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The Determinants of Growth of Leather and Leather Products Manufacturing Micro and Small Scale Enterprises

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INTRODUCTION

BACKGROUND OF THE STUDY

During the past decade, there has been an explosion of interest in how micro and small enterprises (MSEs) can help provide jobs, alleviate poverty, and supply the essential goods and services people need to enjoy an adequate standard of living and maintain basic human dignity.

This interest has been the result of several developments. First, the nature and extent of employment in MSEs have been studied in a wide variety of countries. Through path-breaking studies, the importance of MSEs, in terms of employment opportunities and numbers of enterprises have been documented in both developing nations and industrialized countries such as the United States, Italy, and Germany. In addition, research since the 1980s has shown that small businesses play a major role in generating non-farm employment in industrialized countries, as well as in developing countries and regions.

Second, during the 1990s, new technologies and global competition have introduced additional factors that have highlighted the importance of MSEs. Corporate downsizing efforts, for example, have become common throughout the world, resulting in shrinkage in the workforce in the corporate sector. African entrepreneurs where Ethiopians are the principals, face significant uncertainty with regard to demand, dependability of infrastructure, existing of corruption, trust, prices, and so on. Most investment is held back due to risks. Some firms grow and shine and others Demise. Even many of the larger firms do not grow (Bigsten and Soderbom 2005, Tybout 2000).

Small manufacturing firms play a very important role in the economics of both developed and developing countries, representing well over 90 percent of all manufacturing enterprises in the world. However, it is also a common occurrence that every year many of these small firms are forced to close their doors. Of those operating, some grow rapidly while others lag behind or grow slowly. Though there exists a sizable amount of literature on the underline causes of failures of micro and small firms, empirical investigation into factors contributing to their success or growth are sparse.

In most swelling countries, like Ethiopia, MSEs represent the vast majority of firms, spawn a substantial share of both overall employment and output. Given their significant economic role, one might expect MSE growth to drive up overall increases in output and income levels of their respective employees in particular and the country in general. In many cases, however, their largest economic contribution appears to be one of maintaining rather than generating new employment and income for the poor. In Ethiopia, the informal sector plays a significant role in the economy. According to the 1999 survey by the Central Statistical Agency (CSA) the urban informal sector comprises about 50.6 per cent of the 2.88 million total urban employments. Women employment accounts for about 58 per cent of the employment in the informal sector. Recognizing the significance of this sector, the Ethiopian government issued the National Micro and Small Enterprises Strategy in 1997 and established the Federal Micro and Small Enterprises Development Agency in 1998. The country's industrial policy in 2003 and the poverty reduction strategy in 2006 have singled out MSEs as major instruments to create a productive and vibrant private sector and reduce poverty among urban dwellers. A further look of employment Konjit, (2011) shows that from 2001- 2003 the total job created in the Addis Ababa city alone is about 700,000 from which 37% is women. In overall economic development, a critically important role is played by micro, small and medium enterprises in the developing world. The vast majority of countries relies on the dynamism, resourcefulness and risk-taking of private enterprises (to which most small scale manufacturing enterprises belong) to trigger, sustain the process, and form the base for private sector led economic growth. In this regard, micro and small scale manufacturing industries are playing an ever-increasing role in the manufacturing industrial structure of the country. Expansion and development of the sector increase agricultural productivity through providing agricultural inputs and creating demand for agricultural outputs. Furthermore, small scale manufacturing industries play a key role in stimulating other sectors of the economy, such as trade, construction and services and in reducing unemployment. Basic data on manufacturing output, input, employment, fixed assets, investment and capacity are of paramount importance of designing and formulating industrial development programs, strategies and policies.

Generally, micro, small and medium enterprises (MSMEs) withholding the fact that they have a significant role in different sectors, in the manufacturing industry they are vital to play a role in economic development in general and in industrial development in particular at all levels of development *(Ceglie & Dini,*

1999). MSEs form the backbone of the private sector, make up over 90 percent enterprises in the world and account for 50 to 60 percent of employment. MSEs engaged in manufacturing account for between 40 and 80 percent of manufacturing employment. The small business sector is recognized as an integral component of economic development and a crucial element in the effort to elevate countries out of poverty. It is estimated that MSEs employ 22% of the adult population in developing countries (Daniels & Ngwira, 1993). Despite a decade of rapid economic growth, Africa's industrial sector remains small and underdeveloped. John Page (2010) highlights figures indicating that Africa has actually de-industrialized over the last 3 to 4 decades.

In Ethiopia, along with the overall policies and strategies of economic development especially with the adoption of a free market economic policy since 1991, small enterprise and business development has been recognized as a key playing field. As a result, Micro and small scale businesses are becoming catalysts in the socio – economic development of the country. MSEs are veritable vehicles for the attainment of national macroeconomic objectives in terms of accommodating a large number of employment generations at low investment cost and enhancement of the apprenticeship training event to promote the development of the country. In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to: generate employment and more equitable income distribution; activate competition; exploit niche markets; enhance productivity and mechanical change and, through the combination of all of these measures, to stimulate economic development.

