



MEKELLE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS

Department of Economics

Factors Affecting Growth of Micro and Small Enterprises:

The Case of Enticho Town

BY

Etenesh Yeabyo

A Thesis Submitted to Mekelle University, College of Business and Economics, Department of Economics in Partial Fulfillment of the Requirement to the Degree of Master of Arts in Economics

Advisor: Zenebe Gebreegziabher (PhD)

Mekelle, Tigray, Ethiopia

November 2025

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DECLARATION

I, Etenesh Yeabyo, hereby declare that this thesis entitled: "**Factors Affecting Growth of Micro and Small Enterprises: The Case of Enticho Town**" is my own original work and has not been presented for a degree in any other university or institution. All sources of material used for the thesis have been duly acknowledged. This thesis is submitted to Mekelle University, College of Business and Economics, Department of Economics, in partial fulfillment of the requirements for the Degree of Master of Arts in Economics.

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DEDICATION

I dedicate this thesis manuscript to my beloved husband, Teklit Desta, whose unwavering support and encouragement have been my guiding light.

ACKNOWLEDGMENT

First and foremost, I would like to thank the Almighty God for giving me the strength, health, and perseverance to complete this study.

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ABSTRACT

This study examines the internal and external determinants influencing the growth and sustainability of Micro and Small Enterprises (MSEs) in Enticho Town, Tigray, Ethiopia. Although MSEs play a central role in job creation, income generation, and structural transformation, their growth remains constrained by multiple financial, infrastructural, and institutional factors. Using quantitative cross-sectional research design, primary data was collected from 155 MSE operators across manufacturing, trade, service, construction, and urban agriculture sectors. The data were analyzed using descriptive statistics, correlation analysis, and multiple linear regression to identify the most significant predictors of enterprise growth.

The findings reveal that infrastructure quality, workplace conditions, internal managerial capacity, and marketing capability are key positive contributors to MSE growth. Financial constraints and governance related challenges, including complex regulations, taxation burdens, and administrative inefficiencies negatively affect performance and limit expansion. The regression model explained a substantial proportion of the variation in MSE growth, underscoring the combined effect of internal competencies and external enabling conditions.

The study concludes that sustainable MSE development requires integrated interventions that address financial access, infrastructure, capacity building, and institutional reforms. Improving access to credit, investing in enabling infrastructure, strengthening entrepreneurial and managerial skills, and enhancing transparent governance are essential for fostering a supportive business ecosystem. The findings provide important insights for policymakers, local administrators, development partners, and practitioners involved in promoting inclusive economic growth.

Keywords: MSE Growth, Infrastructure, Finance, Governance, Enticho, Ethiopia.

ACRONYMS

ANOVA	Analysis of Variance
CSA	Central Statistics Agency of Ethiopia
GTP (I and II)	Growth and Transformation Plan
ICT	Information and Communication Technology
IFC	International Finance Corporation
ILO	International Labor Organization
LSD	Least Significant Difference
MoTI	Ministry of Trade Industry
MSEDS	Micro and Small Enterprises Development Strategy
MSE/ MSEs	Micro and Small Enterprise
MSME	Micro, Small and Medium Enterprises
OECD	Organization for Economic Cooperation and Development
PLS-SEM	Partial Least Squares Structural Equation Modeling
SPSS	(IBM) Statistical Package for the Social Sciences
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VIF	Variance Inflation Factor

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CHAPTER ONE: INTRODUCTION

1.1. Background information

Micro and Small Enterprises (MSEs) are globally recognized as critical drivers of economic growth, employment, and poverty reduction, particularly in developing and emerging economies. MSEs constitute a significant portion of businesses worldwide, accounting for over 90% of all firms and contributing to over 50% of employment (World Bank, 2023). In Sub-Saharan Africa, including Ethiopia, MSEs are increasingly seen as essential for fostering inclusive growth, reducing rural-urban disparities, and improving livelihoods (Abera, 2012; Admasu, 2012).

The Ethiopian government has prioritized MSE development through various policies and strategies, including the Micro and Small Enterprises Development Strategy (MSEDS) and the Growth and Transformation Plans (GTP I and II) (Ministry of Trade and Industry (MoTI, 1997). These initiatives aim to stimulate entrepreneurship, generate employment opportunities (particularly for youth and women), and promote equitable economic development. However, despite these efforts, a significant number of MSEs in Ethiopia continue to face challenges such as low productivity, informality, and survivalist modes of operation, which hinder their ability to scale up and transition into larger enterprises (Daniel, 2007; Tiruneh, 2011).

MSEs are crucial for fostering competition and innovation, and they play a key role in structural economic shifts by replacing declining industries with emerging ones (Hailay, 2003; Solomon, 2004). Despite this potential, many MSEs remain trapped in cycles of stagnation. Access to finance is a critical challenge, as detailed by Yirgalem and Viswanadham (2015), who note issues such as underdeveloped financial institutions, high collateral requirements, and complex loan procedures. Other significant obstacles include a lack of skilled personnel, inadequate infrastructure, limited market access, and insufficient policy support (Werotew, 2010). Additionally, environmental factors, economic instability, political uncertainty, legal barriers, and technological limitations play major roles in impacting the performance and resilience of these enterprises (Lie and Berouk, 2018).

Growth in MSEs is influenced by a combination of firm-specific resources and external conditions such as market dynamics (Nordhagen et al., 2021). Entrepreneurial ambition and innovation are essential for navigating these factors. However, for many small enterprises in Ethiopia, particularly in underserved towns like Enticho, the pathway to growth remains uncertain and often unsustainable. Some MSEs dissolve shortly after establishment due to internal inefficiencies and external pressures, while others struggle to remain stagnant for years without measurable progress (Eshetu and Zeleke, 2010).

Given this context, there is a clear need for localized, evidence-based research that explores the specific factors influencing the growth and sustainability of MSEs in smaller urban centers such as Enticho Town. Smaller towns face distinct structural and institutional constraints that are not well captured in national-level studies. Understanding these local dynamics is crucial for designing targeted interventions that can foster inclusive growth, reduce unemployment, and improve the resilience of MSEs in emerging regions of Ethiopia.

1.2. Statement of the Problem

Micro and small enterprises (MSEs) are widely acknowledged as pivotal contributors to employment generation, income distribution, innovation, and local economic development. However, their growth and sustainability in Ethiopia are notably constrained, particularly in smaller towns like Enticho. Although the Government of Ethiopia has established policies such as the National Micro and Small Enterprise Development and Promotion Strategy (MoTI, 1997), these initiatives have not consistently resulted in meaningful improvements for many MSEs at the local level.

Research has documented various challenges faced by MSEs in Ethiopia. For instance, studies by Yirgalem and Viswanadham (2015) and Werotew (2010) indicate that financial constraints, including limited access to credit and stringent collateral requirements, hinder MSE growth. Furthermore, internal weaknesses such as a lack of skilled labor, inadequate financial management practices, and poor market linkages are regularly reported. Externally, MSEs grapple with inadequate infrastructure, limited institutional support, political instability, and insufficient enforcement of supportive policies.

In smaller towns like Enticho, these challenges are exacerbated by the town's peripheral location, post-conflict recovery context, and an underdeveloped business ecosystem. Observations indicate that some MSEs have dissolved due to their inability to navigate these internal and external barriers. Others remain stagnant, often operating in survival mode without significant growth or innovation, underscoring a misalignment between national policy frameworks and the real on-the-ground challenges faced by MSE operators.

While substantial research has been conducted on MSE dynamics in larger Ethiopian urban centers such as Addis Ababa, Mekelle, and Bahir Dar, there is a limited empirical focus on smaller towns, resulting in a critical knowledge gap. This lack of context-specific data restricts the ability of policymakers, development agencies, and local governments to devise effective support mechanisms that address the unique needs of MSEs in such environments.

Furthermore, the interaction between internal factors (such as entrepreneurial characteristics, business practices, and innovation capacity) and external factors (including finance, infrastructure, and market access) remains inadequately explored in the context of Enticho. This study intends to address these gaps by investigating the underlying causes of growth stagnation, failure, or limited resilience among MSEs in the town.

By identifying and analyzing the unique determinants of MSE growth and sustainability in Enticho, this research aims to fill a significant void in literature. It also responds to the pressing reality that some enterprises have exited the market while others persist without meaningful progress. Ultimately, this study seeks to support evidence-based policy formulation and targeted interventions that align with local realities.

1.3 Objectives of the Study

1.3.1 General Objective

- To examine the key internal and external determinants influencing the growth and sustainability of MSEs in Enticho Town, Tigray, Ethiopia.

1.3.2. Specific Objectives

- To identify internal and external determinants influencing the growth, performance and sustainability of MSEs in Enticho Town.
- To evaluate the relative contribution of internal and external factors to growth of MSEs.
- To identify and analyze the common challenges contributing to the stagnation MSEs and recommend interventions that could enhance their growth and sustainability.

1.4. Research Questions

Main Research Question

- What are the key internal and external factors influencing the growth and sustainability of micro and small enterprises in Enticho Town, Ethiopia?
- What are the common challenges that cause MSE stagnation or failure in the local context?
- What main management practices are impacting MSE sustainability in Enticho?
- What role does access to finance play in MSE growth in Enticho?
- What policies or institutional interventions could improve the growth and sustainability of MSEs in Enticho?

1.5. Research Hypotheses

Hypothesis 1: Internal Factors

H1a: Entrepreneurial characteristics (such as education and experience) have a positive effect on the growth of micro and small enterprises in Enticho Town.

H1b: Better business management skills are positively associated with the sustainability of MSEs.

H1c: Higher innovation capacity positively influences the growth and survival of MSEs.

Hypothesis 2: External Factors

H2a: Access to finance significantly and positively affects the growth of MSEs.

H2b: Availability of adequate infrastructure positively impacts the sustainability of MSEs.

H2c: Institutional support and favorable policy environment are positively associated with the growth and long-term survival of MSEs.

1.6. Significance of the Study

The findings of this research were expected to be valuable in several important ways. Firstly, micro and small enterprises operating in Enticho Town, along with their stakeholders, benefited from a clearer understanding of the key factors that influenced their growth and sustainability. By identifying these determinants, entrepreneurs were better positioned to take informed actions to overcome challenges and leverage opportunities for development. The study particularly focused on the growth and capacity building of entrepreneurs in micro enterprises, an area often overlooked despite its critical importance in unlocking the sector's full potential.

Secondly, the research contributed to academic literature by providing empirical evidence specific to the context of Enticho Town. This served as a foundation for future studies aimed at exploring micro and small enterprise development in similar emerging economies and small towns, thereby enriching the broader knowledge base on MSE growth dynamics.

Finally, the study offered practical insights for policymakers, government agencies, and development practitioners involved in the formulation and implementation of policies aimed at strengthening the MSE sector. The evidence generated informed the design of targeted support programs and interventions that effectively addressed local challenges and promoted sustainable enterprise growth. By enhancing understanding of how to empower entrepreneurs, the study

contributed to broader economic development goals both nationally and within Enticho Town through the creation of vibrant, resilient micro and small enterprises.

1.7. Limitations and Delimitation of the Study

This study analyzes the determinants of growth and sustainability among micro and small enterprises (MSEs) in Enticho Town, based on insights from a sample of 155 respondents. Although a larger sample size could have enriched the depth and generalizability of the findings, the research was constrained by time, financial resources, and logistical factors. Consequently, while the results provide valuable insights, they may not comprehensively reflect the diverse experiences of MSEs in other regions or contexts.

The scope of this research is specifically focused on identifying key internal and external factors influencing MSE growth in Enticho. While there are numerous pertinent issues within the MSE sector, this study concentrates on select determinants, including financial access, workplace conditions, marketing challenges, infrastructural barriers, government policy, internal management practices, and entrepreneurial characteristics. Furthermore, the investigation is limited to officially registered MSEs under the local micro and small enterprise development office, thus excluding informal or unregistered businesses from the analysis.

1.8. Organization of the Paper

This thesis is organized into five chapters. Chapter One presents the background problem statement, objectives, research questions, significance, scope, and organization of the study. Chapter Two reviews theoretical foundations and empirical literature related to MSE growth. Chapter Three describes research design, sampling methods, data collection instruments, variable measurements, and analytical techniques. Chapter Four presents the results and discussions, including descriptive statistics, diagnostic tests, correlation, and regression analyses. Chapter Five provides the summary of findings, conclusions, and recommendations for policy and practice.

CHAPTER TWO: LITERATURE REVIEW

2.1 Theoretical Review Literature

2.1.1 Definition of Micro and Small Enterprises

The MSE sector's high employment potential at a relatively low capital cost remains a significant advantage, with labor intensity exceeding that of large enterprises (World Bank, 2023). MSEs serve as a breeding ground for entrepreneurship, often fueled by individual creativity and innovation (OECD, 2017). The role of MSEs in a country's economic and social development is well-documented (Abay *et al.*, 2014).

Globally, the MSE sector is recognized for its contribution to socio-economic objectives, including employment generation, output growth, export promotion, and entrepreneurial development (Abay *et al.*, 2014). MSEs account for a substantial portion of GDP and total employment in various economies. For example, in low-income countries, small and informal enterprises contribute significantly to GDP and employment.

In the European Union, MSEs constitute a large percentage of all businesses and employ a considerable number of people (European Commission, 2020). The MSE sector is vital in developing countries, serving as a key strategy for poverty reduction and a foundational element for sustainable economic growth and innovation (Beck and Demirguc-Kunt, 2006). Supporting MSE development yields benefits in both poverty alleviation and inclusive growth (Mead and Liedholm, 1998).

For MSEs to thrive, they require a supportive business environment, adequate infrastructure, access to financing, business advisory services, and market information. Common challenges include weak entrepreneurial skills, limited market access, and deficiencies in accounting, production management, and strategic planning (OECD, 2017; UNCTAD, 2021). As these enterprises grow, global market connectivity, export opportunities, and value chain integration become critical.

Coordinated efforts are essential among stakeholders, including financial institutions, service providers, and local business associations, to create a supportive ecosystem for MSE growth (Yodit, 2015).

In Ethiopia, the lack of a uniform national definition for MSEs has led to inconsistencies in classification, policy design, and program implementation. Different government bodies use varying criteria, such as employment size and capital investment (CSA, 2011). The current definition incorporates human capital (number of employees) and asset size to address the limitations of earlier classifications.

