



Implemented by:



Business Diagnostic Tools for use in targeted Ethiopian Manufacturing Sector and System DRAFT

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List of Abbreviations

BD	Business Diagnostics
BDS	Business Development Services
IES	Industrial Extension Services
FeSMIDA	Federal Small and Medium Industry Development Agency
FTA	Federal TVET Agency
GTP	Growth and Transformation Plan
IES	Ethiopian Industrial Extension Services
IFC	International Financial Corporation
IFI	International Financial Institution
ITC	International Trade Centre
JICA	Japan International Cooperation Agency
LIDI	Leather Industry Development Institute
MIDI	Metal Industries Development Institute
MSE	Micro and Small Enterprises
MSME	Micro, small and medium-sized Enterprise
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
OSS	One Stop Shop
PESTLE	Political, Economic, Social, Technological, Environmental, and Legal
SME	Small and medium-sized Enterprise
SWOT	Strengths, Weaknesses, Opportunities and Threats
TIDI	Textile Industry Development Institute
TNA	Training Needs Analysis
ToT	Training of Trainers
TT	Technology Transfer
TVET	Technical and Vocational Education
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

1.0 Introduction

The consultant was initially commissioned to assess the possible application of “**Business Diagnostics**” to Ethiopia in the context of its system of provision of Industrial Extension Services (IES). The specific requirement was for the process of assessing the potential value of a Business Diagnostics tool to focus on a specific enterprise target group, namely **manufacturing firms in priority Ethiopian economic sectors that have reached the stage of being small and medium-sized (SME), as well as being growth/export/import substitution-oriented**. The ultimate aim was to determine if a Business Diagnostics tool could be used to **assess the needs and priorities this particular target group** as the basis for the **provision of much more demand-oriented, customised business services**, than is currently the case.

The outcome of the initial assignment was the report “Concept for Business Diagnosis in Ethiopia” (Dr Ricardo R Pinto, September 2017). The main conclusion of the report was that it would be advantageous for the Ethiopian IES system to create and apply a business diagnostic. However, equally important was the recommendation that instead of developing a single Business Diagnostic tool, there should be variants for particular target groups:

- Basic Business Diagnostics: focus on start-ups;
- Intermediate Business Diagnosis: focus on established MSEs;
- Advanced Business Diagnosis: focus on growth/export/import substitution SMEs.

The recommendations are set out in more detail in the Box below.

Box 1: Three Variants of Business Diagnostic according to three target groups

1. Basic Business Diagnostics: focus on start-ups

The focus of this report has been on manufacturing SMEs with growth/export/import substitution potential. Nevertheless, the analysis ... indicates that there is a need for a Basic Business Diagnostic for start-ups (i.e. MSEs). The TVET trainers must meet the **new enterprise (start-up)** to discuss what they can offer in terms of IES. While the focus is very much centred on the standard four IES packages, nevertheless, a Basic Business Diagnostic ... would be important to perform, in the form of a simple template enabling the TVET trainers to systematically determine the nature of the business and its needs prior to discussing and agreeing the package of standard IES to be delivered. The Basic Business Diagnostics would be **2 pages long** and **would not require training**.

2. Intermediate Business Diagnosis: focus on established MSEs

The needs of a start-up are very different from those of a firm that has stabilised its market/product/business. Such a **firm is beyond start-up; it is established but nowhere near the stage of potential for growth/export/import substitution**. It would be advantageous to undertake an Intermediate Business Diagnostic for such established MSEs. The TVET trainers would undertake a formal review with the entrepreneur to assess progress and perform the Intermediate Business Diagnostic. The emphasis would still be primarily on using this tool to deliver the four standard IES packages, but the Intermediate Business Diagnostic (a less sophisticated version of the Advanced Business Diagnostics – see below) would be very important to perform, focusing on more sophisticated IES services, such as Kaizen, to discuss and agree the intermediate package of IES to be offered and agreed by the MSEs. The Intermediated Business Diagnostics would be **3-4 pages long** and would not require training. A short **Guidance Note** would probably be sufficient to enable the TVET trainers to perform the analysis.