In developing countries the informal sector that mainly constitutes micro enterprises is the major source of employment and income for the urban population. According to ILO (2002) estimations, the share of informal employment (outside agriculture) to the total non-agricultural employment accounts for nearly half or more in all regions of the developing world and about 72 per cent in sub-Saharan Africa (SSA). They are also very important part of the developing world economy. For example, in SSA the contribution of the informal sector in non-agriculture GDP is about 41 per cent. Hence, their efficiency matters in determining overall economic performance and poverty reduction. Despite their potential to improve economic growth, micro and small enterprises (MSEs) in developing countries lack to meet the expected target. They produce largely for the low income group and employ lower levels of techniques. Many micro enterprises are the self-employed type with a low graduation rate in higher size categories and their innovative activities are limited (Kiggundu 2002) cited in Che Rose R. Kumar N. and Li Yen L. (2006). This is largely due to the harsher environment they operate in. Unreliable enforcement of contracts, excessive regulatory and administrative requirements, limited access to finance, and inadequate infrastructure services all impose disproportionately high transaction costs on MSEs of doing business generally, and for innovative activity in particular (Ernst 2004).

The promotion of MSEs is becoming a popular development tool. Accordingly, governments and donors in the developing countries have shown increasing interest in promoting innovations and entrepreneurship. They have initiated various support programs with the aim to improve MSEs' competitiveness through enhancing technology and innovation capabilities such as upgrading product quality, improving design and packaging, and training to improve competitiveness. The notion is that innovation is essential for MSEs to become and remain competitive, move to higher return activities, and to grow and graduate to small and medium sized enterprise status, thus, creating new employment opportunities (Ernst 2004). Improving competitiveness is even more crucial in the context of liberalization and increasing integration into the world market. Lack of adaptation and upgrading spells defeat, while firms that keep up or even initiate their own original improvements can be expected to perform well (Romijn 2002).

The efficacy of such interventions, however, depends on identifying key factors that foster or inhibit innovation by MSEs and targeting the potentially successful entrepreneurs. Small business entrepreneurs are hardly homogeneous in objective and capability. Many are self-employed while others have high vigor to innovate and grow.

Theoretical framework of Firm Growthh

Meaning and Definition of Firm Growth

The expression, growth is used in commonplace discourse with two different implications. It sometimes denotes simply increase in amount; for example, it is true when one thinks about growth in terms of output, export, assets, sales, profitability and employment. On the other junction, however, it is used in its primary meaning implying an increase in size or improvement in quality as a result of a process of development, akin to natural biological processes in which an interacting series of internal changes leads to increases in size accompanied by changes in the characteristics of the growing object .

There are many different definitions of business growth and ways of measuring this growth (Barringer et al., 2005; Delmar et al., 2003; Delmar and Wiklund, 2008). Business growth is typically defined and measured, using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins (Allison et al. 2006). All measures have particular advantages and limitations in understanding the phenomenon of growth, but overall these variations render systematic knowledge accumulation and comparisons

problematic. Firm growth varies widely depending on business age, size and industry. Therefore, sales growth need not correspond to, or underpin, other dimensions of growth in which policymakers might also be interested; for instance, sales can increase while employment and/or profits fall. This is partly related to contextual or structural issues such as sector or age of business. but also to the strategic choices made by principal decision-makers within the firm. Firms might, for example, expand sales at the expense of profit margins by reducing prices or, by outsourcing work, with no impact on employment.

Subsequent to earlier work that suggests **sales and/or employment** growth is a better measure of new and existing business performance than accounting based measures such as profit, return on investment or market share (Brush and Vander Werf, 1992), this study focuses on employment/sales growth. In practice, sales growth is also easier to measure compared with some other indices and is much more likely to be recorded. Sales are a good indicator of size and, therefore, growth. Sales may also be taken as a clear-cut indicator of how a firm is competing relative to their market. The business owners themselves often treat sales as a key motivator and an indicator of performance rather than for example, job generation.

Having determined on employment/sales growth, the next parameter identified for this study is the scale of change of growth in sales. MSEs grow in particular ways, over time, often combining increased sales with periods of stable and/or declining. This is in large part due to the fact that growth is a choice (Delmar and Wiklund, 2008). Firms' growth paths are also responsive to the time periods over which data measurements are taken. The longer the measurement period, the more confident observers can be that growth is sustained but, also, the more likely it is that sales demonstrate instability rather than linearity during the study periods. Over shorter periods, conversely, businesses might attain linear, uninterrupted growth, although such trends might not endure. The diversity of firms' development paths means it is difficult to define firms unambiguously as either 'high growth' or 'non-high growth', other than by reference to specific time periods. Today's 'gazelles' may be tomorrow's declining, or even exiting, firms. Delmar et al. (2008), for example, in their longitudinal study of growth firms in Sweden depict seven types of growth patterns, ranging from 'super absolute' growers through to 'erratic, one shot' growers and 'steady overall' growers.

There is No internationally accepted definition of the 'high growth firm' (Delmar et al., 2003; Hoffman and Junge 2006). However, two approaches to identifying and measuring the prevalence of high growth enterprises can be discerned in the literature. One defines the fastest growing **10 per cent** of businesses in a country as 'high growth. The second specifies particular performance criteria, for example, in relation to sales turnover, employment or other measures and counts the number of firms meeting the criteria. On the other hand the other definition of a high growth firm is: **60 per cent** or greater real turnover growth in three years.

Measuring the Growth of Firms

The conventional measure of growth used in past studies of small firms is the change in the number of workers/employees since startup, a variable that is relatively easy for respondents to remember and that is antiseptic by price changes (refer, for example, Liedholm and Mead, 1999). Moreover, job creation may be an important social goal, and policies to support small businesses are frequently justified on their supposed employment effects. The definition of employment growth in the present studies differs in a number of imperative ways from a simple calculation of the change in the number of workers from the firm's startup to the date of interview. In this paper definition includes working owners (entrepreneurs), for job creation for owners may be equally as valuable, from a social point of view, as jobs created for others. Workers on external (rather than labor) contracts are also included in the definition, as the purpose here is not to distinguish different types of contractual relations.

