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Effect of Institutional Pillars on Small and Micro Enterprises Firm Performance in Ethiopia

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ABSTRACT

Though much research had been conducted examining the role of institutions on the practice of micro and small enterprise, it is now the effect of institutional pillars on organization performance is to be assessed in Ethiopian case. Examining the 200 small and micro enterprises, we had tested a model of institutional variables to explain performance of firms. To cater the variance of firm performance due to the effect of institutional environment, we used structural equation modeling nesting polychoric correlation to measure firm performance measured in ordinal data variables. We found that the normative and cognitive institutional pillars positively correlated to firm performance, while the regulative pillar is negative but insignificant affecting performance. Thus, we showed that entrepreneurs' interpretation of the value system within the society regarding innovation and their perception about innovation practice determines firm performance keeping the quality of idea and their resource endowment constant, in micro and small enterprise in Ethiopia.

Keywords: Institutional Theory, Regulative, Normative, Cognitive Pillar, Firm Performance
JEL Classifications: L3, L25, L26

1. INTRODUCTION

According to the Global Entrepreneurship Development Index or GEDI (Acs, et al, 2018) report the world needs billions of new jobs to keep stable civil society and maintain a prosperous world economy. A three percent improvement in global entrepreneurship index during 2017 had resulted more than seven trillion USD towards the world growth domestic product. The report had outlined two factors behind this overwhelming result; one that institution support entrepreneur's efforts exploiting available opportunities from around their living circles and institutions have positive impact towards global economy (pp. 15).

Institutions drive and influence individuals regarding opportunity recognition and exploitation, on their choice of venture organizing, and advance organizations economic efficiency across countries (Tolbert et al., 2011; Delmar and Shane, 2004; North, 1990). Moreover, variation between countries regarding entrepreneurial practice, among other things, stems from difference in institutional arrangement which makes certain start-ups successful while business with similar nature fail to succeed though both are business of similar character given the nature of human capital and individual experience constant (Busenitz et al., 2000). Evidences from literatures accounted that world countries vary one another in their innovation practice due to the influence stems from regulative, cognitive and normative institutions is different posing different impact on entrepreneurs that may enable or prohibit their firms from success. However, the effect of institutional factors towards performance across firms, in micro and small enterprise in Ethiopia has been neglected so far, though verifying relationship between these constructs have both practical and theoretical contribution.

It is clear that the phenomenon of entrepreneurship has been studied from various perspectives as an individual characteristics

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and organizing activity to predict the future entrepreneurs. For instance, individual with special characteristics such as need for achievement, self-efficacy and entrepreneurial passion assumed more likely to exploit profitable opportunities than others who lack these attributes (McClelland, 1960; Brockhaus and Horowitz, 1986; Cardona et al., 2013). This said, entrepreneurship also defined from the perspectives of firm establishment and organizing which states entrepreneurs perform such activities as resources mobilization, forming venture organizing teams; and identify markets gaps than those looking for employment. The latest advancement in the field identified the phenomenon with the discovery and exploitation of profitable opportunities never existed before either by an alert individual or established firms (Shane and Venkataraman, 2000), guided by individual's idiosyncratic information possession and prior knowledge enable some not others to recognize and exploit entrepreneurial opportunity.

The emerging institutional perspective however argued the difference in entrepreneurial practice across countries amenable to the functional association between institutional platform immersing new and established firms (Busenitz et al., 2000). Tolbert et al. (2011) noted that, institutional factors poses greater influence than technological breakthrough in some context to proliferate the numbers of new establishments. Similarly, reviewing literatures from developing countries, Acs and Virgil (2010) asserted that institutional environment dominate other factors in curbing firms' growth potential and as result private entrepreneurs are affected severely despite governments in these countries have strong intention for small business to advance impetus of development of their nations. Cultural factors like preference for occupation than innovation, social resistance for new and innovative outputs, lack of established formal institutions and related factors combined limit private entrepreneurs in developing countries not to pursue market opportunities. Similarly, Boris (2013) uncovered the effect of institutions on social establishments taking sample from social entrepreneurs engaged different kind of activities and asserted that institutional framework essentially explain social innovation practice in developing countries.

Extant literatures in Ethiopia have uncovered the interaction between formal institutions and entrepreneurial practice in line with linkages in input supply and output relation contexts (Hadis and Ali, 2018). Others have considered socio-cultural factors and its impact towards innovation taking women entrepreneurs from different sites as samples (Abdurrahman, 2016; Jemal, 2014). The regulatory framework is also assessed from business development aspects and its effect towards organization performance akin to micro and small enterprise evidence from businesses in the capital city (Haile and Batra, 2016). However, the evidences from previous researches have appeared with conflicting result implying different meaning. Thus, these researchers strongly convinced that better outcome can be obtained employing institutional approach regarding entrepreneurship practice and specify institutions effect on organization performance.

The general objective of this study is to undertake the empirical test of the effect of institutions on entrepreneurship practice and firm performance, with particular interest of small and micro enterprises (SME) operating business in Somali region. To achieve this objective, the following specific objectives were raised:

- To investigate the effects of regulative institutions towards entrepreneurship practice and firm performance.
- To investigate the normative institution and its effect on entrepreneurship practice and firm performance.
- To investigate effects of cognitive institution on entrepreneurship practice and firm performance.
- To assess the general institutional environment framework and its linkage with firm entrepreneurship practice and firm performance.

This paper aimed to use structural equation modeling, which is a statistical technique important to measure the relationship between underlying latent variables, henceforth, first we conducted confirmatory factor analysis separately for two constructs, i.e. the institutional variables adopted from (Busenitz et al., 2000) and organization performance designed from various empirical findings hence regression analysis to measure the effect of institutions on firm performance using data from randomly drawn 200 enterprises from two major cities found in Somali regional state, Ethiopia. Henceforth the paper proceeds as follows: the next section develops theoretical and conceptual framework with subsequent hypotheses; the third section describes research methodology and fourth section deal data analysis results and its discussion. The final part gives conclusion and recommendation for future research.

