

**Critical Success Factors of Small and Medium Sized Enterprises in Addis Ababa,  
Ethiopia: Structural Model**

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**Abstract**

*The purpose of this study is to identify the critical success factors (CSFs) of small and medium-sized enterprises (SMEs) in Addis Ababa, Ethiopia. A questionnaire was developed using 54 factors identified from the previous researches. From 430 respondents, a total of 410 questionnaires were returned. By conducting exploratory factors analysis, the indicators were categorized into six factors, namely: Individual factors, management factors, business characteristics, business support, capital, and firm factors. Using IBM SPSS and AMOS, 17 the most affecting factors were identified and the results indicated that firm factors were the most critical factors that significantly affects the success of SMEs in Addis Ababa, Ethiopia, followed by individual factors and business characteristics. Management factors were the least critical factor that significantly affect the success of SMEs in Addis Ababa, Ethiopia.*

**Keywords:** Business Success, Critical Success Factors, SMEs.

**1. Introduction**

Small and Medium-Enterprises (SMEs) are viewed as one of the mechanisms of economic growth in developing countries. Small and medium-sized enterprises in Ethiopia are relatively large in their presence. These projects are given for the low-income, poor and women groups. These are the reasons for governments and other stakeholders in development to be interested in micro and small enterprises. In developing countries,

countries in transition in particular including Ethiopia, SMEs are also seen as an emerging private sector, forming the basis for private-sector-led growth. In Ethiopia, at the extent of strategy and policy, these roles of MSEs have received recognition.

Small and medium-sized enterprises are seen as means of providing employment, alleviating poverty, ensuring food security, and private sector development. For example, see ADLI (MoFED 2003), the Poverty Reduction Strategy (MoFED 2002), the Industrial Development Strategy (Ministry of Information 2003, Amharic), the Micro and Small Enterprises Development Strategy (Ministry of Trade and Industry 1997), and the Food Security Strategy (FDRE, 2002). Reflecting this, numerous initiatives and interventions, by government and donors alike, have been underway. While the CSA surveys referred to above provide useful information, comprehensive surveys such as these, covering both urban and rural areas, naturally face a limit as to the extent of details they could reasonably be expected to handle. Besides, they cover manufacturing industries only. So, detailed MSE related studies are very scarce to say the least. The result is that the available data is patchy in terms of detail, especially on issues of supplier finance (or trade credit), marketing, institutions & infrastructure, etc. and, in particular, impact of enacted policies and rules/regulations, issues of predictability of rules/regulations, and remaining policy/regulatory constraints.

Furthermore, according to the study made by Wolfenson (2001), small business is recognized as an integral component of economic development and an important element within the effort to lift countries out of SMEs businesses are driving forces for economic growth, job creation, and poverty reduction in developing countries. Saucer (2005). Said they are the means through which accelerated economic growth and rapid industrialization have been achieved,

SMEs play an important role in the modern economy. According to Pletnev and Barkhatov (2016), SMEs contribute approximately 56% of the gross domestic product (GDP) of many European countries. The factors that determine the success of SMEs businesses have increasingly drawn the attention of scholars, practitioners, and policy makers. Different literatures on critical success factors (CSFs) showed that these factors have been and continue to be the focus of many researchers in several areas, such as CSFs for business start-ups in several countries, like China (Huang et al. 2011; Chong 2012), adoption of e-commerce by SMEs in Nigeria (Agwu and Murray 2015), implementation of lean six-sigma (Laureani and Antony 2018), implementation of business intelligence in SMEs in Poland (Olszak and Ziemba 2012).

The importance of this research is to supply a conceptual framework for the critical success factors of SMEs, to assist entrepreneurs, small and medium enterprise owners, financial organization and policy makers, and to protect SMEs from failure.

## **2. Significance of the Research**

The research is also important in presenting a model that explains the impact of critical success factors of SMEs in Addis Ababa, Ethiopia. Thus, providing a model adapted to SME in Addis Ababa, which may serve as a starting point for conducting further research. The main objective of this study is to identify the success factors of SMEs that contribute to sustainable development in Ethiopia by exploring the CSFs of 410 SMEs by using structural equation modeling. To the best of my knowledge, no previous research has used 17 indicators, which are categorized into six factors, namely: Individual factors, management factors, business characteristics, business support, capital and firm factors, on the success of SMEs in Ethiopia.

### 3. Statement of the Problem

Factors affecting business enterprises performance have been a well-researched area by scholars for many years. Different researches indicate that several factors influence business performance including among many others: their professional background, their entrepreneurship capabilities and preferences, cultural and religious beliefs, as well as the technology and microenvironment. However, many more works need to be done to improve the thousands of entrepreneurial performances of entrepreneurs who are on their way up with their products. Entrepreneurs are facing a considerable number of obstacles and constraints. There are many factors that can affect the business performance of many entrepreneurs. Various research activities are also being undertaken to identify factors affecting or influencing the business performance of woman entrepreneurs. No research has been made in Ethiopia regarding CSFs of SMEs.

### 4. Review of Literature

#### 4.1. SMEs Characterization in Ethiopia

According to FDRE (1997) Ethiopia has defined Micro Enterprises as an enterprises with a total asset of less than 20,000 Birr (\$1200) and Small Enterprises as Enterprises with a total asset of Birr 500,000 (\$30,000) or less. Table 1, describes the category of SMEs definition.

