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OWNER FACTORS AFFECTING THE GROWTH OF MICRO AND SMALL ENTERPRISES (MSEs) IN ETHIOPIA: A CASE STUDY IN SHIRE INDASELASSIE TOWN, TIGRAY

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ABSTRACT

The role of MSEs are not only income and employment generating but also breeding ground for entrepreneurs, has higher employment capacity, not capital intensive, highly competitive, flexible, and innovative. However, MSEs growth is affected by a number of factors. Therefore, the main objective of this study was to examine owner/operator characteristic factors affecting the growth of MSEs by using semi-structured questionnaire covering 160 randomly selected MSEs from five Kebeles of Shire Indasselassie Town. Binary logistic model was employed to identify the factors affecting the growth of MSE and to test the hypotheses. The result of the study revealed that gender and education level are significant factors for MSEs growth. MSEs that are owned by male and higher school completed are growing rapidly than those MSEs that are owned by female and primary school completed ones. However, age and experience of MSEs owners are found insignificant for MSEs growth. Considering the well recognized importance of MSEs in job creation, income generation and poverty alleviation, all stakeholders (government and non governmental institutions) have the responsibilities to make intensive effort to remove the factors that stand on the growth of the MSEs.

KEYWORDS

Employment, Factor, Gender, Growth, Owner, Survival.

1. INTRODUCTION

Micro and Small Enterprises (MSEs) can be defined as one, which are independently owned and operated, and not dominated in its field of operation. It also defined in terms of sales volume and by the number of employees in the firm. MSEs may be defined as business with a small number of employees. The legal definition of MSEs often varies from country to country and from industry to industry; in the United States generally under 100 employees while under 50 employees in the European Union (Endalkachew, 2008).

In Ethiopia, according to the Government of the Federal Democratic Republic of Ethiopia MSE Development Strategy (2011), the definition of MSEs is as follows:

- Micro Enterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 100,000.
- Small Enterprises are business enterprises with a paid-up capital of more than Birr 100,000 and less than Birr 1.5 million.

Nowadays, employment is very serious issue and offering jobs to all citizens of a country; it is also a challenging task to every government. As a result, different governments are framing different strategies and policies to create job opportunities. One strategy as to create jobs and accommodate maximum number of citizens has been emerged, i.e., the establishment of MSEs. This form of sector comes in to existence with the aim to accommodate as much as possible numbers of member owned enterprises with affordable working capital and management (Ermias, 2011).

In Ethiopia, MSEs are the second largest employment-generating sector next to agriculture. A national survey conducted by Central Statistics Agency (CSA) (2003) indicated that more than 1.3 million people in the country are engaged in informal sector and small manufacturing businesses. Concerning Tigray, around 137,500 people are engaged in the sector. However, unemployment is one of the critical social problems of most Ethiopian cities in general and Tigray cities in particular. The urban employment rate is about 13.7% and 21.1% in 2006 and 2009, respectively in the region (Tigray Region State Bureau of Plan and Finance (TRBPF, 2010).

The MSEs are also an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets, enhance productivity and technical change, and through all of these stimulate economic development. Therefore, the Government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National Micro and Small Enterprise Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (MoTI, 1997).

MSEs caught the attention of development practitioners and policy makers recently not only because of their importance in terms of generating employment but also because of various other attributes. Some of these are:

- MSEs are breeding ground for entrepreneurs.
- The sector has high employment generating capacity, and is less capital intensive.
- It is highly competitive, flexible, and innovative.

Having recognized the importance of the MSEs sector to the economy, the Federal Government of Ethiopia has issued a MSEs Development Strategy in 1997 followed by the proclamation for the establishment of the Federal Agency for MSEs Development in 1998 (MoTI, 1997).

It is obvious that agriculture is still the backbone of Ethiopian economy and medium and large companies are contributing for economic growth and development of the country. MSEs have been given due attention since 1997 as they have invaluable contributions in the economic development of countries like other sectors. Currently, the Ethiopian government has given priority and planned to work aggressively on MSEs to complement with the objective of the 5 years of Growth and Transformation Plan (GTP) that is focuses on industrial development in the country. The sector is expected to play a significant role as an instrumental in curbing the challenges of unemployment, poverty and to accelerate economic growth. Thus, this implies that further research is required on the factors affecting the growth of MSEs.

2. RELATED LITERATURE REVIEW

MSE is one of the institutions given recognition in the country's industry development plan and is the fact that it serves as vehicles for employment opportunities at urban center and as it strengthen the economic development. MSE also serves as sources for sustainable job opportunities not only for developing countries like Ethiopia, but also for developed countries like USA. Thus, they should be given prior consideration as they are essential and serve for sustainable source of job opportunities to our country.