2. REVIEW OF LITERATURE

2.1. Theoretical Development

The extant literatures informed that people from individualistic culture are more likely pursuing innovative behavior compared to individuals from the collective culture, the latter who are supposedly prefer employment choice (Shane, 1992). Moreover, the taste in uncertainty avoiding culture and individuals from such group are expected to manifest employment carrier choice than immerse them under innovation practice since the risk with innovation is high, or innovation championing fills such gap and invoke individuals towards innovative thinking (Macmillan, Shane, and Venkataraman, 1995). According to these scholars that individualism and risk taking cultures and individuals from such group are more likely than their counterparts pursuing innovative behavior. Moreover, masculine culture poses insignificant effect towards innovation, which is evident in a study that take sample from employees working under subsidiary company.

However, institutional theory and scholars criticized this perspective and argued that the cultural dimension alone is insufficient to characterize prevalent entrepreneurship practice across countries which most assessment reveals that additional factors are needed clarifying the underlying reasons that create difference between countries and among regions the varying level of innovation proliferation (Busenitz et al., 2000; Kostovo, 1997). This occurs as a result of two reasons according to the evidences from empirical literatures. One, conflicting result among researches nesting the four cultural dimensions and innovation practice evident in cross-countries assessment (Acs, 1992). Second, most researchers tend to focus individualism and

uncertainty cultures than collectivism and masculine cultures through their evaluation whilst measuring innovation practice (Busenitz et al., 2000) since the former attributes have positive association with innovation behavior while the latter two have mixed result (Davidson, 2003). Boris et al. (2018) asserted that economic freedom increases individual's self-efficacy reduce fear of failure, alertness to opportunities. From the evidence in a large data from across world countries (45 countries and 721,581 individuals were inquired) they found that a pro-market institution which is measured by Economic Freedom positively affects opportunity entrepreneurship.

Cognizant of this trend therefore researchers in entrepreneurship field proposed three institutional pillars which are equally important and that extend the traditional cultural factors distinctly affect the entrepreneurship practice and facilitate objective comparison between countries in their level of entrepreneurship proliferation (Kostovo, 1997; Busenitz et al., 2000; Alfonso et al., 2014). Following the path settled by institutional theorists in seeking the impact of institutions towards organization legitimacy (Scott, 1987), thus entrepreneurship researchers proposed three institutional pillars with particular importance to entrepreneurship research to portray difference in innovation practice between countries that encompass regulative, normative and cognitive elements, conceptually distinct and plausible for new and established firms.

Another empirical research from Ghana (Adams et al., 2019) a research treated access to financial services, training in employee and other technicalities precedent drivers of firm growth in Ghana context. The outcome revealed that, access to training and business sustenance are antecedents for business growth. The researchers approached informal businesses in Ghana in rural and semi-rural areas asserting access to technical training is possible through institutional establishments, however, informal businesses rarely on the government packages lists, especially in developing countries case, and may be ignored by formal institutions. Informal businesses are less sensitive for access to information and property right protection, since one of the reason towards their establishment is tax avoidance. Thus, the institutional framework is succinct, though the above researchers measured intended objectives succinctly. Similarly, the researchers failed to address the quality of business development services and advisory services affect or moderate the interaction between institutions and performance. For instance, Haile and Batra (2016) identified lack of proper knowledge and skill hamper success of business development service package in Ethiopia despite ambition of service providers, there is no importance of the skill to the firms operation. Similarly, most business development service is provided for formally established and registered firms than informal businesses. So, the regulative framework provides commensurate result cater the difference between firms in micro and small enterprises. The general implication of the above research is that growth is affected by internal factors such as entrepreneurs and firm characteristics as well as the external institutional characteristics following the resource based approach. However, the linkage between institutional approach and resource endowment is unclear in the research. We argue institutional profile framework is still important to measure the underlying entrepreneurial practices and the corresponding firm success in the SMEs sector.

2.2. The Regulative Institutions

The regulatory environment is concerned with various laws and regulations, government support to new firms given in the form of assistances such as business counseling and consultancy, development services and mechanisms for risk management mainly designed by the government and other formal institutions intended to enhance startup capability in the country (Busenitz et al., 2000). Government support for start-up increases access to resources and wider market in addition to securing firm legitimacy which is phenomenal especially for new firms, thus it is strategic issue for all organization to adhere to the accepted behavior settled within the larger societal landscape. For instance, industrial cluster development in Ethiopia found important for firms to boost performance and regain a market which was once lost to the low cost international competitors, i.e. throat cutting competition sourced from Chinese firms (Sonobe and Otsuka, 2006). Similarly they also asserted the business development service is positively correlated to firm performance for small enterprises evidenced from urban business (Haile and Batra, 2015).

However, the current critics from institutional theorist (Jennings et al., 2013) questioned the plausibility of regulative framework that claims the perspective abandoned the essence of classical institutional theory that seeks meaning for organizations and their march towards legitimacy. The ideational perspective (Scott, 1987; Scott, 1995) construed premises for firm to conformance with stakeholders in external environment beyond formal regulation and enactments. Formal laws and regulations rarely overlooked and unnoticed by the business community. It is rare that formal laws can be neglected by any rational organizations because from the start firms are established conforming to certain codes of conduct and acceptable business behavior (Jennings, et al., 2013). However, the institutional profile instrument developed by entrepreneurship researchers sufficient to explain the regulatory framework and the corresponding entrepreneurial practice. The evaluation and assessment of the framework conducted by (Alfonso et al., 2014) illuminates the validity of the institutional variables to preface the underlying entrepreneurship constructs. Haile and Batra (2016) found moderate relationship between business development and firm performance. Thus, it is empirically plausible to hold the three constructs developed by entrepreneurship scholars and employ it in this context.

EDRI (2018) research reported that the government support is given in the form of training for entrepreneurs regarding business operation and techniques like kaizen, market linkage, business premises, and assistance packages intended to bolster firm growth. Though the government takes the dominant position undertaking the support given for micro enterprises, however lack of practical importance of the workers' skill assigned for this task and lack of entrepreneur's initiation absorbing the support constrained the package not to achieve the intended result (Haile and Batra, 2016) and enhance firm performance. Moreover the study showed that only six percent of enterprises had engaged subcontracting

business with the government. Random decision regarding access to the working and selling premises negatively affect enterprises under the host of industrial cluster, though shoe producing micro and small enterprises are benefitted from such conglomeration (Ali et al., 2016). The linkage between formal institutions is ill crafted regarding raw materials and output relations given for businesses in the manufacturing sector, according to the evidence from a descriptive study (Hadis and Ali, 2018). Regarding access to finance, more than 80% of start-ups are established by own finance and finance from conventional sources (EDRI, 2018). Similar observations also accounted that credit access from microfinance institutions is multi-criteria, thereby more than 90% of the applications rejected due to lack of collateral and other bureaucratic restrictions such as track record and current financial capital that disfavors startups. Thus the following two hypotheses are proposed:

H_1: There is a significant relationship between regulative pillar and entrepreneurial practice.