Enterprise Indicators	Number of Employees	Total asset	Total Annual Sales
Medium	>50; ≤ 300	>\$3,000,000; ≤\$15000000	> \$3,000,000; ≤\$15,000,000
Small	>10; ≤50	>\$100,000; <\$3,000,000	> \$100,000; ≤\$3,000,000

**Table 1:** Definition Of SMEs By World Bank **Source:** Tom and Van der (2008)

#### 4.2. Factors Affecting Business Success

According to Storey (1994) there are three major components that affect small business success namely: The starting resources of the entrepreneur(s); The firm; and the strategy. He also identified fifteen elements within the entrepreneur/ resource’s component, six within the firm component and

fourteen within the strategy component. Berihu A. et al., (2015) identified the key success factors are for MSE growth to both MSE operators and summarized as: (a) Higher equity (b) Prior working experience in formal sector or spin-offs (c) Family business background (d) Taking advantage of government training and support (e) Smaller group (f) Manufacturing MSE (g) Skilled manager and entrepreneurial ability

#### *4.3. Factors that affect SMEs Success*

According to Chong (2012) managerial skills, government support, training, access to capital, marketing, customer service, competitive prices, human resource management, social skills, location, family and friends support are the key success factors. In his study Akampumuza (2007) noted that one of the most difficult problems facing the Nigerian SMEs is lack of good advice, lack of education, high illiteracy levels, high incidence of poverty, disease, inadequate information, poor decision making, shortage of skill, lack of efficiency, lack of lending policies, poor record keeping as well as the amount to be borrowed. This explains why it is dangerous for the small-scale enterprises to borrow from the formal credit market.

According to Thibault et al. (2002) suggest that factors influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees as important factors in examining the performance as small-scale business operators.

In his study Storey (1994) found that small firms success factors are three components namely; the starting resources of the entrepreneur(s), the firm and the strategy. The starting resources of the entrepreneur has fifteen variables such as motivation, unemployment, education, management experience, number of founders, prior self-employment, family story, social marginality, functional skills, training, age prior business failure, prior sector experience, prior firm size experience, and gender. The component 'the firm' has six

variables such as age, sector, legal form, location, size and ownership. The component 'strategy' has fourteen variables such as workforce training, management training, external equity, technological sophistication, market positioning, market adjustment, planning, new products, management recruitment, state support, customer concentration, competition, information and advice, and exporting.

There has been a series of previous studies aimed at detecting the critical success factors of SMEs. Chawla et al. (2010) considered CSFs of small business in China and the USA, and found that small business in China is subject to several success factors related to marketing, competitive forces, industry trends, location, capital availability, and owner experience. Their study exhibited similarities between small business in China and the USA, except for the business-financing factor. Ng et al. (2012) identify the CSFs for SMEs, such as leadership and management, intellectual capital, organizational innovation, entrepreneurial characteristics and competence, human resource, motivation and market orientation. In addition, Nikolic et al. (2015) classified all factors that attribute to SMEs success into two groups: Individual factors and non-individual factors. Individual factors cover entrepreneur characteristics, such as owner and manager skills, personal characteristics, gender and motivation, while non-individual factors refer to internal (marketing, ability to compete, technology, innovation) and external factors (limited finance, market conditions, intensive competition).

Omri et al. (2015) investigated factors that affect small business success using data from Tunisian micro-enterprises and concluded that innovation activities of micro-enterprises significantly mediated the effect of human, social, and financial capital on small business success. Moreover, Lampadarios et al. (2017) categorized the CSFs for SMEs into three factors: Entrepreneurial factors (owner age, gender, education level, experience and managerial skills), enterprise factors (business age and size, business networks, financial resources, customer relationship management; human capital, marketing and strategic planning) and business environment factors (political, economic, socio-cultural, technological, legal, and ecological

environments).

According to Yusof and Aspinwall (1999) CSFs of total quality management (TQM) for SMEs and proposed ten factors cover management leadership, continuous improvement system, employee education and training, supplier quality management, measurement and feedback, systems and processes, human resource management, resources, work environment and culture, along with tools and techniques. Wong (2005) have proposed eleven CSFs knowledge management (KM) implementation: Management leadership and support, organizational culture, information technology, well-planned strategy, knowledge management measurement, organizational infrastructure, processes and activities of knowledge management, training, motivation, human and financial resources, as well as human resource management. In Russia, Pletnev and Barkhatov (2016) indicated that SMEs are affected by CSFs like employee professional and personal qualities, relations with customers and suppliers, entrepreneurial skills of the top executives, wages, as well as manager's social responsibility. Rose et al. (2006) studied entrepreneurs success factors in small and medium-sized enterprises in Malaysia are found that education level of the owner or manager, as one item of the individual's factors, had a positive relationship with business success. Kubickova and Prochazkova (2014) mentioned some success factors related to business environments, such as legal factors, individual factors, owner or manager experience.

All the success factors reviewed from literatures were summarized in to six categories: Individual Factors, Business Characteristics, Management factors, Business Support, Capital, and Firm Factors.