2.1. DEFINITION OF MSEs

One major problem that arises while dealing with MSEs is lack of clear-cut and universally accepted definition. Attempts to define MSEs have led to a remarkable diversity of conceptions that actually generated debate as to the different approaches of defining MSEs. Firms differ in their levels of capitalization, sales, and employment.

Varieties of definitions have been applied among different countries and different criterions have been considered to define them. But commonly, MSEs are considered to be non-subsidiary independent firms which employ less than a given number of employees even though this number varies across countries. For instance, in Scottish, a Micro enterprise contains 0-9 employees (including sole traders) and Small 10-49 employees. Small firms are mostly considered to be firms with fewer than 50 employees while micro-enterprises have at most ten, or in some cases, five employees (Malhotra, Chen, Criscuolo, Fan, Hamel, & Savchenko, 2006).

In defining MSEs, in addition to considering number of employees engaged in the business, financial aspects such as turnover and total assets or balance sheet total are also taken into account. Especially, this has been used by international organizations like European Union, World Bank and others which are briefly described in the following tables (i.e., Table 1 and Table 2).

TABLE 1: EUROPEAN UNION MSE DEFINITION

Firm size	Headcount	Turnover or Balance Sheet Total
Micro	<10	<€ 2 million
Small	Between 10 and 49	€ 10 - €49 million

Source: IFC (2010)

TABLE 2: WORLD BANK GROUP MSEs DEFINITIONS

Type of enterprise	Number of employee	Extent of total assets
Micro	1-10	Less than US\$100,000
Small	11-50	Between US\$100,000 and US\$3 million

Source: Malhotra et al. (2006)

The Ethiopian modified definition of MSEs (Table 3) were brought and organized from foreign country experiences as well as correspondence analysis of previous definitions. The revised definition envisaged the other country experiences and the actual economic circumstance such as inflation and exchange rates fluctuations in the country. Due to the rise in exchange rates and inflation, the minimum and the maximum value of total asset's threshold used for classification of enterprises in to micro and small has been increased from birr 20,000(\$2500) to 100,000(\$6000) (maximum threshold for micro enterprises) and for small enterprises from birr 500,000 to 1.5million maximum threshold (Government of the Federal Democratic Republic of Ethiopia MSEs development strategy (GFDRE), 2011).

The revised definition also considered the actual number of employed labors including family labor, total assets excluding land and building as a criterion to define MSEs. On the other side, it classified the overall sectors into two divisions as industry which includes manufacturing, construction and mining; and services that include retail trade, transport, hotel and tourism, information technology services and maintenance (GFDRE, 2011).

TABLE 3: REVISED DEFINITION OF MSEs IN ETHIOPIA

Type of enterprise	Sector	Number of employees including family member	Total assets
Micro	Industry	≤5	≤ 100,000Birr
	Service	≤5	≤ 50,000Birr
Small	Industry	6-30	≤ 1.5million Birr
	Service	6-30	≤ 500,000 Birr

Source: GFDRE (2011)

2.2. REVIEW OF EMPIRICAL STUDIES

The owner characteristic factors that are affecting the growth of MSEs are educational level, age and gender (Papadaki & Chami, 2002); age, gender, education, and previous work experience (Storey, 1994); gender (Chell, 2001); educational level (McPherson, 1996); educational level and previous business experience (Parker, 1995); age, gender and education (Aggrey, Ochai, & Mukasa, 2012); age, gender, education status and previous experience (Atsedo, Patricia, and Adebimpe, 2008); and educational level and gender (Mulu, 2007).

GENDER

Women owned firms' may have lesser opportunities to develop relevant experiences this is as a result of women may have fewer networks to get assistance and may have greater difficulty in assembling resources (Sexton & Robinson, 1989). There is some evidence that banks may require more strict requirements on women business owners concerning collateral for loans, and therefore, this can limit their ability to grow (Riding & Swift, 1990). Women may also be more family oriented and be less eager in pursuing economic goals related to expansion of the firm (Brush, 1992). Cooper, Folta, Gimeno-Gascon, & Woo (1992) reported that being female had a negative impact on the growth of small firm but had no impact on the survival of the firm.

AGE

Younger individuals may be more willing to assume risks and grow their business faster. Therefore, a younger owned firm's may have a higher need for extra income. An older owner or operator who carries out a small firm is more likely to have reached his/her initial aspirations. However, younger individuals have more motivation to expand their business and they also may have fewer financial resources and fewer networks. Some empirical evidence suggested that the owner age tends to be negatively related with firm's growth (Boswell, 1973; Davidsson, 1991).

