaction of EO with social network size is most revealing. The quantile regression approach revealed that in most cases, high growth firms are characterized by a better score for EO, coupled with a better network size. Thus, network size alone, does not lead to success unless firms possess good strategic decision making. From the aforesaid, it follows that policy makers should work hard on instituting or channeling these informal social networks to the formal system in such a way that interventions can be more effective and small firms benefit from them.

Hypothesis 6: *Enabling business environments do have little impacts on microenterprise success in Addis Ababa.*

It was found that, neither government driven supports nor business environments, have a positive impact on success; exception is subcontracting for employment growth indicator of success. Making microenterprises responsive to policy actions is, however, a vital instrument for local economic development. It could be that lack of sustainable support strategies has hampered the effect of interventions. It could also be that interventions do not recognize diversity within the microenterprise sector. In any case, there is a need for serious investigation of which policies work and how they work.

6.8 Conclusion

Understanding small business success is a relatively complicated but interesting theme that policy makers or scholars need to understand as interventions would work best only if they based on such knowledge. Achieving success simultaneously on all indicators is impossible for interventions of any kind. A policy that works best on profit could fail to create more jobs. Therefore, policy makers should make a choice: “what kind of success do we need at the moment?”

Policy makers should be cautious of importing MSE development packages with the view that “what worked in other countries will also work here”. Success factors vary from country to country, as countries differ in terms of social, political and economic structures. Even in a giv-

en country, success factors tend to influence the outcomes differently depending on the type of success one is considering. This poses a challenge to “one size fits all” policy interventions practiced by most developing countries like Ethiopia. A policy intervention that targets employment creation could eventually end up with poor outcomes unless one is informed of which sector responds most and under what conditions. Equally important is the knowledge of determinants of high-growth or survivalist microenterprises. If policy makers want to increase the number of high growth enterprises, they should be informed of key determinants of such specific growth groups rather than for the average group. The former approach will make interventions more effective and efficient.

7

Conclusions and Implications

7.1 Introduction

Earlier studies on the informal sector are preoccupied with characterizing the sector. For example, studies such as the ones by Harris and Todaro (1970); Lewis (1954); Banerjee (1984); Cole and Sanders (1985) are largely devoted to explaining the causes of informal sector expansion. They do so by linking the urban and rural economy through migration. These studies usually come up with the conclusion that migration status is the main determinant for the probability of individual engagement in the informal sector. Being preoccupied with their findings, they recommend policies that halt migration, such as forced de-migration, rapid industrialization and increased agricultural productivity in the rural sector. They give minimal attention to questions such as the fate of migrants and how they assimilate to the urban life; what determines their business success, and how they graduate to the formal sector? Thus, these studies are largely devoted to characterizing the informal sector followed by a few recommendations on how to develop the sector or how to make the sector serve as an engine of growth for developing countries. However, the reality shows that this sector is where competent business men and women emerge owning successful businesses. This inevitably leads to inquiry into what really determines success.

Studies in small business economics embrace the informal sector through various support schemes, partly because the sector is expanding rapidly and has attracted the attention of many governments, and partly because developing the informal sector is perceived as another route out of poverty when the macroeconomic policy instruments fail. Such a situation in many developing countries has stimulated the emergence of such studies (Liedholm and Mead 2001; McPherson 1995; 1996). These later

studies give little emphasis to the underlying causes of informal sector expansion. Embracing informality or making it work requires the knowledge of the nature of urban informal sector, and thus, determinants of success in the urban informal sector. Consequently, current policies and strategies should be informed about the basic characteristics of informal sector operators before embarking on any support schemes. This thesis is devoted to filling this *lacuna*. As has already been mentioned earlier in the theoretical framework, this study emphasizes the analysis of factors explaining success of microenterprises in the urban informal sector.

This study contends that small business success is best understood if a country-specific analysis is conducted since countries vary by culture, politics and economics. Furthermore, a multi-dimensional analysis, where a number of external and internal factors are taken into consideration would yield a clearer understanding of success than just a scant one-dimensional analysis such as ones that focus solely on growth-size-age. In many developing countries like Ethiopia where formal institutions are weak, legal enforcement is inadequate and information asymmetric, other external informal institutions such as social networks play a significant role in providing information thereby reducing transaction costs contributing to better chances of success for participants in the network. This calls for some understanding of the sociology and psychology underpinning business success. Thus, this thesis has attempted to link social science disciplines such as sociology and psychology with economics to illuminate economic outcomes of enterprises run by human beings who are also social beings.

The data used for this study was based on two surveys conducted over a period of 28 months. A structured survey questionnaire method was used to collect the primary data. A questionnaire was administered twice on the same sample of microenterprises, one at the beginning and another at the end of the data period. Success indicators were thus objectively computed over the data period. The general guiding hypothesis was that success is determined by three factors: owners' character, firm dimensions and environmental factors. In the conceptual framework, about 32 specific hypotheses were derived from these three major dimensions. OLS and quintile regression methods were used to test the hypotheses of the study by taking the heterogeneity in growth distributions among firms into account. Findings from econometric analysis

were also supported by descriptive and qualitative methods such as in-depth interviews and focus group discussions.

In this way, the study has addressed two important issues; characterization the informal sector and, analysis of the determinants of microenterprise successes in the urban informal sector. The study argues that, understanding success of microenterprises in the urban informal sector is not a simple process. In the first place, understanding success requires knowledge of the characteristics of these operators. Towards meeting this objective, the first part of the study has characterized the informal sector from the following several dimensions: the sector, demographic characteristics, motives for joining the informal sector, the push versus the pull factors and the nature of dynamics of the sector. These are key characteristics of the informal sector which have attracted attention of a corps of scholars leading to the proliferation of a large body of literature on the informal sector. The study has investigated these characteristics using qualitative and quantitative methodologies to produce the findings explained in the sections that follow.

Three key issues in this study are worth discussion: success, informality and the position of migrants. In this study, success has been defined both subjectively and objectively. Although this is the case, objective definitions of success have been used for the analysis. The objective definitions of success have relied both on financial ratios and employment variables. Success has been defined by growth of employment, profit and turnover over the study period. The central argument of the study regarding success is that success studies should rely on multiple indicators rather than a single or composite indicator. Moreover, the study has argued that different determinants influence success differently and, that policy makers need to make a choice, depending on the kind of success indicator they want to achieve. Factors that influence employment growth may not equally influence profit growth and therefore success determinants need to be investigated separately for each indicator of success. Econometric tools were used to analyze success and its determinants. The study argues that in a heterogeneous population such as the urban informal sector, paying attention to the variations in growth rates among microenterprises would yield better insights into understanding success than considering firms as homogeneous. For this purpose a quantile regression approach was been used with a summary of results of the analysis being presented below.

Although the study focuses on success in the urban informal sector, informality has been defined from the perspective of firm size and particularly size of employment. Informality can also be defined from the perspectives of legal and regulatory frameworks such as registration, accounting records, paying taxes, location of the enterprise and so on. However, finding common ground that yields an objective definition based on these legal, institutional and regulatory frameworks is a difficult task. Some enterprises are registered but they do not keep complete books of accounts. This means that informality is continuum and that it is difficult to classify a firm as formal/informal based on these criteria. As a result, like many other studies, this study has relied on size definition measured by the number of workers employed by the business.

In an opinion question on whether firms would want to join the formal sector, a dummy variable for business license and certificate and tax payer dummy were used as proxy variables to investigate if informality defined from these aspects has any influence on success. As discussed below, none of these variables has an influence on business success. The most important issue related to this is that success has no association with the status of informality because informal firms can run successful businesses without fulfilling the necessary formalities. Furthermore, formality is not demand driven in the sense that there is no benefit or incentive that attracts firms to join the formal sector. Lack of incentives or benefits in the formal sector kills the motive of thriving microenterprises to join the formal sector, pushing them to grow horizontally proliferating informality further.

The third important issue that deserves discussion is the position of migrants. The analysis of this study has unveiled that migrants make the larger share of the urban informal sector. Key informant interview and focus group discussion results yielded the conclusion that, initially, the informal sector serves as a means of survival; however through time, some operators run successful businesses and they move through the ladder of success to upper echelons of business. The econometric findings also suggest that migration status is positively and significantly related to success. This is much more pronounced for employment indicator of success where it was found to be a strong and significant determinant for average, lower and median firms. For turnover growth, it was significant at average growth and for profit growth migration status influences the lower growth and the median growth firms. This finding reinforces

the notion that growth could be redistributed from cities to the rural sector through the urban informal sector and hence this sector should be tolerated as it hosts the poor and thriving migrants.

This chapter draws conclusions and points to some implications from the study. The chapter therefore tries to conclude issues related to research questions and objectives. The next section posts conclusions on success and its indicators. The third section reflects on the conclusions related to characterization and findings on key determinants of microenterprise success in the informal sector. The last section concludes the study by providing some policy recommendations and areas for future study.

7.2 Conclusions Related to Success Indicators

The period over which success has been studied is short. The period of 28 months falls within the researcher's time-frame for the study. In 2008, the researcher conducted the first-round survey using the methodology explained in Chapter 2. After comments and suggestions from supervisors, the researcher collected data in a second-round survey but was able to trace only 286 operators. However, by doing so, some advantages were achieved: success indicators were measured objectively while success determinants were assessed across these various indicators. In addition, some important factors such as personality traits and subjective measures of success were included. The socio-psychological measures of success have been included and analyzed against the objective indicators of success. The correlation was found to be positive and significant against all indicators. The study's objective definitions of success thus have received significant backing from what the operators subjectively value success. However, future research needs to analyze success based on these socio-psychological measures of how the operators value success.

Although success indicators were found to have a positive correlation as indicated in Chapter 5, success was analyzed across three indicators. Parker (1994) observed a positive correlation between employment growth and sales growth. However, that study relied on employment growth only. This study believes that even though there are positive correlations among these indicators of success, factors that influence these indicators do vary. We employed three indicators of success: employ-

ment growth, sales growth and profit growth. The two-round survey was particularly helpful in enabling collection of data on these specific indicators. Revealing employment size was not a difficult undertaking but obtaining data from the informal sector operators on the two remaining indicators was not simple. The methodology used to compute these success indicators has been summarized in Chapter 2.