3. Advanced Business Diagnosis: focus on growth/export/import substitution SMEs

This report has focused specifically on determining the needs of the **growth/export/import substitution SMEs** and concluded that these are relatively few (3-6%) such firms and that their needs are much more sophisticated than for MSEs. Not only are these firms SMEs but it is likely that the great majority of the eligible firms will be medium-sized, rather than small. Help such firm to maximise their economic potential does not usually involve isolating one problem that the entrepreneur is fully aware of (though they are usually very vocal about the one factor that is holding back their business from prospering). International experience of Business Diagnostics suggests the need to take a **360-degree assessment of the firm**, enabling a thorough analysis of the business and its needs and priorities to be identified... This would be followed by a **discussion of the possible solutions** jointly with the entrepreneur. **A package of IES services customised to the specific needs of the enterprise can be determined and agreed**. Following this, the relevant IES coordinator would approach all the relevant potential providers of the customised IES package (i.e. TVET/polytechnics, universities, technical institutes, BDS providers, etc.) and ensure that these are delivered. The relevant IES coordinator would support the enterprise throughout the process, including determining the financial and co-financing aspects. The aim would be to help the enterprise to achieve growth/export/import substitution and then allow it to take its economic destiny into its own hands, freeing-up resources to focus on the next firm from the target group.

The aim of this report is to take the recommendations of the “Concept for Business Diagnosis in Ethiopia” (Dr Ricardo R Pinto, September 2017) and further elaborate them into workable Business Diagnostics tools.

The output of the assignment is various Business Diagnostics templates that can be used by the key institutions involved, namely the Federal Technical and Vocational Education Agency (FTA), Federal Small and Medium Industry Development Agency (FeSMIDA) and the various manufacturing technology institutes, namely:

1. Growth oriented firms (also covering import substitution firms): a **generic 360-degree Business Diagnostic**, including procedures for discussing and **agreeing a package of IES services** customised to the specific needs of the enterprises;
2. Export oriented firms: a specific **Business Diagnostic** and procedures for delivering a **package of IES services** customised to the specific needs of export oriented firms;
3. Start-up firms: a **basic Business Diagnostic** targeted at FTA / TVET colleges/institutes to enable them to focus on the **needs of new firms**, based on the **four standard packages** of IES services;
4. Established firms: **an intermediate Business Diagnostic** targeted at FTA / TVET colleges/institutes to enable them to focus on the **needs of firms that have survived and become established** in a particular market, thus **making better/more intense use of the four packages** of IES services.

This report provides an overview of the Business Diagnostics, including the various templates to undertaking the analyses. It should be noted that the methodology for developing these business diagnostic templates involved four stages:

- Development of the draft growth and export oriented business diagnostic templates (November-December 2017);
- Testing both templates in Ethiopia with various enterprises (December 2017);
- Finalisation of both templates (and development of start-up and established templates);
- Report drafting (this report).

The start-up and established Business Diagnostic templates are relatively simple by comparison and are derived from good practice, combined with the IES Manual.

Chapter 2 defines what Business Diagnostics is to ensure a common understanding of what it is about, as well as the approach and methods involved in business diagnostics.

Chapter 3 discusses the structure of the Business Diagnostics model in more detail, prior to setting out how the generic model can be customised for the Ethiopian context with the Industrial Extension Services (IES) system in mind. This chapter forms the foundation for the key business diagnostic templates to be presented in subsequent chapters.

Chapter 4 discusses the nature of the four business diagnostics templates. It stresses that these are designed to be simple but flexible Excel-based tools, which offer the capacity to engage enterprise owners and managers in discussions about key business issues and result in clear conclusions (i.e. radar diagrams) that enable them to visualise the results of the business diagnostics and to discuss and commit to packages of business support services.

The basic (start-up) and intermediate (established firms) simply involve “yes” and “no” responses, whereas the advanced diagnostics (growth and export firms) involve a scoring methodology (on a scale of 1-5), requiring expertise and experience to perform well.

Finally, Chapter 5 discusses the issues connected with the actual implementation of the business diagnostics, including selection of firms, the diagnostic process, the necessity for commitment and funding, the necessity to engage the firms as partners in agreeing the package of customised business services, the delivery of such services and the need for monitoring and evaluation of the business diagnostics to enable improvement over time. It also sets out other requirements, such as the need for training and mentoring of business analysts to enable the advanced Business Diagnostics tools to be deployed effectively.