EDUCATION

The effect of education status of the owner of firm has been broadly studied. Education is presumably related to knowledge and skills, self-confidence, problem solving ability motivation, commitment and discipline. Higher education is expected to be increase the ability of the entrepreneur to handle with problems and grasp opportunities that are important to the growth of the firm. The Empirical study result on the effects of education on firm growth is mixed. Cooper et al.

(1992) found a positive relationship between prior level of education and firm performance, i.e., having a bachelor's degree has a positive impact on both survival and growth of small firms.

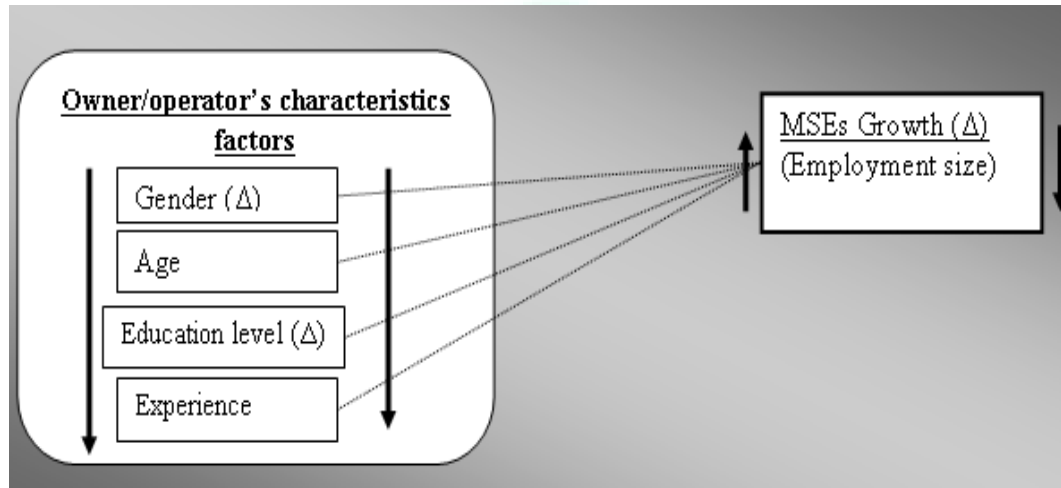
EXPERIENCE

Industrial specific knowledge such as production processes, market niches, or technology is assumed and only available through industry participation. Entrepreneurs with industry experience will have a better understanding of the industrial environment, such as customer nature of the market that the new business enterprise engages in. The social network within the industry may help them to obtain commitment from suppliers and customers, which is very important for the success of a new business. In addition to this, entrepreneurs with industry experience are more likely to survive and to develop their businesses compared to inexperienced ones (Cooper et al., 1992).

2.3. CONCEPTUAL FRAMEWORK OF THE STUDY

Figure 1 below presents a conceptual framework of the relationship between the MSEs growth (dependent variable) and the owner characteristic factors influencing MSEs growth (independent variables). MSEs growth $(1, 0) = f$ [owner characteristic factors (i.e., gender, age, education, and previous business experience)]. Where 1 = if the MSEs growth rate is > 0 , otherwise 0.

FIGURE 1: CONCEPTUAL FRAMEWORK OF THE STUDY



Source: Adopted from Ishengoma and Kappel (2006)

Δ Indicates change for non-measurable factors

$\uparrow\downarrow$ Indicates increase/decrease for measurable factors

3. STATEMENT OF PROBLEM

MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. MSEs are also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology. The MSEs are also described as the national home of entrepreneurship. It provides the ideal environment enabling entrepreneurs to exercise their talents to the full and to attain their goals. In all the successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress at large (MoTI, 1997).

Growth of MSEs has a special importance in the economy that it is responsible for the major contribution to net new jobs. However, many researches revealed that firm growth is a multidimensional phenomenon and there is substantial heterogeneity in a number of factors, such as operators/owners characteristic factors, firm characteristic factors, and external related factors.

Atsede et al. (2008) made a study in Nigeria on factors influencing the growth of MSEs by considering four owner characteristics: age, gender, education, and experience. The result revealed that age, education, and previous experience are significantly influencing the growth of the MSEs. On the other hand, gender has no significant effect on the growth of the MSEs.