A still more important feature of the definition of employment growth analyzed here is that we study annual growth rates, rather than the total change since startup. The use of annual rates permit a much more precise assessment of the timing of employment growth effects, rather than cumulating over a long period of time. Sales are reported cumulatively by year; thus, during the startup year, they are an unreliable measure of average performance due to the ambiguity of the precise date of startup. We therefore restrict the analysis of sales growth of data only from the first full year of operation.

Growth in Terms of Change in the Amount

Growth is an occurrence that of necessity happens throughout time. Consequently, firm growth should be researched longitudinally at least in the sense that assessment of the predictors precedes appraisal of the outcome, i.e., the change in size. In spite of this fact, a large number of previous growth studies were in fact cross-sectional. This means that researchers have been involved in 'prediction of the past' or have made burly assumptions about causal order and/or non-changeability of the predictors over time. Cross-sectional studies that assess growth from an earlier point in time up to the time of the investigation are also subject to selection (success) and hindsight (retrospection) biases. Hence, further empirical contributions to this literature ought to employ a longitudinal design.

From the change-in-amount perspective growth can be measured by a range of different indicators, the most frequently suggested being sales, employment, assets, physical output, market share and profits (Ardishvili et al., 1998; Delmar, 1997; Weinzimmer, Nystrom & Freeman, 1998; Wiklund, 1998). In within-industry studies even more specialized measures are conceivable, such as the number of seats for restaurants or theatres, and the number of vehicles for taxi or car rental companies (Bolton, 1971). Among available alternatives the researcher has the choice to a) create a multiple indicator index; b) apply alternative measures separately, and c) find the one, the best indicator. If growth is conceived of as a latent construct with common causes, but alternative manifestations the multiple-indicator index makes sense (Davidsson, 1991). The underlying theory here is that the same explanatory factors facilitate or hinder growth across firms, but that this growth for some firms manifests itself as, e.g., radically increased sales turnover without much change in assets or employment, whereas for other types of firm the result is moderate and balanced growth across, e.g., assets, employment and sales. The sum of standardized versions of all three indicators would then be a better representation of the theoretical growth concept. If only one indicator is used, the results may be weak and possibly distorted. Alternatively, the underlying theory predicts that certain antecedents would be related to, e.g., growth in sales and market share while other predictors are believed to influence growth in employment and profits, respectively. If so, the sensible course of action is to include and analyze different growth indicators separately (Delmar, 1997). The theoretical and empirical evidence is leaning in favor of this other notion. For example, Chandler, McKelvie and Davidsson (2005) successfully used transaction cost theory to explain when growth in sales and employment do and do not move closer together.

Another defensible choice would be to impound the study to the one growth indicator that is best matched with the theory in question. If only a single indicator is used and the study has a cross-industry intend there is mounting consensus that sales growth should be the preferred choice (Ardishvili et al., 1998; McDougall & Dsouza, 1992; Weinzimmer et al., 1998; Wiklund(1998). It is the most general and acceptable of the other alternatives, as all commercial firms like micro and small enterprises need to have sales to survive and grows as a result. According to Barkham, Gudgin, Hart and Hanvey (1996) it is also the indicator small firm owner managers use themselves. In addition, it may be argued that sales often precede the other indicators; it is the increase in sales that necessitates increases in the quantity and quality of assets and employees, and thereby rising profits or market share follows (Flamholtz, 1986). These favorable aspects of sales as an indicator is reflected in that with 30.9 percent of the studies it is the most widely used in research reviewed by Delmar (1997). Almost as popular is employment growth, which was the choice in 29.1 percent of the reviewed studies. While the most relevant for some purposes such as policy makers' interest in fostering employment growth through entrepreneurship (Davidsson & Wiklund, 2000), this indicator is probably often applied for reasons of data availability and reliability. Very few managers consider the growth in the number of employees as a prioritized goal in itself (Gray, 1990; Wiklund, 1998; Robson & Bennett, 2000) and because some growing firms outsource heavily employment growth is not always highly correlated with sales growth (Delmar et al., 2003).

The other indicators such as assets, profits and others are less generally applicable and therefore not applied as frequently.

The 'market' in market share calculations may be ambiguous and even difficult task; differences in market share may be irrelevant for small firms, and comparing shares of firms operating in different markets may be indefensible and not sound. The value of assets varies with the capital intensity/invested by micro and small enterprises and is difficult to assess where the key asset is knowledge. Physical output can hardly be compared across industries. While profits are universally relevant they reflect many other aspects of a firm apart from its size. Besides, it is perfectly possible for a large and/or growing firm to be unprofitable (Davidsson, Steffens & Fitzsimmons, 2005).

While sales may be the most universally applicable growth indicator it is not always true. As Penrose (1959: 199) stated almost half a century ago, "there is no way of measuring an amount of expansion, or even the size of a firm, that is not open to serious conceptual objections." For example, high tech companies with rather long development times, such as biotech companies, are not able to display any growth in sales or revenues for long periods of time. Yet, during this period they might still grow in terms of assets— including knowledge assets such as patents and employment. On the other hand the revenue figure may be inflated by one-off divestment of business units rather than only capturing sales of products and services. When data cover several countries and/or time periods, differences in inflation rates are a complicating factor. Rather than using sales because others have proposed it, researchers are well advised to think seriously about what growth indicator(s) best matches their theory, their research questions, and the type of firms included in their own sample.