#### 4.4. *Distribution of Jobs and Employees Engaged in Industries*

Table 2 below indicate that, in the third quarter of 2000 E.F.Y., a total of 93,389 workers were engaged in the manufacturing industry, of which 73,056 (78.2 percent) of the workers were permanent while the remaining 20,333 (21.8 percent) persons were seasonal or

temporary employees. Among the industrial groups, manufacture of food products were the major employers like in the previous quarters, where by, they employed around 26.2 percent of the total work force in the sector followed by textile industries which took in around 12.1 percent. On the other hand, tobacco manufacturing establishments contributed 0.8 percent of the total employment, which is the least Table 2 below indicate that, in the third quarter of 2000 E.F.Y., a total of 93,389 workers were engaged in the manufacturing industry, of which 73,056 (78.2 percent) of the workers were permanent while the remaining 20,333 (21.8 percent) persons were seasonal or temporary employees. Among the industrial groups, manufacture of food products were the major employers like in the previous quarters, where by, they employed around 26.2 percent of the total work force in the sector followed by textile industries which took in around 12.1 percent. On the other hand, tobacco manufacturing establishments contributed 0.8 percent of the total employment, which is the least. (CSA, 2007)

Major Industrial Groups	Persons engaged			
	Number of establishments	Permanent	Seasonal	Total
Manufacture of food products.....	169	16,645	7,840	24,485
Manufacture of beverage.....	31	9,148	913	10,061
Manufacture of tobacco products...	1	778	5	783
Manufacture of textiles.....	15	8,736	2,612	11,348
Manufacture of wearing apparel, except fur apparel.....	104	4,025	990	5,015
Tanning and dressing of leather, manufacture of footwear, luggage and hand bags.....	69	5,360	1,976	7,336
Manufacture of wood and wood products and cork, except furniture.....	11	1,568	166	1,734
Manufacture of paper & paper products.	29	5,645	777	6,422
Manufacture of chemicals and chemical products.....	37	3,862	926	4,788
Manufacture of rubber products.....	40	3,049	285	3,434
Manufacture of other non-metallic products.....	59	8,150	1,786	9,936
Manufacture of basic iron and steel.....	9	1,105	57	1,162
Manufacture of fabricated metal products except machinery and equipment.....	98	1,529	1,011	2,540
Manufacture of motor vehicles, trailers and semi-trailers.....	4	871	374	1,245
Manufacture of furniture.....	234	2,585	515	3,100
<b>Total Manufacturing</b>	<b>910</b>	<b>73,056</b>	<b>20,333</b>	<b>93,389</b>

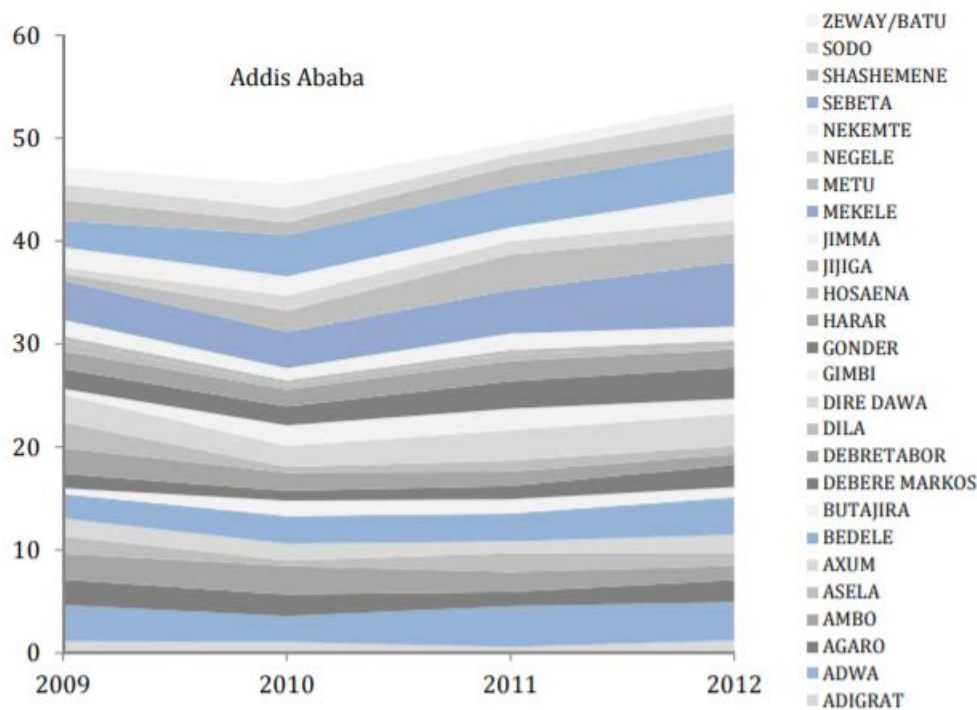
**Table 2:** Number of Persons Engaged by Major Industrial Groups, Third Quarter 2000



E.F.Y. (2007/08)

**Source:** CSA (2007)

Figure 1 below presents the distribution of manufacturing firms across cities in Ethiopia, between 2000 and 2011. While most industrial activity is concentrated in Addis Ababa, over time, a number of cities have managed to expand their manufacturing base – in particular: Adwa, Sebeta, Debreziet, Nazareth, Awassa and Mekele (shaded in blue). Altogether, these six cities expanded their share in the total number of manufacturing firms, from 12.2 % (2000) to 22.2 % (2011). (Mukim, 2016)