H_2: The regulative environment has insignificant influence on performance in micro and small enterprise sector.

2.3. Normative Institutions

The normative institutions measures the degree to which value system in the population uphold innovative behavior within members and admiration for entrepreneurial activity. The positive behaviors, prevailed across the community for innovation eminently increases the number of entrepreneurs and their ability to create new products and induce innovative thinking to settle across the population, especially within the younger section of the population (Busenitz et al., 2000). The normative institution can be considered as an extension to Hofstede cultural dimensions. For example, in the extreme case, an empirical finding by (Abdurrahman, 2016) illuminates the existence of positive cultural support for women entrepreneurs contrary to the assumption held in prior researches regarding women entrepreneurs. For instance, EDRI (2018) speculated culture limit the number of women entrepreneurs in the region, however contrary result found in the research mentioned above and this particular research also see the speculation in suspicion, because evidences from international empirical researches and local investigations appear that the Ethiopian culture is not hostile towards innovation in general and women in particular. International research meant for investigating the health of entrepreneurial ecosystem GEDI (2018) reported that positive cultural support exist for entrepreneurial effort and their innovation practice, thereby put cultural support amongst the top factors that is positively related to entrepreneurs in medium enterprises. And it is the second important factor next to individual ability for opportunity recognition from around their circles relatively better to manifest the health of entrepreneurial environment. Thus, the following two hypotheses are proposed;

H_3: There is significant relationship between normative pillar and entrepreneurship practice.

H_4: The normative institution is positively related to organization performance in micro and small enterprises.

2.4. Cognitive Institutions

Ahlstrom et al. (2010) suggested cognitive domain to institutional pillar represents individual interpretation of societal norms and values prevailed within the larger societal landscape. Businetiz et al. (2000) countries institutional pillars associate individual cognitive domain with their awareness about property right protection, perceptions of risk and find solution when risk encountered, other factors that lead entrepreneurs to assess and evaluate the viability of their business idea with these factors. Moreover perception about seeking professional assistance and counseling service during time of difficulty, knowing where to access market information and forming collaboration with stakeholders constitutes cognitive domain (Alfonso et al., 2014). Most micro enterprise in Ethiopia lacks risk mitigation system, and poor access to market information (Haile and Batra, 2016; Hadis and Ali, 2018; EDRI, 2018). With exception of medium enterprises, because most are better educated and relatively longer years of experience, most micro and small enterprise owners barely aware the importance of property right protection and risk management and their know how about environmental uncertainty is not something better than none (EDRI, 2018; Haile and Batra, 2016; Mesfin, 2015). Similarly, GEDI (2018) report put Ethiopian entrepreneurs among one of the lowest rank in risk taking tendencies in the world and the lowest compared to the regional index based on standardized parameters. Thus the following two hypotheses are developed;

H_5: There is significant relationship between cognitive domain and entrepreneurship practice.

H_6: There is a negative relationship between entrepreneurs' cognitive domain and organization performance.

3. METHODOLOGY

To test the proposed hypotheses, we collected data from 200 enterprises from two cities at two different times with 3 months intervals between April and July 2019. The data collection was followed the next two stages. First we prepared instrument based on extant empirical literatures and undertake psychometric validation procedures to characterize the underlying entrepreneurial behavior of small business owners. To start with performance measurement, we had considered operational and financial indicators in our pilot study (Venkataraman and Ramanujam, 1986). The output from pilot study shows that most owners in micro enterprises run their business with no accounting information system and evaluate their business operation based on experience and judgment than preparing financial analysis from financial statements, thus unable to get financial information for analysis. Amongst three hundred preliminary samples drawn, only 45 firms were kept documented financial information and ten respondents willing to give this information. In our second session, financial indicators was reduced and retain indicators (process improvement, growth in the number of employees measured by the number of current employees compared to the corresponding number at business formation, and owners satisfaction in their sales and return on assets all measured in five point likert scales (Cardona et al., 2013).

From 300 questionnaires that were distributed to owners, 220 instruments were returned in the first data collection. Assessing the result from first session, then the reduced questionnaire was developed and were distributed for respondents so that to capture, if variation exist in case. Ten cases were dropped

because five instruments contain response in pattern and five questionnaires contain missing categories more than twice in a single questionnaire. The remaining 210 cases were retained with no missing values and then using data collectors including the research team, second round data was collected from similar cases. Finally, repeating similar procedure we used in the first round, the second round data collection provides 200 complete and usable instruments ready for analysis. The background information about our respondents found from the authors up on request.

The sampling procedure employed reduces the potential sampling bias through two mechanisms, first we had selected respondents based on the research system we employed. According to Hair et al., 2014 the number of respondent in scientific study depends on number of indicators pointed at single latent variables and degree of error needed to specify in the study. Our pilot test contain total of 21 indicators, amongst them thirteen indicators are pointing on endogenous variables and seven indicators towards exogenous variable; then 10 times the number of indicators is equal to 210 sample requirements. Afterward, we anticipated minimum potential return rate, 400 sample respondents drawn randomly using information from the agency. Based on the information from regional micro and small enterprise agency, locate 300 respondents particularly important to our research and were willing to fill the questionnaires. 3rd year regular students were solicited with better CGPA rank and communication skills for data enumeration. The data collectors informed and trained about the way their supervision and elaboration the concepts appear in the instrument if needed. For instance, the regulative construct contains indicators that unclear for the owners. For instance, government supports to other governmental organizations that entrepreneur unable to understand, especially new starters because they may be not in a position to understand such higher form modalities. As per the response from students we understand that owners associate governmental and other formal organizations support with micro finance institutions provisions. The descriptive statistics about characteristics of respondents is found in analysis part.