Mulu (2007) made a study on the growth of MSEs in Ethiopia on randomly selected 975 MSEs from six major towns of Ethiopia. The study revealed that those MSEs owned by those who have some business experience, high school completed and headed by male are growing faster.

Habtamu (2012) conducted his study on the determinants of MSEs growth in Mekelle city by taking owner/entrepreneur characteristic factors. He found gender as the main determinant factor affecting the growth of MSEs.

As it is indicated in the review of literature above, most of the previous studies result shows differences. This difference indicates that the determinant factors for MSEs growth vary from country to country, place to place, and person to person. **Therefore, this study has tried to identify and examine the factors affecting the growth of MSEs in Shire Indasselassie town by taking in to account the owner/operator characteristic factors.**

4. OBJECTIVE OF THE STUDY

The objective of this study was to examine the effect of owner characteristic factors on the growth of MSEs in Shire Indasselassie town.

LITERATURE DRIVEN HYPOTHESES

The hypotheses were driven after an extensive literature review and identified the factors that were considered in this study. The owner/operator characteristic factors were derived from the previous empirical studies done by various researchers (Atsede et al., 2008; Birley & Westhead, 1990; Eshetu & Zeleke, 2008; Evans, 1987; Habtamu, 2012; Liedholm & Mead, 1993; McPherson, 1996; Mulu, 2007; Parker, 1995; Rahel & Issac, 2010; Siyoum, 2012; Solomon, 2004; Storey, 1994). The expected effects of the owner characteristic factors on the growth of MSEs are hypothesized in the following section.

OWNER CHARACTERISTIC FACTORS

The owner characteristic factors that were considered in this study are age, gender, education level and previous working experience of the operators/owners. The effects of these factors on the growth of the MSEs are discussed below.

GENDER OF THE OWNER

Empirical studies revealed that male-headed MSEs grow more rapidly than female-headed (Habtamu, 2012; Liedholm & Mead, 1993; McPherson, 1996; Mulu, 2007; Rahel & Issac, 2010). However, the statistical test of Storey (1994) and Atsede et al. (2008) showed that the relationship between gender and growth is not statistically significant, i.e., gender does not have an effect on the growth of SMEs. Thus, the hypothesis for this factor is as shown below:

HYPOTHESIS 1: MALE OWNED MSEs EXHIBIT HIGHER GROWTH THAN FEMALE OWNED MSEs

AGE OF THE OWNER

Though younger MSEs owner has the necessary inspiration, power and commitment to work and is more subject to take risks, age has negative effect on the growth of firm (Storey, 1994). However, a study conducted by Mulu (2007) revealed that demographic factors such as, owners' age have no significant effect on

growth of MSEs. On the other hand, Atsedo et al. (2008) revealed that growth was noticed more in middle aged and older owner/managers. Thus, the hypothesis for this factor is as shown below:

HYPOTHESIS 2: MSEs RUN BY YOUNGER OPERATOR/OWNER TEND TO HAVE A HIGHER GROWTH PROBABILITY THAN THOSE RUN BY THEIR OLDER COUNTERPARTS

EDUCATION LEVEL OF THE OWNER

It is defined as the education level of the owner/operator since start-up of the business. The empirical study of Mulu (2007) revealed that MSEs run by entrepreneurs with high school complete and with college years grow faster. McPherson (1996) and Parker (1995) found completion of high school positively affect MSEs growth in Zimbabwe and Botswana but not significant in Swaziland. Parker (1995) also found positive effect of high school completion on firm growth in Kenya. The empirical study of Atsedo et al. (2008) and Storey (1994) also showed that the higher the educational qualification of the owner/manager is, the higher the level of firm growth attained appears to be. Thus, the hypothesis for this factor is as shown below:

HYPOTHESIS 3: THE OPERATORS OF MSEs WITH HIGHER SCHOOL COMPLETE ARE MORE LIKELY TO GROW FASTER THAN OTHERS

OWNER PREVIOUS EXPERIENCE IN MSEs

Owner experience is defined as the number of year experience since start-up. Mulu (2007), McPherson (1996), and Parker (1995) reported that MSEs run by entrepreneurs with previous business experience grow faster than those who don't. However, the availability of previous related business experience that firm operators/owners may have acquired prior to starting up their business does not seem to influence growth of enterprises (Solomon, 2004). Thus, the hypothesis for this factor is as shown below:

HYPOTHESIS 4: THE HIGHER OPERATORS/OWNERS PREVIOUS BUSINESS EXPERIENCE, THE HIGHER THE PROBABILITY OF MSEs GROWTH

5. METHODOLOGY OF THE STUDY

5.1. RESEARCH DESIGN

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is an overall scheme or program of the research process. There are three types of research design, namely exploratory (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables) and explanatory (concerned with determining the cause and effect relationships) (Gebregziabher, n.d.).