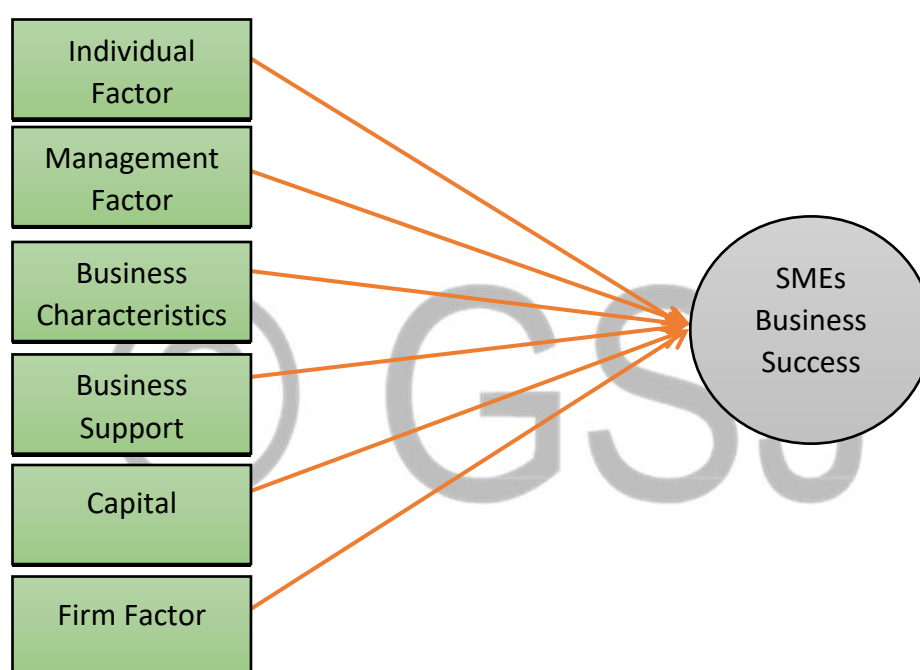
**Figure 1:** Distribution of Employment (2009-2012)

**Source:** UBAEUS, CSA

#### 4.5. Conceptual framework

The major factors for the success of SMEs are individual factors (Social skills, motivation, educational level, functional skills, experience, owner skills, gender, family story and personal characteristics), management factors (managerial skills, human resource management, management recruitment, management experience, leadership and information

& advise)). Business Characteristics (Marketing, operation location, age of business, business structure, market positioning, planning, new product, competitive force, market orientation, and business network), Business support (Government support, workforce training, ecological environments, economic support, technological support, family & friend support, political and legal support), Capital (intellectual capital, financial resource, human capital, amount of financing, access to capital, and capital availability), Firm factors (well-planned strategy, sector, business age, organizational infrastructure, entrepreneurial characteristics, innovation, ability to compete, marketing & strategic planning, and organizational culture.



**Figure 2:** Conceptual Framework

**Source:** Own Compilation

## 5. Research Method

A questionnaire was developed using CSFs found in the literature. A complete of fifty-four CSFs for small and medium-sized business success were identified and included during a questionnaire so as to spot the importance of those factors.

A 5-point Likert from 1 ‘Strongly disagree’, 2 ‘Disagree’, 3 ‘Satisfactory’, 4 ‘Agree’, to 5 ‘Strongly agree’ (Likert 1967). Responses with 1 and a couple of were considered as

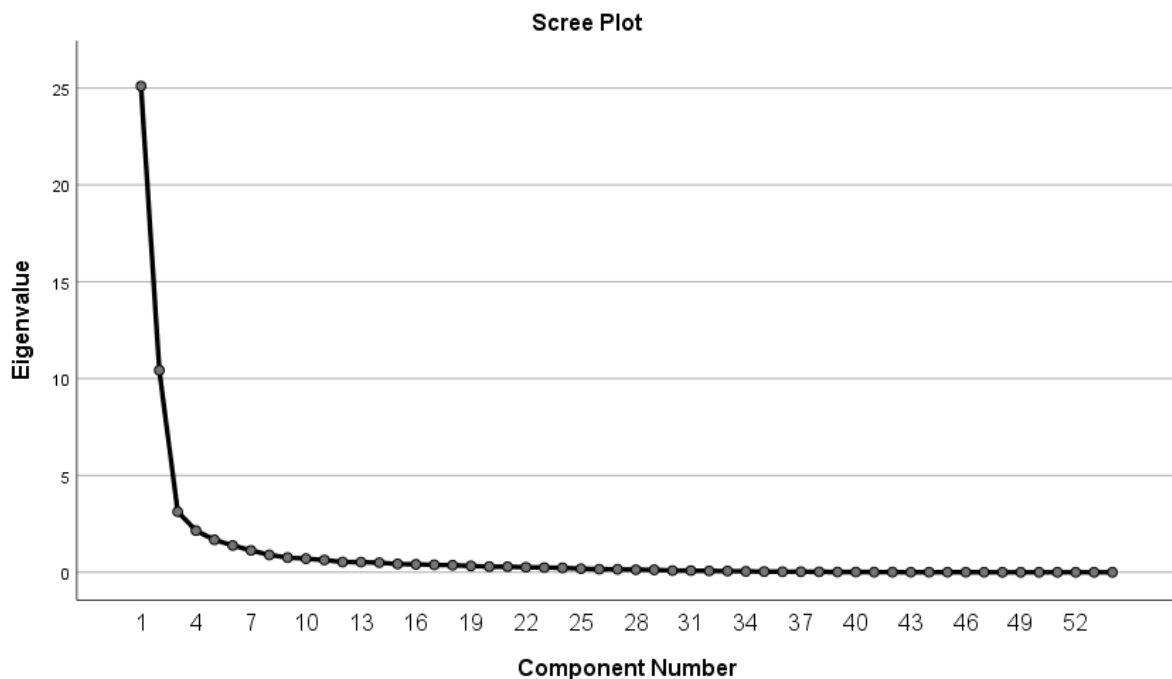
poor, responses with 3 were satisfactory, while responses with 4 and 5 were thought to be good. A sample from the entire population 7924 randomly 410 small and medium sized enterprises (SMEs) were selected and used for this Study.