3.1. Dependent Variable

The dependent variable, in or case the operating outcome measurement is interesting to measure firm performance related to institutional variables. According to Venkataraman and Ramanujam (1986) probably the popular and the appropriate indicator to measure an organization outcomes is profitability; universal performance indicator. It needs reliable and established information both from owners and from an external source like from established database. Cross checking both are important to get reliable information. Similarly, this requires respondent's willingness let the necessary information. In our case we find only ten owners were willing to give financial information of their business. The remaining majority lacks willingness. In such cases similar to ours operating performance such as market share, product improvement, and growth in number of customers, retaining key employees and growth in employee number, process improvement as measured by indicators are important as suggested by (Venkataraman and Ramanujam, 1986). Similarly, the market share is the most dependable modality for comparison from the non-financial indicators according to the above scholars. However, in getting data for market share is difficult, since established database is unavailable in developing countries (Bernard et al., 2019; EDRI, 2018). Thus, proxy performance measurement indicators such as growth in number of employees and owners satisfaction with their sales and return will serve similar purpose (Bernard et al., 2019; Cardona et al., 2013).

In another line of an argument, measuring performance stands for strategic management concern, entrepreneurship research should focus on innovation practice such as introduction of new goods and finding new market than measure organizations relative performance advantage (Schumpeter, 1934; Shane and Venkataraman, 2000). Therefore, we took process improvement, growth in number of employees and owners satisfaction with their sales and satisfaction in level of annual return as performance indicators (Cardona et al., 2013; Lingsya, 2015).

3.2. The Independent Variables

Institutional variables are the independent variable. As recommended by Busenitz et al. (2000) the confirmatory factor analysis provides sufficient information about entrepreneurship practice in given country. The framework institutional pillars are developed to capture the entrepreneurial outcome. For instance, regulative pillar measure the extent of government in supporting towards innovative practice and market opportunity both directly through product purchase or providing necessary venture inputs for entrepreneurs. According to Bernard (2019) financial access and access to other resources are precursors for organization growth. The institutional variables and human capital are treated external determinants of firm performance. The institutional variables are listed as access to financial services, access to training and advisory from formal establishments. Though, these factors are important, it is not sufficient, since firm accessing market information and internationalization determine firm performance (EDRI, 2018, GEDI, 20180.

The GEDI considered the economic freedom primary manifestation of entrepreneurship practice (2018). Though it is important to consider economic freedom addressing entrepreneurship, however, there are literatures with regard to entrepreneurship practice developing countries taken place contrary to this approach (Leff, 1978). Entrepreneurship in developing countries take raw material sales and factor mobilization and can be performed by governments (including associations) and private entrepreneurs with the absence of economic freedom (178). Similarly, Peng (2003) similarly paints creative destruction process to take place in transition and underdeveloped countries as destructing monopoly market or centralized system and replace by innovation and entrepreneurial institutions. Thus, economic freedom alone is not enough to measure the regulative institutional environment. Moreover (Alfonso et al., 2014) found the framework developed by Busenitz et al. (2000) somewhat appropriate and robust entrepreneurial proliferations. Boris (2016) nesting social entrepreneurship in developing countries employed the institutional framework confirm statistical relevance of the model. Thus the regulative, cognitive, and normative pillars selected as our independent variables.

4. DATA ANALYSIS AND INTERPRETATION

Our analysis followed structural equation modeling relevant for our study. Structural equation modeling helps researcher to undertake factor analysis and regression simultaneously (Hair et al., 2014). Since latent variables are measured in ordinal scale, thus polychoric correlation calculated following the method as proposed by Jöreskog (2002) to specify coefficients of the equations and fitting the data to hypothesized model. Ordinal variables are treated by their response categories that people choose for one category has more of characteristics than if he chooses otherwise. But not measure how much.

Organization outcome Z (in our case measures performance) assumed underlying continuous variables Z^*. The underlying performance and institutional factors treated continuous variables Z^* represent respondents attitude to the underlying ordered responses to Z and are assumed to range from ∞ to $-\infty$.

$$\hat{\pi}i = \Phi(\hat{\tau}i) - \Phi(\hat{\tau}i-1) = pi$$

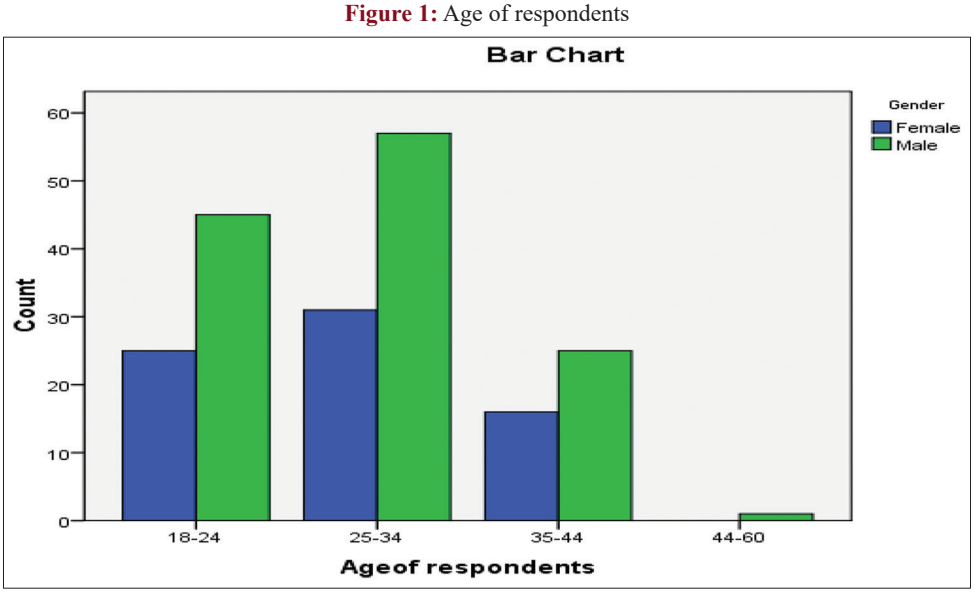
This informed us the algorithm follows monotonic distribution, which is the case for continuous and ordinal data with density and distribution functions (Jöreskog, 2002). Using the polychoric correlation, we can determine the underlying bivariate normality of the transformed monotonic distribution using Chi-square likelihood ratio and the goodness of fit statistics. Fit model holds the same Chi-square likelihood ratio and goodness of fit statistics (Jöreskog, 2002).