Table 1. The new MSE definition (2018)

Type of Enterprise	Sector	Human Power	Total Asset
Micro enterprise	Industry	≤5	≤100,000 (Birr)
Micro enterprise	Service	≤5	≤50,000 (Birr)
Small enterprise	Industry	<6-30	≤1.5 million (Birr)
Small enterprise	Service	<6-30	≤500,000 (Birr)

Source: Enticho Town MSEs development office

In case of ambiguities regarding the use of total assets or the number of employments, total assets shall serve as the main criteria. According to (Federal Negarit Gazette Regulation No. 373/2016), the definition of small and medium manufacturing industries is:

Manufacturing: a mechanical, physical, or chemical conversion of a raw material, substance, or component by using machines, equipment or labor into products that are worth better value.

Small manufacturing industry: an industry having total capital, excluding building, from Birr 100,001 to Birr 1,500,000 (One Hundred Thousand One Birr to One Million Five Hundred Thousand Birr) in the manufacturing sector and engages from 6 to 30 workers, including the owner, his family members and other employees.

Medium manufacturing industry: an industry having total capital, excluding building. From Birr 1,500,001 to Birr 20,000,000 (One Million Five Hundred Thousand One Birr to Twenty

Million Birr) in the manufacturing sector and engages from 31 to 100 workers, including the owner, his family members and other employees.

2.1.2 Operational Definition of Terms

Factors: In this study, *factors* refer to both internal and external conditions that influence the performance, growth, and sustainability of MSEs. These include financial, infrastructural, managerial, policy-related, and entrepreneurial elements within the business environment.

Small Enterprise: According to the Central Statistical Agency (CSA, 2011), a small enterprise in the industrial sector is defined as a business that operates with between 6 and 30 employees and/or has a paid-up capital or total assets of more than 100,000 Birr but not exceeding 1.5 million Birr.

Medium Enterprise: A medium enterprise, as defined by CSA (2011), refers to an industrial sector enterprise that operates with more than 30 employees and/or has total assets exceeding 1.5 million Birr, excluding high technology and consultancy service firms.

Business: A business is an organization or economic system in which goods or services are produced and exchanged for money or other goods and services, typically for the purpose of generating profit.

Enterprise: An enterprise refers to the initiative and risk undertaken by individuals or groups to establish, invest in, and manage a business operation. It emphasizes entrepreneurial actions such as innovation, risk-taking, and value creation.

2.1.3 The Concept of Growth

In the context of this study, *growth* refers to the measurable progress or expansion of small and medium enterprises over time. Since growth is a multidimensional concept, it is assessed using various indicators. However, there is no universally accepted single measure of enterprise growth (Davidsson *et al.*, 2006, cited in Soini and Veseli, 2014).

Sales growth and employment growth are among the most frequently used indicators due to their simplicity and relevance. Employment growth is especially significant in developing countries, where governments prioritize job creation. Sales figures, while useful, can be affected by inflation,

currency fluctuations, and inter-industry variability, making it harder to compare across contexts. Other indicators, such as profit, total assets, market share, and production output, are also used though less consistently due to variation by industry, capital intensity, and time horizon.

In developing countries, MSEs often compete on price rather than value-added, leading to generally lower productivity levels compared to those in developed countries. As productivity is closely tied to living standards, value addition should also be recognized as a key indicator of sustainable growth (Lind, 2005, cited in Grimsholm and Poblete, 2010).

2.1.4. MSE Growth in the Ethiopian Context

In Ethiopia, the growth of MSEs is typically conceptualized through two primary lenses: transitional growth and internal competency growth. These two pathways reflect both structural progression and qualitative improvement within the enterprise ecosystem.

1. Transitional Growth

Transitional growth refers to the structural advancement of an enterprise through formal stages, typically from a micro enterprise to a small enterprise, and subsequently from small to medium-sized status. This form of growth is usually associated with increases in capital investment, workforce size, production capacity, and formal registration status (CSA, 2011).

Transitional growth is encouraged by policy mechanisms that define clear benchmarks for moving between categories. For example, the reclassification from micro to small may be based on surpassing a threshold of paid-up capital, number of employees, or total asset value (MoTI, 2011). This upward movement not only reflects business success but also grants access to new support systems, such as credit facilities, tax incentives, and advanced training programs.

2. Internal Competency Growth

Not all MSE growth is reflected in size or scale. Internal competency growth refers to improvements within the existing size bracket, focusing on enhanced efficiency, competitiveness, and sustainability. Enterprises that undergo internal growth may not increase significantly in size but show marked progress in operational management, innovation, product quality, market diversification, and customer retention (Zhou and de Wit, 2009; Grimsholm and Poblete, 2010).

This type of growth is especially critical in the Ethiopian context, where many MSEs operate in resource-constrained environments and face infrastructural and financial limitations. Rather than scaling up, these enterprises may prioritize building internal resilience and adapting to market conditions, which are equally vital for long-term sustainability (Yirgalem and Viswanadham, 2015).

Government Support Across MSE Growth Stages

Recognizing the importance of MSEs in economic development and job creation, the Ethiopian government has implemented a staged development framework to support enterprises at different levels of maturity. According to the Central Statistical Agency (CSA, 2011) and Ministry of Trade and Industry (MoTI, 2011), MSEs in Ethiopia pass through four major stages, each with tailored interventions and support mechanisms:

a) Start-up Stage

At this initial stage, the focus is on enterprise formation and stabilization. The government provides support aimed at helping entrepreneurs overcome entry barriers. Key interventions include:

- Technical and vocational skill development
- Facilitation of access to raw materials and working premises
- Provision of infrastructure such as electricity and water
- Basic business training and awareness of market dynamics (MoTI, 2011)

b) Growth Stage

Once an enterprise becomes operational, the next focus is on formalization and market integration. Enterprises are supported to: -

- Obtain Certificates of Competency (COC)
- Adopt industry standards and best practices
- Gain access to local markets and procurement opportunities
- Benefit from tax holidays and technical support (CSA, 2011)

c) Expansion Stage

At the expansion stage, enterprises seek to scale operations, increase efficiency, and diversify markets. Government and partner institutions offer:

- Technological upgrading and innovation facilitation
- Managerial and leadership training
- Support for obtaining trademarks and legal protections
- Access to centralized sales centers and e-commerce platforms
- ICT tools for business process optimization
- Venture capital and outsourcing linkages (Yodit, 2015; Fetene, 2010)

d) Maturity Stage

Enterprises that reach the maturity stage are expected to contribute meaningfully to national development goals, including industrialization and export diversification. At this level, the government focuses on:

- Support in advanced product design and branding
- Trade facilitation and access to regional and international markets
- Partnerships with large firms or foreign investors
- Incentives for further expansion and industrial clustering (Habtamu *et al.*, 2013; MoTI, 2011)
- Implications of the Staged Growth Model

This multi-stage support framework reflects Ethiopia's strategic approach to MSE development, aiming to nurture businesses from inception through to national and global relevance. It acknowledges that not all businesses will follow a linear path to growth and that both qualitative improvements and structural advancements are essential for a robust MSE ecosystem (Solomon, 2004).

However, effective implementation of this model still faces challenges, including limited financial access, bureaucratic delays, lack of skilled labor, and underdeveloped infrastructure, particularly in rural towns such as Enticho. Therefore, localized research, like the present study, plays a crucial

role in identifying context-specific barriers and opportunities for enhancing MSE growth and sustainability (Werotew, 2010; UNIDO, 2019).

2.2. Major Internal and External Factors Determining the Growth of MSEs

Micro and Small Enterprises (MSEs) are recognized as critical engines of employment generation, income diversification, and inclusive economic development in Ethiopia (CSA, 2011; MoTI, 2011). Their success, however, is not guaranteed. A complex interplay of internal (firm-level) and external (environmental) factors shapes their growth trajectories. Understanding these determinants is essential for designing effective policy interventions and entrepreneurial support systems. This section synthesizes key literature, particularly studies relevant to the Ethiopian context, to map the main internal and external factors influencing MSE growth.

2.2.1. Internal Factors

1. Dynamic Capabilities and Innovation

Dynamic capabilities the ability of firms to adapt, integrate, and reconfigure resources are crucial for survival and growth, particularly under uncertainty (Teece, 2007). In Ethiopia, Gebremariam *et al.* (2017) observed that micro-loans in Tigray enabled incremental innovations, leading to 25% average revenue growth over two years. Similarly, Gobakhloo and Tang (2015) found that MSEs that engage in structured innovation processes (such as regular product updates) demonstrate superior performance and growth compared to non-innovative firms.

2. Human Capital and Leadership

The entrepreneurial capacity of the owner–manager plays a decisive role in MSE growth. According to Wodajo, Alemu, and Tadele (2020), firms in Addis Ababa led by individuals who received leadership and business training reported 15% higher employment growth annually. Dahmen and Rodríguez (2014) further emphasized that when financial and digital literacy training is combined, entrepreneurs are better equipped to manage budgeting and expand their customer base, resulting in lower failure rates.

3. Financial Management Capacity

Efficient internal financial systems are essential for resource planning and sustainability. Batisa (2019) reported that MSEs in Ethiopia that utilized simple financial dashboards had a 20% higher loan repayment rate and stronger sustainability indicators. This suggests that even low-tech financial tools can significantly enhance an MSE's financial health and access to credit.

4. Organizational Networks and Culture

Organizational culture and external networking are key enablers of growth. Kristiansen, Furuholt, and Wahid (2003), in their study on MSE collaboration in Indonesia, found that network participation boosts collective learning and reduces operational costs. This insight was mirrored in Ethiopia, where Chege and Wang (2020) observed that MSEs involved in business associations in Gondar experienced a 30% increase in joint procurement, leading to reduced input costs and stronger market positioning.

2.2.2. External Factors

1. Financial Ecosystem

Access to diverse financial services is a persistent challenge for MSEs in Ethiopia. While traditional banks often require high collateral, microfinance institutions and digital platforms have begun to fill this gap. Gebremariam *et al.* (2017) highlighted the importance of microfinance in meeting working capital needs. Beck and Demirguc-Kunt (2020) also pointed to the growing relevance of fintech in broadening financial inclusion, particularly in sub-Saharan Africa.

2. Infrastructure and Market Access

Infrastructure plays a direct role in improving productivity and access to markets. Addis (2019) found that firms in Addis Ababa with stable electricity (i.e., fewer than two outages per month) demonstrated a 12% increase in production capacity. Similarly, Amare (2020) showed that proximity to paved roads in Oromia and Tigray reduced transport and distribution costs by 18%, contributing to stronger profit margins and customer outreach.

3. Regulatory and Institutional Support

Government policy and institutional efficiency are pivotal for MSE success. OECD (2019) noted that Ethiopia's introduction of one-stop business registration centers reduced startup time by up to 40%. Despite this progress, inconsistent implementation at regional levels continues to hinder MSE formalization and growth (MoTI, 2011).

4. Socio-Political Climate and Corruption

Political stability and transparency are foundational to entrepreneurial confidence. Shitaye (2022) found that perceived corruption in regional administrations negatively impacts MSE innovation, as resources are often diverted toward informal payments. On average, such perceptions were linked to a 10% decline in innovation-related investment among surveyed MSEs.

2.3. Empirical Evidence

Grounded on the previous findings of earlier researchers, the factors affecting MSE business growth were categorized into the following categories: (1) Entrepreneur (Kristiansen, *et al.*, 2003; and Rutherford and Oswald, 2000), (2) Internal management and related factors (Chege and Wang, 2020), (3) Customers and markets (James *et al.*, 2005), (4) Access to finance (Chege and Wang, 2020; and Kristiansen, *et al.*, 2003). (5) Infrastructure (Rogerson, 2000), (Darroch and Clover, 2005). (6) Workplaces (Dahl and Sorenson, 2007), Forth *et al.*, 2004). (7) Government policy (Meyer, 2007).

2.3.1. Determinants of Growth

Entrepreneurship

At first glance then, we may have the beginnings of a definition of entrepreneurship. However, detailed study of both the literature and actual examples of entrepreneurship tends to make a definition more difficult, if not impossible. Consider, for example, the degree to which entrepreneurship is synonymous with 'bearing risk,' 'innovation,' or even founding a company. Each of the terms described above focuses upon some aspects of some entrepreneurs, but if one has to be the founder to be an entrepreneur, then neither Thomas Watson of IBM nor Rey

Kroc of McDonald's will qualify; yet few would seriously argue that these individuals were not entrepreneurs.

Although risk bearing is an important element of entrepreneurial behavior, many entrepreneurs have succeeded by avoiding risk where possible and seeking others to bear the risk. As one extremely successful entrepreneur has said, 'My idea of risk and reward is for me to get the reward and others to take the risks.'

Creativity is often not a prerequisite for entrepreneurship either. Many successful entrepreneurs have been good at copying others, and they qualify as innovators and creators only by stretching the definition beyond elastic limits.

There are similarly many questions about what the psychological and social traits of entrepreneurs are. The same traits shared by two individuals can often lead to vastly different results: successful and unsuccessful entrepreneurs can share the characteristics commonly identified. As well, the studies of the life paths of entrepreneurs often show decreasing 'entrepreneurship' following success, which tends to disprove the centrality of character or personality traits as a sufficient basis for defining entrepreneurship. Therefore, we are left with a range of factors and behaviors, which identify entrepreneurship in some individuals. All of the above tends to reinforce the view that it is difficult, if not impossible, to define what an entrepreneur is, and that the word itself can be best used in the past tense to describe a successful businessperson.

Measuring Entrepreneurship

Despite the above, there remains a powerful impulse, particularly among enterprise development practitioners, to measure entrepreneurship in some way. These measurement attempts can range from simple checklists through to complex and detailed computer programs. This need for a definition and measure of entrepreneurship is because, however defined, the entrepreneur is the key to the successful launch of any business.

He or she is the person who perceives the market opportunity and then has the motivation, drive and ability to mobilize resources to meet it. The major characteristics of entrepreneurs that have been listed by many commentators include the following.

a. Self-Confident and Multi-Skilled: The person who can make the product, market it and count the money, but, above all, they have the confidence that lets them move comfortably through uncharted matters. Confident in the face of difficulties and discouraging circumstances.

b. Innovative Skills: Not an 'inventor' in the traditional sense but one who is able to carve out a new niche in the marketplace, often invisible to others.

c. Entrepreneurs Enter into Business with Different Motives: Some will enter because they have identified a market opportunity and there is a need to utilize their skills and others to generate income, while others will enter business because of the desire for independence to be one's own boss (McCormick and Pedersen, 1996; Dutta, 2009). Other factors that may attract or pull an entrepreneur into business are financial incentives, a hobby, previous work experience and family culture acting as a role model and, on the other hand, factors such as lack of employment, retrenchment, retirement or death of a family are likely to push one into business.

The characteristics of the entrepreneur are widely accepted as vital ingredient that influences growth. Research indicates that characteristics of the entrepreneur that are associated with growth of the enterprise include motivation, previous management experience and demographics of the entrepreneur (age, education).