## 6. Analysis

### 6.1. Factor Analysis

The fifty-eight factors were identified by the researcher and explored via principal component

analysis. The results showed in Figure 3, which is a scree plot of components number and eigenvalue values, showed that six components were extracted with Eigenvalues greater than 1, since factors with Eigenvalues less than 1 were excluded because those factors account for no more variance (Terwee et al., 1998).



**Figure 3.** Scree plot of the components extracted. **Source:** Own Compilation

Using principal component analysis as an extraction method, as well as varimax with Kaiser normalization as a rotation method, the six components that extracted explained, as shown in Table 3, about 81% of the total variance.

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	25.102	46.485	46.485
2	10.428	19.310	65.795
3	3.125	5.786	71.582
4	2.148	3.978	75.559
5	1.677	3.105	78.665
6	1.383	2.561	81.225

**Table 3.** Total variance explained by extracted components **Source:** Own Compilation

The results reported in Table 3 indicated that component 1 (individual factor) explained about 45% of the total variance, followed by component 2 (management factor), which explained about 19% of the total variance and component 3 (business characteristics) which explained about 6% of the total variance. Furthermore, component 4 (business support) was accounted for about 4% of the total variance, followed by component 5 (apital), which explained about 3% of the total variance and component 6 (firm factors) which explained about 3% of the total variance.

### 6.2. Principal Component Analysis

Table 4 indicated that all factor loadings of the six components were ranged from 0.752 to 0.929. Factor loadings of individual factor (1-11) ranged from 0.752 to 0.915, management factors (12-15) ranged from 0.841–0.929, business characteristics factors (16-25) ranged from 0.751 to 0.918, business support (26-34) from 0.772-0.914, capital factor (35-38) from 0.855-0.889, and firm factors (39-45) ranged from 0.757-0.915. It was noted that all factor loadings higher than 0.50 are acceptable (Luarn and Lin 2005). Acceptable factor loadings were regarded as a key condition for obtaining a good model (Ullman and Bentler 2012).

		Component					
		1	2	3	4	5	6
in_1	social skills	0.752					
in_2	number of full-time employees	0.915					
in_3	motivation	0.857					
in_4	number of founders	0.839					
in_5	prior self-employment	0.860					
in_7	functional skills	0.804					
in_8	training	0.765					
in_9	prior sector experience	0.772					
in_10	experience	0.901					
in_11	gender	0.832					
mgt_1	managerial skills		0.929				
mgt_2	information and advice		0.841				
mgt_3	human resource management		0.872				
mgt_4	management recruitment		0.906				
bsn_1	Marketing			0.753			
bsn_3	age of business			0.918			
bsn_4	business structure			0.898			
bsn_5	market positioning			0.808			
bsn_6	market adjustment			0.868			
bsn_7	planning			0.868			
bsn_9	exporting			0.751			
bsn_10	competitive forces			0.918			
bsn_11	industry trends			0.881			
bsn_12	market orientation			0.863			
suppt_2	training				0.856		
suppt_3	family and friends support				0.835		
suppt_4	workforce training,				0.850		
suppt_6	state support				0.772		
suppt_7	political				0.901		
suppt_8	economic support				0.817		
suppt_9	technological support				0.785		
suppt_10	legal				0.914		
suppt_11	ecological environments				0.857		
cpt_1	intellectual capital					0.855	
cpt_2	financial resources					0.883	
cpt_3	human capital					0.890	
cpt_4	amount of financing					0.898	
frm_1	age						0.886
frm_2	well-planned strategy						0.898
frm_4	sector						0.851
frm_5	organizational innovation						0.863
frm_7	ability to compete						0.757
frm_8	technology and innovation						0.915
frm_9	business age and size						0.883

**Table 4.** Principal Component Analysis. Rotation Method: Compilation Varimax with

Kaiser Normalization.

**Source:** Own Compilation

### 6.3. Reliability and Validity

	Cronbach's Alpha	N of Items
Factor 1	.875	2
Factor 2	.877	2
Factor 3	.891	4
Factor 4	.906	4
Factor 5	.899	2
Factor 6	.915	3

**Table 5:** Reliability test for the six factors **Source:** Own Compilation

Reliability was measured based on composite reliability (CR) and validity was tested by convergent validity using the average variance extracted (AVE). CR for all factors, as can be seen in Table 5, were greater than 0.70. CR values from 0.60–0.70 in exploratory factor analysis are satisfactory, and AVE values were greater than 0.50 (Hair et al. 2011). Therefore, the reliability and validity criteria were met.

## 7. Research Objectives and Hypothesis

Based on the above-mentioned analysis, six critical success factors were identified: Individual factors, management factors, business characteristics, business support, capital and firm factors. Research objectives and hypotheses are developed in order to investigate the effects of these factors on the success of small-sized enterprises.