Figure 1 (Number of male and female entrepreneurs across age groups. I write here because the caption taken from SPSS is difficult to right at the top of the caption), present the descriptive statistics regarding the number of respondents included in our study. The cross tab result reveals that across age categories, the number of male entrepreneurs is greater than their female counterpart. The result figures as it was predicted by prior researchers. The second table provides information about firm age and sex distribution. The percentages of males dominate as the age of firms increase; firms incepted within the past 5 years and above 5 years mark are dominantly owned by male entrepreneurs. It is difficult to argue at this point the rationale behind this difference, however as had earlier researchers implied perhaps lack of financial support and historical uneven distribution experienced over the past years and women tendencies for employment choice account the rationale (Jemal, 2014). EDRI (2018) had anticipated culture and religion have influenced for insignificant women entrepreneurs located across the region. However, evidences regarding women entrepreneur's shows that culture is supportive for entrepreneurs irrespective of sex difference, despite all entrepreneurs faces lack of startup capital and informal relationship with authorities preclude disfavored some from pursue opportunities from their surroundings, though the effect is posed similar for men and women entrepreneurs (Abdurrahman, 2016). Some of these factors include financial shortage, administrative problem and lack of market. However we present next that cultural factors account different than what the earlier studies had predicted. The empirical relationship between age of firms and entrepreneur's age is what future investigation will specify that it is beyond the scope of this paper. However, we are convinced with the argument entrepreneurship research can be more fruitful if researchers have focus institutional factors and opportunity recognition (Shane and Venkataraman, 2000; Tolbert et al., 2011).

The correlation matrix in Figure 2 shows some important relationship between three institutional variables and performance indicators.

From the Table 1 we can deduce that the indicators regulative dimension is negatively correlated with performance indicators and some of the items bear an insignificant effect towards firm performance. Generally, all the indicators under the regulative variable were correlated either negative or insignificant with the performance indicators. Before running confirmatory factor analysis first, we first conduct cross-validation data collected two occasions. The factor analysis result nesting strictest promax criteria provide two indicators with zero loading with other indicators. However, the third item loads 0.3 and we retained

Figure 1: Age of respondents



the three items from the regulative construct from five items suggestion from Busenitz et al. (2000). Using the promax criterion we conducted factor analysis and run confirmatory factor analysis.

Figure 3 depicts the path diagram of our research model shows coefficients for endogenous and exogenous variables. We run first polychoric correlations and asymptotic covariance for the 13 indicators for independent variable. The corresponding result shows roots mean square error approximation (RMSEA 0.11 for Reg1 and Reg2 added variables inflating the root mean square error of approximation of the overall model. As argued by Jöreskog, bivariate normality is not an issue if the value of correlation RMSEA is not more than 10%) and since our case did not met this moderate criterion we conduct ordinal factor analysis using promax criterion to reduce the items that load poorly with other variables. Henceforth suiting corresponding result from the factor analysis that two items from five indicators of the regulative domain were omitted, the resultant outcome holds bivariate normality and with RMSEA 0.049) and the cross validation result found sufficient to accept the hypothesized model. The corresponding indices reveals (GFI = 0.98, AGFI = 0.97, NFI = 0.92, NNFI = 0.98, CFI = 0.98, IFI = 0.98) all beyond the requirement, since value >0.9 is considered for the acceptable model. Table 2 presents the result of structural equation model