Based on enterprise experience, the entrepreneurs will come up preparing business plan to achieve growth as planned (Brush *et al.*, 2009). The quality of human resources, managing the rate of growth and carefully managing customer relationships are critical to pursue the business plan (Brush *et al.*, 2009).

Internal management: - Managerial competencies are sets of knowledge, skills, behaviors and attitudes that contribute to personal effectiveness (Hellriegel *et al.*, 2008). Managerial competencies are very important to the survival and growth of new MSEs. Martin and Staines (2008) found that lack of managerial experience and skills are the main reasons why new firms fail.

A successful manager is one who understands his business environment, both internal and external. He or she understands the situation and is prepared, equipped and ready to handle any instability that derives from the environment. These include competitors, suppliers, customers, government agencies, labor organizations, and financial institutions, etc. (Hisrich *et al.*, 2010).

Managers have multifunctional roles. He/she oversees planning and implementation, production, human resources (recruiting and firing of employees), marketing and finances (Stokes, 1995, Stokes and Wilson, 2010). All these demands his attention simultaneously, and in most cases he/she ends up tackling the most immediate first, which may mean overlooking a less obvious but more significant problem, which has a critical impact. Even with all these responsibilities and challenges, most of the owner managers of MSEs were not trained or poorly trained or unskilled in the various disciplines.

Access to Finance: All business ventures regardless of size require financial resources to start their enterprises and to fund growth. Lack of access or availability can be a constraint on business growth (Cassar, 2004). Whether business owners can access adequate and appropriate finance to grow is a particular concern for policymakers. New MSE can be financed from organizers' own wealth and/or by accessing external sources of finance, whether from 'informal' sources such as family and friends, or from 'formal,' market-based sources such as banks, venture capitalists and private equity firms.

Once businesses are trading, further development can be financed using retained profits. Orser (2000) noted that lack of information about alternative sources of finance and the inability of MSEs to evaluate financing options were some of the major problems facing MSEs. Mambula (2002) singled out a lack of access to finances as the main bottleneck facing MSE growth.

Workplaces: Location has impacts on the market potential and growth opportunities of new firms. Geographical proximity to either critical buyers or suppliers produces a form of enhanced environmental scanning that enables new firms to more easily identify and exploit growth opportunities in the market. This impacts on the market prospects of new firms (Dahl and Sorenson, 2007).

The size of the workplace is measured in terms of the number of employees and the number of materials and equipment. Because of enough workplaces create good relations with employees and appropriate placement of materials. These increase the life of materials and equipment, time management and suitable workplace. Then workplaces are an important determinant of growth of MSEs (Kersley *et al.*, 2006 cited in Forth *et al.*,2004).

Government Policy - The World Bank researchers have argued that constraints that are faced by the government rules and regulations for the growth of MSEs are complex tax systems. (World Bank.2000). New MSEs must obtain registration licenses and pay taxes (Hashi,2001). Most new MSEs also perceive that they do not get enough support from the government. And According to Transparency International (2008), corruption is highly growing both in the public and private sector in developing countries like Ethiopia.

Government laws and regulation bureaucracy are the main challenges in MSEs. Bureaucracy is a complex procedure or system that leads to inefficiencies, hinders growth, and frustrates customers, staff, and sellers, making sure that MSEs are delayed in reaching their final objectives. Bureaucracies are established at two levels within an enterprise and at the governmental level through legislation and a set of laws (Meyer, 2007).

Marketing:

Demand for a product establishes a market for it. If the demand is high, the market becomes energetic. The opposite also applies that a decline in demand may result in a shrinking market. Demand for different products will affect other products, depending on the nature of their relationship, whether complementary or substitutive. If they are complementary, then an increase in demand for one product will cause an increase in demand for the other. If they are substitutes, an increase in demand for one causes a decline in the other.

According to Brush *et al.* (2009), marketing is another challenge for MSEs to grow, since many businesses confront challenges establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers, and undertaking constant product development to sustain sales. MSEs generally do not have the knowledge or information about other markets; thus,

this limits their ability to market their products to larger groups of customers and expand their business.

Access to Public Infrastructure: Access to public infrastructure includes water, electricity, serviceable roads, telecommunication, telephones, electronic media, and postal services, all of which are crucial for business start-up, development, and growth (Rogerson, 2000). Limited access to public infrastructure services is a major constraint to MSEs' survival (Darroch and Clover, 2005).

2.4. Conceptual Framework

The synthesis may be called a model or conceptual framework, which essentially represents an 'integrated' way of looking at the problem (Lieberman, 1999). Such a model could then be used in place of a theoretical framework. Thus, a conceptual framework may be defined because of bringing together several related concepts to explain or predict a given event or give a broader understanding of the phenomenon of interest or, simply, of a research problem. Since business growth is influenced by both internal and external factors, internal factors, namely (entrepreneurship and internal management factors) and external factors include (access to finance, infrastructure, workplaces, marketing and government policy) will be considered for the study based on suitability with the Ethiopian context.



Figure 1. Conceptual framework adapted from (Yohans, 2010)

The above models indicated both internal and external factors affecting the growth of MSEs. The internal factors are internal management and entrepreneurship, whereas, the external factors, such as access to finance, workplace, government policy, market and infrastructure.

Table 2. Conceptual Framework for Determinants of MSE Growth and Sustainability

Factors	Key Variables	Expected Influence on MSE Growth and Sustainability
Internal Factors	<ul style="list-style-type: none"> ▪ Entrepreneur characteristics (age, education, experience) ▪ Business skills ▪ Innovation capacity ▪ Financial management ▪ Motivation and vision 	These factors shape the firm's internal capacity to grow, adapt, and remain competitive.
External Factors	<ul style="list-style-type: none"> ▪ Access to finance (credit, collateral, interest rates) ▪ Infrastructure (electricity, roads, internet) ▪ Market access (customers, competition) 	These factors create an enabling or constraining

	<ul style="list-style-type: none"> ▪ Institutional support (training, licensing) ▪ Policy environment (taxation, regulations) 	environment in which the MSE operates.
Outcome Variables	<ul style="list-style-type: none"> ▪ Business growth (sales, employees, market share) ▪ Sustainability (years in operation, ability to recover from shocks) 	These reflect the performance and long-term viability of MSEs.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Description of the Study Area

The study was conducted in Enticho (also spelled Inticho), a town located in the Central Zone of the Tigray Regional State, approximately 181 kilometers north of Mekelle, the regional capital. Situated at an elevation of 2,076 meters above sea level, Enticho serves as the administrative center for the surrounding Enticho woreda, a district rich in historical, cultural, and geographical significance. The woreda borders Mereb-Lehe to the west, Adwa to the southwest, Werie-Lehe to the south, and the Eastern Zone to the east. The area is accessible by road from Mekelle via the A2 highway, with a typical travel time of under four hours. Enticho is known for its historical landmarks, including Amba Senayt, the site of the Battle of Baçente in 1542, and the Ancient Debre Damo Monastery, along with numerous rock-hewn churches carved from the region's distinctive Enticho Sandstone.

Economically, the woreda is primarily dependent on subsistence agriculture and livestock, though recent years have seen growth in micro and small-sized enterprises (MSEs) in trade, construction, and services. Enticho also features key infrastructure, such as water reservoirs like Belesat and Dibdibo, which support the local population. Despite ongoing challenges related to infrastructure, finance access, and the impacts of regional conflict, the town remains a culturally vibrant area where traditional practices, such as Ethiopian coffee ceremonies, are actively maintained. These characteristics make Enticho a highly relevant and contextually rich setting for examining MSE development and socio-economic recovery in post-conflict rural Ethiopia.

3.2 Research Approach

The objective of this study was to examine the key factors influencing the growth of MSE in Enticho Town, Central Tigray. This study employed quantitative, cross-sectional research design, collecting data at a single point in time from registered MSEs in Enticho Town. A cross-sectional approach is appropriate

for examining relationships among variables reflecting current enterprise conditions. According to Creswell (2003), the choice of research design depends on the nature of the research problem and the type of data required.

A quantitative approach was considered appropriate, as it allowed for the measurement and analysis of relationships among variables using statistical techniques such as descriptive statistics, correlation analysis, and regression modeling. This approach enabled the researcher to test hypotheses and draw general conclusions from a sample to the broader population (Hittleman and Simon, 1997).

3.3. Research Design

A combination of descriptive and causal (explanatory) research designs was used in the study. Descriptive research was used to systematically describe the characteristics and conditions of MSEs, while causal research focused on assessing cause-and-effect relationships between variables (John *et al.*, 2007).

- The descriptive aspect provided insights into the status and challenges faced by MSEs in Enticho.
- The causal aspect examined the extent to which independent variables (such as access to finance, infrastructure, and human capital) influenced the growth of MSEs.

Additionally, the study utilized a cross-sectional design, in which data was collected at a single point in time. This design was selected due to time and resource limitations. As noted by Ruane (2006), cross-sectional studies are effective for descriptive and correlational research when longitudinal data collection is not feasible.

3.4. Target Population and Sampling Techniques

3.4.1 Target Population

The target population for this study consisted of all MSEs formally registered and operating in Enticho Town, Central Tigray. According to records obtained from the Enticho Town Micro and Small Enterprises (MSE) Office, the total number of licensed MSEs registered as of August 30,

2024, was 1,194. These enterprises were engaged in sectors such as manufacturing, construction, urban agriculture, trade, and services.

3.4.2 Sampling Technique

Given the large population and constraints in time and resources, a probability sampling technique was employed. Specifically, a proportional stratified random sampling method was used to ensure fair representation across different sectors, because MSEs differ systematically by sector.

The population was divided into five strata based on sector classification:

- Manufacturing
- Construction
- Urban agriculture
- Trade
- Services

From each stratum, MSEs were randomly selected in proportion to the size of the stratum. This technique minimized sampling bias and increased the representativeness of the sample. As noted by Janet (2004), stratified sampling enhances accuracy when dealing with heterogeneous populations.

3.4.3 Sample Size Determination

The sample size was determined based on proportionate sampling using Yamane's (1967) formula for a finite population, with a 95% confidence level and a 5% margin of error:

The formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where, n= sample size, N= the total size of the population, e = acceptable sampling error, 92.5% confidence level with 7.5% precision. Accordingly, the sample is determined as follows:

Table 3. Sample size determination by sector of the total registered MSEs in Enticho Town

NO	MSEs Enterprises by sector	MSEs/N/	Proportion	Sample Size/n/
1	Manufacturing	501	0.12981	32
2	Trade	157	0.12981	44
3	Constriction	53	0.12981	5
4	Service	281	0.12981	51
5	Urban Agriculture	175	0.12981	23
TOTAL		1194		155

Same sampling proportion (≈ 0.12981) is applied to all strata because the proportionate allocation yields the same ratio across groups relative to population size.

3.4 Data Collection Instruments and Procedures

Data was collected using a structured questionnaire, which included both closed-ended questions and Likert-scale items. The questionnaire was designed to capture relevant information on both internal and external factors affecting the growth of MSEs.

The study compiled questions from multiple validated sources to ensure comprehensive coverage of relevant variables. The questionnaire included multiple-choice items as well as a five-point Likert-scale to assess the level of agreement with statements related to the key determinants of MSE growth.

The Likert-scale ranged from 1 to 5, where:

- 1 = Strongly Disagree
- 2 = Disagree
- 3 = Neutral
- 4 = Agree
- 5 = Strongly Agree

This scale allowed respondents to express the degree of agreement or disagreement with statements about challenges facing MSEs. A response of "Agree" or "Strongly Agree" was interpreted as an indication that the factor posed a significant challenge to MSE growth, whereas responses of "Disagree" or "Strongly Disagree" suggested that the factor was not perceived as a major issue.

Before full-scale data collection, the instrument was pre-tested with a small sample of MSE owners to assess the clarity, reliability, and validity of the questions. Based on the feedback received, necessary revisions were made to improve the overall quality and understanding of the instrument.

To enhance response rates and ensure the accuracy of responses, trained enumerators conducted face-to-face interviews with respondents. Where face-to-face interaction was not feasible, self-administered structured questionnaires were distributed with instructions to ensure consistency in responses.

In addition, secondary data was obtained from the Enticho Town MSE Office and other relevant institutional reports such as MoTI, CSA, and World Bank. These data sources were used to complement and validate the primary data collected through the survey.

Ethical research practice was observed throughout the study. All respondents were fully informed about the purpose of the research, and their voluntary participation was secured through informed consent. The purpose and significance of the study were clearly communicated to participants before data collection.

To protect privacy and confidentiality, no personal identifiers were collected, and responses were recorded anonymously. In all analyses and reporting, only aggregated data was presented. References to individuals were avoided by using general terms such as “respondents” or “participants.” All ethical considerations adhered to the principles of respect, integrity, and non-maleficence.

3.5. Data Analysis Techniques

The collected data were coded, cleaned, and analyzed using SPSS statistical software version 26 program. Descriptive Statistics: Frequencies, percentages, means, and standard deviations were used to summarize the demographic and enterprise characteristics.

3.5.1. Reliability Analysis Using Cronbach’s Alpha

Growth was measured using a composite continuous index created from using indicators of sales, number of employees and profit. To ensure the internal consistency of the measurement

instruments used in this study on MSEs, reliability analysis was conducted using Cronbach's Alpha. This statistical method assesses how closely related a set of items is as a group and is commonly used to evaluate the reliability of multi-item Likert-scale constructs. In the context of MSE research, where data often comes from subjective responses by business owners, managers, or employees, ensuring that the measurement scales are reliable is essential for the validity of the results. Cronbach's Alpha values of 0.70 or higher were considered acceptable indicators of internal consistency. After data collecting, each scale was tested for reliability, and items that weakened the scale were reviewed and removed if necessary.

The reliability analysis shows that all factors in the study demonstrate acceptable to excellent internal consistency, based on Cronbach's Alpha values ranging from 0.714 to 0.972. This indicates that the items within each factor reliably measure the intended constructs. The highest reliability was found in general growth factors ($\alpha = 0.972$), reflecting very strong internal consistency, while the lowest infrastructure factors ($\alpha = 0.714$), still meet the acceptable threshold of 0.70 (George and Mallery, 2003). Other factors like internal managerial ($\alpha = 0.967$), financial ($\alpha = 0.892$), and workplace ($\alpha = 0.861$) also demonstrate high reliability. These results confirm that the measurement scales used are dependable and suitable for further analysis, as supported by Hair *et al.* (2010). This confirms that the instruments used are internally consistent and suitable for further analysis such as correlation, regression, or structural equation modeling. Cronbach's Alpha values were computed using IBM SPSS Statistics Version 26 (Cronbach, 1951).

