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Article

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The entrepreneurial ecosystem and the performance of micro and small enterprises (MSEs) in Amhara region, Ethiopia: the political–legal perspective

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Abstract

All other parts of the entrepreneurial ecosystem in any country are commonly governed by the political and legal aspects of the entrepreneurial ecosystem. This is a novel approach that examines the integrated effect of the entrepreneurial ecosystem's political–legal subsystem on the performance of MSEs based on system theory and the mediating role of entrepreneurial competence taking a resource-based view in to account. There has been no detailed examination of the entrepreneurial ecosystem of MSEs in Africa in general, and Ethiopia in particular. A total sample of 499 MSE operators engaged in the three priority sectors: manufacturing, construction and urban agriculture was selected from the population of 4086 operators in three metropolitan cities of Amhara National Regional State, Ethiopia, using a proportional stratified sampling. Though the political–legal aspects of the entrepreneurial ecosystem have a major impact on both entrepreneurial competency and MSE's performance, the relationship between entrepreneurial competencies and MSE performance was found to be insignificant. The role of entrepreneurial competency in mediating the relationships between policy and business performance and other business environments and business performance was shown to be insignificant. It is suggested by the study that the policies that the government designs concerning MSEs should be workable and attractive including the provision of different incentives. Lastly, other researchers in the area are suggested to further clarify the contradictions in the findings regarding the relationship between entrepreneurial competencies and the performance of SMEs.

Keywords: Entrepreneurial ecosystem, MSEs, Political–legal perspective, Performance, Entrepreneurial competence, Policy, Business support services, Business environment

Introduction

The entrepreneurial ecosystem encompasses the whole environment (political–legal, economic–technological, socio-cultural, or other) in which to start, operate, and run one's own business in a proper, conducive, and sustainable manner (Kansheba, 2020). It includes the comprehensive support provided to entrepreneurs to ensure the smooth

operation of their enterprises (GIZ, 2018). Similarly, Stam and others argued that the entrepreneurship ecosystem is made up of a collection of elements that help to support entrepreneurship in a specific area (Stam & van de Ven, 2021).

Small and micro-enterprises (MSEs) contribute significantly to national development by creating job opportunities, generating income, promoting local innovation, utilizing domestic resources, and substituting imports (Abebe & Gebremariam, 2021; Degaga & Hadaro, 2021; Hathaway, 2020). Studies show that government laws, infrastructure, economic, and sociocultural aspects, impact the performance of MSEs in a country. The enabling environment, which includes tax breaks, well-developed infrastructure, ease of doing business, workable policies, and other incentives accessible to MSEs, influences their long-term viability in the industry (Ascarya & Rahmawati, 2018; Das, 2017; Simeon & Lara, 2005; Ullah, 2019). However, MSEs are found to be more sensitive to a bad business environment than larger businesses, according to researchers. For instance White addressed that MSEs face a higher proportional cost of doing business than larger businesses, and the external challenges posed by a poor business environment put MSEs in a more vulnerable position (White, 2018).

In Ethiopia, MSEs are considered a key force for creating jobs and a fair income distribution; activating competition; exploiting niche markets; increasing productivity and technological advancement; and stimulating economic development through a combination of these approaches (Tekele, 2019). However, the attention paid to them is limited and the concept is relatively new. Before the development of Ethiopia's first national-level strategy and policy in 1997, later revised in 2016, there was no defined structure for managing and coordinating MSEs (Abebe & Gebremariam, 2021). Access to technology, skills, capital financing, and markets are among the hurdles that MSEs face, according to the strategy. The strategy identified that there are detrimental rent-seeking practices that present themselves in various forms (FDRE MUDH, 2016). Having all these constraints, large and older firms are still the most important sources of net new jobs than small and younger firms in Ethiopia (Ferejo et al., 2022).

The political–legal environment as a key determinant element in the overall entrepreneurial ecosystem of MSEs is not investigated well by researchers (Maiello, 2022). Though the specific elements of the economic and socio-cultural dimensions of the entrepreneurial ecosystem such as finance, market, human capital, infrastructure, culture and the like are independently studied by different researchers (White, 2018; Zondo, 2016; Jones, 2013), the political–legal dimension and its elements as a sub-system of the overall entrepreneurial ecosystem is not addressed very well. In addition, the leading role of the political–legal environment for the performance of MSEs is not well addressed by prior researchers. Furthermore, the mediating role of entrepreneurial competency on the relationship between the entrepreneurial ecosystem and the performance of MSEs is not well explored yet. Taking these gaps into account, the study investigated three subsystems: the policy of the government about MSEs, Business Support Services provided to them and other Business Environments) of the political–legal aspects of the entrepreneurial ecosystem and assessed their impact on the performance of SMEs.

Therefore, the present study aimed to assess the entrepreneurial ecosystem of MSEs in the metropolitan cities of Amahara National Regional State, Ethiopia, focusing on the political–legal dimensions and analysing its impacts on the performance of

MSEs. Moreover, the mediating role of entrepreneurial competence on the relationship between the political–legal aspect of the entrepreneurial ecosystem and the performance of MSEs was examined.

The study found that the political–legal dimension of the entrepreneurial ecosystem of MSEs significantly influences the performance of MSEs. However, entrepreneurial competency does not mediate the relationship between the political–legal dimensions of the entrepreneurial ecosystem and the performance of MSEs.

Understanding the MSE ecosystem as a whole aids decision-makers at all levels of government in identifying gaps for the sector's right support since MSEs are a priority for the nation. For both current and future business owners, the study has the potential to be crucial to fully comprehend the business environment in which they operate as well as their degrees of entrepreneurial competence. Additionally, the study has the potential to be crucial for policymakers as they formulate future directions in the field. Finally, it will be an addition to the literature already available on the entrepreneurial ecosystem of MSEs, a relatively recent issue in the field of entrepreneurship particularly in developing countries like Ethiopia (Schweitzer et al., 2019; Stam, 2018).

This study is structured in such a way that it incorporates an introduction, literature review, methodology, analysis, discussions, conclusions and implications of the study.

Review-related literature

The fundamental bases for the present study are system theory and the resource-based view (RBV). The theoretical reviews and empirical evidence in the entrepreneurial ecosystem of MSEs are reviewed as follows.