Results show that success indicators should be used independently. As summarized in Chapter 6, for employment growth, ethnicity, gender, migration status, location, membership in *Iqub*, interaction of entrepreneurial orientation with social network size (EO*SNW), sector and experience were found to be the most important factors. These factors were significant at three categories of growth, as defined by this study. However, for sales growth, ethnicity, gender, firm size, location, the interaction effect of entrepreneurial orientation with social network size (EO*SNW) and, also the interaction of entrepreneurial orientation with technical and managerial training (EO*TCMT) are most important variables. By the same token profit is most importantly determined by ethnicity, gender, Location, membership in IQUB, sector, EO*SNW, experience and EO*TCMT. Of the 10 most important factors influencing success, only four factors appear to influence all the indicators mentioned in this study. For example, migration status uniquely influences employment growth (significant at three categories). All other factors constant, being a migrant is associated with a higher tendency to create more jobs in the economy compared to natives. Additionally, the influence of being a migrant on success is most felt through job creation than other indicators of success. This implies that policies that aim employment creation in the informal sector should eye migrants since they show higher marginal propensity to employ workers compared to natives.

Likewise, firm size uniquely influences sales growth far more than other indicators of success. The study revealed that size-growth impact was better felt for sales growth than other indicators. Smaller firms were found to experience better sales growth compared to larger firms. Thus, the study has provided evidence that there is a systematic relationship between firm size and growth (sales growth in this case) and that the economy of scale argument is supported. The firm age-growth relationship was also supported for profit growth although this is significant only for two growth categories. However, both findings do not support

Gibrat's (1931) Law of Proportionate Effect because there is some evidence of a systematic relationship between firm age-size and growth.

Although the above conclusions are based on factors that are significant at three categories, a conclusion based on factors that are significant at two categories yields more insight on whether to use success indicators independently. At two categories, success indicators are influenced by unique factors and there is no factor in common between the three although there are some common factors influencing two indicators simultaneously. For example, internal locus of control, migration status and firm age uniquely influence profit growth while sector, business development support and membership in *Iqub* solely influence sales growth. Therefore, this study concludes that success indicators are influenced differently by different factors. This means that factors that are responsible for sales growth may not necessarily and equally influence employment growth.

This study has analyzed growth distributions of success indicators before deciding on the type of regression model to use. It was found that growth distributions are skewed, with a large number of firms exhibiting a zero to 10% growth rate while very few firms growing fast. Thus, although OLS has been used for comparison, the quintile regression methods are more relevant to analyze success factors across various percentiles (Koenker and Hallock, 2001). The study concludes that quintile regression methods provide better insights since they enable researchers to analyze factors at various growth categories.

7.3 Conclusions on Characterization

Although the basic objective of this thesis was to understand determinants of success, the study contends that understanding characteristics of the urban informal sector operators would further enlighten the analysis of success. In other words, this study perceives that some features of the informal sector operators would have an influence on success of microenterprises. It studied three issues to better understand the characteristics of microenterprise operators in the urban informal sector of Addis Ababa as follows:

- A. What are the characteristics of microenterprise operators?
- B. How do microenterprise operators join the informal sector and,
- C. Why do they join the informal sector?

Although characterization could take many forms, the theoretical framework of this study has also outlined these three dimensions of characterizing microenterprises in the urban informal sector. These dimensions are emphasized because they are assumed to influence success of microenterprises directly or indirectly as advocated by many studies. The first one relates to socioeconomic and demographic characteristics of the operators such as age, sex, migration status, ethnicity, religion, marital status and level of education. The second dimension emphasizes on understanding the motivating factors. This relates to the *push* versus the *pull* factors. This is followed by addressing the issue of “why do they join the informal sector?” This part of characterizing microenterprises adds to the informal sector debate on whether the sector is a subsistence economy or a better opportunity sector. These later two dimensions are major issues in the urban informal sector characterization across country or across continent. The following sections provide conclusions related to each of these aspects.

7.3.1 Demographic and socio-economic characters

The rapid urbanization rate in Ethiopia can be attributed largely to rural-urban migration (EEA, 2009). This could signify that the agricultural sector fails to absorb the abundant labour in the rural sector. Given a fixed plot of land with an average size of not more than one hectare, and an average fertility rate of about 5.6 children per woman in rural Ethiopia, it is logical to expect a disguisedly unemployed labour in the sector. Government efforts to strengthen agriculture to absorb this abundant labour are underway through several schemes such as intensification, promotion of non-farm activities and education. Intensification involves use of fertilizers and improved seeds to obtain more yields.

Education expansion is only very recent and non-farm activities are not commonly and uniformly available everywhere in the country. Rural people perceive that urban life is better than agriculture-based rural life, and for the disguisedly unemployed rural youth, cities are the only place to make a living with Addis Ababa the place that many migrants have in mind.

About 90% of the sampled urban informal sector operators are migrants from various corners of the country. This finding is consistent with studies on migration and the informal sector (Alhuwalia 2005).

The study found that migrants are aware they are not qualified for the formal sector jobs in. The urban informal sector by itself was enough to attract these migrants. This finding is in contradiction with earlier studies on migration (Haris and Todaro, 1974) that assert rural-urban migration is driven by a search for formal sector jobs and that the urban informal sector is a transitory sector. Chapters 4 and 5 of this study have demonstrated that the urban informal sector in Ethiopia is not transitory for two reasons. First, migrants have *a priori* knowledge that they are not qualified for formal sector jobs. Second, successful operators tend to stay in the informal sector and they have no motive for formal sector employment. Chapter 5 concluded that lack of incentives in the formal sector has contributed to the proliferation of informality whereby firms prefer horizontal growth to than vertical growth. The study concludes that the urban informal sector in Addis Ababa is not a transitory one.

Microenterprise operators have an average age of 28 years and that the proportion of females is higher than that of males within the sector. A gender gap has been identified and male operators tend to run more successful businesses. Household responsibilities of female entrepreneurs negatively influence their business performance.

The operators are in a very productive age range, making informal sector development policies more justifiable, both from both economic growth and poverty reduction perspectives. If we provide some development packages to these operators, the return will be more elastic as they are young and energetic. However, the study has pointed out that micro and small enterprise development packages have not worked well mainly because of a failure from the supply side.

Contrary to expectations, the level of literacy of microenterprise operators has increased compared to findings of, for example, the CSA (2003). The study also found that female operators have lower levels of enrolment in all education categories. The current high degree of education in the informal sector can be attributed to an increase in the gross enrolment ratio at macro level. These days, many of the migrants possess some education. They can, at least, read and write. Regional governments are making an effort to expand health services and education although the percentage of enrolment for women falls, the higher the level of education. However, the level of education has little impact on microenterprise success. This is not surprising as education in Ethiopia is more theoretical and not very practical. Vocational and technical schools in

Ethiopia are at their infant stage. Only about 20% of the operators have ever received technical and vocational training. The coverage of vocational and technical training is limited only to cities, giving little chance to students in rural areas to access such practical training. Thus, expansion of technical and vocational education training to rural areas should be a priority for the education sector if an overall gain in productivity is to be attained in both the formal and informal sector. Moreover, coordination among stakeholders and arranging proper institutional set-ups for training should also be priority matters.

One of the basic components of entrepreneur characteristics is personality traits. This study has analyzed personality traits using four indicators: need for achievement, internal locus of control, risk-taking propensity and self-efficacy. Confirmatory factor analysis was used to test the validity and reliability of items for each of these constructs. A 5-point Likert scale was used to measure the score for each operator. The average score for all operators on these personality traits was generally low. The impact that these factors have on success has been discussed. Compared to external factors, the impact of personality traits on business success is not so strong. Data on personality traits was collected only in the second data period. It could be that entrepreneurs with some similar personality traits have survived leading to a lack of variation in the personality traits variables making the coefficient estimates insignificant. Thus, findings on these traits should be read with caution.

7.3.2 The push versus pull factors and the position of migrants

Push factors are those factors that create unfavourable condition for workers and motivate them to search for other better sector/activity. Crowding out of formal sector employees by stiff competition from the global market and poor performance in the agriculture sector are the *push* factors. Urban attractiveness fuelled by information from returning migrants is considered a *pull* factor. It was borne out that the push factors seem to play more important roles. Migrants indicated that their knowledge about attractiveness of cities (*pull factors*) depended on general information but their decision was determined by the living conditions they encountered from day to day. About 40.6% of the operators came from Southern Nations, Nationalities and Peoples Regional state with densely populated areas, in particular from Hadiya, Gurage, and Wolayita zones. They mention disguised unemployment and living in a dire situa-

tion. Under any circumstances, they wanted to leave the rural sector. Poor performance in agriculture sector has pushed migrants out.

Given such a miserable life in the rural areas, many people tend to migrate to cities, especially to Addis Ababa. Addis Ababa, the country's capital city, is such a dominant force economically, politically and demographically that all other cities in the country pale by comparison. Although migrants have some general information about cities, lack of dynamic secondary cities attracts many migrants to Addis. Thus, policies need to address lack of secondary cities in the country. Government efforts to increase the number of secondary cities are minimal and efforts by regional governments with limited resources and less capacity are ineffective.

The number of retrenched workers in the urban informal sector of Addis Ababa is very low. People, especially educated ones tend not to become entrepreneurs after being retrenched from the formal sector. They prefer to wait, even for lower paying formal sector jobs than becoming entrepreneurs. Entrepreneurship is not usually viewed as a better route to success, especially among educated Ethiopians. The World Bank report (2007) also attests to this fact. Maybe, the influence of the previous socialist regime that stifled private sector development and encouraged government employment continues to affect the attitude of this generation. The importance of entrepreneurship should be a policy priority for Ethiopia to create more jobs and for the economy to become more competitive. Efforts to inculcate entrepreneurship education in the curriculum should be intensified.

7.3.3 The informal sector: A dynamic or a subsistence economy?

Studies debate on whether the informal sector is a sponge, which absorbs surplus labour or a dynamic sector where competent entrepreneurs reap profits in the sector. Based on data from Peru, Yamada (1996), argues that the urban informal sector provides competitive earnings and only capable entrepreneurs survive in the sector. Yamada concludes that people join the urban informal sector voluntarily. Douglas et al. (1997) support this argument. In Mexico they found the urban informal sector competitive in earnings and sometimes better paying than the formal sector. These findings challenge the former characterization of the sector as an involuntary and transitory employment opportunity. On the other

extreme, many studies and international organizations such as ILO argue that the urban informal sector is a sponge, a means of survival where people continue to live in the sector because they do not have any other alternative to make a living.