Table 4 Reliability Statistics using The Cronbach's Alpha Values of the different factors

Factor	Cronbach's Alpha	Reliability Interpretation
General Growth Factors	0.972	Excellent
Internal Managerial Factors	0.967	Excellent
Financial Factor	0.892	Good
Workplace	0.861	Good
Government Policy Factors	0.847	Good
Marketing Factor	0.761	Acceptable
Entrepreneurial Factors	0.744	Acceptable
Infrastructure Factors	0.714	Acceptable

3.6. Model Specification

The regression model was designed to analyze the relationship between the **dependent variable (growth)** and the seven identified **independent variables**.

The general multiple linear regression model used was:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + U_i$$

Where:

- Y_i = Growth of MSE (dependent variable)
- β_0 = Constant term
- X_1 = Access to Finance
- X_2 = Workplaces
- X_3 = Government Policy
- X_4 = Marketing
- X_5 = Infrastructure
- X_6 = Entrepreneurship
- X_7 = Internal Management
- U_i = Error term

This model enabled the researcher to identify which of the independent variables had a statistically significant impact on MSE growth and to what extent.

Composite Scores for Regression Analysis

For each variable (e.g., access to finance, marketing, growth, etc.), multiple related items were included in the questionnaire. The average (mean) of the responses to these items was computed to create a composite score representing the overall perception or status of that variable for each respondent. Following Norman (2010), aggregated Likert constructs can be treated as continuous variables in Ordinary Least Squares (OLS) when reliability is confirmed. These composite scores were then used in the multiple linear regression analysis to examine their effect on the dependent variable (Growth of MSEs).

Table 5. Definition and Measurement of Variables

Variable Name	Definition	Example Survey Statement	Measurement Scale
Growth of MSE (Dependent)	The degree to which the enterprise has expanded in terms of revenue, profit, employees, or customer base	“My business has significantly grown over the past 3 years.”	1 = Strongly Disagree to 5 = Strongly Agree
Access to Finance	Ability of the MSE to obtain financial services (loans, credit, etc.)	“It is easy for my business to access external finance when needed.”	1 = Strongly Disagree to 5 = Strongly Agree
Workplaces	Availability and suitability of physical space for business operations	“My business operates in an adequate and secure workspace.”	1 = Strongly Disagree to 5 = Strongly Agree
Government Policy	Supportiveness of government rules, regulations, and incentives	“Government policies support the growth of my business.”	1 = Strongly Disagree to 5 = Strongly Agree
Marketing	Effectiveness and use of marketing strategies to reach customers	“My business actively promotes its products/services through marketing.”	1 = Strongly Disagree to 5 = Strongly Agree
Infrastructure	Availability of essential infrastructure (e.g., electricity, roads, internet)	“Infrastructure in my area supports the smooth operation of my business.”	1 = Strongly Disagree to 5 = Strongly Agree
Entrepreneurship	Entrepreneurial mindset, innovation, and risk-taking of the owner/manager	“I often introduce innovative ideas or products in my business.”	1 = Strongly Disagree to 5 = Strongly Agree
Internal Management	Quality of internal processes, including planning, staffing, and control	“My business is well managed with clear goals and effective systems.”	1 = Strongly Disagree to 5 = Strongly Agree

Regression Equation:

$$\begin{aligned}
 \text{Growth of MSE} = & -0.210 \text{ (Financial Problem)} + 0.504 \text{ (Financial Problem)} + 0.406 \text{ (Workplace)} - 0.959 \\
 & \text{(Government Factors)} - 0.681 \text{ (Marketing Problem)} - 0.182 \text{ (Entrepreneurial Factors)} + 1.554 \\
 & \text{(Infrastructure Factors)} + 0.271 \text{ (Internal Managerial Factors)} - 0.050 \text{ (Age)} - 0.177 \text{ (Gender)} + 0.060 \\
 & \text{(Education)} + 0.091 \text{ (Ownership of Business Premises)}
 \end{aligned}$$

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1 Demographic Characteristics of Respondents

The study began by analyzing key demographic variables of the respondents to understand the composition of the sample. Respondents provided general information regarding their gender, age, position within the business, and the sector in which their enterprise operates.

Table 6. Gender, Marital Status, and Work Experience of the respondent

Variable	Category	Frequency	Percent (%)	Cumulative (%)	Percent
Gender	Male	81	52.3	52.3	
	Female	74	47.7	100.0	
Marital Status	Single	53	34.2	34.2	
	Married	66	42.6	76.8	
	Divorced	21	13.5	90.3	
	Widowed	15	9.7	100.0	
Work Experience (Years)	< 1 year	14	9.0	9.0	
	1-5 years	39	25.2	34.2	
	6-10 years	37	23.9	58.1	
	> 10 years	65	41.9	100.0	

Source: Survey data, 2025

Gender, Marital Status, and Work Experience of the respondent

The gender distribution of the respondents reveals a relatively balanced representation between males and females. Out of the total 155 individuals surveyed, 52.26% identified as male, while 47.74% identified as female. Notably, none of the respondents selected "Prefer not to say," indicating that all participants were comfortable disclosing their gender identity. This balance in gender participation is valuable, as it supports equitable analysis across other variables, such as education, work experience, and age. It ensures that findings are not skewed by an overrepresentation of anyone's gender group and provides a more inclusive and comprehensive understanding of the population surveyed. This balance is notable, as many workforce-related

studies often show male dominance, particularly in technical or senior roles (ILO, 2022). The near parity observed in this dataset provides a valuable opportunity for comparative gender analysis, as both genders are equally represented across other demographic variables, such as age, education, and work experience.

The study examined the marital status of 155 respondents engaged in micro and small enterprises (MSEs). Out of the total respondents, 66 individuals (42.6%) were married, representing the largest category. This was followed by 53 respondents (34.2%) who were single. Additionally, 21 respondents (13.5%) were divorced, while 15 respondents (9.7%) were widowed. The cumulative percentage shows that 76.8% of the participants were either married or single, indicating that a significant majority of MSE operators fall within these two social categories. This demographic profile may influence key aspects of MSE operation, such as time management, financial decision-making, and business risk tolerance, as supported by previous research (e.g., Nani, 2020; Mensah and Asiedu, 2018).

In relation to work experience, the data indicates that most respondents, regardless of gender, are seasoned professionals. A combined 58.71% reported having more than six years of work experience, with 34.19% having over 10 years. This suggests that both male and female respondents are well established in their careers. These findings are in line with research by the World Economic Forum (2023), which noted that as educational access improves globally, more individuals, especially women, are maintaining longer tenures in the workforce. However, in many regions, women still face challenges in reaching senior positions despite similar levels of experience (Catalyst, 2022). The gender-balanced experience levels in this sample may point to shifting dynamics in the labor market, potentially reflecting increasing gender equity in long-term employment.

Age and Educational Background of the Respondent

When cross-analyzed with age, it is evident that most respondents fall within the 21–40 years age range, accounting for nearly 59.35% of the total (table 6). This aligns with the typical economically active age group, further reinforcing the conclusion that the survey captured a mature, workforce-driven demographic. This aligns with findings from UNESCO (2021), which states that individuals in this age group are most likely to pursue and complete higher education and participate actively

in the labor force. Furthermore, this age range represents a generation more likely to embrace gender equality and diverse work environments, possibly explaining the balanced gender representation observed.

Table 7. Age and Educational Background of the respondent

Variable	Category	Frequency	Percent (%)	Cumulative Percent (%)
Age of Respondent	Under 20 years	11	7.1	7.1
	21-30 years	39	25.2	32.3
	31-40 years	44	28.4	60.6
	41-50 years	33	21.3	81.9
	51-60 years	23	14.8	96.8
	Above 60	5	3.2	100.0
Educational Background	No formal education	2	1.3	1.3
	Primary Education	15	9.7	11.0
	Secondary Education	33	21.3	32.3
	Diploma/Certificate	31	20.0	52.3
	BSc	59	38.1	90.3
	Master	15	9.7	100.0

Source: Survey data, 2025

Educational qualifications

This also reflects a highly skilled group. Most participants reported bachelor's degrees (38.1%), followed by diplomas or postgraduate education (29.7%). This trend is consistent across both genders, suggesting that both male and female respondents have equal access to education and are comparably positioned to compete in skilled labor markets. This level of education, when considered alongside age and experience, reinforces that the dataset represents a professionally competent and balanced population. This mirrors global trends where higher education is increasingly accessible across genders. For instance, OECD (2023) reported that women now outnumber men in tertiary education in many countries. The parity in education observed in this dataset suggests that the gender gap in academic attainment is closing, at least within this sample population. Education is a critical driver for workplace participation and leadership opportunities,

and its equal distribution across genders here points to a promising shift toward more inclusive career pathways.

✚ Type of Business Ownership, Number of Employees, and Ownership of Business Premises of the respondent

The types of business ownership among 155 MSE respondents were assessed, revealing that sole proprietorship was the most prevalent form, with 56 respondents (36.1%) identifying this structure. This highlights that a significant portion of MSEs is individually owned and managed, likely due to the accessibility and lower entry barriers associated with sole proprietorships. Following this, private companies accounted for 43 respondents (27.7%), indicating a considerable presence of formally registered and potentially more structured businesses. Furthermore, cooperatives represented 29 respondents (18.7%), demonstrating participation in collectively owned enterprises. Partnerships were the least common, with 27 respondents (17.4%).

Table 8. Type of Business Ownership, Number of Employees, and Ownership of Business Premises of the respondent

Variable	Category	Frequency	Percent (%)	Cumulative Percent (%)
Type of Business Ownership	Sole proprietorship	56	36.1	36.1
	Partnership	27	17.4	53.5
	Cooperatives	29	18.7	72.3
	Private	43	27.7	100.0
Number of Employees	1-5 employees	84	54.2	54.2
	6-10 employees	61	39.4	93.5
	11-20 employees	10	6.5	100.0
Ownership of Business Premises	Owned	51	32.9	32.9
	Rented	65	41.9	74.8
	Family property	39	25.2	100.0

Source: Survey data, 2025

In total, 72.3% of respondents were involved in sole proprietorships, partnerships, or cooperatives, underscoring the dominance of less formal or smaller-scale ownership models within the MSE sector. This distribution corresponds with prior research emphasizing the prevalence of sole

proprietorships in emerging economies, primarily due to ease of registration and lower operational costs (Adusei, 2016; Mwangi and Kariuki, 2019).

Regarding workforce size, the analysis showed that most MSEs operate with relatively small staff numbers, a pattern consistent with employment structures typical of developing economies. Specifically, 84 businesses (54.2%) employed between 1 and 5 employees, indicating that more than half of the respondents are micro-enterprises. Additionally, 61 businesses (39.4%) had between 6 and 30 employees, reflecting a notable segment of small enterprises with modest workforce expansion. Only 10 respondents (6.5%) reported employment between 31 and 100 employees, with none exceeding 100 employees. The cumulative figure of 93.5% employing 30 or fewer people reinforces the predominance of micro and small enterprises within the sample. These outcomes align with existing literature that points to limited finance, infrastructure, and skilled labor as constraints on MSE growth in developing contexts (Ayyagari, Beck, and Demirguc-Kunt, 2007; World Bank, 2020).

Turning to business premises, the form of ownership was also examined to better understand MSE stability and long-term planning capabilities. Results indicated that the majority, 65 businesses (41.9%), operated from rented premises, suggesting many MSEs may be burdened by ongoing rental expenses that could impact profitability and sustainability. Meanwhile, 51 businesses (32.9%) owned their premises, signifying a degree of stability and potential long-term investment. Additionally, 39 respondents (25.2%) conducted operations on family-owned property, a factor likely to reduce overhead costs and reflect informal business practices common in family-run ventures. The data reveal that 67.1% of MSEs do not own their business premises, possibly reflecting restricted access to capital or credit necessary for property acquisition. This observation is consistent with studies that document the financial challenges many MSEs face in securing owned business space in developing countries (UNCTAD, 2018; Mutezo, 2016).

Business Roles, Activities, and Capital Status of MSE Respondents

The primary business activities of the 155 MSE respondents were assessed to understand the sectoral distribution across the sample. This insight is valuable for grasping the broader economic landscape as well as identifying sector-specific challenges and opportunities. Among the various sectors, service-based enterprises were the most prevalent, with 51 respondents (32.9%) engaged

in activities such as hospitality, repair services, and personal care. This trend aligns with the structure of many urban economies, where service businesses thrive due to relatively low startup costs and high consumer demand. Trading activities followed closely, comprising 44 respondents (28.4%), suggesting robust participation in commercial exchange and retail sectors.

Meanwhile, manufacturing was reported by 32 respondents (20.6%), reflecting a smaller yet significant engagement in value-added production. This limited representation may be attributed to the higher capital, equipment, and regulatory demands associated with manufacturing. In contrast, urban agriculture involved 23 MSEs (14.8%), highlighting efforts in food production even within space-constrained urban settings. Construction was the least represented sector, with only 5 businesses (3.2%), likely due to the specialized skills and formal requirements the sector entails.

Table 9. Business Roles, Activities, and Capital Status of MSE Respondents

Variable	Category	Frequency	Percent (%)	Cumulative Percent (%)
Current Position	Manager	62	40.0	40.0
	Owner and Manager	69	44.5	84.5
	Salesperson	24	15.5	100.0
Main Business Activity	Manufacturing	32	20.6	20.6
	Trades	44	28.4	49.0
	Urban Agriculture	23	14.8	63.9
	Services	51	32.9	96.8
	Construction	5	3.2	100.0
Start-up Capital	< 10,000 Birr	50	32.3	32.3
	10,001–50,000 Birr	55	35.5	67.7
	> 50,000 Birr	40	25.8	93.5
	I don't know	10	6.5	100.0
Current Capital	10,000–100,000 Birr	42	27.1	27.1
	100,000–500,000 Birr	63	40.6	67.7
	500,000–1,000,000 Birr	48	31.0	98.7
	1,000,000–1,500,000 Birr	2	1.3	100.0

Source: Survey data, 2025

Overall, 81.9% of MSEs operated within the services, trade, or manufacturing sectors, underscoring the dominance of urban-oriented and lower-barrier industries. This observation is consistent with prior research that identifies these sectors as more accessible for small businesses in developing countries (Beck and Demirguc-Kunt, 2006; ILO, 2015). In addition to sectoral focus, the roles of respondents within their businesses were explored to assess their level of operational control and strategic influence. Nearly half of the participants, 69 respondents (44.5%) served as both owners and managers, indicating direct involvement in both decision-making and daily operations. A further 62 respondents (40.0%) were managers, implying the presence of delegated leadership roles within some MSEs. The remaining 24 respondents (15.5%) were salespeople, primarily focused on customer interaction and front-line business functions.