The system theory

According to the system theory credited to Bertalanffy (1996), most organizations—businesses and other types of organizations alike—rely on their external environments in some capacity to operate (Chikere & Nwoka, 2014). They might rely on their surroundings as a supply of raw materials, a pool of labour, or a marketplace for the sale of goods. Even the majority of nations have open systems since they trade goods abroad (Bertalanffy, 1969).MSEs are not unique in this regard. They are open systems that take input from the external environment and deliver their output to the environment too. It is the interaction of different elements of the ecosystem (Subhadrammal, 2019) that determines the overall performance of MSEs beyond their internal effort to develop their competencies and be competitive in the market. Every system has sub-systems that interact with each other for a common goal and interacts openly with the external environment (Chikere & Nwoka, 2014; Sahgal, 2018). This interaction is for a mutual benefit in which the organization receives inputs from the environment and delivers the outputs to the environment (Teece, 2018). In the context of MSEs, receiving inputs from the external environment and providing job opportunities and their outputs to the community is the usual interaction. In the present study, the elements: Policy of the government, business support services from different stakeholders and other business environments as a sub-system makes the political–legal system that will again be part of the whole entrepreneurial ecosystem (Chikere & Nwoka, 2014). It is assumed that each of the subsystems interact one another and has an impact on the big system (Lai & Huili

Lin, 2017; Teece, 2018). In this regard, policy, business support service and other business environments have an impact on the performance of MSEs.

The resource-based view

As the purpose of this study extends to investigate the mediating role of entrepreneurial competence on the relationship between the entrepreneurial ecosystem and the performance of MSEs, the RBV (resource-based view) was also used. The resource-based view offers firms ways for gaining a long-term competitive advantage by utilizing a company's unique collection of resources that are valued, aware, imperfectly imitable, and non-substitutable (Apriyani et al., 2019). Human capital qualities such as competencies, traits, capacities, and talents can be turned into an internal unique set of resources that small businesses must rely on, according to RBV (Bhandari et al., 2022; Makhloufi et al., 2022). Entrepreneurial competencies are distinctive talents that can be considered resources for achieving great firm performance (Ambinari & Kholid, 2022).

It is implied that the policy of the government, business support services provided by stakeholders and the overall business environment when provided in an integrated manner contribute to the better performance of MSEs according to the system theory. A workable policy, strong support and a conducive business environment strengthen the entrepreneurial competencies of the enterprises which in turn lead to the performance improvement of MSEs as to the resource-based view.

Empirical evidence

Though the issue of the entrepreneurial ecosystem of MSEs in developing countries like Ethiopia is not investigated well, particularly from the political–legal dimension, recent beginnings are providing inputs on it. Concerning the relationship between the political–legal dimensions of the entrepreneurial ecosystem and business performance, studies show inconsistent results. For instance, Hutahayan (2019) discovered the role of government policy in regulating the relationship between entrepreneurial strategies and business success is not substantial Lafuente and others however pointed out that countries emphasize distinct components of their national entrepreneurship system, indicating that, contrary to popular belief, a tailored policy is required if the goal is to maximize the resources deployed to improve the countries' entrepreneurial ecosystem (Lafuente et al., 2021). The effect of policy on business performance is also supported by the findings of Ascarya and Rahmawati (2018). Furthermore, Lux and others investigated that specific aspects of the business environment have varied impacts on business performance in such a way that it would have stronger when the environment is more favourable (Lux et al., 2020). An additional study by Al-Abri and others also found that government and support have a significant impact on the performance of businesses mainly for startups (Al-Abri et al., 2018). Ben added that government intervention determines the entrepreneurial ecosystem (Ben Hassen, 2020). But, most of the studies are conducted out of Africa in general and Ethiopia in particular where the business environment is different.

Even though the determinants of entrepreneurial performance vary from country to country and even from region to region in the same country, the role of entrepreneurial competencies in improving business performance is getting the attention of researchers

(Jamie & Oliver, 2020; Seet et al., 2020). According to Khan and colleagues' findings, there is a positive relationship between entrepreneurial orientation and entrepreneurial competencies, entrepreneurial competencies and entrepreneurial performance, entrepreneurial orientation and entrepreneurial performance, and entrepreneurial orientation and entrepreneurial performance (Khan et al., 2020). For Pranowo, entrepreneurial competency and innovation capability positively influence business success (Pranowo et al., 2020). It is also identified that autonomy and entrepreneurial competencies had a positive effect on micro-enterprise performance (Al Mamun & Fazal, 2018).

Jamie and Oliver's studies demonstrated that entrepreneurial core competencies, personal attributes, and talents are positively related to business success when compared to other entrepreneurial competencies and business performance (Jamie & Oliver, 2020). They went on to say that entrepreneurs need organizational and relationship-building skills, both of which are linked to business success. In support of this, Issa and Onuoha found a significant linear association between the components of entrepreneurial competence (strategic and relational competence) and organizational performance indicators (profitability and innovativeness) (Issa & Onuoha, 2020). In addition, Entrepreneurial qualities and entrepreneurial competencies are positively associated with total business performance, according to a study by Mahadalle and Kaplan (2017). Moreover, findings by Iskamto added that entrepreneurial competence has an impact on business performance (Iskamto et al., 2020). A study by Yahaya and others also revealed that entrepreneurial skills have a positive impact on entrepreneurship development (Yahaya et al., 2021). However, Self-learning, entrepreneurial skill, and entrepreneurial orientation, on the other hand, do not affect the performance of micro-enterprises, according to a study by (Apriyani et al., 2019; Esubalew & Raghurama, 2020). This contradictory findings need further investigations that the presenet study verified.