The distinction between organic growth and growth through acquisitions has been widely ignored in previous research (Delmar et al., 2003). When the key interest of the study is on the societal level this is a crucial distinction, as acquisition-based growth in itself does not bring any net addition to the economy. Also in studies on the firm level this distinction deserves more scrutiny as the drivers and effects of the two forms of growth are likely to have differing managerial implications (Levie, 1997; Penrose, 1959). Therefore, if the data collection

procedure allows one to partial out organic for total growth it seems a wise decision to take that opportunity.

Apart from the choice of indicator the specific formula used to calculate growth may affect or biased the results. This is an additional reason to include and analyze different indicators separately so as to detect and make sense of such differences (Delmar, 1997; Weinzimmer et al., 1998). However, in this research sales has been applied as best indicator i.e. as in particular, it has been observed that effects of firm size on growth vary depending on whether an absolute or a relative measure is used. It may be argued that sophisticated researchers have no problem in understanding this impediment and that the inclusion of size as a control variable solves the problem. While it does in a technical sense, a range of other independent variables may be size-dependent on non-obvious ways, so that also their estimated effect on growth is sensitive to whether an absolute or a relative growth measure is used. Therefore, the size sensitivity of specific formulae requires deeper consideration than the mere inclusion of size as a control variable.

Furthermore, the use of only the first year and end year data for growth calculations has been criticized because it models growth as one giant leap (Davidson & Wiklund, 2000) and makes the calculation overly susceptible to stochastic variation (Weinzimmer et al., 1998). On this ground, the latter suggest that the slope of the regression line over multi-period data be used as the measure of firm growth. To some extent such a practice also narrows the gap between the size change and process perspectives on growth.

Firm growth as a process

The ideal design for research on growth as a process would be fundamentally different, though. The arms-length, quantitative study of the determinants of growth does not put much flesh on the bone to understanding the issue from a process point of view. This can produce a major challenge, as a number of the determinants fostering or hindering growth are not stable over time. Attitudes and motivation of the founders could, for example, change radically due to events in their business or private lives. Wiklund (1998) discusses the difficulty as follows: "we really do not know how much variables change over the studied time period and whether or not this is a major difficulty. Growth, as such, is a change process and it could be that explanatory variables change quite considerably during this process. Until we do know, it must remain an unwise oversimplification to assume that nothing else but size changes." While recent studies manage to give an answer the question of how different determinants affect growth, they have largely failed to explain the underlying processes of why these determinants might affect growth.

When growth is conceived as a process, there is little uncertainty that having several indicators of growth is preferable, and that these have to be assessed at several different points in time. Particularly if the study is of a close-up nature a very affluent image can be captured, including for example direct assessment of organizational complexity along several dimensions as the growth process unfolds. This is not to say processes cannot be studied quantitatively. However, it requires considerable resources and staying power on the part of the research team to study a substantial number of development processes in a deeper manner (Raffa, Zollo & Caponi, 1996). While retrospective reconstructions of growth processes do not lack value they are subject to potential biases due to hindsight and rationalization after the fact on the part of informants. To some extent this can be remedied by use of multiple informants and documents produced at the time, but whether qualitative or quantitative in nature a more ideal study would follow the growth processes as they evolve.

Growth - Motivation of Micro and Small Enterprises

According to the small business literature, there is a distinct difference between the small business owner and the entrepreneur**.** Birch (1987) distinguishes between "income substitutes" and "entrepreneurs", the former substituting paid-employment income with business income, the latter been committed to the growth of their business. Similarly, Hay (1994) makes the distinction between "value builders" and "life-stylers." The latter seek long-term stability instead of growth, and use the business as a means of generating income sufficient to support a certain "lifestyle." Canadian evidence supports this finding. In an Ontario survey of small business startups, half of new firm owners intended that their business would simply generate enough income to make a living for themselves Orser et al., (1996). We may conclude, therefore, that for entrepreneurial ventures the willingness of the owner-manager to grow is as important as his ability to foster and manage growth.

We have chosen the following indicators of entrepreneurial attitudes and motivation to grow:

a) The owner's entrepreneurial intensity (active risk taking), b) his /her desire for independence, c) whether he/she is "pushed" by unemployment and) whether he/she is pursuing a certain "Lifestyle."

a) Entrepreneurial intensity (Active risk taking)

Entrepreneurial intensity refers to the willingness of the individual to assume risk and be proactive as an indicator of commitment to growth. The level of active risk taking by the owner-manager may also determine how willing he/she is to tap the various resources necessary for developing the firm. Active risk taking is demonstrated by the owner-manager's willingness to accept personal financial risk. Entrepreneurial intensity is often measured by the entrepreneur's agreement on statements such as "My business is the most important

activity in my life" and "I would do whatever it takes to make my business grow." Indeed Gundry and Welsch (1997). Found that commitment to growth differentiated "high" growth from "low" growth entrepreneurs.
Perren (2000), on sixteen case studies of micro-enterprises, found that active risk taking was a key factor that conditioned the owner-manager's willingness to tap the physical, material, financial and intangible resources necessary for firm growth beyond the micro-enterprise phase.

b) Desire for independence

Many researchers have suggested that successful owner-managers have a high "internal locus of control" and believe they have command over their destiny. Many research reported that founders of "high performing companies" were drawn by a strong desire for independence. Perren (2000) found that the desire to be "one's own boss" was an important factor in stimulating the growth motivation of owner-managers of micro-enterprises.

c) "Pushed" by unemployment

Alternatively, it is also suggested by the literature that some individuals may have become small business owners because they were driven to it by unemployment – the "push" hypothesis – and not because they have entrepreneurial attitudes and abilities – the "pull" hypothesis. It would therefore be reasonable to expect lower growth from businesses that were started by individuals who were pushed by unemployment.

d) "Lifestyle" businesses: Currently employed in another business

Similarly, it is likely that individuals who hold a concurrent paid-employment job may have neither the time nor the motivation to invest in the growth of their business. It is likely that some of these individuals are complementing their paid-employment income with some independent business income, in order to support a certain lifestyle.