The type of research design used under this study was explanatory research design. The major purpose of explanatory research is to determine the cause and effect of dependent and independent variables. Moreover, the study used cross-sectional data in the sense that all relevant data were collected at a single point in time. Besides, quantitative research approach was used since numeric data was collected through semi-structure questionnaire.

5.2. DATA SOURCES AND COLLECTION TECHNIQUES

The study used primary and secondary sources. The primary data was obtained through semi-structured questionnaire. The operators/owners of the MSEs established before three years (i.e., before 2010) completed the questionnaire. The secondary data was collected from periodic reports in the Shire Indasselassie town MSE development office.

5.3. SAMPLE SIZE AND SAMPLING TECHNIQUE

Systematic random sampling is a technique of selecting sampling units using a fixed interval on a randomly ordered list of the sampling frame. It involves selection of every k^{th} element in the sampling frame where k is the ratio between number of elements in the population and the sample size (Gebregziabher, n.d). Therefore, in this study, systematic random sampling type of probability sampling was used in selecting each element of the sample size, where every element in the population has the same chance of being selected and the data was collected by using semi- structured questionnaire.

This study was conducted in five Kebeles of Shire Indasselassie town. The total number of MSEs were 5,628, out of this, 1,615 MSEs were established before three years (i.e., before 2010) and these 1,615 MSEs were the population of this study. Therefore, given the total population of the study, the study has applied a simplified scientific formula provided by Yamane (1967);

$$i.e., n = \frac{N}{1+N(e)^2} \dots\dots\dots (1)$$

Where e is the level of precision, i.e., $e = 0.075$ (0.075 level of significance); N = Population size; and n = sample size.

$$n = \frac{N}{1+N(e)^2} = \frac{1,615}{1+1,615(0.075)^2} = \frac{1,615}{1+9.08} = \frac{1,615}{10.08} = 160$$

Accordingly, 160 respondents (owners) were selected from 1615 MSEs. These 160 respondents were selected from each Kebele computed based on their number of respective population (weight) and the samples were selected by using systematic random sampling technique (k^{th} -interval). K is determined by using the formula (Alison, 2004, as cited in Habtamu, 2012);

$$(k^{th} = \frac{Total\ Population\ (N)}{Sample\ size\ (n)} \dots\dots\dots (2)$$

Where N = Population size (i.e., 1615 MSEs owners) and n = sample size (i.e., 160). Table 4 below shows the samples taken from each Kebele of Shire Indasselassie town administration.

TABLE 4: SAMPLE SIZE OF THE STUDY

Kebele	No. of MSEs in 2012	No. of MSEs before 2010	Weight of each Kebele	Each Kebele sample size	Interval (K^{th} unit)
Dedebit (01)	1,214	329	0.21	34	10^{th}
Suhul (02)	732	229	0.14	22	10^{th}
Hbret (03)	764	230	0.14	22	10^{th}
Adi Kentibay (04)	2,251	652	0.40	64	10^{th}
Yekatit (05)	667	175	0.11	18	10^{th}
Total	5,628	1,615	1	160	

Source: MSEs Development Office (2013)

5.4. METHODS OF DATA ANALYSIS AND PRESENTATION

Data processing and analysis is an important part of research work. After data were collected, it has to be processed and analyzed. The collected data was edited in order to identify errors and omissions and correct them when needed. After that the edited data was coded and classified. All these activities were carried out to make the data as ease for analysis. The binary logistic regression model was used to test the formulated hypotheses and examine the effect of the owner/operator characteristic factors.

5.5. MODEL SPECIFICATION

In this study binary logistic regression model was used to examine the relationship between the independent variables and dependent variable (growth of MSEs). The basis for selecting the binary logistic regression model is the nature of dependent variable. If the dependent variable is with only two categories (growing and non-growing, valued as 1 and 0, respectively), binary logistic regression is appropriate (Gujarati, 2004).

Besides, though the logit and the probit model yield similar parameter estimates, but the binary logistic regression model is preferred because of its comparative mathematical simplicity and more meaningful interpretation of odds ratio (Gujarati, 2004).