Though some researchers used entrepreneurial competency as a mediator to other related variables, its role as an intervening variable between entrepreneurial ecosystem and business performance is not tested yet. In this regard, Khan and others pointed out that entrepreneurial competency has proved to be a mediator between entrepreneurial orientation and entrepreneurial performance (Khan et al., 2020).In addition, entrepreneurial competencies showed a mediating effect on the relationships between creativity, innovativeness, autonomy and micro-enterprise performance (Al Mamun & Fazal, 2018). There are also indications that researchers tested the mediating role of some components of entrepreneurial competence on the relationship between some components of the entrepreneurial ecosystem and the performance of SMEs. But detailed investigations that test the mediating role of entrepreneurial competence on the relationships between the political–legal aspect of the entrepreneurial ecosystem and business performance are not found. A study by Esubalew and Raghuram (2020) tested the mediating role of entrepreneurial competence on the relationship between the financial element of the entrepreneurial ecosystem and the performance of SMEs. Furthermore, (Asmawiyah et al., 2020) examined the mediating role of entrepreneurial competence on the relationships between the human capital element of the entrepreneurial ecosystem and the performance of SMEs. Theoretically, a sound entrepreneurial ecosystem contributes to a better entrepreneurial competence that in turn leads to the better performance of MSEs. Hence, testing the mediating role of entrepreneurial competence on the relationship

between the entrepreneurial ecosystem and the performance of MSEs is a new look to the existing literature.

Hypothesis

Based on the theoretical and empirical reviews, the researcher developed the following hypotheses:

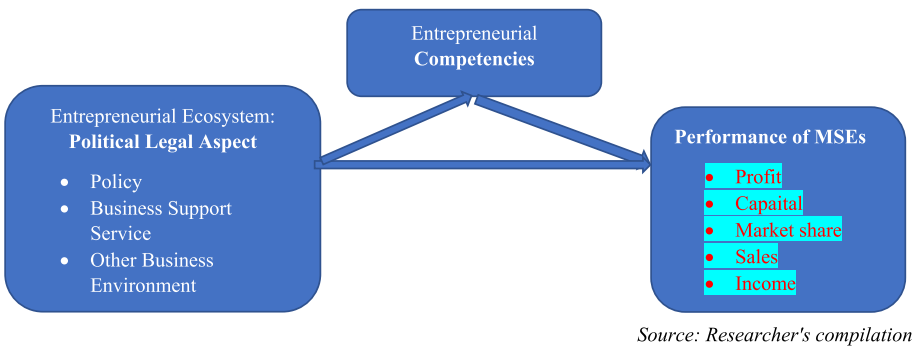
1. H_1: The political and legal aspects of the entrepreneurial ecosystem have a significant relationship with the performance of MSEs.
2. $H_{2:}$ The political and legal aspects of the entrepreneurial ecosystem have a significant relationship with entrepreneurial competency.
3. H_3: Entrepreneurial competency has a significant relationship with the performance of MSEs.
4. H_4: Entrepreneurial competency mediates the relationship between the policy component of the entrepreneurial ecosystem and business performance.
5. H_5: Entrepreneurial competency mediates the relationship between the other business environment component of the entrepreneurial ecosystem and business performance.

Conceptual framework

Figure 1 below portrays the relationship between the variables used for the study.

Methods and materials

As the study was designed to assess the relationship between the entrepreneurial ecosystem of MSES and their performance, an explanatory design that demonstrates the causal links between various variables (Genot et al., 2018) was employed in the study. The targets of the study were MSE operators in metropolitan cities of the Amhara region, Ethiopia: Dessie, Gondar, and Bahir Dar engaged in the manufacturing, construction, and urban agriculture sectors for more than 5 years. From a population of 4086, a total sample of 499 was selected by applying Daniel Soper's sample determination formula for applying structural equation modelling (Soper, 2023) taking an anticipated effect size of 0.23, a desired statistical power level of 0.95, and a



Source: Researcher's compilation

Fig. 1 Conceptual research model. *Source:* Researcher's compilation

probability level of 0.05 (www.danielsoper.com/statcalc). Samples were selected using a proportional stratified sampling technique considering the three sectors as strata. The questionnaire used for the study was adopted from (Aspen Network of Development Entrepreneurs (ANDE), 2013) and (Pranowo et al., 2020) with slight modifications on some of the items. Taking the Ethiopian context into account some items were included based on literature support. From the total of 499 questionnaires distributed, 484 (97%) were returned. In the process of screening the data collected, only 447 (89.58%) were found to be valid for analysis. The items used to collect the required data for the study are presented in Table 1 below.

Table 1 Items used for the study

Policy
1) Business licensing and permits are simple
2) Customs and trade regulations and clear
3) Labour regulations are workable
4) Tax administration is good
5) Tax rates are reasonable
6) Interest rates are reasonable
Business support services
1) There is easy access to legal services
2) There is easy access to tax services
3) There is easy access to incubators/accelerators
4) There is easy access to consultants/advisors
5) Business development services are easily available
Other business environment
1) There is an adequate level of support from successful business people in the region
2) The political instability does not hinder my operation
3) The practices of informal sector competitors do not hinder my operation
4) R&D collaboration between businesses and university researchers supports my operations
5) Corruption is not hindering my operation
6) Crime, theft, and disorder do not hinder my operation
7) Overall business environment (in the region) is good
Competency
1) I can set the goal and vision of our firm
2) I can formulate the business strategy
3) I can make an environmental scanning
4) I can make an opportunity recognition
5) I can make cooperation and networking
6) I dare to take risk
7) I have the flexibility and willingness to adapt
8) I have good motivation and ambition
Performance
a) The firm has been profitable in the past 3 years
b) The capital of our firm has been increasing in the last 3 years
c) The market share of our firm is growing
d) The product sale of our firm is growing
e) My income from this business is growing

Source: Adapted from ANDE (2013) and Pranowo et al., (2020)