Meng (2001) and Ranis and Stewart (1999) divide the urban informal sector into two: self-employment versus wage-earning sector or, traditional versus modern sector. The traditional or wage earning sector is characterized by the low income, less productive and a sector which absorbs surplus labour especially migrants. Many unskilled labourers or recent migrants are hosted in this traditional sector. They characterize this sector by free entry, requiring less skill, and a sector which provides means of survival for the majority of the poor. Especially, less skilled women in many developing countries are grouped under this category. As such, activities under this group include street vending, shoe shining, loading-unloading, among others, where all jobs require less skill. On the other hand, the modern or self-employment sector is classified as a dynamic sector. It is a sector, which produces intermediate inputs for the formal sector. Increasing linkages between the formal and this sector would lead a country to better macroeconomic performance as is the case in some successful East Asian economies. Operators in the dynamic urban informal sector are skilled and earn competitive wages and are involved more in manufacturing and service sectors that require skill and entrepreneurship. These studies argue that detailed knowledge of the urban informal sector can only be gained if it is further subdivided in the way mentioned here. Ranis and Stewart (1999) criticize studies that see the urban informal sector as one single sector that hosts the surplus labour.

The present study challenges such characterization. Only about 9.8% of the total sample joined the sector because activity brings high income. However, findings from in-depth interviews revealed that even some operators, who joined informal sector because they do not have other alternatives, were found to become successful through time. This questions the earlier categorization of the informal sector as subsistence versus dynamic.

Furthermore, cross-sectional analysis of the informal sector may not provide a good insight about the diversity in the informal sector. The dynamics of success should be understood over time. In other words, relative indicators of success would yield better insights than absolute

ones. The study concludes that the majority of microenterprise operators started for survival reasons (Rogerson, 2001). As argued above, educated people prefer employment in government or formal sector to becoming entrepreneurs. A strong push factor coupled with Addis Ababa's pull factor attracts rural-urban migrants into the informal sector. However, the study observed that although they started operations as a means of survival it does not mean that they are survivalist oriented. In fact, lack of security and lack of help in the city will give them some motives to come together, form financial and business security mechanisms and strive for more work because they cannot afford failure. Thus, this study argues that through time, some traditional sector operators may become dynamic operators because of their socioeconomic backgrounds and related factors.

The study has also observed that success is achieved largely by the informal social networks based on ethnicity and other factors. There is a clear lack of development policy to address issues of the informal sector, leaving everything to informal systems devised by operators themselves. Government-led efforts to achieve success in the informal sector pale by comparison to the informal social networks according to this study's findings. Therefore, government should either try capitalizing on such networks or devising better strategies. The motive to join the informal sector could, however, change over time leading some subsistence operators to become successful entrepreneurs.

7.4 Conclusions on the Determinants of Success

Success was analyzed over a period of about 28 months. Although this can still be regarded as a relatively short period, this study has noted that success factors vary across the type of success indicator used leading to the conclusion that policy makers should make a choice on what kind of success they want to achieve before launching interventions. Some factors that are significant for employment growth were found to be less important for turnover or profit growth.

It has been found from the regression analysis that a number of entrepreneur-related, firm-specific and external factors influence success across all the indicators used for the purpose of this study. Ten factors were found to be most important determinants of success. These are: ethnicity, gender, migration status, firm size, and location, membership

in *Iqub*, sector, and experience, interaction effects of entrepreneurial orientation with social network size and also with technical and managerial training received. From among these 10 factors, four factors were found to influence all the success indicators used for the purpose of this study. These four factors are ethnicity, gender, location, and interaction effect of entrepreneurial orientation with social network size. Considering location to be a control variable for the regression analysis, this study concludes that an entrepreneur character related to ethnicity and gender and an external factor especially social networking coupled with entrepreneurial orientation are important for microenterprise success in Addis Ababa. Conclusions related to each success factor are provided below.

7.4.1 Indirect determinants: Entrepreneurial orientation

One of the defining features of an integrated approach of success study is that the impact of determinants is analyzed both directly and indirectly. As argued by Lumpkin and Dess (1996) and Wiklund et al. (2007), the effect of indirect factors is especially important when the strategic decision-making by a firm is taken as an important factor for success. The argument is based on the fact that strategic decision makings can be influenced by personality traits such as motivation and resources surrounding the entrepreneur. This means that some attributes that could fail to explain success directly may appear as a significant factor when the indirect effect is taken care of. Indeed, this was proved true by this study.

One of the interesting findings of this study has been that entrepreneurial orientation was an insignificant determinant of success at many deciles of the quintile regression when it stands alone as a direct determinant. For regression to the mean, it was even found to appear with a negative coefficient. However, an indirect effect of other factors on entrepreneurial orientation (EO) yielded a completely different result. When social network size was interacted with entrepreneurial orientation, the coefficient was found to be positive and statistically significant for all of the three indicators used in this study. The same was true for interaction effect of entrepreneurial orientation with human capital although it did not work well with entrepreneurial orientation-growth motivation effect on success.

This finding has important implications in many ways. The fact that entrepreneurship in Ethiopia is initially an enforced one erodes self con-

confidence among the operators. Unlike entrepreneurs in advanced countries who conduct pre-feasibility studies and assess profitability of the enterprise before operations, entrepreneurship in developing countries in general and, Ethiopia in particular, start operations as a means of survival with little consideration of the profitability of the enterprise. Lack of alternatives would strengthen their attachment to their businesses even if they do not have *a priori* knowledge about it. In due course, since they do not have sufficient self confidence, they form horizontal connections through networks and share information and resources with peers or ethnic groups. Thus, enterprise confidence rests more on this group than on the individual operator. Entrepreneurs with a more entrepreneurial orientation maximize from the information and resources obtained through this network, leading them to higher success. This means that the way enterprises act and interact within the social networks matters for success. An enterprise that is less active in social interactions may fail to succeed even if it has a good entrepreneurial orientation, since information and resources are available within this network.

As argued in Chapter 5, such a network has been formed because there are no alternatives from the government side. Lack of competing alternatives for information and other resources has forced operators to resort to their own means to find one. This is largely formed through factors such as ethnic based connections that can easily exclude other non-member operators. Entrepreneurship, however, requires a level playing field. Unequal access to information and resources could lead to conflict and greater inequality, making success unsustainable, as argued by Kristiansen (2004), for example. This can however be neutralized by government efforts in expanding access to information and resources among microenterprise operators. In addition, legal processes and bureaucratic procedures need to be simplified for these operators so that they seek government-run services and information voluntarily. The impact of entrepreneurial orientation can at best be felt if operators get a level playing field; otherwise entrepreneurial orientation (EO) will be suppressed by social networks especially based on ethnicity. This would lead to unfair competition among enterprises. Therefore policies should work towards creating a level playing field and strive to make entrepreneurial orientation to influence success directly. Efforts to use media to disseminate market information as well as business opportunities should be strengthened. However, these efforts should be followed and super-

vised since they are usually abused during implementation. The advertised business opportunity may appear with a lot of bureaucratic procedures that could be unaffordable to microenterprise operators. In this case, real implementation requires commitment and dedication for the success of these enterprises by breaking bureaucratic bottlenecks and corruption.

The entrepreneurial orientation-human capital interaction effect was also found to be a significant determinant of success for profit and turnover regressions under many quantiles, indicating that operators who obtain technical and managerial training coupled with a better entrepreneurial orientation perform better. The study indicates that efforts to boost human capital of operators will be most effective if they include entrepreneurial orientation. This implies that human capital alone may not lead to success and interventions that aim at yielding more profits and more turnovers should focus more on boosting the human capital of firms with a better entrepreneurial orientation. The entrepreneurial orientation-human capital interaction effect was however found to be negative against employment growth and that this was significant for the median regression. In all other regressions, it was found to be an insignificant factor of employment growth, implying that the EO-human capital interaction effect is more responsive to profit and turnover than employment growth. This could be because entrepreneurs with a better entrepreneurial orientation tend to use capital intensive techniques of production as they get their human capital boosted. It implies that policies that target employment creation would benefit less from entrepreneurial orientation-human capital interaction effect.

7.4.2 Personality traits, competence and personal background

For Wiklund et al. (2007) the multidimensional view of success was based on three general factors which can be viewed as synonymous to external and internal determinants. They analyzed attitudes, resources and external environment and their interaction with entrepreneurial orientation on business success. Thus, the internal factors for this study are dubbed as attitudes and resources. However, application of dimensional studies is more comprehensive because factors such as location, sector, firm size and firm age are all factors that are not addressed, either as resources or as attributes by the Wiklund et al. (2007) model. Thus, the

multidimensional approach used in this study is more holistic in its approach.

This study analyzed four components of the individual dimension of success determinants: personality traits, competence, motivation and personal backgrounds. Generally, the study finds that personality traits are less plausible determinants of success for Ethiopian microenterprise operators. It was observed that personal backgrounds such as migration status, ethnicity and overall experience of the operator are key determinants of success from individual dimension. As indicated in the theoretical framework for advanced countries, personality traits such as achievement motivation and risk taking propensity are most important determinants of small business success. Thus, there is a need for further studies to witness if these personality traits are indeed less important determinants of success for developing country firms than in advanced nations. However, two important issues can be noted from the findings of the present study. First, it indicates that there is lack of level playing field for MSE operators when personality traits are less important. Secondly enforced entrepreneurship suppresses personality traits and makes other external factors more important. Research on this area is generally scant for developing country firms and hence there is a need for further investigation. However, as argued above result of this finding should be taken with caution. Information on personality traits is collected only for survivor firms. It could be the case that these survivor firms possess some commonalities in personality traits thereby making the coefficients insignificant.

The impact of education is felt at lower growth firms for employment growth regressions and it is not a significant determinant for other indicators of success implying that educating these lower growth group will lead to better results of job creation among small and microenterprise firms than the average or high growth firms. Generally speaking however, schooling was found out to be a less plausible determinant of success. As argued earlier, this could be either because education is of low quality or because educated people tend to prefer government jobs to becoming entrepreneurs or that it could be other external factors has eroded the impact of schooling on success. For Ethiopian MSEs, each of these factors could, to a certain extent, explain the poor effect of schooling on success. Policies should therefore strive to maximize the effect of schooling on business success through focusing on more practical les-

sons, expanding vocational and technical training, and enhancing entrepreneurship education.

This study found that male operators performed better in all indicators of success, although the number of female operators is larger. This finding is consistent with Mead and Liedholm (1998) who concluded that women operators performed less, in their analysis of micro and small enterprise performance for five African countries.