2.0 What is a Business Diagnostic?

2.1 Introduction

This chapter briefly introduces the concept of business diagnostics in the context of SME development, since it is important to build a sound understanding of Business Diagnostics. The information below forms a basis for the analysis presented in this report, including the Business Diagnostic templates to be presented.

2.2 Definition

The starting point is the acknowledgement that the term “Business Diagnostic” can mean different things to different people, so it is important to define that is meant by the term.

For some people, it means a form of Training Needs Analysis (TNA) or similar, which is designed to identify a particular issue or problem which can be resolved through capacity building such as training. For others, it means a focus on models such as Strengths Weaknesses Opportunities and Threats (SWOT) analysis, Political, Economic, Social, Technological, Environmental and Legal (PESTLE) analysis, Porter’s Five Forces (threat of new entrants, threat of substitutes, bargaining power of customers, bargaining power of suppliers and industry rivalry) and similar tools, which seek to provide a comprehensive overview of key areas of business operation.

In fact, although the above represent examples of “data collection” tools, they do not necessarily examine the key business operations of a firm.

A Business Diagnostic, therefore, refers to a framework for identifying, analysing and interpreting data to identify possible needs and priorities, and ideally also to fill those needs and priorities. Defined in this way, the key to Business Diagnostics is a focus on people, marketing, finance, as well as business processes.

2.3 Business Diagnostics Model

The aim of the exercise, as discussed in the “Concept for Business Diagnosis in Ethiopia” (Dr Ricardo R. Pinto, September 2017), was mostly to assist manufacturing SMEs in priority sectors with growth (including import substitution) and export potential to develop further through the provision of customised business services with a focus on **SMEs**. Subsequently, this was extended to less sophisticated tools for start-ups and established firms with a focus on **MSEs**.

This implies that a key aim, especially in the case of the manufacturing SMEs in priority sectors with growth / export potential, is to enhance the management competencies and business systems/procedures within the targeted SMEs. In an international context, **Business Diagnostics play a critical role in assessing individual SMEs’ needs and priorities at different stages of development.** This can then be converted into **customised packages for business support** which can be delivered through the existing business service providers

and/or Industrial Extension Services (IES), including universities, technical institutes, private sector, etc., depending on the specific inputs needed.

To use an analogy, medical diagnosis is about identifying a health problem by systematically analysing the background, symptoms and signs of illnesses, evaluating the test results and then investigating the probable causes of those illnesses. Business Diagnosis works in a similar manner to a medical diagnosis. **Business Diagnostics is undertaken either after symptoms emerge, as a check-up to identify business problems before they get out of hand or to pin-point business opportunities and identify ways of maximising them.**

A survey of MSEs (Survey of Urban Micro and Small Enterprises in Ethiopia, STEP, 2015) found that close to half of the MSEs (46%) identified that services which could help the MSEs determine their strengths and weaknesses are currently missing, as well as a host of potential services such as marketing, business budgeting, and cost minimisation assistance. The identification of business strength and weakness is the defining feature of Business Diagnostics, as illustrated in the Box below.

Box 2: Uses of Business Diagnostics (BD)

- Checking **effectiveness** of strategies and processes: firms usually have strategies and processes to guide activities. BD helps evaluate their effectiveness and see what is working, what is not and what to improve.
- Understanding business **performance**: BD helps business owners/managers obtain a better understanding of the operation and performance of the firm. To become more effective, they must understand their performance.
- Identifying **strengths and weaknesses**: BD helps identify firm's weaknesses and strengths, thus enabling a possible course of action to be determined and implemented.
- Identifying **threats**: all firms face external or internal threats. Identifying them before they develop into serious problems is necessary to keep the business performing optimally.
- Identifying **opportunities**: BD helps businesses to identify new opportunities and the way to maximise these, including import substitution / exploring export markets.
- Developing business **goals**: after assessing the current situation, firms can create goals that help them to grow. Goals after diagnoses are more achievable as they are based on the real, rather than perceived conditions.
- Identifying **skill gaps**: BD can assess the potential of employees and needs of the business, allowing planning of training and career management.
- Identifying **workforce matters**: BD can be important in creating teams comprising members who complement each other, thus promoting growth and productivity.
- Improving staff **motivation and engagement**: BD can help identify what motivates employees and how to best improve employee engagement, thus spurring performance and productivity, etc.