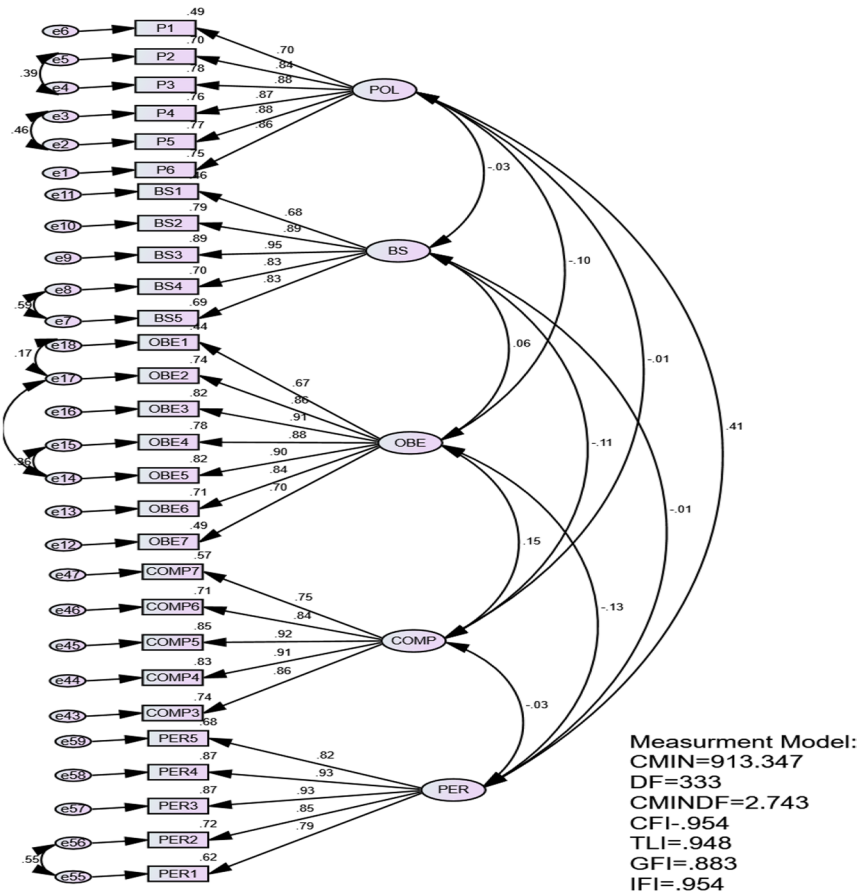
Data analysis

Measurement model

Confirmatory factor analysis (CFA) developed with AMOS version 23 using maximum likelihood methods was designed to assess the model fit, test the validity of instruments and check the multivariate normality and outliers (Byrne, 2020).CFA also determines the level to which the factor structure is capable of representing the covariance among the items and eliminating subscales that do not correspond to the respective latent construct (Raykov et al., 2000) (Fig. 2).

As part of the confirmatory factor analysis, factor loadings were assessed for each item. As their loadings was less than 0.5, three items (COMP1, COMP2 and COMP 8) were deleted. According to Hair and others, an item having a factor loading less than 0.5 should be deleted as they are contributing less in explaining the construct (Hair et al., 2014). To assess the overall goodness of fit of the model, fit measures (CMIN/df, CFI, TLI, SRMR and RMSEA) were used (Table 2).

Conventionally, relative Chi-square is recommended to be less than 5, while the GFI, CFI, IFI AND TLI values should be greater than 0.9 (Byrne, 2020; Hair et al., 2014). Similarly, RMSEA and RMR are considered to be a good fit when the indices are less



Source: Survey,2022

Fig. 2 Confirmatory factor analysis. Source: Survey, 2022

Table 2 Fit indices

Fit indices	Recommended value	Source	Obtained value
P	Insignificant	Bentler (2014)	0.000
CMIN/Chi-square/df	3–5	Byrne (2020)	2.743
GFI	> 0.9	Bentler (2014)	0.883
CFI	> 0.9	Bentler (2014)	0.954
TLI	> 0.9	Bentler (2014)	0.948
SRMR	< 0.08	Bentler (2014)	0.028
RMSEA	< 0.08	Byrne (2020)	0.060

Source: Author's compilation

than 0.08 (Byrne, 2020). However according to Hair et al., (2014), if any 3–4 of the above goodness-of-fit indices are within the threshold, the entire model is considered to be fit. Therefore, based on the stated reasons, the researcher concluded that the structural model fits the goodness-of-fit indices, thus further analysis can be conducted using the structural model.

Construct reliability

For construct reliability to be established, Cronbach's alpha and composite reliability values are expected to be more than 0.7 (Hair, et al., 2014). Table 3 below clearly depicts that there are no construct reliability issues.

Convergent validity

Applying Fronell and Larcker's criterion, an average variance extracted (AVE) value of 0.5 and above ensures convergent validity (Hair, et al., 2014). Hence, as Table 4 below clearly shows all the AVE values are greater than 0.5 and the convergent validity is established.

Table 3 Construct reliability

Item	Cronbach's alpha	Composite reliability
Policy	0.945	0.935
Business support	0.928	0.922
Other business environment	0.943	0.937
Competence	0.857	0.934
Performance	0.949	0.938

Source: Survey, 2022

Table 4 Convergent validity

Construct	AVE
POL	0.71
BS	0.71
OBE	0.68
COMP	0.74
PER	0.75

Source: Survey, 2022

Table 5 Disciminant validy

	AVE	POL	BS	OBE	COMP	PER
POL	0.71	***0.84***				
BS	0.71	− 0.03	***0.84***			
OBE	0.68	− 0.096	0.06	***0.83***		
COMP	0.74	− 0.01	− 0.109	0.147	***0.86***	
PER	0.75	0.405	− 0.01	− 0.130	− 0.03	***0.87***

Source: Survey, 2022

Table 6 Correlation matrix for all constructs

	Pol	BS	OBE	COMP
Pol	1			
BS	− 0.021	1		
OBE	− 0.096	0.035	1	
COMP	− 0.025	− 0.098	0.110	1

Source: Survey, 2022

Discriminant validity

According to Fronell and Larcker criterion, discriminant validity is said to be established if the square root of AVE for a construct is greater than its correlation with other constructs. As Table 5 below reveals, the square root of AVE of the contracts (bolded and italics) exceeds the correlation with other constructs. Hence, there is no discriminant validity issue in the present study.

Multicollinearity

If the correlation matrix shows very correlated values (usually 0.9 and above) for more than three or more variables, it is an indicator of multicollinearity (Hair et al., 2014). In the present study, there is no issue of multicollinearity as the correlation matrixes among all the independent variables are below 0.9 (Table 6).

Normality of data

For a large sample size exceeding 200, a data set is considered to be normal if the skewness value falls within the absolute value range of 2 and kurtosis within the absolute value range of 10 and has a critical ratio that does not exceed the absolute value of 8 (Byrne, 2020). As the values are within the stated ranges, there are no normality issues.