Determinants of Firms' Growth: Theoretical and Empirical Review

This section of the study review the main theoretical propositions on the dynamics of the firm's growth in relation to their determinants i.e. their motivation for their growth over time; the objective of establishment; and factors that dictate their survival, stability and performance.

There are several theoretical views about the institutional operation of the firm; some indicate that a firm is a complex entity with many dimensions, all of which interact simultaneously to determine the nature and behavior of a particular firm. Thus, how a particular firm behaves or will behave and perform, it appears depends on how well the different dimensions are synchronized. On the basis of these views, one can think of a firm as getting larger or smaller based on whether the entrepreneur organizes more or less transactions.

However, the Coarsian theory of transaction cost does not provide any insights into why some organizes more transactions and why other organizes less. In other words, there is a need for further explanations on the growth of firms and the determinants. In filling this gap, some economists have tried to adduce arguments and theories over the years to explain the observed trend in firms' growth, development and diversification. Consequently, alternative theories or models or hypotheses seeking to explain the growth of firms have been developed. Some of the main documented theories in literature that explains the growth of the firm's activities and performed includes: (i) the neo-classical theory; (ii) managerial theory; (iii) models with Penrose effects; (iv) theory of optimum firm size. These theories are reviewed briefly in turn.

According to the neoclassical version, the firm is an abstraction, an idealized form of business, whose existence is explained solely by the purely economic motive of generating profit. The neoclassical firm is thus a profit-maximizing (or cost-minimizing) entity operating in an exogenously given environment which lies beyond its control. By implications, profit as a motivation for growth is determined by external factors beyond the control of firm's capability. The dissatisfaction in the 1930s with the simple conception of a firm as a mechanism which transforms atomistic inputs into marketable outputs resulted in alternative perspectives. A legal, economic view of the firm emerged, at revealing key aspects of the internal structure of the corporate firm. One development of these formed the basis of the managerial theory of the firm. Throwing some light into the neoclassical black box, the managerial theory emphasized the complex nature of the modern corporate firm. Another model of firm growth is rooted in Penrose argument of the possibility of "managerial limits to firm growth". The argument is a postulation that management is a team effort in which individuals deploys specialized, functional skills as well as highly team specific skills, which enable them to collectively coordinate the many activities of the firm in a coherent manner. The knowledge that underlies these specific skills is likely to be tacit, meaning that they can only be learnt exponentially or by direct instruction from existing managers. Hence, as the firm expands, it needs to recruit new managers and it must divert at least some existing managers from their current operational responsibilities to help manage the process of expanding the management team. In these circumstances, firms are likely to smooth out their responses to current growth opportunities, sacrificing current profits but saving some of the costs of growth, which they might otherwise incur to gain those profits.

On the strength of these arguments, Penrose concludes that firms had no determinant long run or optimum size, but only a constraint on current period growth rates. The major criticism against this model has been that contrary to its postulations that the adjustment costs are variable and not fixed the observed and direct

evidence of adjustment costs show that they are fixed and not variable. Furthermore, it has been difficult to reconstruct Penrose's managerial limits to growth arguments in a way, which makes the cost of expanding management team independent of the number of new managers to be recruited into the team. In reaction to the shortcomings of the managerial limit theory, models of optimal firm size postulate that firms can achieve an optimal size if they behave rationally. That size depends on a number of considerations. For example, the market structure in which the firm operates, that is, whether the setting is one of perfect competition or one of imperfect competition (monopoly, oligopoly, or monopolistic competition). One major conclusion of this theory is that small firms grow faster than larger ones until they reach what is called minimum efficient scale (MSE) of production Also, if firms have market power (that is, there is imperfect competition), their optimal size may differ from this optimal cost position, and if economies of scope exist, such differences may be more noticeable. In this situation the limit of a firm's growth is determined by the demand for its unique product rather than by cost considerations.

Studies of the dynamics of firm growth have overturned the conclusion of the firm's growth towards cited in (Sangosany and Awoyemi, 2011). Gibrat's "Law of Proportionate Effect" which holds that current firm growth is dependent on its previous factors. The law emanated when Gibrat challenged the traditional economic theory which postulates that a negative relationship between size and firms growth rate exist. This is premised on the assumption that large firms operate close to the optimum level and so would grow very little and might even have to shrink. But a small firm would be far below the optimum size and would need to grow faster.

In its simplest interpretation, the law states that both big and small firms have equal chances of growing at a given rate during any period of time. The combinations of findings of some empirical invalidation of this law Audertsh, (1995) and Hart and Qulton, 1996) as well as the outcome of some studies and further reflections resulted in the belief of the "bigger the better". This belief expresses a positive relationship between firm size and growth. The argument runs that, large firms have an advantage over the smaller ones in the sense that, the larger firms can enter into all the product lines that the small firms enter while the reverse is not true in the presence of size and scale advantages. The argument has further extended by that larger firms have an easier access to capital and money market than the less well known small firms. Indeed, access to external sources of finance is now widely recognized as important to the firms' ability to survive and grow over time.