Taken together, 84.5% of participants held ownership or managerial roles, reinforcing the reliability of their responses to understand the business's performance and structure. This approach aligns with MSE research methodologies that prioritize data collection from individuals in decision-making positions (Atkins and Lowe, 2019; Storey, 1994).

Moving on to financial structure, the initial capital investment used to start these MSEs varied considerably. The largest segment 55 respondents (35.5%) reported startup capital between 10,001 and 50,000 Birr, indicating that moderate financial input is typical for many entrepreneurs. Additionally, 50 businesses (32.3%) began with less than 10,000 Birr, highlighting a significant proportion of MSEs that were launched with very limited resources, often through personal savings or informal channels.

Meanwhile, 40 respondents (25.8%) reported a startup capital exceeding 50,000 Birr, suggesting access to more substantial funding or financial support, potentially from formal lenders or family wealth. Notably, 10 respondents (6.5%) were unsure of their initial capital, which could point to informal record-keeping or unstructured financial planning during the startup phase. Altogether, 93.5% of MSEs started with 50,000 Birr or less, affirming findings from earlier studies that most MSEs in developing economies begin with minimal capital and operate outside formal financial systems (Beck and Demirguc-Kunt, 2006; Abor *and* Quartey, 2010).

Current capital levels offer further insight into business growth and the financial trajectory since startup. At the time of the survey, the largest group of 63 businesses (40.6%) reported capital in the range of 100,000 to 500,000 Birr, suggesting a transition from microenterprise to small business for a significant number of firms. Another 48 respondents (31.0%) had capital between 500,000 and 1 million Birr, reflecting a more established financial base. At the lower end, 42 businesses (27.1%) maintained capital between 10,000 and 100,000 Birr, potentially indicating slower growth or recent establishment. Only 2 businesses (1.3%) reported capital between 1 million and 1.5 million Birr, pointing to a very limited number of high-capital MSEs within the sample.

In total, 98.7% of MSEs operated with less than 1 million Birr in current capital, underscoring the overall small scale of enterprises surveyed. Nevertheless, the presence of a few better-capitalized businesses suggests potential for upward mobility, especially when MSEs gain access to finance, markets, and business support systems. These results are in line with previous research, which notes that while most MSEs remain small, some do grow significantly over time under favorable conditions (Ayyagari *et al.*, 2007; IFC, 2020).

4.2. Descriptive Statistics of Growth Factors for MSEs in Enticho Town

This section presents descriptive statistics based on respondents' answers to various questions related to the key factors influencing the growth of MSEs in Enticho Town. It also includes an assessment of the current growth status of these enterprises, as perceived by the respondents.

4.2.1. Financial Challenges

The financial challenges faced by entrepreneurs in this study clearly illustrate the critical barriers hindering business growth and sustainability. A predominant issue identified is the shortage of working capital, with 91% of respondents either agreeing or strongly agreeing that this is a major constraint. Working capital, the funds necessary for daily business operations, such as paying suppliers, managing inventory, and meeting payroll, is foundational to the smooth functioning of any enterprise. When entrepreneurs lack sufficient working capital, they may struggle to maintain operations, delay payments, or miss out on growth opportunities, thus limiting their competitive edge in the market.

Table 10. Descriptive Statistics on the Financial Challenge of the respondent

Challenge	Strongly Disagree	Disagree	Can't Decide	Agree	Strongly Agree
Shortage of Working Capital	–	14 (9.0%)	–	68 (43.9%)	73 (47.1%)
Insufficient Credit Institutions	–	36 (23.2%)	12 (7.7%)	60 (38.7%)	47 (30.3%)
High Collateral Requirements	–	–	15 (9.7%)	48 (31.0%)	92 (59.4%)
High Interest Rate	–	–	10 (6.5%)	72 (46.5%)	73 (47.1%)
Complicated Loan Procedures	–	22 (14.2%)	28 (18.1%)	40 (25.8%)	65 (41.9%)

Source: Survey data, 2025

Closely linked to working capital problems is the insufficient availability of credit institutions, reported by nearly 69% of respondents as a significant challenge. This lack of financial institutions offering accessible credit products reflects systemic inadequacies in financial infrastructure, particularly for MSEs that often require tailored financing solutions. The absence of sufficient credit facilities forces many entrepreneurs to rely on informal lending sources, which may have unfavorable terms or be unreliable, thereby exacerbating financial vulnerability.

Perhaps the most critical financial barrier uncovered is the high collateral requirements, agreed upon by approximately 90% of respondents as a restrictive factor. This finding is particularly concerning because many startups and small businesses do not have substantial assets to pledge as collateral, which is traditionally required by formal financial institutions. The inability to meet collateral requirements excludes many entrepreneurs from accessing formal loans, pushing them toward informal and often costly financial alternatives. This aligns with findings in entrepreneurship literature that emphasize collateral demands as a major impediment to credit access in developing economies (Beck and Demirguc-Kunt, 2006).

In addition, high interest rates present a significant challenge, with over 93% of respondents indicating that borrowing costs are excessively burdensome. Elevated interest rates increase the financial strain on businesses, as repayments consume a larger share of cash flow and reduce profits. This can discourage entrepreneurs from seeking loans altogether, limiting their capacity to invest in new equipment, technology, or market expansion. The high cost of credit can also

contribute to higher rates of business failure, particularly among startups with limited financial buffers.

Moreover, complicated loan procedures were identified by around 68% of respondents as a major obstacle. Complex application processes, including excessive documentation, bureaucratic delays, and opaque eligibility criteria, create barriers that disproportionately affect small business owners who often lack the administrative capacity or financial literacy to navigate these systems efficiently. The time and effort required to secure financing through formal channels can detract from core business activities and deter many entrepreneurs from pursuing formal funding options altogether.

Taken together, these findings underscore systemic weaknesses in the entrepreneurial financing environment that must be addressed to foster a more conducive climate for business development. The combination of working capital shortages, limited credit access, prohibitive collateral demands, high borrowing costs, and procedural complexities creates a multi-faceted challenge that hampers not only individual business growth but also broader economic progress. Scholars and practitioners alike have noted that improving access to affordable, flexible, and accessible financing mechanisms is critical for unlocking entrepreneurial potential, promoting innovation, and driving sustainable economic development (Beck, Demircuc-Kunt, and Maksimovic, 2005; Berger and Udell, 2006).

Therefore, policy interventions should focus on expanding the reach and capacity of credit institutions, developing alternative collateral mechanisms (such as credit guarantees), lowering interest rates through regulatory frameworks, and streamlining loan application processes. Additionally, financial literacy programs and entrepreneurship support services can empower business owners to better engage with formal financial systems. Addressing these financial constraints holistically is vital for enabling entrepreneurs to overcome operational hurdles and realize long-term success.

4.2.2. Workplace-Related Challenges

The findings highlight a series of significant workplace-related challenges that entrepreneurs face, which collectively hinder their ability to operate efficiently and scale their businesses. First, the

absence of ownership or stable access to their own workplace emerges as a critical issue, with 62% of respondents indicating agreement or strong agreement.

This lack of secure workspace creates an environment of uncertainty, as entrepreneurs may be subject to sudden eviction, rent hikes, or other disruptions that threaten business continuity. Such instability often forces businesses to operate in makeshift or suboptimal conditions, which can negatively affect productivity and employee morale. Furthermore, more than 60% of respondents report that their workplaces are situated far from key market centers.

This geographic disconnect not only increases transportation and logistics costs but also reduces the ease with which customers and suppliers can engage with the business, ultimately limiting market reach and sales opportunities. The physical limitations of the workplaces themselves exacerbate these issues, with over 80% agreeing that their spaces are very narrow and constrained. This restriction hampers their ability to store inventory adequately, expand operations, or provide comfortable and efficient work environments, all of which are essential for improving service delivery and customer satisfaction.

Compounding these challenges is the issue of high rental costs, which an overwhelming 94% of respondents identify as problematic. Excessive rents place a significant financial strain on small businesses, often consuming a disproportionate share of revenues and reducing funds available for reinvestment, hiring, or innovation. High rents may also deter entrepreneurs from expanding or upgrading their premises, thereby stalling business growth and competitiveness.

The convergence of these issues, lack of secure ownership, inconvenient location, limited space, and highness creates a formidable barrier to entrepreneurial success and sustainability. Research underscores that the physical workspace is more than just a site of operation; it is a strategic asset that influences operational efficiency, employee productivity, customer experience, and overall business viability (Acs *et al.*, 2014).

Table 11. Descriptive Statistics on the workplace related challenges of the respondent

Challenge	Strongly Disagree	Disagree	Can't Decide	Agree	Strongly Agree
Absence of Own Workplaces	9 (5.8%)	43 (27.7%)	7 (4.5%)	28 (18.1%)	68 (43.9%)
Workplace Far from Market	8 (5.2%)	31 (20.0%)	21 (13.5%)	44 (28.4%)	51 (32.9%)
Workplace is Very Narrow	–	23 (14.8%)	6 (3.9%)	62 (40.0%)	64 (41.3%)
Very High Rent of Workplaces	–	–	9 (5.8%)	62 (40.0%)	84 (54.2%)

Source: Survey data, 2025

Addressing these workplace challenges requires targeted policy interventions. Governments and local authorities could implement affordable commercial property schemes, business incubators, or shared workspace initiatives that offer entrepreneurs secure, flexible, and affordable premises. Infrastructure improvements to better connect workplaces with markets and transportation networks would reduce logistical barriers and expand customer access. Additionally, urban planning policies that prioritize the availability of affordable commercial spaces can help alleviate the burden of high rents. Supporting entrepreneurs in securing adequate and well-located workplaces not only fosters individual business growth but also stimulates local economic development by encouraging job creation and innovation. Ultimately, resolving workplace-related constraints is foundational to unlocking the full potential of small and medium enterprises in competitive markets (Porter, 1998; Delgado, Porter, and Stern, 2010).

4.2.3. Governance-Related Challenges

The governance-related challenges faced by entrepreneurs and businesses play a pivotal role in shaping the overall business climate and directly impact the potential for growth, sustainability, and competitiveness. The data clearly show that several critical governance issues are perceived as major barriers by a significant portion of the respondents.

Table 12. Descriptive Statistics on the governance related challenges of the respondent

Challenge	Disagree	Can't Decide	Agree	Strongly Agree
Bureaucracy in Registration	8 (5.2%)	6 (3.9%)	94 (60.6%)	47 (30.3%)
Insufficient Government Support	17 (11.0%)	26 (16.8%)	81 (52.3%)	31 (20.0%)
Political Intervention	9 (5.8%)	16 (10.3%)	75 (48.4%)	55 (35.5%)
Unclear Regulations	7 (4.5%)	74 (47.7%)	43 (27.7%)	31 (20.0%)
High Taxes	1 (0.6%)	26 (16.8%)	85 (54.8%)	43 (27.7%)
Corruption	–	12 (7.7%)	83 (53.5%)	60 (38.7%)

Source: Survey data, 2025

Bureaucracy in registration emerges as a foremost obstacle, with over 90% of participants agreeing or strongly agreeing that complex and slow bureaucratic procedures impede the process of business registration. This high level of agreement suggests that entrepreneurs frequently encounter red tape and excessive administrative requirements that increase the cost, time, and effort required to formalize their businesses. These delays not only discourage formalization but also limit access to government support programs, formal credit markets, and legal protections. Such bureaucratic bottlenecks are commonly reported in many developing countries, where inefficient regulatory systems discourage entrepreneurship and contribute to the persistence of informal sectors (Djankov *et al.*, 2002). Reducing bureaucratic hurdles through process simplification, digitization, and one-stop shops could significantly enhance the ease of doing business and encourage formal sector growth.

Insufficient government support is another critical challenge identified by nearly three quarters of respondents. This indicates that many businesses feel underserved by public policies, financial assistance, training programs, and infrastructural support. Government interventions are essential in nurturing startups and MSEs, especially in environments where private sector resources and access to finance are limited. The perception of inadequate support reflects either a gap in the availability of such services or a lack of effective communication and outreach. Improving government-business linkages, enhancing support services, and tailoring programs to address specific business needs could bolster enterprise development (Beck *et al.*, 2005).

The issue of political intervention resonates strongly, with 84% of respondents acknowledging its negative impact. Political interference in business activities can manifest as favoritism, corruption, or unpredictable policy changes that undermine fair competition. This unpredictability raises the cost of doing business and discourages investment, as entrepreneurs may fear arbitrary decisions or exclusion from government contracts and opportunities. Political stability and institutional independence are foundational for a thriving private sector, and these findings highlight the need for transparent, merit-based governance structures (Kaufmann *et al.*, 2010).

Unclear Regulations present a more nuanced challenge, with nearly half the respondents undecided. This split suggests that while some entrepreneurs struggle with ambiguous laws and inconsistent enforcement, others may not fully understand the regulatory landscape or have varying experiences depending on their sector or location. Regulatory ambiguity increases compliance risks and costs, potentially leading to unintentional violations or avoidance of formal systems altogether. Clear, consistent, and accessible regulations are essential to reduce uncertainty and foster confidence among business operators (World Bank, 2020).

High Taxes are perceived as a significant constraint by over 80% of respondents. Excessive tax burdens reduce profitability and limit reinvestment potential, particularly for small enterprises operating on thin margins. High taxation may incentivize informal business activities to evade taxes, thereby shrinking the tax base and perpetuating a cycle of underdevelopment. Reforming tax policies to ensure fairness, simplicity, and reasonable rates could encourage compliance and support business growth (OECD, 2019).

Finally, corruption is identified as a pervasive issue by more than 90% of respondents, underscoring its entrenched nature in the business environment. Corruption distorts market mechanisms, increases the cost and complexity of transactions, and erodes trust in public institutions. It often leads to unequal access to resources and opportunities, disproportionately affecting smaller and less connected firms. Combating corruption requires strong legal frameworks, transparent processes, effective enforcement, and a culture of accountability (Transparency International, 2021).

4.2.4. Market-Related Challenges

The analysis of market-related challenges among the 155 respondents reveals important trends that reflect the realities entrepreneurs face in growing and sustaining their businesses within competitive markets.

Insufficient market chain stands out as a major obstacle. Over half of the respondents (52.3%) agree or strongly agree that weaknesses in the market chain such as limited distribution networks, poor supplier relationships, or inefficient logistics pose significant barriers to their operations. This is critical because a robust market chain is fundamental to ensuring products or services reach end customers efficiently and cost-effectively.

An inadequate market chain often results in delays, increased costs, and lost sales opportunities, which can severely hamper business competitiveness and profitability. The fact that nearly 42% of respondents remain undecided on this issue may suggest either variability in experience across industries or limited awareness of how to address such challenges strategically (Christopher, 2016). This ambivalence highlights the need for capacity building and improved information sharing around supply chain management.