Results

Demographic profiles of respondents

The majority of the respondents representing 341 (76.3%) are males. This implies that MSEs in the areas under study are dominated by males and the participation of females in the area is very limited. Concerning the educational background of the respondents, the study found that the majority of them have level 1 and level 2 certificates 114 (25.5%)

followed by grade 10/12th completers (25.3%). It is also clear that the least number of respondents 41 (9.2%) can't read and write. Regarding the religion of respondents, the majority of respondents 219 (49%) follow Orthodox Christianity followed by Muslims 149 (33.3%). The least number of respoendents35 (7.8%) are other than there three major religions in Ethiopia: Orthodox Christianity, Muslim and Protestantism. Though the study was delimited to only the three metropolitan cities of the Amhara region, the majority of the respondents 156 (34.9%) were taken from Bahir Dar followed by Dessie city administrations 152 (34%). The least number of the respondents 139 (31.1%) are from Gondar. Concerning the sector of MSEs in the study, it is revealed that the majority of the respondents 203 (45%) are engaged in the manufacturing sector followed by construction 125 (28%). The least number of respondents 119 (26%) engaged in the urban agriculture sector (Table 7).

Structural model

The political–legal environment and the performance of SMEs

In an attempt to test the relationship between the political–legal dimensions of the entrepreneurial ecosystem and the performance of MSEs, the results of the present study revealed that policy has a significant impact on the performance of MSEs ($\beta = 0.322$, CR = 7.548, $P = 0.000$). This finding goes in contradictory to the finding (Hutahayan, 2019) in that MSEs' strategies significantly influence the performance of enterprises although the influence of government policies is not substantial. However, Lafuente et al. (2021) found that the relationship between policy and business performance is significant and matches the finding of this study. Furthermore, the significance of the relationship between policy and business performance is also supported by (Al-Abri et al., 2018; Ascarya & Rahmawati, 2018; Ben Hassen, 2020; Lux et al., 2020).

Table 7 Demographic profile of respondents ($n = 447$)

Demographic profile		Frequency (*n*)	Percent (%)
Gender	Male	341	76.3
	Female	106	23.7
Education	Can't read and write	41	9.2
	Under Grades10	79	17.7
	Grades 10/12 complete	113	25.3
	Level 1/10 + 1 &, level 2/10 + 2 certificate	114	25.5
	Level 3/10 + 3, level 4/5 /diploma	52	11.6
	BA/BSC and above	48	10.7
Religion	Orthodox Christianity	219	49.0
	Muslim	149	33.3
	Protestant	44	9.8
	Others	35	7.8
City	Dessie	152	34.0
	Bahir Dar	156	34.9
	Gondar	139	31.1
Sector	Manufacturing	203	45.4
	Construction	125	28.0
	Urban agriculture	119	26.6

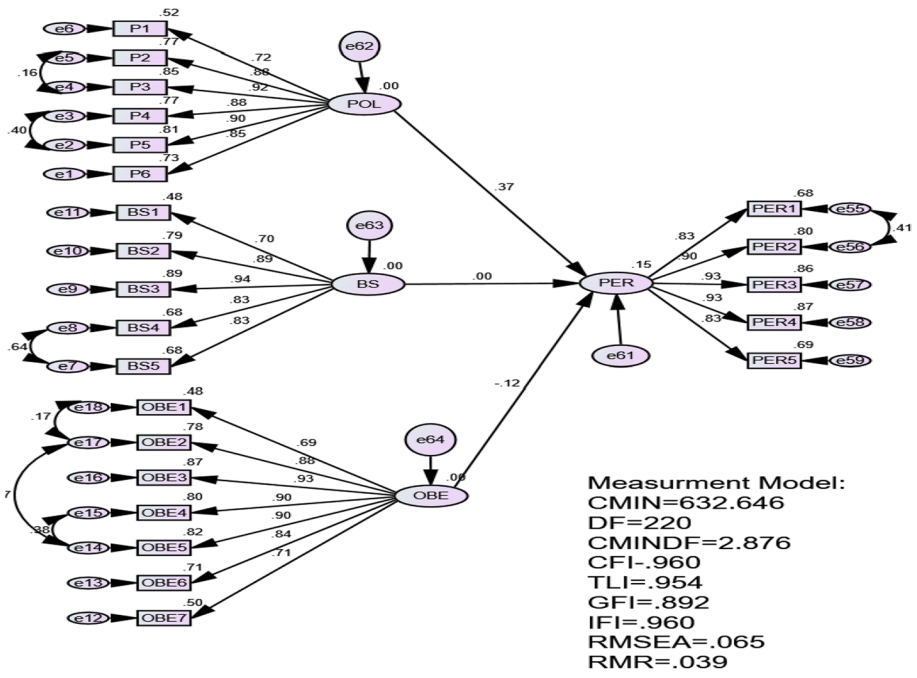
Source: Survey, 2022

In assessing its relationship with the performance of MSEs, it is found that there is no strong relationship between the business support service element of the political–legal environment and the business performance of MSEs(β = − 0.003, CR = − 0.70, $P = 0.945$). Hence, business support service has no significant relationship with the business performance of MSEs. This is different from the findings of Mori (2015). The finding reflected that business support services have a stronger relationship with business performance. A similar finding by Ogujiuba et al., (2022) and Piza et al., (2016) also pointed out that business support services provided to enterprises contribute a lot to performance improvement.

The last element under the political–legal environment was other business environments. A similar assessment on this dimension shows that there is a strong relationship between other business environment elements of the political and legal environment and the business performance of MSEs (β = − 0.160, CR = − 0.2.515, $P = 0.012$). In support of this finding, a study by Abdullah & Bin Mansor, (2018) also identified that there is a strong relationship between business environment and business performance.

It is clearly described above that policy and other business environment has a significant relationship with the performance of MSEs. However, business support service has no significant relationship with the performance of MSEs. Hence, it is possible to conclude that the political–legal environment has a significant relationship with the performance of MSEs. It implies that the first hypothesis is accepted. The structural model in Fig. 3 and Table 8 below summarizes these facts.