7.4.3 Firm Characteristics

Generally, the economies of scale argument and the passive learning model advocated by many authors appear to be supported by this study although it is not strong for some indicators of success. For the employment growth indicator, both firm age and firm size were found to appear with a negative and statistically significant coefficient for lower growth firms than the average firm. Regression to the mean yielded a negative but insignificant result. For profit regressions, the effect of age and size was negative and significant again for the lower growth and the median firms. For the turnover regression, the negative effect was felt for the average firm although it was not that much pronounced for firm age. In all cases however, the coefficients were negative, showing a systematic relationship with success indicators. In fact, the partial correlation of these two factors with success was witnessed using graphs as shown in Chapter 4. Thus, even using the informal sector data which is based mainly on firms employing less than 10 workers; this study appeared to give support for studies that advocate that younger and smaller firms grow better. This is consistent with the findings of Bigsten and Gebreeyesus (2007), for example, who analyzed growth of medium and large manufacturing industries in Ethiopia.

Since it is evident that smaller and younger firms perform better, policies that strive to alleviate poverty should target these firms because they perform better in terms of both, employment creation and profit growth. However, small business support should focus on long run and sustainable growth. This means that the question “how do small businesses move to medium and large scale level?” should be clearly addressed by a policy. This involves establishing inter-firm linkages and creating conducive environment for growth of small and medium enterprises. There is no clear strategy on this front and lack of such strategy could create what

is called “a missing middle problem”. The “missing middle problem” relates to lack of small and medium enterprise development strategy that can create demand and linkages for smaller firms. Thus, small business development strategy should not only focus on growth of these micro businesses but it should also articulate growth mechanisms for small and medium sized enterprises. Such a strategy could involve outsourcing for these medium sized firms, experience sharing and search for market niches with foreign businesses, creating linkages horizontally and vertically with larger firms.

Entrepreneurial orientation has been the focus of the study from the firm dimension mainly because it was assumed to have a strong moderating effect on success from a number of other dimensions. Therefore, other components of entrepreneurial orientation (EO) such as innovative strategy, proactiveness and risk taking by the firm were taken together. Policy that is keen on addressing each of these components of entrepreneurial orientation needs to single out impacts of these variables but such an analysis can be conducted at the expense of ignoring entrepreneurial orientation as a factor. The partial effects of these entrepreneurial orientation components can be presented but, the combined effect is more important because strategic decision making by the firm depends on the combined effect of these three components than the individual ones. As indicated earlier, this study has observed that the direct effect of entrepreneurial orientation on success is minimal and the indirect effect of entrepreneurial orientation seems more important for business success.

Location of the enterprise has been found to have a strong positive effect on success for all indicators. Businesses that possess enough working space were found to have a positive effect across all growth groups. The importance of working premises has been advocated by earlier studies such as by Liedholm and Mead, (1993); McPherson, (1996) and others. This is the major bottleneck in Ethiopia because government puts a precondition that MSEs need to get organized to obtain working premises. Cooperative MSEs have a very high chance of obtaining working premises than individual operators. However, success in the cooperative MSEs was adversely affected by controlled markets and free-rider problems. This calls for policy makers to revisit the agenda of allocating working premises for privately-owned struggling small businesses in the informal sector. One such effort is to strengthen the allocation on mar-

ket areas by building small shops made of containers, named “Arkebe’s shops”, to refer to the then mayor of Addis Ababa. However, these shops only function to sell retail goods and exclude other major activities such as restaurants which were proven to be most successful activity by the present study. A detailed analysis of a support strategy which considers sector variations and coordinated efforts between land administration department and Addis Ababa’s ReMSEDA would yield some better solutions.

7.4.4 Enabling environments and social networks

In Chapter 5, the study analyzed the impact of external factors on business success. This was supplemented by an econometric analysis in Chapter 6 where all the hypothesized variables were analyzed simultaneously. Following the theoretical and conceptual framework, two major factors were analyzed as the external factors: enabling business environments and social networks.

Social networks were also hypothesized as external determinants of business success because all resources and information sources lie outside the control of the operator. The operator is a receiver of this information and the available resource but cannot influence the supply of resources and information. Therefore, social networks are considered external to the business although the operator is a player in the network. This study has measured social networks on the basis of the size and type of membership in social organizations. Although efforts to use intensity and density of social contacts have been made, the difficulty by operators to recall the intensity and density of contact with customers and other social groups have deterred use of these later two indicators.

7.4.4.1 Enabling business environment and business success

The impact of enabling business environment on business success was generally dubbed as insignificant both for the average firm and the quantiles. Exceptions are that business license and certificate was significant for employment regressions at lower deciles, sub-contracting was positive and significant at median for profit regression, negative and significant for turnover regressions at the median and business development support services was negative and significant for turnover regressions at median. Generally speaking however, these variables were found to be

less plausible factors of success. Three explanations can be given for this finding. First the finding casts doubts on the way interventions are carried out and the attitudes of policy makers towards micro and small enterprise operators in the urban informal sector. A holistic support schemes that gives less attention to the diverse nature of micro-enterprises as evidenced in chapter five, will end up with little result. Second, lack of coordination among stakeholders has resulted in various support schemes to remain fruitless. Finally, the fact that enforcement mechanisms and support schemes are weak means that it matters little for microenterprise success, making other external factors to play important role. This finding has an important implication for policy in that effective and efficient interventions should be informed of the diversity of microenterprise operators, coordination between stakeholders and the responsiveness of outcomes to interventions.

7.4.4.2 Formality/informality and success

Formality/informality is argued to have an impact on business success largely because the status of informality/formality influences access to resources by these firms, which would influence their cost functions and demand functions (Jaeckle and Li, 2003). However, as argued by Chen (2004), the status of formality/informality is influenced by the existing enabling business environments, which would influence the cost- benefit calculus of firms.

Fransen and Van Dijk (2008) contend that exclusionary informality is mentioned not only in the form of being unlicensed but also in accessing informal land, housing and credit. They argue that informal firms are excluded from government supports implying that such exclusion would adversely affect success of these enterprises. This study has also tested if some forms of informality such as those related to registration and licensing are associated with success. Specifically, the study looked into licensing and accounting records/book of accounts. This was also supplemented with an opinion question on whether firms want to become formal. A tendency to become formal dummy (yes or no) was analyzed against success indicators. As shown in chapter six none of these variables were significant determinants of success, lending support to the findings in chapter five that informality (related to registration and licensing) does not matter for success.

The study found that the status of formality/informality has no influence on success. It has observed that firms preferred horizontal growth by duplicating current activities rather than growing vertically. Firms prefer to remain invisible by government officials and to escape regulations and taxes. The research has found evidence that these firms can stay informal. Only when they demand formality they show tendencies to pay taxes, register at various institutions and obtain licenses and certificates. The study has thus clearly indicated the prevalence of a weak institutional environment because government instruments such as registration and taxes seem not to enforce firms to join the formal sector. This weak institutional environment can be one cause for the proliferation of informal sector activities in the Addis Ababa and the country at large. Formality/informality did not matter because enforcements were weak. As long as there is no incentive to join formal sector, there is no reason to expect many firms to seek formality. Thus, policy was not set in such a way that firms demand formality. Rather, policy was set in such a way that firms must possess formality status. This later option is unsustainable because institutions that enforce firms to stay formal are weak in the country. The most sustainable way is to make firms to strive for formality voluntarily by putting some incentives in the formal sector than imposing firms to join formal sector without any benefits attached to it.

7.4.4.3 Social networks and business success

This study has unveiled that social network variables are more important determinants of microenterprise success compared to enabling business environments. As argued above, lack of formal system support mechanisms might have forced informal sector operators to set own informal network mechanisms. For example, *Iqub* serves as a substitute to formal financing mechanisms when members use the rotating savings for business expansion. Nevertheless, the advantage of *Iqub* could go beyond rotating savings. It could create an opportunity for business related discussions and developing sense of trust among members. *Iqub* dummy has been found to be a significant determinant of success compared to other social network variables such as *Idir* implying that not all networks are equally important. Policy makers need to strengthen such informal institutions and link them to formal mechanisms of financing and information sharing which could benefit large number of operators.

The impact of social networks on microenterprise success has been investigated by using the size of network a firm possesses and membership in social organization. It has been found the size of network possessed by a single operator influences businesses success when it is coupled with entrepreneurial orientation. Firms with a better strategic orientation for decision makings have been found to benefit from the large size of networks. These firms were able to process and utilize information and other resources obtained from the network so that it benefited their business to remain successful on all indicators. It was also noted that neither the network size nor entrepreneurial orientation was significant determinant of success when standing alone. This finding has amplified on the importance of indirect effects of success factors and invites an integrated approach to success analysis by inculcating both direct and indirect determinants since success is a complex process. The study indicates that although some factors may appear insignificant determinants of success it could be that some indirect effects exist.

Although, generally speaking, social networking is an important determinant of success its influence varies across ethnic groups. Ethnic dummy was found to be a strongly significant factor in favour of the *Gurage* ethnic group compared to others. The social bondage system in this ethnic group is probably geared towards business orientation, leading the operators to maximize benefits from such networks. It seems that other ethnic groups lack strongly connected bondages that lead to success. In Tanzania this was proved by authors such as Kristiansen (2004), who found that minority Asians possess strong cohesion thereby forming bondages that helps for success. The smaller the ethnic group the more intense business-related information and networks are channelled to success. To the knowledge of the researcher, the importance of ethnic-based social networking was not researched for Ethiopia. Thus, the finding calls for further investigation of this ethnic-based bondage and its socio-economic impacts as well as its influence on success.

7.5 Policy Issues and Some Implications

This study argues that growth is not a simple process and that the inclusion of external factors to the analysis of internal factors will yield a different result than when each factor is analyzed separately. It has shown this by regressing growth against each category of factors separately and

then by bringing all factors together. The results vary greatly. Personality traits seem to influence growth when they stand-alone. However, the inclusion of firm character and other external factors immediately diminishes the impact of personality traits on growth implying that success studies are better enlightened if a multidimensional approach is used.

With the increasing role of the informal sector in both employment generation and GDP, policy makers are currently struggling to incorporate such a significant sector into the mainstream economy. In Ethiopia for example, micro and small enterprise development agencies use various policy strategies such as ITC, business development support services, subcontracting and linkages, clustering and business incubators as a tool to support informal sector operators. Such interventions would require the knowledge of what determines success in the first place. Such interventions need to take into account the nature of diversity in the urban informal sector related to growth patterns and success factors associated with it. From that angle, this study could serve as an input for policy makers.