Similarly, lack of demand research is recognized by close to half of the entrepreneurs (50.4%) as a key challenge, with another 32% undecided. Demand research involves gathering and analyzing data on customer preferences, buying behaviors, and market trends. When businesses neglect this vital step, they risk developing products or services that do not align with customer needs or fail to identify emerging opportunities. This disconnect can lead to unsold inventory, wasted resources, and stagnating growth (Kotler and Keller, 2015). The substantial percentage of “Can’t Decide” responses may indicate that many entrepreneurs lack the tools, knowledge, or resources to effectively conduct market research, pointing to a gap in training or access to market intelligence.

Table 13. Descriptive Statistics on the market related challenges of the respondent

Challenge	Strongly Disagree	Disagree	Can't Decide	Agree	Strongly Agree
Insufficient Market Chain	–	9 (5.8%)	65 (41.9%)	48 (31.0%)	33 (21.3%)
Lack of Demand Research	–	27 (17.4%)	50 (32.3%)	48 (31.0%)	30 (19.4%)
Lack of Customer Treatment	58 (37.4%)	70 (45.2%)	17 (11.0%)	10 (6.5%)	–
Lack of Product Advertising	–	3 (1.9%)	56 (36.1%)	53 (34.2%)	43 (27.7%)

Source: Survey data, 2025

On the other hand, the challenge of Lack of Customer Treatment is largely dismissed by the respondents, with an overwhelming majority disagreeing that poor customer treatment is a problem. This suggests that entrepreneurs generally perceive their customer service practices positively. Maintaining strong customer relationships is crucial for business success, as it fosters customer loyalty, repeat business, and positive word-of-mouth referrals, all essential for organic growth in competitive markets (Grönroos, 2007). This strength provides a foundation upon which other market challenges can be addressed.

The issue of Lack of Product Advertising also emerged as a significant concern, with more than 60% agreeing or strongly agreeing that ineffective advertising limits their ability to penetrate markets and build brand awareness. Advertising is not merely a promotional activity; it is a strategic tool for communicating value propositions, differentiating from competitors, and attracting new customers. The high concern in this area suggests that many entrepreneurs may be constrained by limited financial resources, insufficient marketing skills, or lack of access to modern digital marketing platforms (Kotler *et al.*, 2019). Without adequate advertising, even quality products can fail to achieve desired sales volumes or market visibility.

Taking together, these findings point to a complex market environment where operational inefficiencies (market chain issues), limited knowledge (demand research gaps), and marketing constraints (advertising challenges) interplay to impede entrepreneurial success. While customer service remains a relative strength, the overall market challenges underscore the need for targeted

interventions. Such interventions could include training programs on supply chain management and market research techniques, increased access to market information systems, and support for affordable, effective advertising channels, particularly digital platforms that can reach broader audiences at lower costs. By addressing these market-related challenges, entrepreneurs can better align their offerings with market needs, streamline their operations, and enhance visibility, thereby improving their competitiveness and long-term sustainability.

4.2.5. Business Skills and Behavioral Challenges

The findings reveal a critical gap in fundamental business competencies among the entrepreneurs surveyed, with an overwhelming 93.5% affirming that a lack of business skills hampers their success. This indicates that many business owners may struggle with core activities such as financial management, marketing, strategic planning, and operational efficiency. These skill deficits can directly impact the ability to manage day-to-day operations, make informed decisions, and sustain growth. Research consistently underscores that well-developed business skills are pivotal to entrepreneurial success, and without these competencies, businesses risk stagnation or failure (Robinson and Sexton, 1994).

Table 14. Descriptive Statistics on the Business Skills and Behavioral Challenges of the respondent

Challenge	Disagree	Can't Decide	Agree	Strongly Agree
Lack of Business Skills	–	10 (6.5%)	111 (71.6%)	34 (21.9%)
Lack of Entrepreneurship Training	7 (4.5%)	9 (5.8%)	58 (37.4%)	81 (52.3%)
Lack of Tolerance for Change	31 (20.0%)	90 (58.1%)	22 (14.2%)	12 (7.7%)
Risk-Averse Behavior	8 (5.2%)	75 (48.4%)	37 (23.9%)	35 (22.6%)

Source: Survey data, 2025

Similarly, the pronounced consensus on the lack of entrepreneurship training (89.7% agreement) suggests that formal or informal educational programs are either insufficient or not accessible to many entrepreneurs. Entrepreneurship training programs are crucial, as they equip individuals with knowledge about business planning, innovation, risk management, and networking. Without

proper training, entrepreneurs may lack confidence and practical tools needed to navigate competitive markets or respond effectively to challenges (Nabi *et al.*, 2017). This gap highlights the urgent need for governments, educational institutions, and development agencies to design inclusive training initiatives tailored to the realities of local entrepreneurs.

When it comes to behavioral challenges, the picture becomes more nuanced. Many respondents remain neutral or undecided about their tolerance for change (58.1% Can't Decide), indicating uncertainty or ambivalence around adaptability. This may reflect that many entrepreneurs face conflicting pressures: the need to innovate versus the comfort of familiar routines. Businesses that are slow to embrace change risk falling behind in dynamic markets, yet rapid changes can be risky and resource intensive. Cultural factors, past experiences, and available support structures influence entrepreneurs' readiness to adapt. It is essential to cultivate environments that encourage experimentation and incremental change, reducing the fear associated with transformation (Judge *et al.*, 1999).

Risk aversion emerges as a significant behavioral constraint, with nearly half the respondents perceiving it as limiting. Risk-averse entrepreneurs may avoid investing in new technologies, expanding product lines, or entering new markets. While caution can be prudent, excessive risk aversion curtails growth potential and innovation. Entrepreneurs who effectively balance risk and opportunity tend to outperform their peers, as they can capitalize on market shifts and emerging trends (McMullen and Shepherd, 2006). Encouraging calculated risk-taking through mentorship, access to credit, and supportive policies could help mitigate this challenge.

4.2.6. Infrastructure-Related Challenges

The findings from the study reveal that infrastructure-related challenges significantly impede the smooth operation and growth of businesses. Among these challenges, poor electricity supply emerges as the most critical issue, with all respondents (100%) agreeing or strongly agreeing that unreliable electricity severely affects their operations. This is not surprising, given that consistent power supply is a fundamental requirement for almost all business activities. Frequent power outages lead to production halts, spoilage of perishable goods, and increased costs due to the need for alternative power sources such as generators. As noted by Aghaei *et al.* (2018), unreliable

electricity remains a major barrier to industrial productivity in many developing countries, directly reducing firms' output and profitability.

Poor water supply is also identified as a significant challenge, with more than half of the respondents (50.4%) affirming its negative impact, although a substantial proportion (31.6%) remained undecided. This suggests variability in how water supply issues affect different types of businesses, perhaps more severely impacting industries like manufacturing, agriculture, and food services that depend heavily on water. The importance of reliable water access for business sustainability has been highlighted by UN-Water (2019), emphasizing that water scarcity can constrain economic activities, leading to reduced production capacity and heightened operational risks.

Table 15. Descriptive Statistics on the infrastructure related challenges of the respondent

Challenge	Strongly Disagree	Disagree	Can't Decide	Agree	Strongly Agree
Poor Water Supply	–	28 (18.1%)	49 (31.6%)	37 (23.9%)	41 (26.5%)
Poor Electricity	–	–	–	95 (61.3%)	60 (38.7%)
Poor Telecommunication	–	19 (12.3%)	45 (29.0%)	53 (34.2%)	38 (24.5%)
Lack of Transportation Services	–	22 (14.2%)	52 (33.5%)	44 (28.4%)	37 (23.9%)
Lack of Waste Management System	4 (2.6%)	27 (17.4%)	37 (23.9%)	58 (37.4%)	29 (18.7%)

Source: Survey data, 2025

Telecommunication infrastructure deficiencies affect over half of the respondents, with 58.7% agreeing or strongly agreeing that this is a challenge. Poor telecommunication services restrict businesses' ability to communicate with clients, suppliers, and partners effectively, limiting access to digital tools and online markets. This digital divide is a well-documented obstacle in the literature; Kshetri (2018) points out that inadequate telecommunications infrastructure disproportionately affects MSEs in rural or less developed areas, reducing their competitiveness and market reach.

Transportation services are another considerable bottleneck, with 52.3% of respondents acknowledging challenges, while about one third remained undecided. The mixed responses may reflect differences in geographic locations, where urban businesses might experience better transport connectivity than those in rural regions. Nonetheless, inefficient transportation infrastructure increases logistics costs and delays, hindering timely delivery of goods and access to suppliers and customers. Calderón and Servén (2014) emphasize that poor transport infrastructure is a key determinant of regional economic disparities and reduced business performance.

Lastly, the lack of an effective waste management system is a concern for more than half of the respondents (56.1%). Poor waste management not only poses environmental hazards but also leads to potential regulatory penalties and damages public health, which can affect workforce productivity. The importance of sustainable waste disposal practices is underscored by Khan *et al.* (2020), who argue that integrating waste management into business operations is critical for compliance with environmental regulations and for maintaining a company's social license to operate.

4.2.7. Operational and Strategic Challenges

The data reveals significant insights into the operational and strategic challenges faced by micro and small enterprises (MSEs). One of the most pronounced challenges identified is the lack of strategic planning, with an overwhelming 79.4% of respondents agreeing (60%) or strongly agreeing (19.4%) that their enterprises lack a clear long-term strategic direction. This finding is particularly critical, as strategic planning is fundamental to business growth, resource allocation, and market adaptability (Kotler and Keller, 2016). Without it, MSEs may struggle to respond to changing market demands or to scale operations effectively.

Another key challenge is the lack of technical training, where 63.2% of respondents acknowledged its absence. This gap reflects broader issues in capacity development and human resource management, implying that many employees within MSEs may lack the skills needed to innovate, adapt, or manage operations efficiently. This finding is in line with previous studies, which emphasize that access to training and education is essential for improving productivity and competitiveness in small enterprises (ILO, 2020).

Furthermore, shortage of skilled labor (reported by 52.2% as a challenge) and high product/service cost (52.9%) were also noted as barriers to effective operation. The cost challenge likely reflects broader economic pressures such as inflation, supply chain inefficiencies, or limited access to cost-effective production inputs. Meanwhile, the skills gap may result from both inadequate training and migration of skilled labor to larger firms or urban centers, a trend widely documented in the development literature (World Bank, 2021).

Table 16. Descriptive Statistics on the Operational and Strategic Challenges of the respondent

Challenge		Strongly Disagree	Disagree	Can't Decide	Agree	Strongly Agree
High Product/Service Cost		1 (0.6%)	31 (20.0%)	41 (26.5%)	59 (38.1%)	23 (14.8%)
Lack of Technical Training		–	24 (15.5%)	33 (21.3%)	71 (45.8%)	27 (17.4%)
Poor Communication		1 (0.6%)	37 (23.9%)	39 (25.2%)	54 (34.8%)	24 (15.5%)
Shortage of Skilled Labor		–	31 (20.0%)	43 (27.7%)	52 (33.5%)	29 (18.7%)
No Strategic Planning		–	31 (20.0%)	1 (0.6%)	93 (60.0%)	30 (19.4%)

Source: Survey data, 2025

Lastly, poor communication was identified by 50.3% of respondents as a concern, suggesting internal inefficiencies or coordination issues within enterprises. While this challenge is slightly less emphasized compared to others, it still points to potential operational weaknesses that could hinder team performance, customer relations, and stakeholder engagement.

Overall, the findings emphasize that MSEs in the context studied face a combination of strategic, financial, and human capital challenges, which are consistent with the regression analysis results indicating the significant role of internal managerial and infrastructural factors in influencing MSE growth. To mitigate these challenges, there is a clear need for targeted interventions in the areas of strategic management training, workforce development, and access to affordable resources (OECD, 2017).

4.2.8. Growth and Operational Challenges

The findings reveal that enterprises are grappling with several interlinked growth and operational challenges that undermine their sustainability and potential for expansion. The most prominent issue identified was the lack of consistent profits, reported by 79.3% of respondents. This indicates a widespread problem with financial stability, where many businesses face irregular income flows that limit their ability to plan, invest, or grow. Closely related is the challenge of low inflation resilience, acknowledged by 74.2% of participants. This suggests that external macroeconomic shocks, such as rising costs of goods and services—can severely affect the operational viability of these businesses, particularly in developing contexts where inflation tends to be more volatile and less predictable (World Bank, 2020; OECD, 2017).

Furthermore, growth limitations are evident in responses. More than 50% of respondents reported failed scaling capacity, and 45.8% noted a lack of market expansion. These responses point to systemic barriers that prevent enterprises from moving beyond micro or small-scale operations. These may include limited access to external financing, underdeveloped supply chains, market entry barriers, or lack of innovation. Such constraints are consistent with McKenzie’s (2015) findings, which emphasized that even high-potential enterprises often remain stagnant due to a lack of enabling conditions for scaling.

Table 17. Descriptive Statistics on the Growth of MSE

Challenge	Strongly Disagree	Disagree	Can't Decide	Agree	Strongly Agree
No Market Expansion	6 (3.9%)	36 (23.2%)	42 (27.1%)	40 (25.8%)	31 (20.0%)
No Consistent Profits	5 (3.2%)	27 (17.4%)	–	78 (50.3%)	45 (29.0%)
Lack of Skilled Employees	3 (1.9%)	35 (22.6%)	41 (26.5%)	43 (27.7%)	33 (21.3%)
Stagnant Workforce	7 (4.5%)	38 (24.5%)	41 (26.5%)	40 (25.8%)	29 (18.7%)
Equipment Shortage	13 (8.4%)	38 (24.5%)	52 (33.5%)	27 (17.4%)	25 (16.1%)
Low Inflation Resilience	3 (1.9%)	25 (16.1%)	12 (7.7%)	91 (58.7%)	24 (15.5%)
Failed Scaling Capacity	5 (3.2%)	29 (18.7%)	42 (27.1%)	45 (29.0%)	34 (21.9%)

Source: Survey data, 2025

The issue of human capital also emerged strongly. Nearly 49% of respondents cited a lack of skilled employees, and 44.5% indicated a stagnant workforce as a major impediment. These challenges suggest not only shortages in technical and managerial skills but also possibly weak recruitment strategies, inadequate training, and limited incentives for workforce development. The International Labor Organization (2021) has similarly highlighted that many MSEs, particularly in low- and middle-income countries, suffer from skill mismatches and underinvestment in human capital.