Accordingly, the binary logistic regression model employed has the following form:

$$MSEgrz = \ln \left(\frac{P_i}{1-P_i} \right) = \beta_0 + \beta_1 OWNgen + \beta_2 OWNage + \beta_3 OWNedu + \beta_4 OWNexp + \mu_i \dots (3)$$

Where,

$MSEgrz$ = the probability that i^{th} MSE is growing given independent variables

OWNgen = Operator gender
 OWNage = Operator age
 OWNedu = Operator education level
 OWNexp = Operator previous experience
 θ_0 = Constant (intercept); $\theta_1 - \theta_4$ = Coefficients,
 u_i = Error term (absorbs unobserved factors),
 P_i = Probability of i^{th} MSE is growing type; $1 - P_i$ = Probability of i^{th} MSE is survival type, and
 ln = Natural logarithm; $\ln\left(\frac{1}{1-P_i}\right)$ = Natural logarithm of the odds ratio (logit model).

5.6. DEFINITION OF VARIABLES

There are two variables to be defined in line with this study. These are the dependent and independent (explanatory) variables employed in the study. The depended and independent variables are defined as follow.

DEPENDENT VARIABLES OF THE STUDY (MSEgrz)

There are various arguments in the existing literature on how to measure growth, and scholars have used a variety of different measures. These measures include, for example, growth of sales, employees, assets, profit, equity, and others (Davidsson & Wiklund, 2000).

Moreover, the time span over which growth analyzed in the literature varies considerably, ranging from one to several years. In addition, growth has been measured in absolute or relative terms. Perhaps the most common means of operationalizing firm growth is through relatively objective and measurable characteristics such as growth in sales turnover, total assets and employment growth. These measures are relatively uncontroversial (methodologically) and data tend to be easily available, increasing the scope for cross study comparability (Freel & Robson, 2004). In this study, employment was used as measurement of growth of MSEs.

The growth MSEs status, which is the dependent variable for the binary logistic analysis, is a dichotomous variable representing the growth of MSE. It is represented in the model by 1 for the growing MSEs and 0 for survival MSEs. To measure the growth of MSEs, the researcher used employment size following Evans (1987) model of firm growth. The following equation used to measure the firm growth;

$$MSE\ gr = \frac{\ln St' - \ln St}{Ea} \dots\dots\dots (4)$$

Where St' = represent the firm's current employment size; St = represent the firm's beginning employment size and Ea = denotes enterprise age.

The employment size is preferred to measure the growth of MSEs since:

- Most MSEs operators/owners do not keep records so that it is difficult to get reliable time series data on growth of fixed assets/sales, they would be unable to report their sales or profits even at the present time.
- As most economic theory proves, increase in employment size is associated with increase in efficiency.
- Moreover, MSEs operators/owners are extremely reluctant to give accounting information to external parties (outsiders) (Fioritto & Lafarge, 1986).

INDEPENDENT (EXPLANATORY) VARIABLES

Gender of the owner: Gender (sex) of the operator/owner of MSEs.

Age of the owner: It is defined as the number of years of operators/owners.

Education level of the owner: Education status of the operators/owners of the MSEs.

Owner previous experience in MSEs: Availability of related work experience of the operators/owners of MSEs before start up.

TABLE 5: NAME, TYPE, CODE AND VALUE OF THE VARIABLES

Name	Type	Code	Value
Growth status	Dummy	MSEgrz	1 if the MSEs growth rate>0, 0 otherwise
Gender	Dummy	OWNgen	1 if the MSEs operator is male, 0 otherwise
Age	Continuous	OWNage	MSEs owner age in number of years
Education level	Categorical	OWNedu	MSEs owner education level: 1= Illiterate, 2= Primary school completed (1-8), 3= Secondary school completed (9-12), 4= TVET or Diploma, 5= Degree (University), 6= Master and above.
Experience	Continuous	OWNexp	MSEs owner experience during start up

Source: Own Survey, 2013

6. DATA ANALYSIS AND DISCUSSION

This section presents the major owner/operator characteristic factors for the MSEs growth by using the binary logistic regression model. The binary logistic tried to identify the major owner characteristic factors that are affecting the MSEs growth.

In this study employment is used as objective measurement of growth by following the model of Evans (1987) that is change in employment size over the life of the firm, i.e.,

$$MGR = \frac{(\ln st' - \ln st)}{Ea} \dots\dots\dots (5)$$

By taking the calculated growth rate, the MSEs are classified in to two broad categories i.e., growing (if growth rate > 0) and survival (if growth rate ≤ 0). Accordingly, Out of the total respondents, 99 MSEs (61.98%) found survival (non-growing) types and the remaining 61 MSEs (38.12%) are found growing types. This result is consistent with the result of Mulu, (2007) found 69 percents of MSEs are survival types in Ethiopia and Habtamu (2012) found that 76.4 percent survival type and 23.6 percent growing type in Mekelle city. Table 6 below summarizes the growing and survival types of MSEs.