The **international experience does not recommend a standard Business Diagnostic tool** for the simple reason that the intention of such tools is highly diverse. In the case of Ethiopia, the aim is to create different Business Diagnostic templates, two of which (start-ups and established firms) are simpler and predicated on the nature of the IES system and the packages of services that are available to MSEs in the country. By contrast, the two advanced BD templates focus on Ethiopian SMEs in priority manufacturing sectors that have either growth or export potential, which are very particular target groups whose business processes, needs and priorities are much more sophisticated. Consequently, it is not feasible to develop a standard BD tool for all scenarios. It is a matter of selecting the right tool for the specific job at hand, resulting in the four different templates presented in this report.

Moreover, for a Business Diagnostics tool to be demand-oriented, it must be **sufficiently broad and flexible to enable the particular problem(s) faced by a specific SME to be identified and for solutions to be determined**. This in turn requires conceptualisation of the

Business Diagnostic model to be applied, especially in the case of the growth oriented (including import substitution) business diagnostic tool.

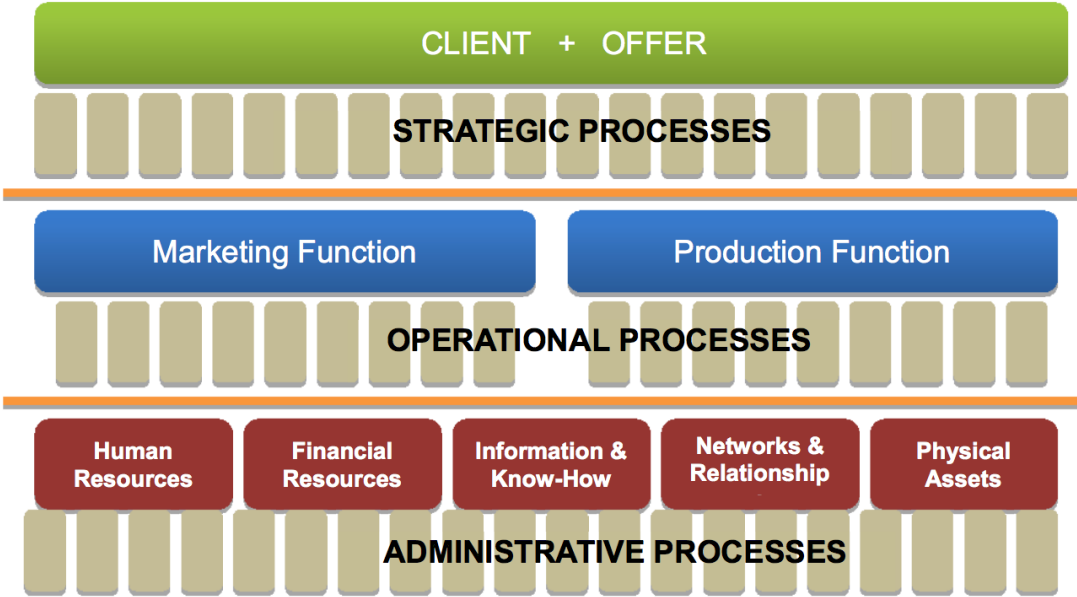
There are **three basic elements** in any business, regardless of its specificity: the **firm**, its **objectives** and its **processes** (i.e. strategy, marketing, production and administration). These three basic elements are unpacked below:

- **The business:** the **basic goal** is to **make money and to be profitable**. This depends on the vision, mission and goal, as well as the extent to which the business can become the preferred supplier to its market. This means that the SME must have an **offer of goods and/or services** (i.e. production) and a **market** to exchange them with (i.e. marketing);
- **The business objectives:** irrespective to age, size or sector, all businesses perform **eight functions**, derived directly from the marketing and production functions, namely:
 - Objectives of the marketing function are to:*
 1. **Sell** more to present buyers and/or seek to avoid them buying less.
 2. Induce **brand** switching from competitors and/or avoid users switching to them.
 3. Convert non-users into **users** of products and/or avoid users becoming non-users.
 4. Secure medium- to long-term **profitability**.
 - Objectives of the production function are to:*
 5. Produce and deliver the desired **quantities** of goods and/or services (including properties such as shape, weight, size, colour, ingredients, characteristics, composition, packaging, etc.).
 6. Produce and deliver the products/services at the desired level of **quality**.
 7. Produce and deliver the products/services at the desired **time**.
 8. Produce and deliver the products/services at an acceptable **cost**.
- **The business processes:** the final part is to analyse how a business is organised internally in terms of the **four key processes** required to achieve the above eight objectives:
 1. **Strategic processes:** identifying a client and a suitable offer.
 2. **Marketing processes:** dealing with advertising, promotion, negotiation, etc.
 3. **Production processes:** dealing with the production and delivery of the offer.
 4. **Administrative processes:** dealing with the planning, acquisition, allocation and monitoring of the business resources (human, financial, information and know-how, networks and alliances, physical assets, etc.).

Sources: International Trade Centre (ITC) (2003) The Business Management Model: A framework for international competitiveness, Geneva; ITC (2014) A Guide to Diagnose a Business and its Management, Geneva.

The Business Diagnostics model discussed above is illustrated in the Diagram below.

Diagram 1: A Business Diagnostic Model



Source: ITC (2014) *A Guide to Diagnose a Business and its Management*, p.4

This is the Business Diagnostics Model that is used as the foundation for the Business Diagnostic template (growth oriented / import substituting, 360-degree perspective) developed.

3.0 Customising Business Diagnostics to Ethiopian Firms

3.1 Introduction

The preceding chapter set out the nature of the particular target groups of this report, namely manufacturing SMEs with growth /export potential (and start-ups and established firms as separate, secondary target groups). It also defined Business Diagnostics and presented a model for undertaking business diagnostics.

This chapter discusses the structure of the Business Diagnostics model in more detail, prior to setting out how this model could be customised for the Ethiopian context with IES specifically in mind. This chapter forms the foundation for main Business Diagnostic templates to be presented in the subsequent chapter, especially the growth oriented and the export oriented ones. The start-up and established Business Diagnostic templates are relatively simple by comparison and are derived from good practice, combined with the IES Manual.

3.1 Business Needs

Businesses have two broad sets of needs as input for its management, marketing and production processes, aimed at maximising market share and profitability:

- Management competencies such the capacity to define a business and design its strategy, as well as to plan the strategy and specify the resources to make it happen;
- Resources include the information and know-how resource, the human resource, the physical assets and financial resource, and the networks and relationships resource.

An SME manager/owner, working with a business adviser, can identify what the business needs through a business diagnostic intervention, as illustrated in the two main templates (growth and export) presented in this report.

3.2 Business Diagnosis Process

An enterprise needs assessment (360 degree) can be achieved in two steps:

- Through a diagnostic of an existing business / enterprise. This links firm “symptoms” to strategy, marketing and production problems, and identifies root causes (i.e. shortcomings in management competence or in kinds of resources the business is using);
- Through the design of a strategy and the identification of the resources needed to make the strategy happen for a new or improved business within the enterprise.