Lastly, although the challenge of equipment shortage generated more varied responses, with 33.5% of participants selecting “Can’t Decide” over one third of respondents still agreed it was a limiting factor. This implies that for many enterprises, lack of proper tools, machinery, or technology continues to constrain productivity and efficiency. As UNCTAD (2018) has noted, access to affordable and adequate infrastructure and equipment is critical for supporting enterprise development, especially in resource-limited environments.

4.3. Diagnostic Tests

4.3.1. Assumptions of Multiple Linear Regression

Multiple Linear Regression (MLR) is a powerful statistical technique used to examine the relationship between a set of independent variables and a single dependent variable. In this study, standard multiple linear regression was applied to identify the factors influencing the growth of micro and small enterprises (MSEs) in Enticho Town. In standard multiple regression, all independent variables are entered into the model at once to assess their combined and individual effects on the outcome variable. However, before performing the regression analysis, it is essential to verify that the key assumptions of MLR are satisfied to ensure the validity and reliability of the results. These assumptions include adequate sample size, absence of multicollinearity, linearity, and homoscedasticity. The researcher used SPSS to conduct the necessary diagnostic tests.

The first assumption tested was sample size adequacy. A sufficiently large sample is crucial for generating generalizable and stable regression estimates. According to Tabachnick and Fidell (2007), the required minimum sample size for multiple regression can be determined using the formula: $N > 50 + 8m$, where N is the sample size and m is the number of independent variables.

In this study, the number of independent variables was seven, resulting in a required minimum sample size of 106. The actual sample size used was 155, which exceeds the recommended threshold. This confirms that the sample size was adequate for conducting multiple linear regression and supports the robustness of the findings.

The second assumption examined was multicollinearity, which refers to high intercorrelation among independent variables. When multicollinearity is present, it becomes difficult to determine the individual effect of each predictor, and regression coefficients may become unstable. To assess this, the study employed Tolerance and Variance Inflation Factor (VIF) values. Tolerance values closer to 1 and VIF values less than 10 are generally considered acceptable, indicating that multicollinearity is not problematic (Keith, 2006; Shieh, 2010). In this analysis, all independent variables had tolerance values above 0.1 and VIF values below 10, confirming the absence of multicollinearity. Therefore, the assumption of independence among predictor variables was met, and the regression model was considered appropriate for further analysis.

Table 18. Collinearity Statistics of the internal and external factors of MSE

Model	Tolerance	VIF
(Constant)		
Financial Problem	.174	5.758
Workplace	.140	7.132
Government Factors	.141	7.077
Marketing Problem	.138	7.264
Entrepreneurial Factors	.134	7.491
Infrastructure Factors	.169	5.912
Internal Managerial Factors	.894	1.118
Age of Respondent	.286	3.494
Gender	.804	1.244
Educational Background	.285	3.510
Ownership of Business Premises	.801	1.248

4.3.2. Normality of Residuals

The assumption of normality refers to the requirement that the residuals (errors) of the regression model are normally distributed around the predicted values of the dependent

variable. This assumption is important because many inferential statistical tests in regression (such as t-tests and confidence intervals) rely on the normal distribution of residuals (Keith, 2006). According to Gujarati (2009), normality tests are used to determine whether a dataset follows a normal distribution or to assess the likelihood that the underlying random variable is normally distributed.

In this study, normality was assessed using a histogram of standardized residuals generated in SPSS. This histogram includes a superimposed normal curve, which visually indicates whether the residuals are approximately normally distributed. As shown in figure 2. the histogram demonstrates a reasonably symmetrical distribution of residuals centered around zero, closely following the normal curve. Therefore, the residuals meet the assumption of normality, and no significant normality issues were observed in the data used for this analysis.

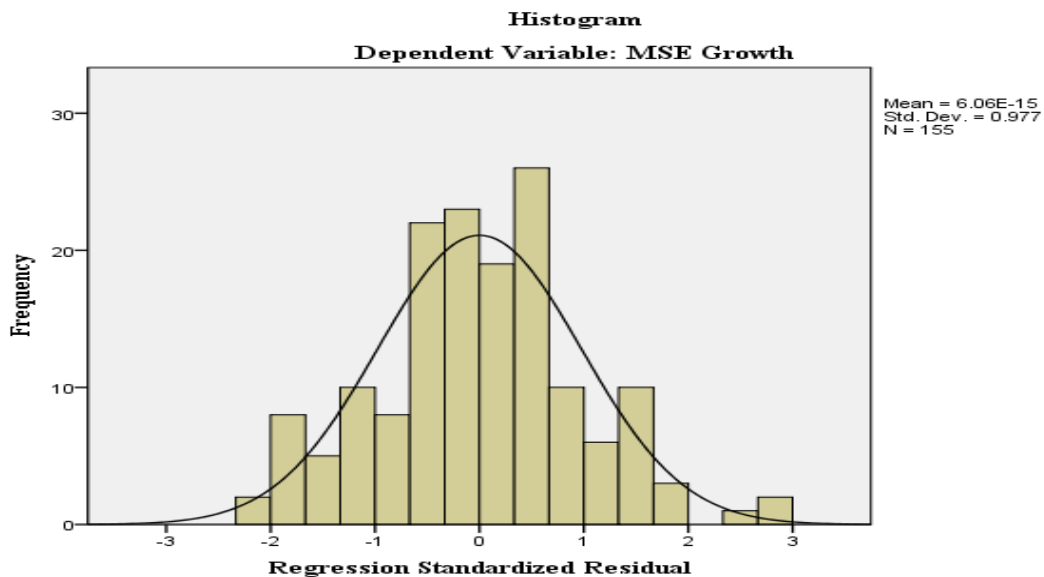


Figure 2. Histogram of the distribution

4.3.3. Linearity

Linearity refers to the assumption that there is a linear relationship between the dependent variable and each of the independent variables. In the context of multiple regression, this means that the change in the dependent variable is proportional to the change in the independent variables, assuming all other variables are held constant (Osborne and Waters,

2002). If this assumption is violated, the regression model may produce biased or misleading results, as it would either underestimate or overestimate the true relationship between variables.

According to Stevens (2009), linearity can be effectively assessed using the Normal Probability Plot (P-P Plot) of standardized residuals in SPSS. In a P-P Plot, if the points lie approximately along the diagonal reference line, the data can be considered to exhibit a linear relationship. In this study, the P-P Plot shows that the points closely follow the diagonal line, indicating that the relationship between the dependent and independent variables is sufficiently linear. Hence, the linearity assumption is met for the dataset used in this regression analysis.

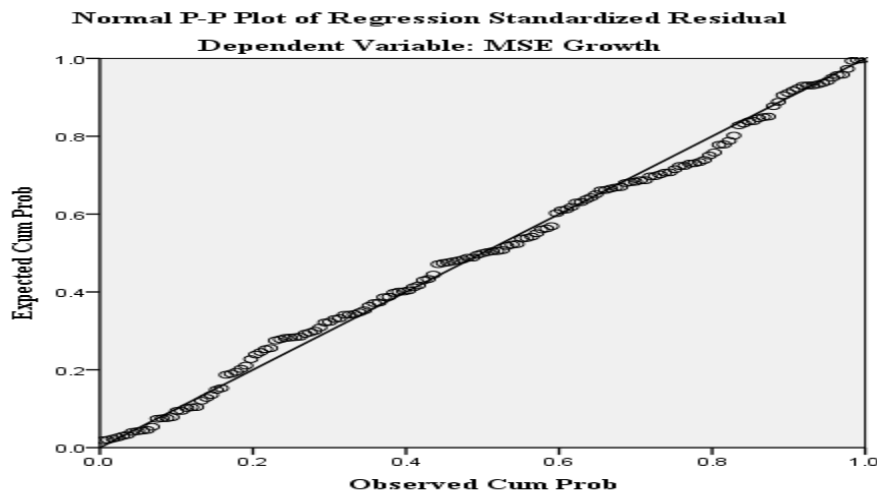


Figure 3. Normal Probability Plot (P-P Plot) of standardized residuals

The Normal P-P Plot of the standardized residuals compares the observed cumulative probabilities of the residuals with the expected cumulative probabilities under a normal distribution. In this plot, the points closely follow the diagonal reference line, indicating that the residuals are approximately normally distributed. Although there are minor deviations, these are small and not uncommon in real-world data. Overall, the plot confirms that the assumption of normality of residuals is met, supporting the validity of the parametric tests used in the regression analysis.

4.4. Correlation Analysis Between Independent and Dependent Variables

This study investigates the strength and direction of relationships among the variables under consideration using Pearson correlation analysis. Pearson correlation measures the linear association between two continuous metric variables (Hair *et al.*, 2008). It quantifies both the direction and strength of the relationship between independent variables and the dependent variables. A positive correlation indicates that as one variable increases, the other variable also increases, while a negative correlation implies that as one variable increases, the other decreases. The correlation coefficient ranges from -1.00 to +1.00, where 0 signifies no linear relationship, -1.00 indicates a perfect negative linear relationship, and +1.00 represents a perfect positive linear relationship. This analysis provides valuable insights into nature and magnitude of associations among the variables studied.

Table 19. Correlation Matrix of Factors Affecting MSE Growth

Variables	Workplace	Government Factors	Marketing Problem	Entrepreneurial Factors	Infrastructure Factors	Internal Managerial Factors	Growth
Financial Problem	0.899**	0.569*	0.627**	0.587*	0.473*	0.125	0.568*
Workplace	1	0.620**	0.687**	0.607**	0.548*	0.146	0.595*
Government Factors		1	0.874**	0.888**	0.882**	0.008	0.236*
Marketing Problem			1	0.895**	0.850**	0.076	0.289*
Entrepreneurial Factors				1	0.859**	0.024	0.264*
Infrastructure Factors					1	0.003	0.380*
Internal Managerial Factors						1	0.340*

Source: Survey data, 2025

The correlation matrix demonstrates significant relationships among the various internal and external factors affecting the growth of micro and small enterprises (MSEs). Financial problems show a very strong positive correlation with workplace challenges ($r = 0.899$) and marketing problems ($r = 0.627$). This implies that financial constraints tend to exacerbate operational inefficiencies, including the inability to provide adequate working conditions or conduct effective marketing strategies. Such a finding is consistent with studies like Berihu *et al.* (2014), who identified access to finance as a major constraint that limits enterprise investment in infrastructure and customer outreach.

Additionally, financial problems are moderately correlated with governmental factors ($r = 0.569$), entrepreneurial capacity ($r = 0.587$), and infrastructure ($r = 0.473$). These relationships suggest that financial hardship often coincides with systemic issues such as bureaucratic barriers, limited entrepreneurial support, and underdeveloped infrastructure. Mulugeta (2011) also found that MSEs in Ethiopia face overlapping challenges, particularly weak institutional support and inadequate physical infrastructure intensifying the impact of financial limitations.

Similarly, conditions are strongly linked to governmental factors ($r = 0.620$) and marketing problems ($r = 0.687$). This indicates that a supportive policy environment and access to market information or tools may improve internal work environments, echoing Tambunan (2009), who emphasized the importance of policy support and training in enhancing MSE performance in developing economies.

The matrix also reveals extremely strong correlations among governmental factors, entrepreneurial factors ($r = 0.888$), and infrastructure ($r = 0.882$). This interdependence suggests that where governmental support is present, entrepreneurial potential and physical infrastructure are more likely to thrive, facilitating business growth. Such findings align with World Bank (2017) reports emphasize the need for coordinated government action to develop entrepreneurial ecosystems.

On the other hand, internal managerial factors show very weak correlations with most variables, such as governmental support ($r = 0.008$) and marketing problems ($r = 0.076$), indicating relative independence. However, its moderate correlation with MSE growth ($r = 0.340$) suggests that internal decision-making and managerial efficiency still play a vital role in driving performance outcomes. This supports findings by Agyapong (2010) who

highlighted that strong leadership and managerial competence significantly influence small business sustainability.

Finally, most of the independent variables, including financial, workplace, marketing, entrepreneurial, and infrastructure factors, have statistically significant correlations with MSE growth ($p < 0.05$), underscoring their collective importance. Particularly, workplace ($r = 0.595$) and infrastructure ($r = 0.380$) emerged as strong predictors of growth, indicating that addressing both internal operational conditions and external enablers is crucial. This reinforces the holistic perspective suggested by ILO (2015), which advocates for integrated support systems to boost small business development in emerging markets.

4.5. Regression Analysis

To complement the correlation analysis and assess the combined influence of the independent variables on the growth of micro and small enterprises (MSEs), a multiple linear regression analysis was performed. The independent variables included governmental, organizational, individual, financial, environmental, and technological factors, while the dependent variable was MSE Growth.

The model summary presented in (table 19) provides key indicators of the overall fit and explanatory power of the regression model. The correlation coefficient (R) is 0.796, indicating a strong positive linear relationship between the observed and predicted values of the dependent variable. This suggests that the predictors included in the model are strongly associated with the outcome (Field, 2013). The coefficient of determination, or R Square, is 0.634, meaning that approximately 63.4% of the variance in the dependent variable is explained by the model. This is a substantial proportion, indicating a good level of explanatory power. Furthermore, the Adjusted R Square value of 0.607, which adjusts for the number of predictors and sample size, confirms that the model maintains a strong fit without being overly complex or overfitted (Hair *et al.*, 2019). The standard error of the estimate is 0.65316, representing the average distance between the actual data points and the model's predicted values.

Table 20. Model Summary of the Internal and external Factors affecting MSE

Model	R	R Square	Adjusted R Square	Std. Error of the estimate	Durbin-Watson
1	.796	.634	.606	.65316	1.928

This value suggests that the predictions made by the model are relatively close to the observed values, though the acceptability of this error depends on the scale of the dependent variable. Lastly, the Durbin-Watson statistic is 1.928, which falls within the acceptable range (typically 1.5 to 2.5) for indicating no significant autocorrelation in the residuals (Durbin and Watson, 1950). The absence of autocorrelation supports the assumption of independence in the regression residuals, further validating the reliability of the model. Overall, these indicators collectively demonstrate that the regression model is statistically sound and capable of explaining a meaningful proportion of the variance in the outcome variable.

ANOVA (Analysis of Variance)

The ANOVA (Analysis of Variance) table provides evidence of the overall statistical significance of the regression model. The results indicate that the model is highly significant, as demonstrated by the F-statistic of 22.51 with a corresponding p-value (Sig.) of .000. Since the p-value is less than the conventional threshold of 0.05, we reject the null hypothesis that all regression coefficients are equal to zero, meaning at least one of the independent variables significantly predicts the dependent variable, which in this case is Growth (Field, 2013). The regression sum of squares is 105.637, representing the variation explained by the model, while the residual sum of squares is 61.007, indicating the variation not explained by the model.