However, after challenging the Gibrat's (1931) "Law of Proportionate Effect", other empirical studies have evolved in ascertaining other determinants of firms in relation to traditional and modern theoretical propositions. Positing that factors like access to *finance, managerial capability, market structure, firm's age, firm's organizational structure, industry exists rate, government policies (in terms of restriction, quota, taxes and levies), and macroeconomic performance and stability*. Many other studies show that the growth rate of manufacturing firms and the volatility of growth are negatively associated with firm size and age. In dynamic terms, the sector is viewed as being populated by firms, most of which have considerable growth potential. Large enterprises in developing countries achieve productivity increases to a great extent simply by borrowing from the shelf of technologies available in the world (Christopoulos and Tsionas, 2004). As capital becomes less scarce and the range of technologies available expands on the world, firms need productivity increases if they are to maintain or increase their contribution to overall development. Brown *etal*. (2004) investigated into what makes small firms grow in Romania. They examined growth variables such as Finance, Human Capital, Technical Assistance and Business Environment. Their result reveals that financial constraints through loans has positive impacts on the sales and employment growth while reinvested profit is estimated to have a strong positive effect on both sales and employment. The effect of the human capital variables on employment and sales growth are weaker in general than those for financial constraints. Technical assistance is identified to be associated with faster employment and sales growth but the estimated coefficient becomes statistically insignificant when firm fixed effects are added. There is no evidence that, business environment proxies by corruption, red tape, predatory behavior of public agencies etc, constrains the growth of micro and small firms.

Aregbeyen (2007) in a related research investigated the determinants of firm growth selected from the Nigerian firms that are quoted on the Nigerian Stock Exchange. The study sampled 188 firms for the period of 1995-2005. The results obtained revealed that for the manufacturing firms, the size of the firms, capital intensity, foreign equity holding, governance structure, inflation, financial constraints and vertical integration are significant in explaining the firm's growth rate. Contrary to postulations of the theory the result obtained showed that the more financially constraints the manufacturing firms are, the better the growth performance.

Moreover, if a firm wants to attain sustained expansion, it must satisfy a number of requirements for growth: it must increase its sales, it must have access to additional resources, it must expand its management team, and it must extend its knowledge base. Each set of requirements establishes a different set of barriers. Barber et al (1989) recommended that some of these barriers are external to the firm, a feature of the firm's operating environment that is impracticable to alter. But many of the barriers are tend to be internal and firm specific, generated by the growth of the firm. The principal obstruction Barber et al pinpointed were management attributes, lack of finance, and the external labor market and market structure. Berney (1994) had a

broadly similar list. He wrote that barriers/determinants of growth might include the product (poor quality, wrong costs), funding (inappropriate funding/equity), psychological/motivational factors (low levels of ambition, risk aversion, fear of loss of control), managerial deficiencies (finance, organizational, production, marketing), and government policy (taxation, incentives and licensing). Though internal determinants of firm growth outweigh the growth, the majority of research studies focus on the analyses of external factors.

Burns' (1994) examination of a survey in five European countries comes across with the great barrier as the depressed state of European economies. Second was competition from home and abroad, next was the cost and availability of funds (particularly for small companies), and finally, government bureaucracy. The principal short-term barriers were cost of finance, shortage of orders, and domestic legislation. The primary long-term obstacles were limited market demand, accessing new markets, and the cost and availability of finance. The majority of the studies identified the key barriers to growth as being internal, with sales and marketing the most foremost, followed by internal financial management, human resource management, general management, and then the regulatory environment. These rankings were different to those that they ascertained for the startup stage of the firm where external finance scored highly and organizational management issues scored lower. As Peterson et al (1995) suggested, eliminating growth defeating management practices might be more important than adopting growth promoting management practices. These barriers influence the structures and strategies selected by managers, and negatively impact upon the ambitions of the organization. Some of the barriers to growth are perceived rather than real, but once they exist in the mind of the entrepreneur they will act as a deterrent to growth aspirations and practices. There are three categories of determinants of MSEs Growth Mervi Niskanen and Jyrki Niskanen (2007).

The first group of factors is that of the entrepreneurs' individual resources. These are factors that can be identified prior to the establishment of the business. The second group of factors is firm specific characteristics such as the firm's size, age and legal form and the third group is formed by the strategic choices made by the entrepreneur or the owners of the firm.

A further look on specific growth predictors compiling mostly UK studies from the late 1980s and early 1990s, but without combining them in an integrated model, Storey (1994) compiles the evidence in the categories the entrepreneur, the firm, and strategy. Support for influence is found in all three categories.

Among the variables associated with the individual a majority of studies found that for motivation, education, management experience, number of founders and functional skills the influence of growth is positive, although the last factor had only been investigated in two studies. Unemployment as start-up reason was mostly negatively associated with growth, whereas for prior self-employment, social marginality (ethnicity), training, age, prior sector experience and gender the evidence was mixed or most studies suggested they had no effect on growth.

The Data, Methodology and Variables

The major objective of the research was to analyze the determinants of growth of micro and small enterpises in Addis Ababa. In line with this aforementioned Objective a survey of 95 Micro and Small Enterprises at Addis Ababa has been using a cross sectional Data for the period 2013 has been collected using a questionnaire and Interview with Focus Group Discussion (FGD). For the achievement of the research objectives Both primary and secondary data were used. Moreover, Both quantitative and qualitative paradigms have been employed for the research analysis. A multistage sampling and proportional sampling techniques have been used to arrive to the required sample size i.e. 95.

A multiple linear Regression model in order to analyze the determinants of firm Growth of micro and small enterprises in the study area. To properly address analyze the aforementioned objective and model SPSS (Statistical Package for Social Science Version 20) and STAA version 10 softwares have been employed.