TABLE 6. STATUS OF MSEs IN SHIRE INDASSELLASSIE TOWN

MSE category	Number of MSEs	Percent
Growing	61	38.12
Survival (non -growing)	99	61.98
Total	160	100

Source: Own Survey, 2013

6.1. MODEL SPECIFICATION TEST

Test for Multi-collinearity: The test for multicollinearity tests whether there are no perfect linear relationships among the explanatory variables. However, multi-collinearity problem is the existence of a "perfect," or exact, linear relationship among some or all explanatory variables of a regression model (Gujarati, 2004). In order to test the existence of multicollinearity problem, VIF (Variance Inflation Factor) is utilized. As a rule of thumb for multicollinearity, test of the model states a variable whose values are greater than 10 or whose 1/VIF value is less than 0.1 indicates possible problem of multi-collinearity. Thus, in this study there is no value greater than 10, all value of the Variance Inflation Factors are less than 2.83 or all values of 1/VIF are greater than 0.3533.

Correlation matrix illustrates bivariate relationship between two independent and/or independent-dependent variables. Correlation matrix examines the extent or direction of relationship among two variables and how one variable is related to another. Correlation matrix also indicates problem of multicollinearity (Gujarati, 2004). Multicollinearity is a problem when the correlation result is above 0.80 and below -0.80. But, in this study, the correlation coefficients are under 0.6263 and over -0.4073. Therefore, the VIF and 1/VIF, and the correlation matrix tests revealed that there is no multicollinearity problem.

Test for Heteroskedasticity: The test for heteroskedasticity test whether the disturbance term μ appearing in the regression function is homoskedastic. Test of heteroskedasticity says the null hypothesis that the variance of the residuals is homogeneous. If p value is very small, i.e., $Pr < 0.05$ (at 95% confidence), the null hypothesis will be rejected and accept the alternative hypothesis that the variance is not homogenous (Gujarati, 2004). However, in order to avoid heteroskedasticity problem, the MSEs growth equation is estimated by using logistic model through running robust estimation and it easily solves the problem of heteroskedasticity. The null hypothesis (i.e., H_0 : Constant variance) was rejected because the test result showed $Prob > \chi^2 = 0.1532$, which is greater than the significance level (10 percent). Therefore, the result indicated that there is equal variance among the error terms. Therefore, there was no problem of heteroskedasticity in the process of model specification and the model was well fitted.

Besides, according to Ramsey RESET test, a model specification is fit or no omitted variables and ready for analysis if P-value stated in $P > F$ greater than the chosen level of significances, i.e., 1 percent, 5 percent, and 10 percent. The result indicated that the model had no relevant omitted variables since the test failed to reject the hypothesis, i.e., $Prob > F = 0.1408$ is found greater than 10 percent significance levels of the specified model of the study.

Finally, the various goodness-of-fit measures validate that the model fits the data well. The value of Pearson Chi-square test shows that the overall goodness-of-fit of the model fit the data at less than 1% significance level (i.e., $Prob > \chi^2 = 0.0001$).

6.2. RESULTS AND DISCUSSIONS

The main objective of this study was to analyze the factors affecting MSEs growth in Shire Indasselassie town. The binary logit regression model was used to identify the major determinant factors for SMEs growth in terms of employment by using the compound annual employment growth rate as an objective measure.

Binary logistic regression requires the dependent variable to be binary. Logistic regression assumes that $P(Y=1)$ is the probability of the event occurring, it is necessary that the dependent variable is coded accordingly. That is, for a binary logit regression, the factor level one of the dependent variable should represent the desired outcome. Table 7 below shows the result of binary logit regression, i.e., the probability of being growing $P(Y=1)$. It is also marked that these variables are statistically significant at 10 percent or lesser level.

The gender and education level of MSEs owner (primary school completed category) are found significant in determining the probability of MSEs growth. Moreover, age, education level (illiterate, TVET or diploma, and degree category), and previous experience of MSEs owner are found not significant in determining the probability of MSEs growth. The results of the binary logistic regression model are summarized in Table 7 below.