Figure 2: Age of firms and the number of male and female distribution

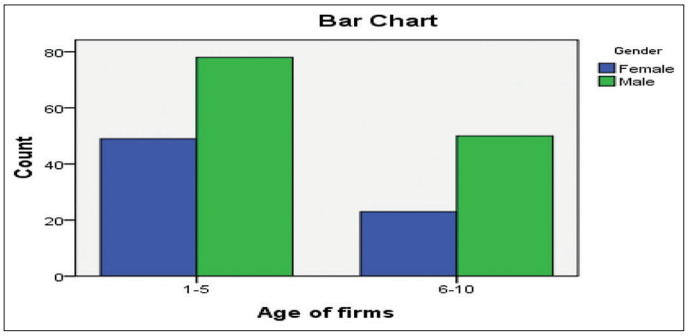


Figure 3: The path diagram of the structural equation model

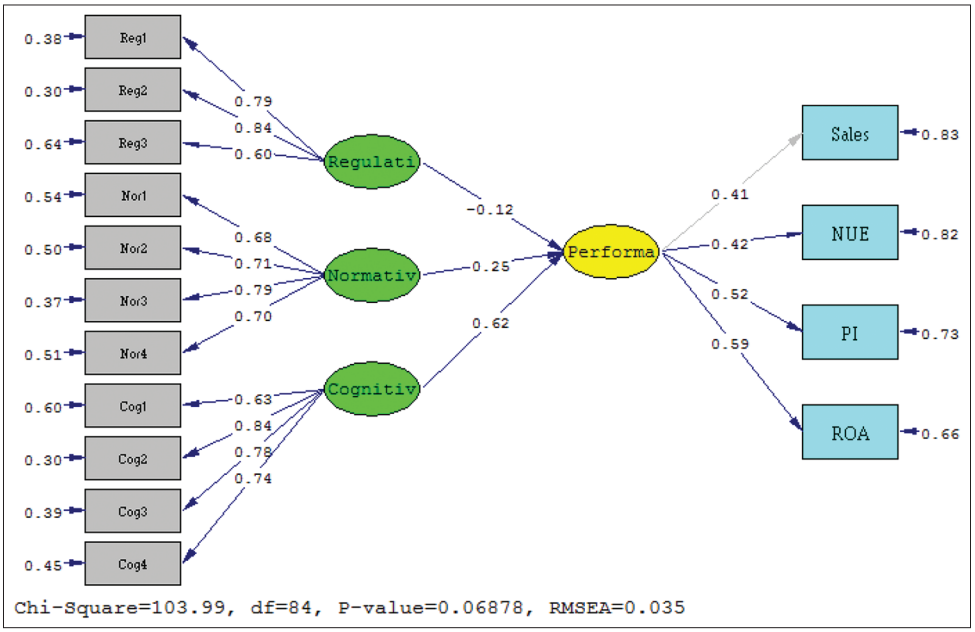


Table 1: Correlation matrix

In	1	2	3	4	5	6 7 8 9 10 11 12 13 14
Reg1						
Reg2	0.674					
Reg3	0.468	0.476				
Nor1	0.099	0.050	0.025			
Nor2	0.058	0.083	0.134	0.592		
Nor3	0.152	0.195	0.240	0.390	0.588	
Nor4	0.095	0.090	0.184	0.524	0.403	0.551
Cog1	0.178	0.198	0.009	0.074	0.010	0.139 0.107
Cog2	0.003	0.059	0.058	0.095	0.044	0.163 0.156 0.544
Cog3	0.074	0.136	0.112	0.138	0.146	0.208 0.151 0.431 0.672
Cog4	0.035	0.087	0.137	0.051	0.047	0.279 0.142 0.465 0.508 0.619
Sales	0.030n	0.000	0.066	0.214	0.155	0.188 0.151 0.154 0.225 0.135 0.224
NUE	0.059n	0.001	0.043n	0.169	0.068	0.143 0.116 0.211 0.215 0.260 0.227 0.216
PI	0.021	0.106	0.028n	0.007	0.083	0.168 0.162 0.194 0.285 0.287 0.228 0.120 0.248
ROA	0.014n	0.071	0.051n	0.065	0.036	0.214 0.198 0.353 0.390 0.163 0.249 0.235 0.178 0.39

n: Negative correlation. All correlation results with >0.09 are significant at P<0.05. The polychoric correlation result is available with the author and the HTML format is attached in the appendix

summery statistics. By all measurement, the model fits the data well and our prediction regarding organization performance and institutional variables met.

Figure 4 shows the confirmatory factor analysis and the path diagram of model. As the results seen from the path diagram, entrepreneurial practice can captured though institutional approach. The three factor model is better to illuminate entrepreneurship practice across micro and small enterprises under the case we had examined. The covariance result show distinctiveness of each construct. Entrepreneurship practice from cross sectional data confirm the effect of institutions invariably affect individual effort pursuing profitable opportunities from around their circles.

Table 3 the effect of institutions on organization entrepreneurial outcome (the analysis followed without reducing indicators with poor factor loading with other variables, to show the general effect that we reduced for confirmatory factor analysis shown earlier).

The Table 3 shows organization performance successfully predicted nesting institutional factors. The coefficient, measured diagonally weighted parameterization based on scholars recommendation shows entrepreneurs cognitive domain bear a positive influence on organization performance in small and micro organization. Followed by the normative environment in which 23 and 11% change in organization performance predicted by the cognitive and normative environment respectively. However, the

Table 2: Summary of structural equation model[a]

Model	χ^2 (df)	ECVI	CFI	NFI	NNFI	RMR RMSEA GFI AGFI IFI
1	103.99*	1.21	0.98	0.92	0.98	0.056 0.035 0.98 0.97 0.98

[a]The Chi-square test measures the overall fit of the model to the data. Fit model rejects the null hypothesis. Of course, with large sample size the value of Chi-square appear obviously shows significant, however the smaller the value and nearer value to the degree of freedom, the better is the significance of the statistical model. The Chi-square divided by its degree of freedom with <2 shows the better fit the data to the model. The CFI measure the proportion of total variance explained by the model with acceptable 0.90 and better if >0.95. The NFI and others incremental fit indices (NNFI and RFI) measures the incremental index comparing the model with restricted baseline model. The acceptable level is 0.9. The root-mean-square residual is standardized summery statistics for residual, and 0.05-0.06 is acceptable. The root mean square error approximation now seems a universal indicator for fit indices in structural equation modeling. 0.05 is acceptable and 0 appear perfect fit. It measures the test of the null hypothesis of close fit. RMSEA value with >0.08 is bad fit that show separation between the data and specified model. The GFI indicates how well the data fits the model. The parsimonious model adjusted for saturated data measured by (AGFI) 0.9 and above is acceptable value. In all the indicators for fitness indices, we can reject the null hypothesis that our data is predicted by the statistical model we nested. Our model is statistical fit. **P<0.01.
CFI: Comparative fit index, NFI: Normed fit index, GFI: Goodness of fit