### 7.1. Research Objectives

The basic objectives are:

1. To assess the effect of individuals on small-sized enterprise project success.
2. To assess the effect of management on small-sized enterprise project success.
3. To assess the effect of business characteristics on small-sized enterprise project success.
4. To assess the effect of business support on small-sized enterprise project success.
5. To assess the effect of capital on small-sized enterprise project success.
6. To assess the effect of firm factors on small-sized enterprise project success.

### 7.2. Research Hypothesis

After referring many of the literatures, the following hypotheses were also proposed:

**Hypothesis 1.** Individual factors are positively related to small-sized enterprises success.

**Hypothesis 2.** Management factors are positively related to small-sized enterprises success.

**Hypothesis 3.** Business characteristics are positively related to small-sized enterprises success.

**Hypothesis 4.** Business supports are positively related to small-sized enterprises success.

**Hypothesis 5.** Capital availability is positively related to small-sized enterprises success.

**Hypothesis 6.** Firm factors are positively related to small-sized enterprises success.

## 8. Research Sample

The population of this study consists of small-sized enterprises in Addis Ababa, Ethiopia. About 410 participants were randomly selected as a research sample in order to collect data on CSFs and business success. Four hundred thirty questionnaires were distributed and 410 were returned.

Table 6 shows CSFs that used in the current study. Two items were used to measure individual factors, two factors were used to measure individuals, two factors were used to measure management, four factors were used to measure business characteristics, four factors were used to measure business support, two factors were used to measure capital and three factors were used to measure firm factors.

Business success was measured by asking respondents to rank their business success based on the six factors.

<b>Table 3. Items of the used variables.</b>		
<b>Factors</b>	<b>Items</b>	<b>Description</b>
<b>Individual factors</b>	1	prior sector experience
	2	personal characteristics
<b>Management Factors</b>	3	human resource management
	4	management experience,
<b>Business Characteristics</b>	5	intensive competition
	6	new products
	7	market orientation
	8	business structure
<b>Business Support</b>	9	workforce training
	10	ecological environments
	11	management training

	12	legal
<b>Capital</b>	13	financial resources
	14	human capital
<b>Firm Factors</b>	15	well-planned strategy
	16	business age and size
	17	technology and innovation