From the findings related to rural-urban migrants and their success in the urban informal sector, it can be concluded that failure in the agriculture sector has posed challenges to cities by increasing the size of informal sector and the demand for services associated with it. Thus, a policy that fosters competitiveness of cities in creating jobs and providing services would have an overall positive and redistributive impact on the economy. This implies that cities could serve as an engine of growth for a country when agriculture fails to accommodate the abundant labour and that such a growth in cities is channelled to agriculture through the informal sector. Governments thus need to tolerate informal sector activity as it is a sign of dismal living in rural areas and a way of sharing benefits of urban growth. Moreover, this study has indicated that migrants in the informal sector are the ones who move through the ladder of success making them engines of growth for cities. Therefore, the bureaucracy of obtaining Addis Ababa city's identity card needs to be eased for migrants.

Thus, it can be argued that this study has posed an important policy discussion for developing countries like Ethiopia which are in the dilemma of choosing agriculture or industry to lead the economy. The study argues that cities could serve as engines of economic growth when the rural sector is in a dire situation. In the past decades, government

efforts were geared towards agriculture-led development based on the argument that the country should start with the abundant resources that it possesses. Ethiopia is assumed to possess abundant resources that include land and labour, both in the rural sector. Despite the many efforts, agriculture falls far short of generating rapid industrialization that the government sought to realize over the last two decades. Growth in agriculture was less likely to quickly transfer to industrial growth because of a number of factors. Firstly, even if there is growth in agricultural sector it failed to create demand for industrial product. The rural people's demand for industrial goods is growing very slowly, leaving the growth in agriculture unlinked to industries. Secondly, given the small plot of land and rapid population growth rates, it is less likely for agriculture to yield profit that can be transferred to stimulate industrial growth. Thirdly, lack of technology and capital deters use of irrigation thereby hindering the productivity generating capacities of the agricultural sector. In such a situation, it is logical to think that cities could serve as an engine for growth. This could be an alternative way of thinking development routes for developing countries such as Ethiopia. The implications of this could be a reallocation of resources towards cities. Cities require more investments to boost their absorptive capacities in terms of hosting unemployed and informal sector operators. Investment in infrastructure and services would intensify the capacity and profitability of not only large and medium firms but also of small and microenterprises. Equitable growth can also be brought about through development of informal sector operators in cities not just through small scale agriculture.

This study thus argues, microenterprise operators in the informal sector should be tolerated because they are signs of failure in the other segments of the economy and, a way to incorporate them should be sought. The sector has growth potential. It has been borne out in this study that neither government support packages nor existing enabling environments would have significant influence on microenterprise success in the urban informal sector. This is a sign of failure for a country with more than half of urban employment composed of microenterprise operators. This would call for policy makers to revisit the current intervention strategies to evaluate whether these interventions have worked.

Most important for policy makers is the recognition of diversity among microenterprise operators during intervention. The study found that an indiscriminate approach to microenterprise support is less effective.

tive. It has been noted in Chapter 5 that survival oriented firms need interventions that would remedy the problems of risk and uncertainty while growth oriented firms require business growth packages such as business development services and micro financing. Formality should be made demand-driven so that dynamic and growth oriented firms would be eager to join the mainstream economy than follow horizontal growth. Success requires a variety of inputs at various stages and policy makers should be aware of these varieties and tools required to move firms up through the ladder of success.

Finally, it is important to note that success is complex to understand and that policy makers should be specific about the goals they want to achieve before interventions of any kind. It should be noted at this juncture, that a policy that triggers employment growth may not necessarily be effective for profit growth, as has been illustrated by this study. Evidence on determinants of success revealed in this study has shown that sociological and behavioural factors are as equally important as economic factors. Thus, understanding success demands interdisciplinary thinking where psychology, sociology and economics converge to understand the outcome of a business that is run by a human being.

This study could serve as a step towards better understanding the growth of MSEs in Ethiopia. In addition, this study needs to be supported by further findings based on different categories of firms. This research focused on the lower segment of the firms. Further research needs to test if the findings hold true for small and medium enterprises in the formal/informal sector. This study was limited only to Addis Ababa. However, other studies are needed to draw conclusions on other cities/parts of the country.

It should also be noted that findings of this study are based on firms that have survived in both data periods. Although not so strong, it seems that some systematic relationship exists between firms that were traced and firms that exited the first data set, making findings conditional on survival. Future research that systematically obtains data on “droppers” and analyzing determinants of survival in business as an indicator of success is needed.

Findings on personality traits need to be taken with caution. It could be the case that firms that have survived in both data periods possess some common personality traits. This could make the coefficient estimates insignificant. The study collected information on personality traits

in the second-round survey and applied it in cross-sectional analysis with the assumption that personality traits are less likely to change over time. Future research is needed based on longitudinal data for these traits.

Although multidimensional, this study is not exhaustive in understanding determinants of success. The structure and macroeconomic environment of the economy would have an impact on microenterprise success. This could influence the demand for goods and services provided by microenterprises in the informal sector. Poor macroeconomic factors would expand informality and would have a downward impact on success because enterprises face weak demand for their goods and services. Future research that includes these macroeconomic performance indicators as determinants of success is needed.

The basic difficulty of studying such dynamics over time is the problem of tracing microenterprises in the urban informal sector over time. This demands the development of geographic information systems across cities. Future research is needed by widening the growth period so that the dynamics of microenterprise success can be further analyzed in greater depth.

Annexes

Annex I Employment Regression (Dependent Variable: Annual average employment growth rate)

	OLS	QR10	QR20	QR30	QR40	QR50	QR60	QR70	QR80	QR90
Internal locus of control	.033* (1.95)	.022 (0.50)	.017* (2.3)	.023* (2.45)	.012* (1.98)	.023 (1.02)	.03 (0.04)	.06 (0.58)	.046 (1.25)	.25 (0.56)
Self efficacy	.025 (0.23)	-.011 (-0.3)	-.025* (-2.03)	-.013* (-5.10)	.003 (0.49)	-.0034 (-0.05)	.012 (0.03)	.006 (0.05)	.04 (1.68)	.23 (0.42)
Technical & managerial Training	-.004 (-0.07)	-.005 (-0.24)	.016 (1.12)	.038* (6.10)	.034* (2.02)	0.023 (1.32)	-0.05 (-0.02)	0.03 (1.05)	-.03 (-0.38)	.16 (0.29)
Native	-.04** (-2.01)	-.025** (-1.98)	-.032** (-2.07)	-.023** (-9.35)	-.04** (-4.22)	-.025** (-2.26)	-.015 (-0.10)	-.06 (-0.37)	-.026 (-1.80)	-.04 (-0.26)
Tigray	.07** (2.03)	.016 (0.03)	.042 (0.59)	.05 (1.4)	.09* (2.03)	.10* (4.8)	.11* (2.47)	.16* (2.3)	.33* (3.25)	.2 (1.52)
Gurage	.045** (3.08)	.14 (0.54)	.11* (3.77)	.15* (3.45)	.26** (5.00)	.14** (8.3)	.17** (9.34)	.25* (6.2)	.24* (5.4)	.35* (2.39)
Start-up capital	.005 (0.71)	.002 (0.42)	.010* (4.8)	.01* (20.5)	.003* (3.20)	.005* (2.34)	.006 (0.32)	.014 (1.42)	.018* (2.67)	.022 (0.24)
Age of the operator	-.022 (-0.64)	-.069* (-2.63)	-.049* (-3.82)	-.038* (-12.95)	-.028* (-3.5)	-.027* (-2.56)	-.029 (-0.05)	-.04 (-0.56)	-.03 (-1.67)	.05 (0.28)
Age squared	-.002* (-2.37)	-.002 (-1.01)	-0.003 (-0.01)	-0.012 (-0.21)	-0.002 (-1.34)	-0.04 (-0.69)	-0.016 (-0.45)	-0.09 (-1.23)	-0.032 (-1.05)	-0.001 (-0.90)
Experience	.03** (2.65)	.078* (3.34)	.056* (4.6)	.05* (10.31)	.058* (11.3)	.073* (6.25)	.05 (0.23)	.12* (1.98)	.13* (2.33)	.10 (0.40)
Experience squared	0.05** (5.76)	0.03* (2.75)	0.01* (1.98)	0.023 (1.75)	0.005 (1.45)	0.023 (1.23)	0.045 (1.34)	0.006 (1.54)	0.034 (1.23)	0.023 (1.35)
Female	-.11*** (-4.4)	-.025* (-2.45)	-.030* (-4.32)	-.06* (-13.2)	-.06* (-7.45)	-.03* (-3.13)	-.038 (-0.34)	-.046 (-1.45)	-.052* (-2.36)	-.11 (-0.55)
Illiterate	-.07 (-1.79)	-.038 (-1.52)	-.037* (-2.85)	-.028* (-7.75)	-.026* (-3.24)	.002 (0.16)	-.03 (-0.09)	-.04 (-0.6)	-.03 (-0.8)	.04 (0.23)
Firm size	-.083 (-3.67)	-.15* (-2.6)	-.09* (-5.4)	-.08* (-11.6)	-.06* (-2.52)	-.05 (-1.42)	-.043 (-0.06)	-.03 (-0.48)	-.06 (-1.56)	-.29 (-0.47)
Firm age	-.011 (-0.61)	-.042 (-1.35)	-.044* (-3.20)	-.05* (-9.80)	-.025* (-2.60)	-.020 (-1.25)	-.09 (-0.04)	-.018 (-0.20)	-.038 (-0.50)	-.040 (-0.10)
Firm size squared	-.0026 (-0.15)	.03 (0.72)	.03* (2.5)	.02* (4.8)	.0042 (0.8)	-.045 (-0.53)	.008 (0.02)	.018 (0.22)	.025 (0.8)	.11 (0.42)
Firm age squared	-.032 (-1.65)	-.028 (-1.73)	-.032* (-4.02)	-.034* (-12.5)	-.022* (-4.36)	-.024* (-2.01)	-.0053 (-0.45)	-.016 (-0.34)	-.026 (-0.85)	-.011 (-0.05)