Figure 4: Confirmatory factor analysis of Institutional factors

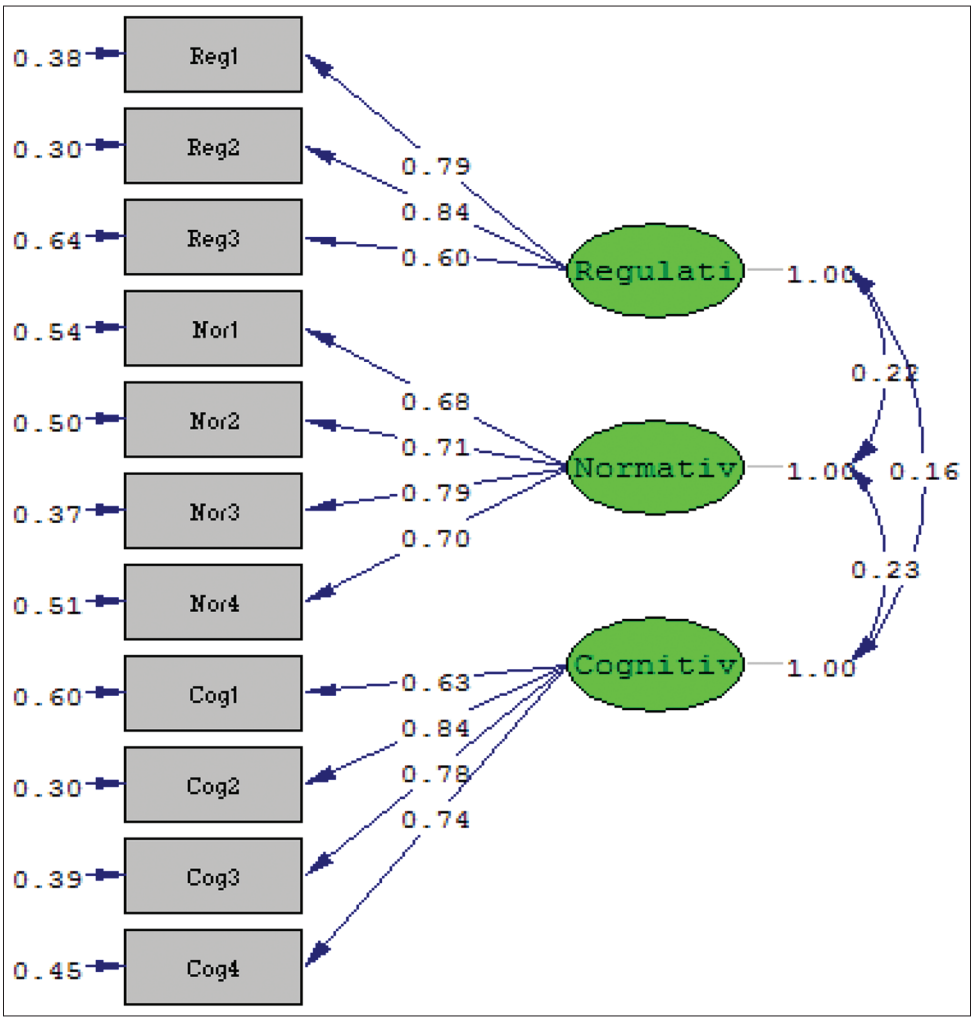


Table 3: The ordinal regression result

	Unstandardized	Standard error	Z-value
Regulative	β=−0.088	0.284	−0.313
Normative	β=0.106**	0.041	2.58
Cognitive	β=0.234**	0.0461	5.08
P<0.01	0.754	0.010	0.001

regulative domain is insignificant to determine performance and a fleeting negative impact. The magnitude of relationship between institutional factors and firm performance is strong significant except the regulative environment, though the effect is significant negative when two factors are reduced from the five indicators. The Chi-square test provides significant value for null hypothesis to hold in all the three factors. As seen from the above path diagram that the effect of institutions on the firm performance succinctly predicted using institutional framework.

5. CONCLUSION, FINDINGS, AND SUGGESTIONS

Structural equation modeling is powerful technique to measure relationships in unobserved variables from observed indicators across complex research setting (Jöreskog, 1973). As observed from the data analysis that institutional variables affect SME performance what been under emphasized by previous researchers. Prior fragmented efforts had measured regulative environment in line with measuring performance in small business arena. For instance, the assessment network between institutions and identified factors that inhibit success so, argued that entrepreneurs get minimum support from institutions due to the loose interaction between formal institutions, thus their performance is highly affected. However as our finding make apparent that individual's interpretation of norms and their attitude towards innovation is more important than support from formal institutions for firms to succeed. Here, it is not to deny the importance of formal institutions support for firm's success, rather to remind caution in our interpretation about the importance of formal institutions, since it is only one thread of the full picture and there are important two dimensions equally important determinant for firms success under the institutions umbrella so that the regulative dimension alone is not enough to claim its significance for SME performance. As we successfully showed that the underlying driver regarding firm performance is found in the normative and cognitive dimensions, the regulative environment including the five indicators is negative and insignificant affecting organization performance in micro and small enterprise in the study site. Even more important relationship than what one can assume is emerged from normative and cognitive institutional domain than what is traditionally expected the influence to source from regulative domain, that illuminate a lot of important implications. This was argued from the business development point of view, as prior researchers able to identified that business development support for the business fail to achieve the intended result due to lack of appropriate skills among workers assigned for this particular service, even though most of them are eager and committed to serve the business community in delivering the service. However, most owners replied that what the business really needs and what the employee can offer is mismatched. While they are seeking for market information and require marketing training, the workers may offer kaizen training or cost administration training.

The GEDI (2018) report shows the importance of economic freedom and its institutional milestone underpinning for economic freedom to prevail, however direct government involvement beyond liberalize economic environment has given little focus. Moreover, the research approached only medium enterprises with *de novo* entrepreneurial quality. The comparison neglects the background realities of countries which may fail to portray the full entrepreneurship faces, since countries historically are different one another in their institutional buildup and various disposition at different time period or different factors (Acemoglu et al., 2001) However, the institutional profile perspective considers both the macro level and individual factors immersing innovation practices plausible for various contexts. For instance, (Oliver, 1997) proposed three level institutional factors that confounds resource usage and firm strategy in established organization. The conceptual framework above shows interplay between institutional factors and resource usage includes both the individual, organizational, and formal rules that all equally important to assess institutions. Boris (2016) had extended the institution phenomenon to social entrepreneurship practice across the developing countries and shows the significance of the model.

Most entrepreneurship researches in Ethiopia have focused potential challenges and opportunities facing small enterprises. Studying entrepreneurship seems studying the practice of micro and small enterprises in the country for the past many years, as is the case in this research too. Most studies directed their attention towards micro finance institutions and government support available for business owners (EDRI, 2018; Haile and Batra, 2015). However, the study of entrepreneurship should nest from different perspective. The importance of this research stems from this concern. As argued well by Busenitz et al. (2000) the variation between countries' entrepreneurial practices captured enticing the institutional framework prevailed in the business arena.

Empirical findings from research summery conducted in developing countries regarding entrepreneurship entailed challenges practice in developing countries stems from institutional obstacles. The later statement implies that those countries exposure towards different development strategies subsequently implemented to resolve poor development status of the regions. Volume of researches had illustrated; export promotion development strategy promulgated by the then governments to harness economic development and secure competitive advantage. The result shows investment decisions are twisted towards government agenda rather than alleviating socioeconomic problems. Accesses to finance and allocation was not based on project feasibility criterion, rather was determined by the government intention and development agendas. Conglomeration was advocated to secure organization efficiency ignoring small business growth potential (Acs and Virgil, 2010) the result is that export promotion failed and most countries exposed to stringent bureaucracy that frustrated private entrepreneurs with the daily administrative routines. Following end of colonial period, most developing countries adopted import substitution strategy following endorsement by scholars for substitution for local produces. Factors like lack of technological advancement and difficulty

in production efficiency levied investments to unbearable difficulties to achieve the intended result.