**Table 6.** Items of the used variables.

**Source:** Own Compilation

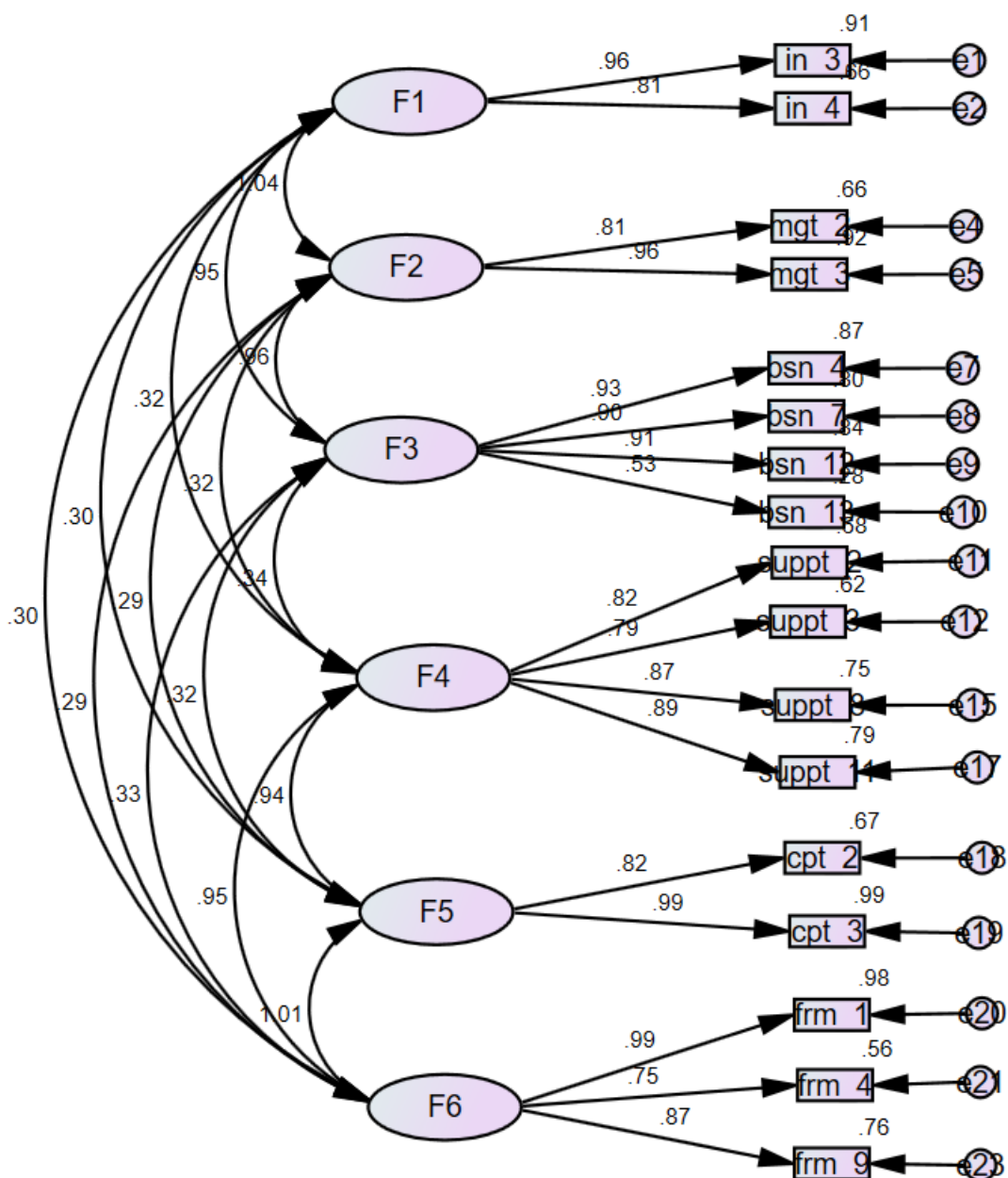
## 9. Results and Discussion

### 9.1. Confirmatory Factor Analysis

The results of exploratory factor analysis were confirmed using confirmatory factors analysis (CFA). As exhibited in Figure 4, six factors were loaded on 17 items forming a well-fitted measurement model. Factor 1 (Individual factors) is related to two items, factor 2 (management factor) is linked with two items, factor 3 (business characteristics) is related to four items, factor 4 (business support) is related to four items, factor 5 (capital) is linked with two items and factor 6 (firm factors) is connected with three items.

The measurement model fit summary asserted that this model fit the data well (*Number of Parameters* NPAR = 66, *Chi-Square Value* CMIN= 2152.370, *Degrees of Freedom* DF = 224,  $p = 0.000$ , *PCMIN/DF* = 20.696, *Comparative Fit Index* GFI = 0.515, *Adjusted Goodness of Fit* AGFI = 0.371, *Normed Fit Index* NFI = 0.802, *Comparative Fit Index* CFI = 0.809, *Root Mean Square of Error Approximation* RMSEA = 0.219).





**Figure 4.** Results of confirmatory factors analysis (CFA). **Source:** Own Compilation

9.2. *Structural Model*

Based on the results of CFA in which thirty-seven items were removed, and the structural model was developed as can be seen in Figure 5. It was revealed that factor 1 (individual factors) had a significant effect on small-sized enterprises success ( $\beta = 1.422$ , S.E. = 0.109, CR = 13.006,  $p = 0.000$ ), factor 2 (management factors) had a significant effect on small-sized enterprises success ( $\beta = 0.944$ , S.E. = 0.094, CR = 10.002,  $p = 0.000$ ), factor 3 (business characteristics) had a significant effect on small-sized enterprises success ( $\beta = 1.310$ , S.E. = 0.105, CR = 12.475,  $p = 0.000$ ), factor 4 (business support) had a significant effect on small-

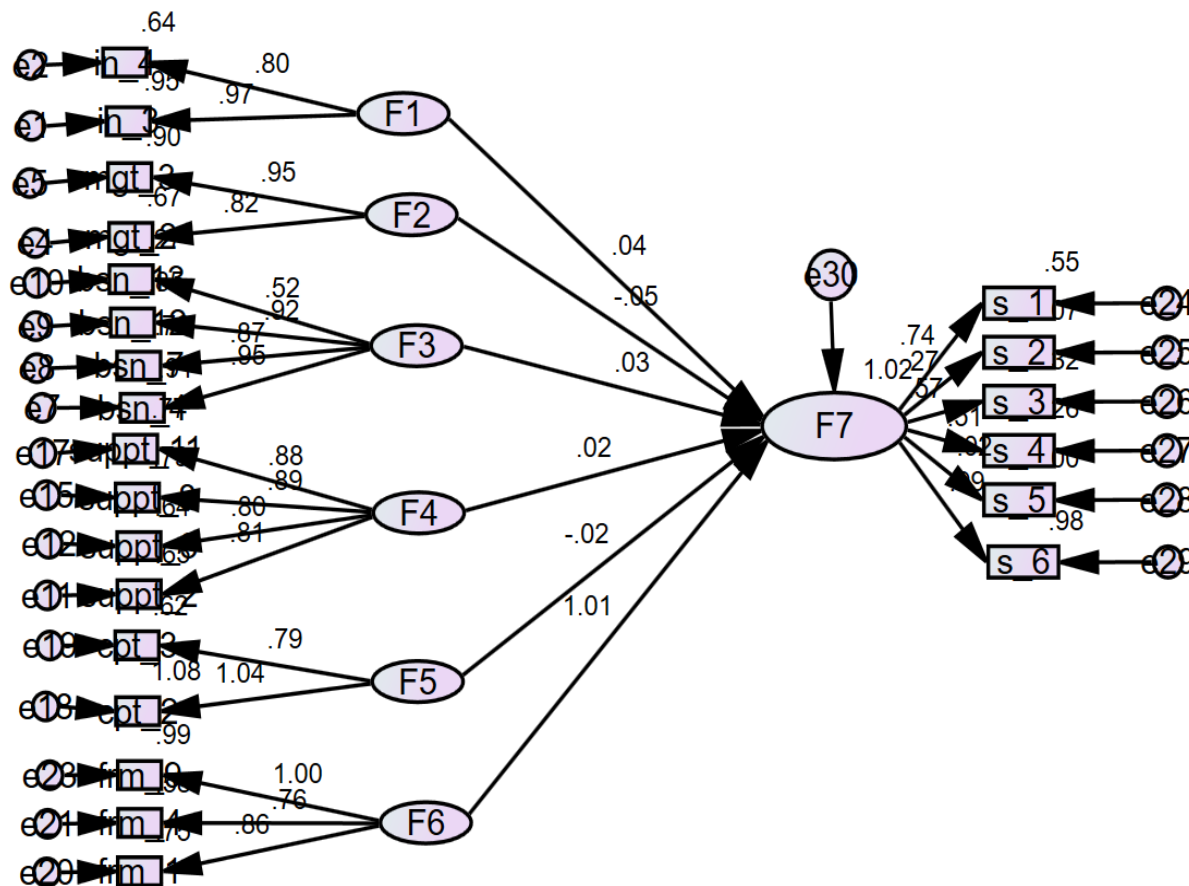
sized enterprises success ( $\beta = 1.151$ , S.E. = 0.114, CR = 10.079,  $p = 0.000$ ), factor 5 (capital) had a significant effect on small-sized enterprises success ( $\beta = 1.203$ , S.E. = 0.118, CR = 10.195,  $p = 0.000$ ) and factor 6 (firm factors) had a significant effect on small-sized enterprises success ( $\beta = 1.886$ , S.E. = 0.135, CR = 13.999,  $p = 0.000$ ).