Firm size*Firm age	.035 (1.17)	.05* (2.32)	.03* (2.8)	.03* (9.70)	.003 (0.38)	.02 (1.25)	-.004 (-0.01)	-.003 (-0.05)	.032 (1.42)	.028 (0.22)
EO	-.006 (-1.10)	-.19 (-1.42)	-.15* (-4.5)	-.16* (-12.65)	-.10* (-5.68)	-.14* (-3.32)	-.14 (-0.20)	-.15 (-1.23)	-.16 (-1.25)	-.15 (-0.25)
Home with space	.18** (5.66)	.06* (1.98)	.071* (4.12)	.053* (10.83)	.044* (6.2)	.076* (5.9)	.12 (1.2)	.15* (2.6)	.16* (4.2)	.05 (0.2)
Retail Trade	.06** (2.06)	-.005 (-1.3)	-.007 (-0.44)	-.035* (-5.63)	-.03* (-2.6)	-.022 (-1.72)	.002 (0.20)	.042 (1.36)	.07 (1.54)	.05 (1.32)
Manufacturing	.092 (1.45)	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped
Service	.045* (1.97)	.003 (0.34)	.009 (1.33)	-.005* (-2.56)	-.010* (-1.98)	-.006 (-0.46)	-.0025 (-0.06)	.022 (0.75)	.034 (1.40)	.032 (1.23)
Construction	Dropped	-.023 (-0.57)	-.0058 (-1.38)	-.06* (-9.03)	-.03* (-3.2)	-.02* (-2.5)	-.012 (-0.05)	.06 (0.5)	.05 (1.02)	.08 (1.23)
Formality	-.03 (-1.3)	-.012 (-1.35)	.004 (0.86)	.05* (8.5)	.009 (1.13)	0.003 (1.3)	0.09 (0.04)	-0.10 (-1.02)	-0.12 (-1.23)	-.04 (-1.21)
Microfinance	-.024 (-1.21)	-.018 (-1.28)	-.025 (-0.33)	.0018 (1.20)	-.0058 (-1.2)	-.0058 (-1.54)	-.02 (-1.05)	-.020 (-1.36)	-.027 (-1.30)	-.05 (-1.22)
BDS	-.03 (-0.30)	.033 (0.85)	.010 (0.87)	-.001* (-3.2)	.003 (1.41)	0.032 (1.2)	-1.02 (-0.9)	-0.002 (-1.34)	-.014 (-1.25)	-.009 (-1.25)
Network Size	-.027 (-1.24)	.058 (0.21)	-.025* (-4.46)	-.012* (-2.34)	-.022* (-2.5)	-.011 (-1.34)	-.043 (-0.12)	-.092 (-0.92)	-.06 (1.2)	.0035 (0.40)
Subcontracting	.025 (0.73)	.020 (1.33)	.028* (2.01)	.023* (8.8)	.040* (4.26)	.07* (3.12)	.03 (1.2)	.04 (1.2)	.002 (1.29)	-.010 (-1.34)
Linkage	-.06 (-1.32)	-.047 (-1.02)	-.053* (-2.63)	-.023* (-9.3)	-.061* (-7.02)	-.033* (-2.8)	-.04 (-1.02)	.001 (1.45)	.023 (0.98)	-.002 (-1.02)
Friend and relatives	-.054 (-1.02)	-.02 (-1.3)	-.0025 (-1.10)	.015* (3.3)	-.032* (-3.42)	-.06 (-1.2)	-.044 (-0.06)	-.018 (-1.25)	-.082 (-1.01)	-.23 (-0.33)
IQUB	.37*** (5.1)	.09** (3.50)	.19** (10.5)	0.18** (14.50)	.20** (15.2)	.16** (5.42)	.23 (0.36)	.35 (0.039)	.30* (3.25)	.30 (1.21)
IDIR	-.010 (-0.12)	-.023 (-1.32)	.04* (1.96)	.042* (6.20)	.013 (1.20)	.010 (0.61)	.0075 (0.05)	.04 (0.70)	.005 (0.90)	-.04 (-1.22)
Business License	.016 (0.44)	.052* (3.4)	.014 (1.02)	.015* (5.4)	.013* (2.03)	.024* (2.64)	.010 (0.08)	.019 (0.38)	-.009 (-0.32)	-.052 (-0.33)
EO*HC	-.010 (-1.02)	.009 (1.10)	-.040 (-1.34)	-.06* (-7.34)	-.03* (-2.92)	-.006 (-1.17)	.0009 (0.02)	-.023 (-1.43)	.011 (1.10)	-.11 (-1.23)
EO*SNW	.08** (4.03)	.09* (3.65)	.12** (6.50)	.11*** (17.48)	.10*** (10.5)	.12** (6.8)	.09 (0.82)	.11 (1.45)	.12* (4.25)	.17 (0.73)
EO*Growth Motive	.05 (0.43)	-.004 (-0.96)	.012 (1.42)	-.030* (-2.66)	-.15* (-3.59)	-.085 (-1.65)	-.09 (-1.05)	.023 (1.21)	.09 (0.99)	.14 (1.22)
Constant	-.034 (-0.21)	.18 (1.32)	.14* (2.35)	.09* (5.6)	.09* (2.34)	.13* (1.98)	.06 (0.05)	-.10 (-1.21)	-.092 (-1.35)	-.82 (-0.43)
	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286
	R ² = 0.60	Pseudo R ² = 0.33	Pseudo R ² = 0.36	Pseudo R ² = 0.32	Pseudo R ² = 0.38	Pseudo R ² = 0.37	Pseudo R ² = 0.42	Pseudo R ² = 0.40	Pseudo R ² = 0.34	Pseudo R ² = 0.33

*Represents significance at 10% level ** represents significance at 5% level and *** represents significance at 1% level. Numbers in the bracket are t-values

Annex II

Profit Regressions (Dependent variable: Annual average profit growth rate)

	OLS	QR10	QR20	QR30	QR40	QR50	QR60	QR70	QR80	QR90
Internal Locus of control	.002 (0.35)	-.025 (0.12)	.051 (.90)	-.029 (-0.18)	-.075* (-2.49)	-.027 (-0.87)	-.045 (-0.75)	-.10* (-1.97)	-.053 (-0.35)	.007 (0.52)
Self efficacy	.045 (1.20)	-.013 (-0.04)	-.01 (-0.33)	.012 (0.81)	.033 (0.89)	.013 (0.15)	.022 (0.40)	.012 (1.25)	.025 (0.63)	.067 (1.07)
Native	-.025* (-1.95)	-.009 (-1.45)	.042 (.80)	-.004 (0.01)	-.043* (-2.07)	-.09* (-3.20)	-.09 (-0.90)	-.10* (-2.10)	-.11 (-1.25)	-.12 (-1.56)
Tigray	.10** (3.50)	.09 (1.21)	.11* (2.89)	.08 (1.47)	.09* (2.45)	.06* (2.75)	.053 (0.70)	.065 (1.25)	.04 (1.25)	.045 (0.02)
Gurage	.12** (3.42)	.020 (1.02)	.005 (1.33)	.052 (1.41)	.046* (2.34)	.05** (5.30)	.07 (1.65)	.12** (3.66)	.10 (1.52)	.19 (1.32)
Start-up Capital	.022* (2.51)	.026 (1.53)	.045* (4.02)	.035 (1.05)	.042* (8.2)	.044* (10.2)	.025* (1.93)	.023* (2.25)	.05 (1.09)	.022 (1.10)
Initial Profit	-.08* (-2.85)	-.042 (-0.55)	-.045* (-4.2)	-.032 (-0.45)	-.032* (-3.2)	-.02* (-4.37)	-.05 (-1.13)	-.02* (-2.5)	-.03 (-1.02)	-.03 (-0.17)
Age of the operator	.03 (0.43)	.015 (0.1)	.052* (2.6)	.04 (0.8)	.006 (0.27)	.014 (1.32)	.013 (0.15)	.04 (0.73)	.043 (0.52)	.032 (0.06)
Age squared	-0.016 (-0.02)	-0.011 (-0.04)	-0.09 (-0.89)	-0.013 (-1.03)	-0.01 (-0.95)	-0.024 (-0.66)	-0.035 (-0.78)	-0.042 (-1.43)	-0.065 (-1.07)	-0.034 (-0.96)
Experience	.21* (3.60)	-.018 (-0.15)	.013 (1.49)	.057 (0.42)	.075* (4.3)	.13* (9.2)	.12* (2.05)	.10* (3.06)	.13 (1.33)	.13 (0.33)
Experience squared	0.09 (0.62)	0.034 (1.89)	0.041 (1.87)	0.002 (1.41)	0.012 (1.03)	0.068 (0.37)	0.053 (0.99)	0.08 (1.02)	0.035 (1.11)	0.02 (1.45)
Male	.06** (2.12)	.085 (0.42)	.076* (3.5)	.06 (0.34)	.042* (2.4)	.07* (3.50)	.03 (1.45)	.052 (1.83)	.042 (0.35)	.03 (0.11)
Illiterate	-.03 (-0.18)	-.082 (-0.24)	-.032 (-0.52)	-.028 (-0.12)	-.044 (-2.01)	-.013 (-0.92)	-.023 (-0.33)	-.051 (-0.91)	-.043 (-0.32)	-.057 (-0.10)
Firm size	.03 (0.45)	-.0045 (-0.06)	-.008 (-0.04)	.009 (0.12)	.014 (1.05)	.006 (1.2)	.04 (1.51)	.03* (2.3)	.06 (1.40)	.07 (1.11)
Firm age	-.04 (-1.57)	.002 (0.04)	-.030 (-1.42)	-.054 (-0.49)	-.08* (-3.2)	-.025* (-2.63)	-.031 (-0.52)	-.005 (-0.25)	-.013 (-0.14)	-.009 (-0.03)
EO	-.23* (-2.4)	-.13 (-0.45)	-.045 (-1.42)	-.093 (-0.35)	-.14* (-3.78)	-.13* (-2.85)	-.14 (-0.62)	-.15* (-2.5)	-.14 (-0.53)	-.18 (-1.14)
Home with enough space	.10* (2.2)	.013 (0.06)	.041 (1.62)	.06 (0.52)	.06* (3.4)	.07* (5.2)	.07 (1.35)	.11* (4.2)	.25* (2.34)	.16 (0.18)
Retail Trade	-.23* (-3.04)	-.12 (-0.45)	-.22* (-6.2)	-.09 (-1.23)	-.15* (-5.3)	-.11* (-7.2)	-.12* (-2.42)	-.08* (-2.53)	-.07 (-0.66)	-.13 (-0.15)
Manufacturing	.04 (0.47)	.0042 (0.18)	-.0014 (-0.06)	.012 (0.10)	-.001 (-0.13)	-.016 (-1.23)	.0011 (0.04)	.024 (0.90)	.028 (0.22)	.068 (0.12)
Construction	.035 (0.93)	-.016 (-0.09)	.023 (0.36)	.078 (0.33)	.065* (2.02)	.03 (0.53)	.04 (0.43)	.05 (0.62)	.06 (0.32)	.07 (0.12)
Service	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped
Formality	-.02 (-0.84)	.041 (0.34)	.026 (1.40)	.023 (0.36)	.007 (0.52)	.005 (0.42)	-.04 (-0.52)	.0072 (0.37)	-.0023 (-0.05)	-.12 (-0.19)
Microfinance	-.06 (-1.26)	.0072 (0.02)	-.05 (-1.45)	-.032 (-0.24)	-.027 (-1.45)	-.06 (-3.36)	-.08 (-0.9)	-.09 (-2.45)	-.13 (-1.24)	-.13 (-0.25)
BDS	-.009 (-0.22)	.035 (0.26)	.009 (0.49)	.010 (0.13)	.009 (0.57)	-.009 (-0.9)	-.0001 (-0.01)	-.04 (-0.85)	-.05 (-0.23)	-.04 (-0.06)
Subcontracting	.05 (1.23)	.0023 (0.32)	.004 (0.44)	-.05 (-0.56)	.043* (2.26)	.035* (2.53)	.033 (0.42)	.015 (0.44)	.05 (1.09)	.26 (0.45)