The findings of many research works in the area (Christy et al., 2018; Maiello, 2022; OECD, 2021) are similar to the result of the present study regarding the significance of



Source: Survey, 2022

Fig. 3 Relationship between elements of the political–legal aspects of the entrepreneurial ecosystem and performance of MSEs. Source: Survey, 2022

Table 8 Regression weights

	Estimate	S.E	C.R	P
PER < POL	0.322	0.043	7.548	***
PER < BS	− 0.003	0.049	− 0.070	0.945
PER < OBE	− 0.160	0.063	− 2.515	0.012

POL policy, *BS* business support service, *OBE* other business environment, *PER* performance

Source: Survey, 2022

the relationship between the political–legal environment and business performance. In other words, as this study identified many researchers supported the result that the political–legal environment has a statistically significant relationship with the business performance of MSEs.

The political–legal environment and the entrepreneurial competencies of MSEs

Policy is the first element is the political–legal aspect of the entrepreneurial ecosystem. The SEM result reveals that policy has no significant relationship with the entrepreneurial competencies of MSEs (β = − 0.007, CR = − 0.179, $P = 0.858$). Similar studies that show the relationship between policy and entrepreneurial competencies of MSEs were not found.

Regarding business support service, the SEM analysis showed that it has a significant relationship with the entrepreneurial competencies of MSEs. That is, business support service as one element of the political legal aspect of the entrepreneurial ecosystem has a significant relationship with the entrepreneurial competencies of MSEs (β = − 0.105, CR = − 2.220, $P = 0.026$). The third element under the political–legal aspect of the entrepreneurial ecosystem is other business environments. The SEM analysis concerning this variable depicted that it has a significant relationship with the entrepreneurial competencies of MSEs. In other words, other business environments and entrepreneurial competencies of MSEs have a significant relationship (β = 0.1665, CR = 2.742, $P = 0.006$). However, as to the researcher's knowledge, there are no similar studies conducted that show the relationship between the business environment and entrepreneurial competencies of MSEs.

In general, the political–legal aspect of the entrepreneurial ecosystem has a significant relationship with the entrepreneurial competencies of MSEs. This is justified by the fact that two of the three elements of the political–legal aspects of the entrepreneurial ecosystem (business support service and other business environments) have a significant relationship with the entrepreneurial competencies of MSEs. It is only the policy element which was found to be insignificant in its relationship with the entrepreneurial competencies of MSEs. Hence, Hypothesis 2 is supported and the political–legal environment has a significant relationship with the entrepreneurial competencies of MSEs. Figure 4 and Table 9 below illustrate these findings.

The researcher did not get research findings that show the relationship between the political–legal aspects of the entrepreneurial ecosystem and the entrepreneurial competencies of MSES. But the findings of the present study showed that the political and legal aspect contributes much for developing the entrepreneurial competencies of MSEs.

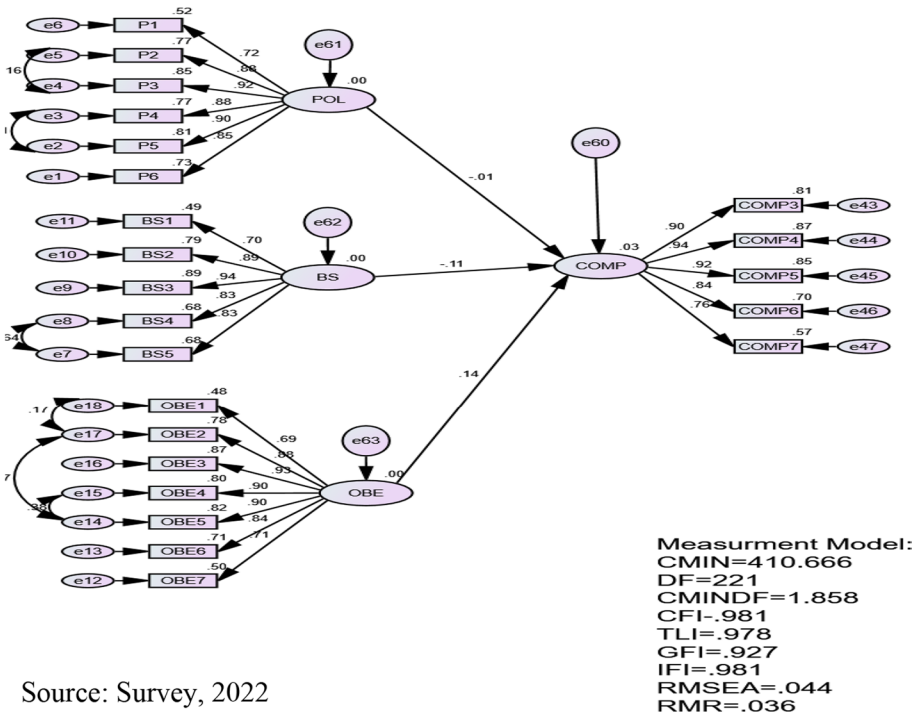


Fig. 4 Relationship between elements of the political–legal aspects of the entrepreneurial ecosystem and competence MSEs. Source: Survey, 2022

Table 9 Regression weights

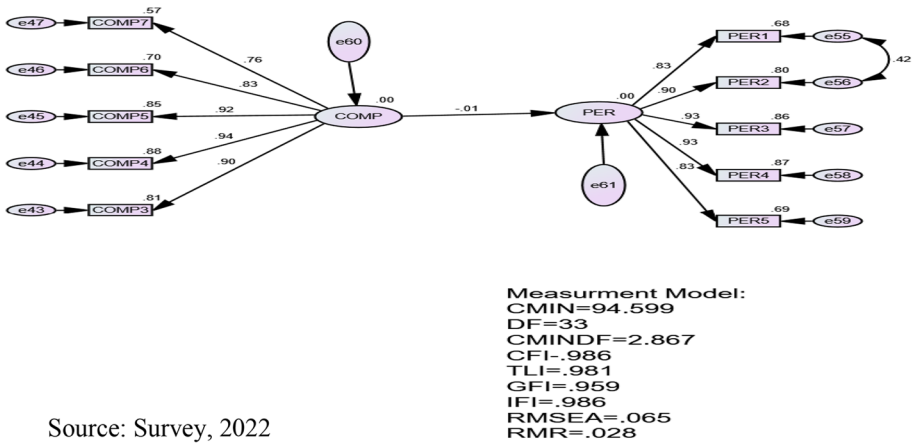
	Estimate	S.E	C.R	*P*
COMP < POL	− 0.007	0.038	− 0.179	0.858
COMP < BS	− 0.105	0.047	− 2.220	0.026
COMP < OBE	0.166	0.061	2.742	0.006