However, not only developing countries, but in the industrialized nations too, small businesses surmounts the high-techs in job creation and contribution to the economic growth as was observed by Birch (1979). Henceforth most countries adopted small business strategy as their top priority to mitigate unemployment and fostering innovation. At this juncture, studying entrepreneurship equated to the study of small business and most countries private entrepreneurs as engine for growth (Storey, 1994). Following this trend, most developing countries also considered small business strategy for economic growth and job opportunity particularly for young population. It was observed that entrepreneurial development agenda outperformed its predecessors export promotion and import substitution (Acs and Virgil, 2010). For instance, in factor productivity and export earning, the later entrepreneurship strategy had more than triple advantage over import substitution and export promotion strategies. However, the prolonged negative effect from both export promotion and import substitution, like bureaucratic red tapes, corruption, and mal administration shrugged from entrepreneurial thrive. Therefore, the importance of institutional problem related to private entrepreneurship emanated from this points view as argued by the researchers.

Similar to the above argument, most studies in Ethiopia regarding entrepreneurship practice focused on institutional caveats though implicit in evaluation. The pioneer empirical study (Eshetu, 1994) assesses privatization process in the country and corresponding institutional platform after the downfall of military regime in 1991. The finding stated private businesses face financial shortages, limited resource and lack of managerial skills. Despite these problems, private oriented economic policy relatively observed efficient compared to state owned business and promising pathway was commenced at the beginning of the new regime. For most part of the subsequent studies, the focus remains on identifying potential challenges and opportunities small business and private entrepreneurs had squeezed with. The EDRI (2018) summarized possible factors mentioned in the foregoing researches using sample from large data. The finding reveals that financial, problem, market information; poor infrastructures are hampering entrepreneurial endeavors in most part of the country. Institutional problems however get minimal attention so far.

The first result confirmatory factor analysis shows that the entrepreneurial practice across micro and small firm employing institutional theory. The covariance between regulative environment and normative (0.22) confirmed that variables are measure different attributes of the domain. Similarly the normative indicators are covariates to the cognitive pillar (0.23). Moreover, the regulative factors are covariates to cognitive institution variables (0.16). Thus, the result shows that entrepreneurial practice is positively correlated to institutional variables and institution construct measures same behavior but distinctive domains. The main implication of this relationship between these variables is that an isolated effort extoled support for startups and an independent treatment leads to futile result. Since, the meaning of normative implied seek understanding societal norms, it is an input for formal institutions to guide owners manufacture products needed by the society than what they believe is important. It is because that culture bears influence about organizations legitimacy and if societal values are positive for innovation practice, thus beyond acquiring support from formal institutions, SME's ability about understanding normative values are important for success. This finding is consistent with the finding evident in Busenitz et al. (2000) and Abdurrahman (2016), as we successfully posits cultural facets is positively related with innovativeness across the region which is not the case in prior findings. The cultural value and prevailing societal norm is not prohibitive for entrepreneurship practice, and the societal admiration is back entrepreneurs to start their business and is also backing them to succeed. One entrepreneur responds to our question of how creativity is seen within the society "the society because of my creation of mobile cafeteria, whatever problem they had faced, they come to me, even the older ages, the seek my advice as if I know everything else in this world. They tell to their children to be me when they grow up." We had also observed children imitate at their play driving false motor cycles and serve their fellow playmates.

The variance explained by the model data analysis is sufficient to claim that most entrepreneurs positively perceive norms and use as input for innovation. Thus, understanding societal value make entrepreneurs who aspire to pursue innovation across the SME sector should develop positive impression towards the society they emerged from. This result is also that cultural support towards innovation exist SME entrepreneurs in Ethiopia. The assertion is that culture is not stand against innovation, rather evidences

Table 4: Research result, evidence from survey, 2019

Hypotheses	Accept/Reject	Implication
H_1 - There is a significant relationship between regulative pillar and entrepreneurial practice H_2 - The regulative environment has insignificant influence on performance in micro and small enterprise sector	H_1 - Accepted H_2 - Accepted	The regulative institution explains entrepreneurship practice however, the interaction that regulative environment with firm performance is negative and insignificant
H_3 - There is significant relationship between normative pillar and entrepreneurship practice indulge H_4 - The normative institution is positively related to organization performance in micro and small enterprises	H_3 - Accepted H_4 - Accepted	The normative institutions including values, cultural factors, and societal perception towards innovation among Ethiopian positive and supportive for entrepreneurs to advance their firm growth
H_5 - There is significant relationship between cognitive domain and entrepreneurship practice H_6 - There is negative relationship between entrepreneurs' cognitive domain and organization performance	H_5 - Accept H_6 - Rejected	From empirical literatures conducted in Ethiopian context and the research anticipated that among most Ethiopian entrepreneurs there lacks mindset and preparedness for success. However, the empirical evidence shows, most entrepreneurs in Ethiopia developed a mindset and preparedness impetus for the firm success

shows admiration for innovation practice existed within society and most entrepreneurs before engaging in to the business, they develop positive attitude towards norms and values inherited within the society. In similar notation, the value system assessment (Reynolds, 2014) similarly contemplates Ethiopia as consistent as ours which shows positive value system for innovation prevailed within the society as it is peculiar to entrepreneurship thrive. The paucity is found in regulative environment, the norm or the cognitive aspect of entrepreneurship (Table 4).

6. SUGGESTION FOR FUTURE RESEARCH

This paper showed that two of the three institutional pillars positively affect firm performance; however regulative pillar has insignificant effect across SME. Enterprise owners need know the norm and values persist within the social under which they operate their business because important for legitimacy, is detrimental for better performance. Similarly, most researches had focused government support and financial capacity as primary driver for firm performance; however our empirical research showed that support from formal institutions and governmental establishments is insignificant for firm performance though is important for entrepreneurs to start their business. Hopefully, future research will show the interaction between institutions and resource endowment and their impact towards performance through a longitudinal research or via using financial information from secondary sources as performance measurement. Moreover, future research will benefit from the research insight and employ this approach in a cross-sectional study.

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