Linkage	-.013 (-0.52)	-.07 (-0.42)	-.023 (-1.35)	.011 (0.11)	.006 (0.27)	-.005 (-0.82)	-.04 (-0.52)	-.06 (-1.43)	-.06 (-0.43)	.02 (0.07)
IQUB	.028 (0.56)	.24 (0.62)	.18* (4.32)	.08 (0.43)	.074* (3.2)	.09* (2.08)	.04 (1.34)	.06* (2.06)	.07 (0.46)	-.012 (-0.11)
IDIR	-.042 (-1.34)	-.0030 (-0.09)	.023 (0.92)	.024 (0.13)	-.0063 (-0.36)	-.023 (-1.56)	-.018 (-0.56)	.013 (1.25)	.024 (0.06)	-.075 (-0.12)
Friend and Relatives	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped
Business License	-.0042 (-0.33)	-.0044 (-0.05)	-.012 (-0.65)	-.002 (-0.04)	.005 (0.73)	.007 (0.53)	.019 (0.42)	.006 (0.11)	.004 (0.07)	.03 (0.06)
EO*SNW	.05 (1.73)	.13 (0.67)	.12* (4.22)	.10 (0.74)	.10* (5.02)	.07* (4.63)	.09 (1.8)	.09* (2.85)	.09 (1.42)	.04 (1.02)
EO*HC	.11* (3.85)	.058 (0.38)	.09* (4.23)	.11 (0.84)	.12* (7.33)	.09* (8.5)	.06* (2.37)	.10* (3.2)	.10 (1.36)	.14 (0.33)
EO*Growth motive	-.066 (-1.72)	-.010 (-0.10)	-.06 (-1.85)	-.035 (-0.35)	-.025* (-1.98)	-.04* (-2.35)	-.05 (-0.62)	-.06 (-1.54)	-.06 (-0.45)	-.08 (-0.10)
cons	.35 (1.56)	.18 (0.16)	.09 (0.68)	.10 (0.24)	.23* (2.4)	.18* (2.3)	.14 (0.42)	.45* (2.36)	.43 (0.89)	.47 (0.13)
	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286
	R ² = 0.53	Pseudo R ² = 0.40	Pseudo R ² = 0.36	Pseudo R ² = 0.40	Pseudo R ² = 0.39	Pseudo R ² = 0.38	Pseudo R ² = 0.37	Pseudo R ² = 0.42	Pseudo R ² = 0.41	Pseudo R ² = 0.44

*Represents significance at 10%level** represents significance at 5% level and *** represents significance at 1% level. Numbers in the bracket are t-values

Annex III
Turnover Regressions

(Dependent variable: Annual average turnover growth rate)

	OLS	QR10	QR20	QR30	QR40	QR50	QR60	QR70	QR80	QR90
Internal Locus of control	.11 (1.67)	.010 (0.83)	-.0034 (-0.26)	-.0009 (-0.06)	.05 (1.2)	.05 (1.27)	.06 (1.25)	.009 (0.83)	.0011 (0.32)	.05 (0.94)
Self efficacy	-.0010 (-0.02)	-.015 (-0.36)	.009 (0.36)	.0043 (0.36)	-.07 (-1.35)	-.05 (-1.73)	-.06 (-1.44)	-.07 (-1.47)	-.04 (-0.17)	-.03 (-0.17)
Native	-.095 (-2.03)	.006 (0.08)	-.005 (-0.45)	-.0011 (-0.26)	.04 (0.62)	.008 (0.32)	-.0008 (-0.06)	.003 (0.28)	.010 (0.45)	.023 (0.46)
Gurage	.082** (2.75)	.063 (1.24)	.052* (3.6)	.035* (3.67)	.056 (1.85)	.036* (1.95)	.09* (2.45)	.08* (2.38)	.044 (0.85)	.028 (1.53)
Tigray	-.10* (-2.56)	.023 (0.45)	-.036 (-1.52)	-.046* (-2.05)	.033 (0.90)	.0005 (0.06)	-.0012 (-0.60)	-.009 (-0.45)	-.063 (-0.72)	-.22 (-1.62)
Tax	-.034 (-1.23)	-.013 (-0.46)	-.0062 (-0.52)	.0046 (0.001)	.008 (0.76)	-.0065 (-0.4)	-.008 (-0.69)	-.003 (-0.45)	.0007 (0.05)	-.025 (-0.56)
Start-up Capital	.004 (0.92)	-.0003 (-0.25)	-.0020 (-0.82)	-.0004 (-0.45)	-.0025 (-0.65)	.0015 (0.76)	.0015 (0.52)	.0043 (0.95)	.009 (0.7)	.009 (0.53)
Initial turnover	.061* (2.46)	.024 (0.94)	.032* (2.5)	.064* (4.35)	.046* (2.18)	.036 (1.62)	.016* (2.93)	.046* (2.4)	.06 (1.52)	.045 (0.82)
Age of the operator	.064 (1.75)	.046 (0.84)	.013 (0.72)	.014 (1.5)	.009 (0.30)	.0052 (0.18)	.016 (0.04)	.025 (0.9)	.06 (0.2)	.06 (0.54)
Age squared	-0.09 (-0.59)	-0.07 (-0.92)	-0.09 (-0.28)	-1.03 (-0.95)	-0.43 (-1.27)	-0.98 (-1.05)	-1.2 (-0.33)	-0.68 (-0.95)	-0.98 (-1.57)	-1.43 (-0.28)
Experience	-.009 (-0.15)	.009 (0.23)	.016 (1.24)	.018* (2.7)	.09 (1.8)	.006 (0.35)	-.0015 (-0.16)	.005 (0.4)	-.02 (-0.65)	-.025 (-0.36)
Experience squared	0.042 (0.62)	0.056 (0.98)	0.072 (1.26)	0.08 (0.95)	0.04 (1.03)	0.012 (0.97)	0.07 (0.65)	0.011 (0.93)	0.012 (1.13)	0.019 (0.87)
Female	-.058** (-3.6)	-.008 (-0.24)	-.0062 (-0.68)	-.023 (-1.87)	-.020 (-0.95)	-.07* (-1.96)	-.013 (-1.35)	-.017* (-1.98)	-.072 (-1.26)	-.08 (-1.46)
Illiterate	.048 (1.45)	.0012 (0.4)	.008 (0.40)	-.005 (-0.65)	-.0064 (-0.33)	-.00053 (-0.002)	.004 (0.42)	.0034 (0.35)	.036 (0.24)	.048 (0.76)
Firm size	-.05* (-2.6)	-.028 (-1.42)	-.019* (-2.07)	-.028* (-2.93)	-.025 (-1.56)	-.014 (-0.97)	-.023* (-2.06)	-.028 (-1.45)	-.07 (-0.85)	-.0045 (-0.09)
Firm age	-.04 (-1.24)	.007 (1.3)	.006 (1.68)	-.0005 (-0.09)	.0014 (0.18)	.009 (0.68)	.008 (0.93)	.0086 (0.62)	.003 (0.35)	-.009 (-0.23)
EO	-.14* (-3.08)	-.029 (-0.29)	-.09* (-1.95)	-.054* (-2.6)	-.03 (-1.35)	-.06 (-0.65)	-.052 (-1.45)	-.09 (-1.56)	-.09 (-0.76)	-.16 (-0.82)
Home with space	.08 (1.8)	.038 (0.52)	.08* (4.27)	.083* (7.22)	.082* (3.2)	.09* (2.67)	.07* (4.3)	.06 (2.52)	.06 (1.19)	.28* (4.72)
Retail Trade	dropped	-.05 (-1.28)	-.004 (-0.17)	.006 (0.58)	.014 (0.56)	.009 (1.32)	-.0006 (-0.09)	.0010 (0.05)	.001 (0.011)	-.026 (-0.28)
Manufacturing	.08 (1.45)	-.05 (-0.95)	-.06 (-1.64)	-.014 (-1.83)	-.03 (-0.69)	-.012 (-0.56)	-.017 (-0.94)	-.016 (-0.93)	-.016 (-0.25)	-.0028 (-0.06)
Service	.15* (2.64)	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped	dropped
Construction	.012 (1.83)	.0063 (0.09)	-.006 (-0.54)	.0009 (0.04)	.045 (0.96)	.047 (1.28)	.045 (1.68)	.075 (1.87)	.012 (1.57)	.40 (2.3)
Formality	.023 (0.62)	.0010 (0.08)	.019 (1.56)	.012* (2.53)	.008 (0.89)	.068 (0.79)	.016 (1.43)	.06 (1.39)	.05 (0.82)	.09 (1.18)
Microfinance	.05 (1.52)	-.006 (-0.08)	.004 (0.27)	.005 (0.52)	.008 (0.45)	.04 (0.76)	.006 (0.45)	.04 (0.88)	.04 (0.68)	.056 (0.45)