Table 21. Analysis of Variance (ANOVA) for the Regression Model Predicting Growth

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	105.637	11	9.603	22.510	.000 ^b
Residual	61.007	143	.427		
Total	166.644	154			

The total sum of squares, which measures the total variability in the dependent variable, is 166.644. This means that a substantial portion of the variation in Growth is explained by the

predictors included in the model. The model has 11 degrees of freedom for the regression (corresponding to the eleven predictors: internal managerial factors, infrastructure factors, financial problems, entrepreneurial factors, workplace conditions, government factors, marketing problems, age, gender, Educational Background, and Ownership of Business Premises) and 143 degrees of freedom for the residual, which reflects the number of observations minus the number of estimated parameters (Hair *et al.*, 2019). The mean square for the regression is 9.603, while the mean square for the residual is 0.427, further supporting the high F-value. Overall, the ANOVA results provide strong evidence that the regression model is statistically significant and that the independent variables, collectively, have a meaningful effect on the dependent variable Growth.

Regression Analysis

The coefficients table provides detailed insight into the contribution of each independent variable to the dependent variable, Growth, within the regression model. The unstandardized coefficients (B) indicate the raw effect of each predictor on Growth, while the standardized coefficients (Beta) allow for comparison across variables by putting them on the same scale. Starting with the constant term (B = -0.297, p =.530), it is not statistically significant, indicating that the interception of the model is not different from zero when all predictors are held constant.

Table 22. Regression Coefficient Estimates of the Effects of Internal and External Factors on Growth of MSE

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.210	.537		-.390	.697
Financial Problem	.504	.150	.407	3.351	.001
Workplace	.406	.134	.409	3.026	.003
Government Factors	-.959	.207	-.624	-4.637	.000
Marketing Problem	-.681	.186	-.499	-3.661	.000
Entrepreneurial Factors	-.182	.224	-.113	-.813	.418
Infrastructure Factors	1.554	.190	1.008	8.192	.000
Internal Managerial Factors	.271	.067	.216	4.039	.000
Age of Respondent	-.050	.078	-.060	-.639	.524
Gender	-.177	.117	-.085	-1.508	.134
Educational Background	.060	.081	.070	.737	.462
Ownership of Business Premises	.091	.077	.067	1.182	.239

Among the predictors, Infrastructure Factors have the strongest and most statistically significant positive effect on Growth ($B = 1.554$, $\beta = 1.008$, $t = 8.192$, $p < .001$). This suggests that improvements in infrastructure such as roads, internet access, and utility services substantially enhance the growth of micro and small enterprises (MSEs). Likewise, Workplace Conditions ($B = 0.406$, $\beta = 0.409$, $t = 3.026$, $p = .003$) and Financial Problems ($B = 0.504$, $\beta = 0.407$, $t = 3.351$, $p = .001$) also show positive and statistically significant effects on growth.

This indicates that better workplace environments and more stable financial conditions are associated with improved growth outcomes. However, the positive relationship between financial problems and growth may appear counterintuitive; it may reflect a situation where growing businesses experience more financial pressure due to expansion needs or could be a result of reverse-coded variables, requiring further clarification in data interpretation.

Conversely, several factors have significant negative impacts on business growth. Government Factors ($B = -0.959$, $\beta = -0.624$, $t = -4.637$, $p < .001$) show a strong and statistically significant negative association, indicating that regulatory burdens, bureaucracy, and other government-related constraints significantly hinder the growth of MSEs. Similarly, Marketing Problems ($B = -0.681$, $\beta = -0.499$, $t = -3.661$, $p < .001$) negatively influence growth, suggesting that poor marketing strategies, limited customer reach, or weak branding are substantial obstacles to business expansion.

Internal Managerial Factors also exhibit a positive and significant effect on growth ($B = 0.271$, $\beta = 0.216$, $t = 4.039$, $p < .001$), indicating that strong management capabilities such as effective planning, leadership, and resource coordination support business development. In contrast, Entrepreneurial Factors ($B = -0.182$, $\beta = -0.113$, $t = -0.813$, $p = .418$) are not statistically significant, suggesting that traits like risk-taking or innovation, while often emphasized in entrepreneurial literature, do not show a measurable impact on growth in this context.

Additionally, several demographic and control variables, including the age of respondents, coded from under 20 years (0) to above 60 years (5), showed a negative but insignificant relationship with growth ($B = -0.050$, $p = 0.524$), suggesting that increasing age does not have a meaningful impact on MSE performance. Gender, coded as male = 0 and female = 1, also had a negative but non-significant coefficient ($B = -0.177$, $p = 0.134$), indicating that female entrepreneurs may experience slightly lower business growth compared to males, although the difference is not statistically valid.

Educational background, ranging from no formal education (0) to master's degree or above (5), showed a small positive effect ($B = 0.060$, $p = 0.462$), implying that higher education levels are associated with slightly better growth outcomes; however, this effect is also not significant. Lastly, ownership of business premises, coded as owned (0), rented (1), and family property (3), had a positive but non-significant influence on growth ($B = 0.091$, $p = 0.239$). It is worth noting that the way ownership was coded may not accurately capture the categorical nature of this variable and may benefit from being recorded into dummy variables for more precise analysis.

Growth of MSE = -0.210 + 0.504 (*Financial Problem*) + 0.406 (*Workplace*) - 0.959 (*Government Factors*) - 0.681 (*Marketing Problem*) - 0.182 (*Entrepreneurial Factors*) + 1.554 (*Infrastructure Factors*) + 0.271 (*Internal Managerial Factors*) - 0.050 (*Age*) - 0.177 (*Gender*) + 0.060 (*Education*) + 0.091 (*Ownership of Business Premises*)

Overall, these findings highlight the relative importance of external and internal environmental conditions in driving the growth of MSEs. Infrastructure quality, workplace conditions, and managerial capability are among the most beneficial factors, while government-related barriers and marketing challenges pose significant constraints. The significance levels and strength of standardized coefficients lend robustness to these conclusions, in line with guidance from Field (2013) and Hair *et al.* (2019). The results suggest that policy and capacity building efforts should prioritize improving infrastructure, reducing government inefficiencies, strengthening internal management, and supporting more effective marketing strategies for small businesses to thrive.

5. Conclusion and Recommendation

5.1. Conclusion

The study examines key internal and external determinants influencing the growth and sustainability of MSEs in Enticho Town, Tigray, Ethiopia. The comprehensive analysis of MSEs in Enticho Town reveals a complex and constrained business environment. While demographic indicators, such as a youthful, educated population and balanced gender participation, present opportunities for entrepreneurship, several structural and systemic barriers significantly hinder business growth.

Among the most pressing challenges are financial constraints. Limited access to credit, high collateral demand, and burdensome loan procedures restrict the ability of MSEs to expand operations or invest in long-term growth. Additionally, many enterprises operate in substandard or insecure workspaces, which increases operational costs and decreases efficiency.

The regression analysis further highlighted the critical role of infrastructure, both physical and technological, as the most significant positive contributor to MSE growth. This suggests that improved transportation networks, communication systems, and business facilities are fundamental to enabling productivity and expansion. Workplace conditions and financial stability also emerged as strong growth drivers, indicating the importance of internal operational environments and sound financial management.

In contrast, government-related factors such as regulatory complexity, excessive taxation, bureaucratic inefficiencies, and lack of consistent policy support exert a significant negative influence on MSE growth. Similarly, marketing challenges, including limited access to markets, poor promotion strategies, and weak customer outreach, further constrain business potential. These external barriers not only raise the cost of doing business but also reduce competitiveness and discourage formalization.

Interestingly, while internal managerial capacity showed a meaningful positive influence on growth, entrepreneurial factors (such as risk-taking or innovation tendencies) were statistically insignificant in this context, suggesting that external conditions may overshadow individual entrepreneurial traits in determining business outcomes.

5.2. Recommendations

A multi-faceted approach seems to be essential for promoting the growth of MSEs. Hence, key recommendations include improving access to tailored financial products and credit support, alongside enhancing financial literacy for entrepreneurs. Investing in the workplace and physical infrastructure—such as affordable workspaces and improved connectivity—is critical for creating a conducive business environment. Capacity building through entrepreneurship training and mentorship should be strengthened to improve managerial and marketing skills. Simplifying business registration, clarifying regulations, and implementing tax reforms can reduce bureaucratic barriers and encourage formalization. Governments must also foster transparent governance, enforce anti-corruption measures, and provide consistent policy support to build trust and stability. Finally, integrated development programs that combine financial, infrastructural, managerial, and policy interventions are needed to create an enabling ecosystem for sustainable MSE development.

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Annex

MEKELLE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

Micro and Small Enterprises (MSEs) Survey Questionnaire

Section 0: Introduction

Dear respondent,

This thesis is titled “Factors Affecting the Growth of Micro and Small Enterprises: The Case of Enticho Town.” The examiner is Etenesh Yeabyo, who is currently an MSc student in Economics at Mekelle University. The purpose of this thesis is to examine factors affecting the growth of micro and small enterprises in Tigray, particularly in Enticho Town.

The examiner seeks to gather relevant information using proportional stratified random sampling from MSEs in Enticho Town. Finally, I confirm to you that the information you share with me will be kept confidential and only used for academic purposes.

Thank you in advance for your kind cooperation and for devoting your time.

Sincerely,

Etenesh Yeabyo

Section 1: Demographic Information

1. Age of Respondent

- Under 20 years
- 21–30 years
- 31–40 years
- 41–50 years
- 51–60 years
- Above 60 years

2. Sex/Gender

- Male
- Female
- Prefer not to say

3. Marital Status

- Single
- Married
- Divorced/Widowed

4. Educational Background

- No formal education
- Primary education
- Secondary education
- Diploma/Certificate
- Bachelor's degree
- Master's degree or above

5. Work Experience in Business (Years)

Less than 1 year

1–5 years

6–10 years

Above 10 years

6. Type of Business Ownership

Sole proprietorship

Partnership

Cooperative

Private Limited Company

Other (specify) _____

7. Business Sector

Manufacturing

Trade (wholesale/retail)

Service

Agriculture/Agribusiness

Other (specify) _____

8. Number of Employees

1–5 employees

6–10 employees

11–20 employees

Above 20 employees

9. Business Age (Years of Operation)

Less than 1 year

1–5 years

6–10 years

Above 10 years

10. Ownership of Business Premises

Owned

Rented

Family property

Other (specify) _____

Section 2: General Information of the Business Enterprise

Instructions

- No need to write your name.
- For multiple-choice questions, indicate your answers with a checkmark (✓) in the appropriate box.

1. What is your level of education?

No Formal Education

Below grade 12

TVET Certificate

Diploma

Bachelor's degree

Masters or above

2. What is your current position in the company?

Manager

Owner and manager

Salesperson

Others

3. How long have you been working in this position?

Less than one year

1–5 years

6–10 years

More than 10 years

4. What is your main business activity?

Manufacturing

Trade

Urban agriculture

Services

Construction

5. How did you raise funds to start-up your business?

Personal saving

Family and friends

Loan

Credit association

NGOs

Other

6. What is your business type?

Sole proprietorship

Partnership

Private Limited company

Others

7. For how long has your business been in the market?

Less than one year

1–5 years

6–10 years

More than 10 years

8. How many employees (both permanent and temporary) did your enterprise have in 2017 E.C?

1–5

6–10

11–20

More than 20

9. What was your start-up capital?

Less than Birr 10,000

Between 10,001 to 50,000

Above 50,000

I do not know

10. What is the current capital of your business?

10,000 to 100,000

100,001 to 500,000

500,001 to 1,000,000

1,000,001 to 1,500,000

Section 3: Factors Affecting the Growth of MSEs

The major factors that affect the growth of businesses in MSEs are listed below. Please indicate the degree to which these factors are affecting the growth of your business enterprise. After you read each of the factors, evaluate them in relation to your business and **circle** the number that best reflects your response.

Where:

1 = Strongly disagree

2 = Disagree

3 = I can't decide

4 = Agree

5 = Strongly agree

13. Please indicate the degree to which you agree with the following statements regarding Financial Factors

.No.	Financial Factors	1	2	3	4	5
11.1	Shortage of working capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.2	Insufficient credit institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.3	High collateral requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.4	High interest rate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.5	Complicated loan application procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.6	Improper financial recording system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

14. Please indicate the degree to which you agree with the following statements regarding Workplace Factors

No.	Workplace factors	1	2	3	4	5
12.1	Absence of own workplace	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.2	Workplace is far from the market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.3	Workplace is very narrow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.4	Very high rent of workplaces	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

15. Please indicate the degree to which you agree with the following statements regarding Government Policy Factors

No.	Government policy factors	1	2	3	4	5
13.1	Bureaucracy in registration and licensing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13.2	Insufficient government support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13.3	Unnecessary political intervention	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13.4	Lack of clarity on government rules and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13.5	High tax rates and tariffs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13.6	Corruption in government institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16. Please indicate the degree to which you agree with the following statements regarding Marketing Factors

No.	Marketing Factors	1	2	3	4	5
14.1	Insufficient market and market chain	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.2	Lack of research on demand prediction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.3	Lack of customer treatment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.4	Lack of product and service advertising	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

17. Please indicate the degree to which you agree with the following statements regarding entrepreneurial factors

No.	Entrepreneurial factors	1	2	3	4	5
15.1	Lack of business skills	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15.2	Lack of entrepreneurship training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15.3	Lack of tolerance and commitment to change	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15.4	Risk aversion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. Please indicate the degree to which you agree with the following statements regarding Infrastructure Factors

No.	Infrastructure Factors	1	2	3	4	5
16.1	Poor water supply	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.2	Poor electricity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.3	Poor telecommunication	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.4	Lack of quick and sufficient transportation services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.5	Lack of effective waste screening and filtering systems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

19. Please indicate the degree to which you agree with the following statements regarding internal managerial factors

No.	Internal Managerial Factors	1	2	3	4	5
17.1	High product and service cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17.2	Lack of technical training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17.3	Lack of effective communication	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17.4	Lack of sufficient and skilled labor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17.5	Lack of strategic planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section 4: Growth Indicators of MSE

20. Please indicate the degree to which you agree with the following statements regarding Growth indicators

No.	Growth factors of MSE	1	2	3	4	5
18.1	The enterprise hasn't created more market coverage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18.2	The enterprise does not profit consistently over time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18.3	There are no qualified and skilled employees within the enterprise	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18.4	Number of employees has not increased over time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18.5	Insufficient materials and equipment within the enterprise	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18.6	Low capability to mitigate risks (e.g., inflation)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18.7	The enterprise has reached full capacity to transform from micro to small/medium	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank you!!!