The Multiple regression model specification and Hypothesis

In the studies of firm growth, as broadly discussed in the literature review part, growth is defined in a number of ways. According to Liedholm and Mead (1999), there are different ways of defining growth. These are annual compound growth rate and average annual growth rates measured in percent and average annual growth in sales since the start up measured in the sales turnover. The compound annual growth rate (CAGR) is a rate of growth that tells what an enterprise growth in sales/employees over the years on an annual compounded basis measured in percent. It is calculated as:

CAGRS = [(current sales ÷ Beginning year sales) $^{1/n}$***] –1***

Where: n is the number of time periods

Current year sales is the sales turnover during the study year

Beginning year sales- is the sales turnover during the commencement of business

Growth = f (Sex, Education, firm age, Access to credit, Access to Training, Diversification of products, Availability of promotional activities).

The general Regression model is then specified as:

Yi = ao + biXi+e

Where: Yi, is the growth of the firm

ao: is the intercept term

bi: is the coefficient of xi

Xi: are the explanatory variables

e: is the error term

Therefore, the estimated equation in the analysis of the determinants of growth in this study is explained and readjusted as follows.

The expansion of the model is clearly presented as follows and variables are explained hereunder.

GRTH =ao+b1(SEX)+b2(EDUC)+b3(FAGE)+ b4(CRED)+ b5(TRNG) b6(PRON)+b7(DIVSFN).

1. **SEX**: refers the biological characteristics of the entrepreneur or the manager. Empirical evidence suggests that women's MSEs tend to grow more slowly than those owned by men. One contributing factor to the slower growth of female-owned MSEs is that their firms have an especially high probability of being physically located within the household (ILO, 2004).Female entrepreneur managers are more risk averse and are less likely to grow in comparison with their male counterparts in many studies. It takes dummy variable, 1 if the manager is male and 0 otherwise). Therefore,male managers are expected to affect growth positively. That is (b_1>0).
2. **EDUC**: is a continuous variable refering the level of education of the entrepreneur/manager. An empirical rigorous study of high-growth entrepreneurs provides telling insights about the importance of skills and business contacts gained during past employment (Kantis, Angellini, and Koenig, 2004). It is expected that entrepreneurs with higher levels of formal education would be more likely to grow than those with lower levels of education or with no formal education. It is measured in terms of years. Therefore, it is expected to affect growth positively that is (b_2>0).
3. **FAGE**: The age of the MSE. MSE age is defined as the absolute number of years of Existence since start-up**.** Many literatures and findings depicted that younger firms or MSE grow faster than those that are relatively older ones. Thus, there exist a negative relationship between the enterprise growth and its age. Therefore, aged firms will grow less than younger ones. That is (b_3<0).
4. **CRED**: refers the accessibility of credit from different sources like micro financing institutions and banks for the last three years. Those enterprises that have access to formal and informal credit are expected and assumed to buy manufacturing equipments and are vulnerable to expand their working capital and production. Therefore are more likely to grow than those that have no access to credit. (Dummy variable 1 if the MSEs reports receiving external formal/informal credit for the business and 0 otherwise). Therefore, (b4>0)
5. **TRNG**: Technical and professional training access for managers and employees for the last three years. Continuous training of managers and workforce enhances the growth of firms. Therefore, it assumes (dummy variable 1 for the availability of recurrent training for the work force from formal institutions for the last two years at the time of the study and 0 if continuous training is not provided. And it is expected to affect growth positively. That is (b5>0).
6. **PDV**: Refers to diversification of the firm's Products and services measured in the number of types of products. Product diversification or production of various products is associated with the growth of firms because it helps firms to cope up with demand constraints. A larger demand directed to the firm and more stability would impact on larger rates of growth. To measure diversification by product, an index equal to proportion on sales of the most important product (shoe) in this research is divided by the total number of products. And it is hypothesized to affect growth positively. That is (b_6>0).
7. **PRON**: Availability of promotional initiatives and efforts made by the MSEs using fliers, national and international Media, exhibitions, radio and /or television. Advertising intensity is one factor for growth in small enterprises because it creates new opportunities for the firm. Take dummy value 1 if MSE reports using at least 1 mode of promotion, 0 otherwise). Therefore, this variable is expected to affect growth positively by increasing sales Profitability thereby. That is (b7>0).

4. Result and Discussion

Sex of the manager

The positive, however, the statistical insignificant impact of gender (sex) effect on growth is reported. This is one of the more certain generalizations, as the variable was included in most of the studies Storey reviewed previously. Other research suggests that women-owned businesses do not seem to under-perform with regard to profitability, employment or orders (DuRietz & Henrekson, 2000). When the studies suggest that female-owned businesses grow less it is more likely to be either an industry effect rather than a factual gender effect, or a upshot of lesser average growth ambitions on the part of female business owners, moreover, indicating neither

less effective use of resources nor lesser ability to reach one's goals Cliff (1998). As regards the firm the evidence suggests that firm age and size, sectoral affiliation, legal form and location are all systematically related to growth. As far as size is concerned, the majority of the previous studies reported a significant effect, but the sign varies probably as a result of the specific growth measure employed.

Firm Age revealed a theoretical a positive, however, statistically insignificant impact on firm growth is, indicating a weak positive relationship between firm age and growth. However, this result contradicts with many recent research findings, however, it reaffirms the classical theory of Gibrat's law. The discussion on the relationship between firm age/size and firm growth has its origin in Gibrat's law (Audretsch et al., 2004), which states that the growth rate of a firm is independent of its initial size and that there is no difference between firms in the probability of a given growth rate during a specific time interval within the same industry. Therefore, the hypothesis (firm Age) has a statistical significance influence on firm growth is rejected.