Source: Survey, 2022

The relationship between entrepreneurial competence and performance of SMEs

SEM analysis depicted that there is no significant relationship between entrepreneurial competency and the performance of SMEs (β = − 0.016, CR = − 0.296, $P = 0.767$). Hence, the hypothesis that entrepreneurial competency has a significant relationship with the performance of MSEs (H_{10}) is not supported. Figure 5 and Table 10 below clarify this finding.

Research conducted in the areas shows the relationship between entrepreneurial competencies and the performance of MSEs is twofold. Some findings identified that there is a significant relationship between entrepreneurial competencies and the performance of MSEs (Al Mamun & Fazal, 2018; Iskamto et al., 2020; Mahadalle & Kaplan, 2017; Pranowo et al., 2020; Yahaya et al., 2021). However, others found that the entrepreneurial competencies of MSEs do not have a significant relationship with the performance of MSEs. For instance, Apriyani et al. (2019) identified that entrepreneurial competencies do not have a significant influence on the performance of SMEs. Furthermore, Esubalew and Raghurama (2020) found that entrepreneurial competency does not



Source: Survey, 2022

Fig. 5 Relationship between elements of the political–legal aspects of the entrepreneurial ecosystem and competence MSEs. Source: Survey, 2022

Table 10 Regression weights

	Estimate	S.E	C.R	*P*
PER < COMP	− 0.016	0.055	− 0.296	0.767

Source: Survey, 2022

have a significant impact on the performance of MSEs. The findings of the present study matches with the second view as it found a non-significant relationship between entrepreneurial competence and performance of MSEs.

The mediating effect of entrepreneurial competence on the relationship between policy and the performance of SMEs

To test the mediating role of entrepreneurial competencies on the relationship between the policy element of the entrepreneurial ecosystem and the performance of MSEs bootstrapping method was applied. Bootstrapping method provides an estimate of the magnitude of the indirect effect and examines the statistical significance of the indirect effect (Hair et al., 2014). The result revealed that entrepreneurial competence has a non-significant indirect impact on the relationship between policy and performance of MSEs ($\beta = 0.00014$, $P = 0.710$) which is against the hypothesis in the present study (H_4). However, the direct effect of the policy component of the entrepreneurial ecosystem on the performance of MSEs was significant ($\beta = -0.332$, CR = 7.705, $P = 0.000$). Hence, entrepreneurial competence does not mediate the relationship between the policy component of the entrepreneurial ecosystem and business performance of MSEs. There exists only a significant direct relationship between policy and business performance. Hence, the hypothesis that entrepreneurial competence mediates the relationship between policy and entrepreneurial performance (H_4) is not supported. Figure 6 and Table 11 below show that the mediating role of entrepreneurial competence on the relationship between policy and business performance of MSEs is not significant.

Detailed investigations were not made in showing the mediating role of entrepreneurial competence in the relationship between the entrepreneurial ecosystem and the

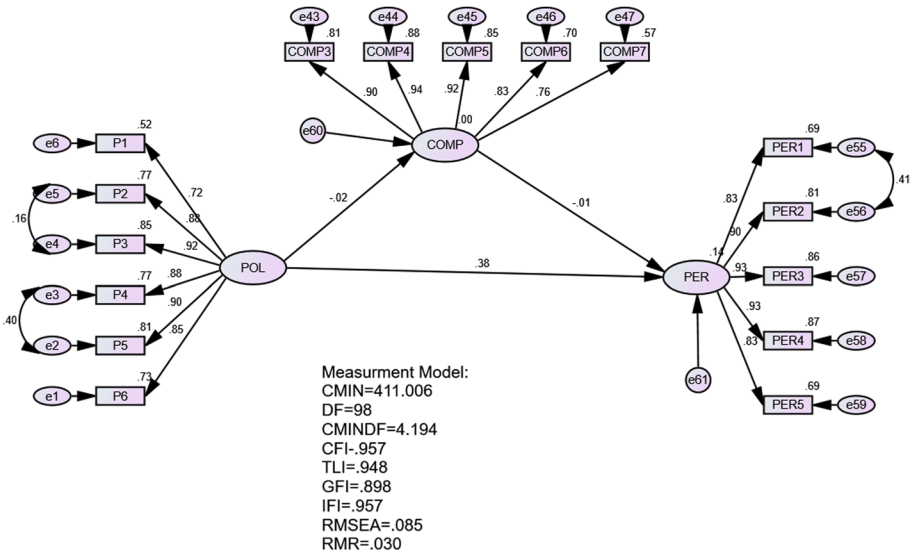


Fig. 6 The mediating role of competence on the relationship between policy and performance

Table 11 Direct and indirect effect between policy and performance

Relationship	Direct effect	Indirect effect	Confidence interval		*P*-value	Conclusion
Policy- > competence-performance	0.332 (0.000)	0.00014	Lower level	Upper level		
			− 0.003	0.07	0.710	No mediation

Source: Survey, 2022

performance of MSEs. The present study is a fresh look to test the mediating role of the entrepreneurial ecosystem on the relationship between the policy element of the entrepreneurial ecosystem and the performance of MSEs. It is verified that there existed only a direct relationship between policy and the performance of MSEs. In other words, entrepreneurial competence does not mediate the relationship between the two.

The mediating role of entrepreneurial competence between other business environments and the performance of MSEs

The result of the SEM analysis revealed that the indirect effect is not significant ($\beta = 0.000966$, $P = 0.865$). This shows that entrepreneurial competency has no significant mediation effect between other business environments and the performance of SMEs. This implies that entrepreneurial competence does not mediate the relationship between other business environment elements of the entrepreneurial ecosystem and the performance of SMEs. However, the direct effect with an intervention of the mediator (entrepreneurial competency) was found to be significant ($\beta = -0.208$, CR = 3.030, $P = 0.002$). Therefore, the hypothesis that entrepreneurial competency mediates the relationship between other business environments and business performance is not supported.