BDS	-.08* (-2.68)	-.023 (-0.35)	-.019 (-1.43)	-.017* (-2.32)	-.036 (-1.63)	-.037 (-1.48)	-.019 (-1.34)	-.019 (-1.40)	-.03 (-1.02)	-.09 (-1.45)
Subcontracting	.06 (0.78)	-.006 (-0.09)	-.0011 (-0.75)	-.019* (-2.08)	-.023 (-1.24)	-.033 (-0.94)	-.033 (-0.75)	-.028 (-1.09)	-.014 (-0.36)	-.019 (-0.35)
IQUB	.037 (0.91)	.013 (0.45)	.046 (1.23)	.026* (2.78)	.034 (0.96)	.05 (1.37)	.08* (3.04)	.036 (1.62)	.008 (0.12)	-.012 (-0.16)
IDIR	-.08 (-1.32)	-.05 (-1.92)	-.02 (-1.35)	-.009 (-1.26)	-.016 (-0.78)	-.01 (-0.23)	.042 (0.45)	-.005 (-0.35)	.0036 (0.05)	.05 (0.73)
EO*SNW	.19* (2.52)	.08 (1.39)	.06* (3.09)	.09* (4.35)	.09* (3.28)	.09* (2.45)	.04* (2.57)	.10* (3.22)	.08 (1.23)	.11 (1.13)
EO*HC	.13* (4.15)	.09* (3.28)	.08* (8.9)	.12*** (11.65)	.13** (8.02)	.14*** (8.76)	.11*** (12.3)	.09* (11.62)	.12* (3.65)	.13* (2.36)
EO*Growth motive	-.008 (-0.29)	.0015 (0.04)	-.0015 (-0.06)	-.018 (-1.95)	-.012 (-0.42)	-.011 (-0.64)	-.004 (-0.55)	-.009 (-0.35)	-.001 (-0.89)	.005 (0.26)
Cons	-.6* (-2.46)	-.5 (-1.37)	-.42* (-3.29)	-.19* (-3.46)	-.25 (-1.92)	-.23 (-0.92)	-.19 (-1.47)	-.32 (-1.67)	-.43 (-0.96)	-.56 (-0.85)
	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286	N= 286
	R ² = 0.57	Pseudo R ² = 0.42	Pseudo R ² = 0.41	Pseudo R ² = 0.43	Pseudo R ² = 0.49	Pseudo R ² = 0.50	Pseudo R ² = 0.55	Pseudo R ² = 0.60	Pseudo R ² = 0.60	Pseudo R ² = 0.62

*Represents significance at 10% level ** represents significance at 5% level and *** represents significance at 1% level. Numbers in the bracket are t-values

Annex IV
Attrition Bias Test

Dependent variable (Stayer = 1, Dropper = 0): the probability that a firm exists in two data periods given some basic characteristics of that firm

Stayer	Logistic Regression Coefficient	z
Firm size	-.50	-1.37
Firm age	.080	0.54
Start-up capital	.083	1.33
Illiterate	.46	1.52
Microfinance	-.23	-0.89
Retail	.14	0.46
Manufacturing	.67	1.81
Construction	-.35	-1.23
Mobile business	.19	0.68
Native	-.77	-1.07
Network size	1.02	1.82
Age of the operator	-.24	-0.98
Oromo	1.15	1.76
Amhara	.87	1.57
Gurage	1.54	1.41
Tigray	1.49	1.58
Others	.034	0.06
Profit growth	-.046	-0.20
Turnover growth	-.37	-1.59
Tax	.03	0.14
BDS	.23	0.90
Growth motive	-.02	-0.12
Male	-.26	-1.55
Constant	-1.97	-1.78
Number of observations	1000	
	Pseudo R ² = 0.22	

The z statistics is reported at 10 percent level.

Annex V
Results of Factor Analysis

1. Need for Achievement

Correlations

		NA1	NA2	NA3
NA1	Pearson Correlation	1	.370**	.489**
	Sig. (2-tailed)		.000	.000
	N	286	286	286
NA2	Pearson Correlation	.370**	1	.520**
	Sig. (2-tailed)	.000		.000
	N	286	286	286
NA3	Pearson Correlation	.489**	.520**	1
	Sig. (2-tailed)	.000	.000	
	N	286	286	286

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

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.656
Bartlett's Test of Sphericity	Approx. Chi-Square	173.684
	df	3
	Sig.	.000

Commonalities

	Initial	Extraction
NA1	1.000	.585
NA2	1.000	.617
NA3	1.000	.720

Extraction Method: Principal Component Analysis.

Component Matrixa

	Component
	1
NA1	.765
NA2	.786
NA3	.849

Extraction Method: Principal Component Analysis.
 a. 1 components extracted.

Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.922	64.081	64.081	1.922	64.081	64.081
2	.632	21.051	85.132			
3	.446	14.868	100.000			

Extraction Method: Principal Component Analysis.

2. Risk Taking Propensity

Correlations

		RTP1	RTP2	RTP3
RTP1	Pearson Correlation	1	.890**	.527**
	Sig. (2-tailed)		.000	.000
	N	286	286	286
RTP2	Pearson Correlation	.890**	1	.563**
	Sig. (2-tailed)	.000		.000
	N	286	286	286
RTP3	Pearson Correlation	.527**	.563**	1
	Sig. (2-tailed)	.000	.000	
	N	286	286	286

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

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.641
Bartlett's Test of Sphericity	Approx. Chi-Square	552.995
	df	3
	Sig.	.000

Commonalities

	Initial	Extraction
RTP1	1.000	.864
RTP2	1.000	.887
RTP3	1.000	.584

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.334	77.814	77.814	2.334	77.814	77.814
2	.556	18.545	96.359			
3	.109	3.641	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix^a

	Component
	1
RTP1	.929
RTP2	.942
RTP3	.764

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

SE8	Pearson Correlation	.058	-.006	.017	.004	-.005	.527**	.563**	1
	Sig. (2-tailed)	.325	.924	.777	.943	.928	.000	.000	
	N	286	286	286	286	286	286	286	286

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

* . Correlation is significant at the 0.05 level (2-tailed).

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.596
Bartlett's Test of Sphericity	Approx. Chi-Square
	1230.709
	df
	28
	Sig.
	.000

Commonalities

	Initial	Extraction
SE1	1.000	.593
SE2	1.000	.623
SE3	1.000	.745
SE4	1.000	.948
SE5	1.000	.949
SE6	1.000	.862
SE7	1.000	.886
SE8	1.000	.592

4. Entrepreneurial Orientation (EO)

Correlations

	IS1	IS2	IS3	PA1	PA2	PA3	RT1	RT2
IS1	1	.679**	.209**	.099	.241**	.074	.148*	.059
		.000	.000	.095	.000	.214	.012	.319
N	286	286	286	286	286	286	286	286
IS2	r	.679**	1	.259**	.169**	.518**	.174**	.393**
		.00		.000	.004	.000	.003	.003
N	286	286	286	286	286	286	286	286
IS3	r	.209**	.259**	1	.152*	-.014	-.108	.342**
		.000	.000		.010	.813	.068	.000
N	286	286	286	286	286	286	286	286
PA1	r	.099	.169**	.152*	1	.488**	.340**	.362**
		.095	.004	.010		.000	.000	.000
N	286	286	286	286	286	286	286	286
PA2	r	.241**	.518**	-.014	.488**	1	.458**	.198**
		.000	.000	.813	.000		.000	.001
N	286	286	286	286	286	286	286	286
PA3	r	.07	.17**	-.108	.340**	.458**	1	-.074
		.21	.00	.06	.00	.00		.2
N	286	286	286	286	286	286	286	286
RT1	r	.148*	.393**	.342**	.362**	.198**	-.074	1
		.012	.000	.000	.000	.001	.211	
N	286	286	286	286	286	286	286	286
RT2	r	.05	.176**	.151*	.072	.261**	.180**	.144*
		.319	.003	.010	.222	.000	.002	.015
N	286	286	286	286	286	286	286	286

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

* . Correlation is significant at the 0.05 level (2-tailed).

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.435	30.4	30.	2.4	30.4	30.4
2	1.968	24.6	55.0	1.9	24.6	55.0
3	1.794	22.4	77.	1.79	22.4	77.47
4	.630	7.8	85.3			
5	.549	6.8	92.			
6	.422	5.2	97.			
7	.108	1.3	98.			
8	.093	1.163	100.			

Extraction Method: Principal Component Analysis.



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Belay File Garoma

During the last four years Mr Belay File Garoma has been working on his thesis titled *Determinants of microenterprise success in the urban informal sector of Addis Ababa: A Multidimensional Analysis*. Mr Belay has MA degree in Development Studies specialized in Economics of Development from the Institute of Social Studies (ISS), The Netherlands in 2004 and BA degree in Economics from Ethiopian Civil Service University, Addis Ababa in 2001. He acquired a diploma in Chemistry from Kotebe College of Teacher Education in 1993. In addition he has attended a wide range of short courses on research design and policy analysis.

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Propositions

Attached to the thesis

Determinants of Microenterprise Success in the Urban Informal Sector of Addis Ababa: A Multidimensional Analysis

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1. Even for micro and small enterprises there is evidence for a systematic relationship between size-age and growth. (Chapters 4 and 6)
2. In Addis Ababa formality/informality does not matter for microenterprise success because the institutional environment is weak and excludes informal enterprises from obtaining services provided by the government, while discourages firms from striving for formality. (Chapter 5)
3. Analysis of microenterprise success across various growth-categories using a quantile regression approach yields a better insight than a mere analysis of the determinants of the average firm. (Chapter 6)
4. Success is a complex process and a combination of both internal and external factors such as ethnicity, gender, location and social networks together would explain better the success or failure of microenterprises in the urban informal sector than just a single perspective. (Chapter 6)
5. In Addis Ababa the impact of entrepreneurial orientation on business success is more pronounced indirectly though its influence on informal social networks. (Chapter 6)
6. The number of jobs created for Ethiopians by the Chinese investors is meager compared to the volume of China's investment because Chinese do not want to export jobs linked to foreign investment in Ethiopia.
7. The number of Ethiopian Diaspora living in Washington DC is comparable to half the size of the population of Addis Ababa.
8. A lower Gini-coefficient (less inequality) in Ethiopia is a reflection of the fact that the economy is dominated by subsistence agriculture where farmers have low and more or less similar income.
9. In Ethiopia money demand and supply do not respond to changes in interest rate because the economy is agrarian and the financial system is poorly developed.
10. Despite a number of incentives and efforts to attract foreign investors Ethiopia receives a very small FDI inflow because of investors' perception that Ethiopia is better known for poverty than as an investment opportunity.
11. Ethiopians are less enthusiastic for petroleum discovery because they have seen a "resource curse" in their neighboring and other African nations.