Therefore, it is possible to conclude that Gibrat's law holds, growth measured in terms of sales, in any given period of time, is independent of the age of the firm.

This may be indicating that, when firms get older and older, they could manage their operational and long run costs, increase their efficiency, introduce technology, create networks with other firms and institutions coupled with ample experience in the business. Therefore, all these factors may be brought up together and firms will grow with age.

A higher education provides superior technical knowledge and contributes positively to develop individual learning capabilities to process new information and hence, recognize business opportunities (Shane, 2000). In addition, higher education implies the acquisition of organizational abilities that enable entrepreneurs to better exploit these opportunities. Therefore, more educated Managers of MSEs (entrepreneurs) have the indispensable skills, discipline, motivation, Information and self-confidence to attain higher growth rates in their businesses (Cooper, Gimeno-Gascón and Woo, 1994; Gimeno, Folta, Cooper and Woo, 1997; Ucbasaran, Westhead and Wright, 2008). Moreover, Christopher Green, Colin, Victor 2006 (have similar results).

There is also evidence that formal vocational training of the managers does significantly affect Micro and Small Enterprises growth at 5% significance level. The importance of vocational training for managers is perhaps the most important finding for the manufacturing sector from this analysis, as it provides the opportunity for short-term and long-term impacts on the growth trajectories of micro and small manufacturing firms. This result supports the Addis Ababa city administration effort to equip TVET institutes in order to link MSEs with skill providing equipment and machinery and form new TVETs or strengthen existing high schools in the TVET program.

A positive and A statistically significant result of product diversification has been revealed indicating diversifying products will have a positive impact on leather and leather products manufacturing MSEs. The variable is significant at 1% significance level. It shows that as the firm's product diversity increases by one, its firm growth rate will increase by 0.33%. This suggests that the higher number of diversified products, it would have lead the higher the growth rate in the Micro and small scale enterprises.

The explanation for this positive relationship between the number of products and high growth probability is that diversification increases the capacity of firms as a shock absorber to unfavorable influences emerging from lack of demand for a few products. Empirical research by Rosa (1998) and Rosa and Scott (1999) seems to demonstrate that related diversification is commonly associated with growth, that is when entrepreneurs seize opportunities arising from its existing activities. Solomon (2004) in his study of socioeconomic determinants of growth of small manufacturing enterprises reported similar results. Moreover, Li and Greenwood (2004) found that intra-industry product diversification can uniquely drive two benefits; i.e. Premiums from mutual forbearance brought by multi-market competition and efficiencies from market structure. According to them, mutual forbearance, defined as tacit collusion to mitigate the intensity of competitive behaviors at multiple points of competition, is more likely to exist in the intra-industry diversification context than in the inter-industry context. That is, when firms compete within a constrained market with a higher probability of multiple contacts, severe rivalry may be alleviated due to a greater tendency to mutually forbear offensive activities.

Credit Access was the other explanatory variable which was sought to determine the growth of MSEs. The result shows a positive and statistically significant impact on growth. This result reaffirms Anthony's (2012) study of credit access and growth of Small and medium enterprises in Ghana. This result indicates enterprise which have access to credit are much better off in growth than their counterparts as credit can help firms to settle their financial obligation and this in turn increase their profitability. Moreover, when MSEs got access to credit they will buy more raw materials and increase their working capital thus, they produce more products and maximize their sales. Moreover, Moses (2014)in his study of the effect of financial deepening on the growth of small and medium size entrepreneurs in Kenya has reported a positive and statistically significant result of credit to influence firm's growth.

Finally the statistically significant and positive result has been reported from the promotion of MSE's

products in different media. As the focus discussion data complimented, MSEs have an encouraging effort made by the organizing offices to promote their products through exhibitions and Bazaars during different holidays and festivities. As a result, they introduce and sold more of their products during this period. Therefore, promotion of products has played a significant role in the growth of MSEs.

Conclusion and Recommendation

Conclusion

In the analysis of of the determinants of Growth of Micro and small enterprises. A sample of 95 enterprise was used as a sample. A survey design and a cross sectional data for the year 2013 has been employed. The regression model result reveals that access to credit, diversification of products, Education level of the manager, and training played a positive and significant role in the Micro and small business enterprises Growth. However, Sex of the manager, and firm age showed a positive, however, insignificant result to determine growth of MSEs. Generally, the research deduces that education of the manager of MSEs, access to credit, access to training and expert service, diversifying products and promotion of products to different media were significant determinants of firm growth. However, Sex of the manager and firm age has an insignificant contribution to MSE's growth in the study area.

Recommendation

Regarding Credit facilities Addissaving and credit shall facilitate the necessary credit need by the micro and small scale enterprises. In doing so, the organizers of such MSEs shall bargain with the credit institutions and meddle the facility. The organizers should also lobby with the creditors as far as collateral is concerned. Rather that requesting to submit expensive collaterals the MSE organizers shall follow up the credit application and utilization.

Vocational training should be continuously provided for MSEs either on the job or off the job. Moreover, the training need and output should be evaluated. Because the result showed that most trainings are offered to MSEs without a due analysis of the training need and without the request of the MSEs coupled with lack of evaluation and follow up of the training output.

Diversifying the products of MSEs should be strengthened to the extent MSEs can diversify their risks and maximize their growth. Therefore, the organizers of MSEs should advise the MSEs to diversify their product lines. Finally, there was an encouraging effort made for promotion of their products with the help of the Federal Agency for micro and small enterprises. Therefore, this effort should be strengthened so as to scale up the growth of MSEs and enhance their sustainability through exhibitions, bazars and different media to advocate their products.

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