	<b><math>\beta</math></b>	<b>S.E.</b>	<b>C.R.</b>	<b>P</b>
Individual factors → Business Success	1.422	0.109	13.006	0.000
Management factors → Business Success	0.944	0.094	10.002	0.000
Business Characteristics → Business Success	1.31	0.105	12.475	0.000
Business Support → Business Success	1.151	0.114	10.079	0.000
Capital → Business Success	1.203	0.118	10.195	0.000
Firm factors → Business Success	1.886	0.135	13.999	0.000

**Table 7.** Results of structural model.

**Source:** Own Compilation

The results in Table 7 confirm that the six hypotheses were supported. That is, individual factors, management factors, business characteristics, business support, capital and firm factors, had significant effect on medium and small-sized enterprises success. Hypotheses H1, H2, H3, H4, H5 and H6 all were supported.



**Figure 5.** Results of the structural model. **Source:** Own Compilation

The most important factors that affect the success of small and medium-sized enterprises in Addis Ababa, Ethiopia were those related to firm factors, such as well-planned strategy, business age & size, and technology and innovation. These results were in agreement with Storey (1994) and Thibault et al. (2012). Those factors were followed by individual factors, such as prior sector experience and personal characteristics were the most critical individual factors that affect the success of small business. Similar findings were echoed by Chawal et al. (2010) with their emphasis on personal characteristics and experience as CSFs of business success. The third factors that affect the success of small and medium-sized enterprises is found to be business characteristics, such as intensive competition, new products, market orientation and business structure. These findings were supported by Chawal et al. (2010) and Ng et al. (2012). Capital factors are the fourth ranked factors that affect the success of small and medium-sized enterprises. Management factor in terms of human resource management and management experience factors ranked last as critical factors that have

significant effects on small-sized enterprises success. This finding is supported by Chong (2012).

## **10. Conclusions**

An expansive review of the literature of small and medium-sized CSFs revealed 54 factors. Refining these factors based on the result of CFA a total of 17 factors were listed. This initial result reveal that 17 factors out of the 54 factors were perceived as CFSs for small and medium-sized enterprises. The results of the exploratory factor analysis showed that the 17 factors were loaded on six factors. Those factors were labeled as individual factors, management factors, business characteristics, business support, capital and firm factors.

In order to achieve the objective of the study, a questionnaire was developed and distributed to a sample of respondents from small and medium-sized enterprises in Addis Ababa, Ethiopia. The confirmatory factor analysis in light of goodness-of-fit statistics confirmed that the six factors can be measured well using 17 items.

Therefore, the structural model was developed based on these 17 items. Significantly, the results of the study showed that all the six factors studied were critical to the success of small and medium-sized enterprises in Addis Ababa, Ethiopia; which were individual factor, management factors, business characteristics, business support, capital, and firm factors. Though the six factors studied were critical factors for the success of SMEs there are also factors that should be studied further such as motivation, functional skills, managerial skills, market condition, industry trends, family and friend support, economic support, intellectual capital, and organizational infrastructure.

On the basis of these results, it is concluded that small-sized enterprises in Addis Ababa, Ethiopia are dependent on prior sector experience and personal characteristics. Secondly, well-planned strategy, business age and size, and technology and innovation are key success factors for those enterprises. In the third place, intensive competition, new products,

market orientation and business structure are critical success factors for SMEs. Human resource management and management experience are the least factors that affect SMEs business in Addis Ababa, Ethiopia.

## **11. Recommendations**

Taking the results in to account, Ethiopian trade policy makers are required to look upon the continuance of financial and technical support provided by the Addis Ababa City Administration Micro & Small Enterprises Development Bureau, financial institutions and different stakeholders. Furthermore, the selection of business owners who are applicants to receive the financial and technical support should also consider the personal characteristics of those applicants, such as age and business experience.

## **12. Limitation of the Study**

This study faced a limitation related to the cross-sectional sampling design and to respondents chosen from small-sized enterprises. Further studies are required to include more respondents using longitudinal research design in order to make these results general and applicable for all small and medium-sized enterprises in Ethiopia.

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