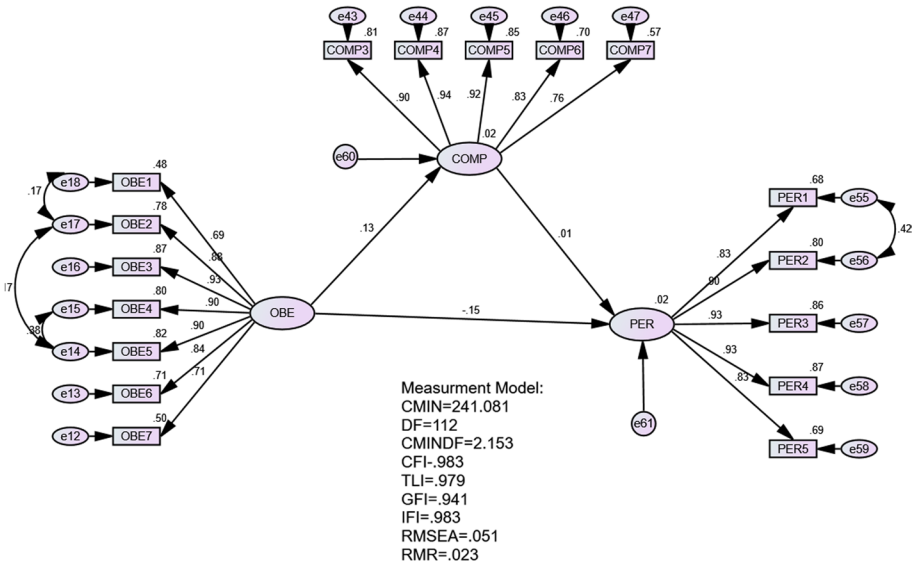


Fig. 7 The mediating role of entrepreneurial competence between other business environments and the performance of MSEs

Table 12 Direct and indirect effects between other business environments and performance

Relationship	Direct effect	Indirect effect	Confidence interval		*P*-value	Conclusion
Other business environment- > competence- > performance	− 0.206 (0.002)	0.000966	Lower level	Upper level		
			− 0.014	0.17	0.865	No mediation

Similar investigations made to test the mediating effect of entrepreneurial competence on the relationship between the business environment and the performance of MSEs are not found

Table 13 Summary of the hypothesis

Hypothesis	Type of test	Result
H_1: The political and legal environment has a significant relationship with the performance of MSEs	Correlations with SEM	Supported
H_2: The political and legal environment has a significant relationship with entrepreneurial competency	Correlations with SEM	Supported
H_3: Entrepreneurial competency has a significant relationship with the performance of MSEs	Correlations with SEM	Not supported
H_4: Entrepreneurial competency mediates the relationship between the policy component of the entrepreneurial ecosystem and business performance	Mediation with SEM	Not supported
H_5:Entrepreneurial competency mediates the relationship between the other business environment components of the entrepreneurial ecosystem and business performance	Mediation with SEM	Not supported

Hence, there exists only a direct relationship between other business environment components of the entrepreneurial ecosystem and the performance of SMEs. Figure 7 and Table 12 below summarize the findings.

Table 13 summarizes the test results of all the hypotheses of the study.

Conclusions and implications

The overall environment under which MSEs operate and run their business should be conducive so that its contribution to the improvement of their performance will be significant. The findings of this study support the fact that the overall business environment has a statistically significant relationship with the performance of MSEs. However, the business support services provided to MSEs from different stakeholders in the metropolitan cities of the Amahar National Regional State do not have a significant effect on their performance. Even though the role of different stakeholders' support in strengthening the performance of MSEs is not questionable, in the metropolitan cities studied, business support service was not found to be a significant determinant of MSEs performance. This can be attributed to the quality of support from different stakeholders. This implies that dependency on others does not guarantee the performance of MSEs. Strong reliance on themselves contributes much more to the performance of MSEs than support from outsiders. In general, the policy condition backed up by the business environment of MSEs leads to the conclusion that the political–legal environment has a significant relationship with the performance of MSEs.

The role of the political–legal dimensions of the entrepreneurial ecosystem of MSEs is found to be significant in improving the performance of MSEs. In this regard, improving the political–legal subsystem with no doubt plays a significant role for the better performance of MSEs. Hence, much is expected from government officials, legal bodies and policymakers in developing a workable environment under which MSEs can run, operate and sustain their businesses. It is suggested that administrators at a different level should review their policies and strategies to ensure that it is conducive and appropriate to MSEs. Furthermore, government bodies and concerned officials should benchmark other counties' experiences that have good track records in the areas of micro- and small enterprises in strengthening the political legal system of MSEs.

Limitations and future research suggestions

The study addressed SME operators engaged only in the three sectors (manufacturing, construction and urban agriculture) and have been in operation for more than 5 years. Furthermore, only the political–legal dimensions of the entrepreneurial ecosystem were assessed by the study. Future researchers are suggested to address MSEs in all the sectors that MSEs are engaged in and extend their investigations to the other dimension of the entrepreneurial ecosystem including the economic–technological and socio-cultural dimensions too. Moreover, the contradictions in research findings such as government policy on MSEs and their business performance, business support service and MSEs performance, need further investigation. Similarly, the under-researched areas like the relationships between business environment and entrepreneurial competence and policy and entrepreneurial competence should be assessed further.

Abbreviations

ANDE Aspen Network of Development Entrepreneurs
BDS Business development service
FDRE Federal Democratic Republic of Ethiopia

GIZ Gesellschaft für Internationale Zusammenarbeit
MSEs Micro and small enterprises
MUDH Ministry of Urban Development and Housing
RBV Resource-based view

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Author contributions
Both the authors contributed, read and approved the final subscript.

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Availability of data and materials
Available upon request.

Declarations

Competing interests
The authors declare that they have no competing interests.

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