TABLE 7: BINARY LOGISTIC REGRESSION ESTIMATION RESULT

MSEs growth status	Odd ratio	P> z	Marginal effects (dy/dx)
Operator/owner characteristics factors			
Gender	4.0314	0.010**	0.2522131
Age	1.006001	0.812	0.0012653
Previous Experience	0.8614418	0.112	-.0315424
Education level (reference secondary school)	-	-	-
Illiterate	0.2563622	0.166	-.2145137
Primary school	0.2517667	0.059***	-.2520273
TVET or diploma	0.9712158	0.957	-.0061518
First degree	4.902581	0.256	.376704

Source: Own Survey, 2013

* indicated 1 percent level of significant

** indicates 5 percent level of significant

** indicates 10 percent level of significant

The variable gender the MSEs owner has a positive sign as expected and statically significant at 5 percent significance level as shown on Table 7 above. Holding other factors remains constant;

- The odds ratio shows that the growth for the male owned MSEs is 4.03 times higher than the female owned MSEs.
- Besides, the marginal effect also shows that the probability of growth for male owned MSEs increases by 25.22% as compared to female owned MSEs.
- As a result, the hypothesis that states "male owned MSEs exhibit higher growth than female owned MSEs" is accepted.

As per Table 7 above, assuming all other factors remains constant;

- The odds ratio shows that the growth for the MSEs owned/operated by primary school complete is 0.25 times (75%, i.e., $0.25 - 1.00 = -75.00$) lower than the MSEs owned/operated by secondary school complete.
- Besides, the marginal effect also shows that the probability of the MSEs growth owned by primary school complete decreases by 25.20% as compared to the MSEs owned by secondary school complete.
- Therefore, the hypothesis which states "The operators of MSEs with higher school complete are more likely to grow faster than others" is accepted at 10% level of significance.

7. CONCLUSION AND RECOMMENDATION

7.1. CONCLUSION

The aim of this study was to analyze the owner/operator characteristic factors affecting MSEs growth by using the binary logistic regression model. The resulted study was based on cross sectional data of the year 2013 at Shire Indasselassie town. Data was collected through semi-structured questionnaire from 160 MSEs owners' sample respondents selected by using systematic random sampling techniques.

The study used annual employment growth rate (compound) to determine status of the MSEs (growing and survival or non-growing). Accordingly, the descriptive statistics result showed that over three-fifth of the MSEs were found survival (non-growing) MSEs and two-fifth were found growing MSEs.

The determinant factors for the MSEs growth were analyzed by using the binary logistic regression model based on the factors related with the owner characteristic (gender, age, education level and experience). As a result, the analyses revealed that gender and education status have significant effect on the growth of the MSEs, i.e., male owned MSEs grow faster than female owned MSEs and the owners of MSEs with higher school complete grow faster than the primary school complete.

7.2. RECOMMENDATION

The role of MSEs is consistently recognized in employment and income generating and has become a major playing field for policy makers and donors with dual objective of enhancing growth and alleviating poverty. However, MSE growth is multidimensional phenomenon and there is substantial heterogeneity in a number of factors. Policies and support programs need to consider the heterogeneous nature of the MSEs. The finding result shows that among the owner characteristic factors affecting the growth of the MSEs are age, gender, education, and previous work experience. Proper understanding of these factors constitutes an essential starting point for the government and non-governmental organizations to formulate policies and strategies in order to reduce poverty, unemployment and income inequality. On the basis of the finding and conclusion reached in this study, the following recommendations are forwarded.

Male owned MSEs grow faster than female owned MSEs. Women MSEs owners have dual household and productive responsibilities, business profit is more likely to be used to maintain household consumption rather than expansion, engaging in most unprofitable sectors, and loan is considered as risk rather than an opportunity. As a result of these, their chance of growth is low. Hence, the financial institution and other responsible government organization (ministry of trade and industry, ministry of women affairs and MSEs development office of Shire Indasselassie town) have to create awareness, affirmative action and business

development service by using different mechanisms such as using print and air media. Besides, education and training are required to create awareness about how to use the profit for the expansion of the business, engage in more profitable sectors and opportunities of taking loan.

The owners of MSEs with higher school complete grow faster than the primary school complete. Therefore, the MSEs development agency and MSEs development offices in collaboration with the development agents should let the MSEs owners upgrade their formal education at least to the level of high school. In addition, special attention should be given to the women MSEs owners because women are more likely drop out before high school education for a number of factors such as early marriage, economic factors, distance, etc.

7.3. FURTHER RESEARCH DIRECTION

Because of the limited time and resource, this study was only applied to Shire Indasselassie town, but a valuable finding may come up by taking data from different areas (towns). Moreover, in this study some findings regarding some factors are different from previous study. This entails further research in order to further identify and examine the owner/operator characteristic factors affecting the MSEs growth.

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