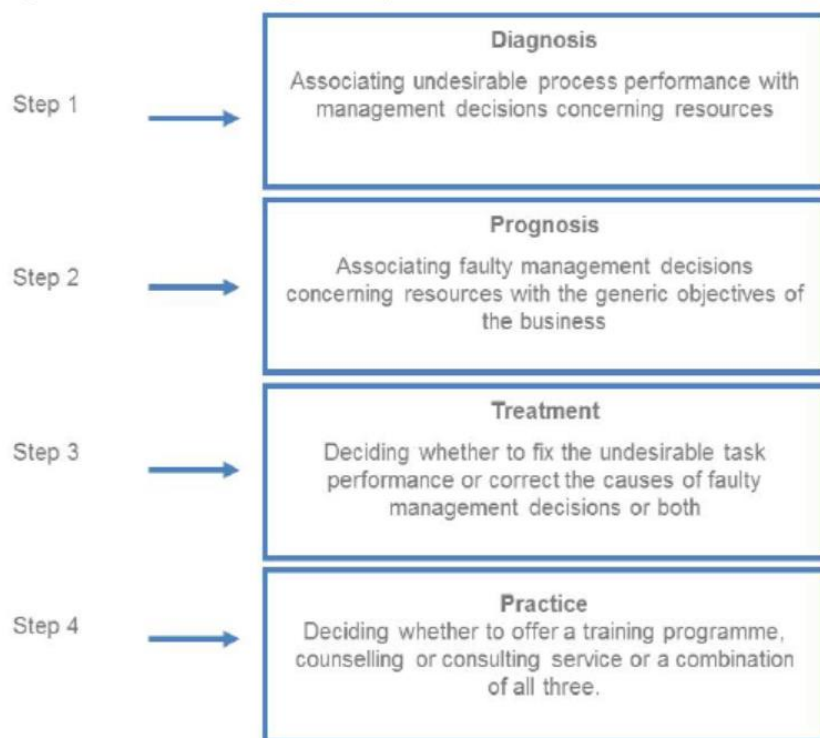
Basically, the SME manager/owner and the business consultant perform BD to **identify what the business needs are** and **to propose solutions** to the firm.

Through BD, the business adviser first seeks to identify **symptoms** and then to create causal linkages to identify the problem. A symptom is a deviation from the expected norm and so an indication of an underlying problem. Symptoms point to the under-performance of

business processes (i.e. high employee turnover, high number of defective products, delays in delivery, etc.) or the lack of achievement of business objectives (e.g. reduction in market share, lack of profitability, lack of export, etc.). A problem is what is causing the symptoms to emerge, such as deficient management decisions (i.e. resource planning, execution and monitoring decisions) which create deviations from the expected performance levels.

Conducting a business diagnostic is the process of applying a model (e.g. the one described in Chapter 2), in order to establish causal links. This is a **multi-stage process** starting with **diagnosis, prognosis, treatment and practice**, as shown in the Diagram below.

Diagram 2: Business Diagnostic Process



Source: ITC (2014) *A Guide to Diagnose a Business and its Management*, p.12

It is worth highlighting the business diagnostic process in more detail:

- **Diagnosis is associating unsatisfactory performance of business processes with poor managerial decisions:** developing a checklist is fairly straightforward and can reveal relevant information. However, the accuracy of the diagnosis depends on the business adviser's knowledge of the business model and ability to ask questions, observe reality, interpret the findings and make a correct link between the performance levels of the business processes and the managerial decisions that originated the identified results. The well-informed business adviser will use judgement and insight based on interviews with the SME manager/owner to detect what areas of management the problem most likely lies in. This process is not as simple as it at first appears, as there are rarely only one or two undesirable results or symptoms and business processes often overlap. The business adviser can examine each diagnostic statement for each operational process that is 'underperforming' to reveal one or more inadequate resource decisions (e.g. in planning, executing, and/or controlling of a specific resource);

- **Prognosis is basically linking the management problems to the marketing objectives:** once a business diagnosis is made the business adviser determines what is likely to occur if the current circumstances continue as they are. This is where the business adviser links the current situation to one or more of the identified management problems, which will hinder the achievement of the production objectives and result in failure to reach the firm objectives;
- **Treatment is a decision about whether to address the problem, fix the symptom or both:** three options face business advisers, which requires applying professional judgement to make the most appropriate decision: solve the problem, treat the symptom or a combination of both. The first leads to taking resource decisions to improve the capability of the managers to make informed and rational decisions (i.e. training). The second leads to remedying the situation (i.e. consulting). The third leads to remedying the situation by doing it with the manager/owner, helping them understand how it the problem came about and how to prevent it from recurring in the future (i.e. counselling).
- **Practice concerns about the choice of the type of intervention** (training, consulting, counselling or a combination of all three). Typically training programmes are more conducive for tackling and solving managerial problems. Consulting services are most helpful to treat the symptoms, thereby correcting the underperformance of operational processes. These are not mutually exclusive and the business/IES adviser will need to make a professional decision about how to proceed.

3.3 Business Diagnosis for IES

This report and the associated templates are clearly connected with **Diagnosis**.

In the context of Ethiopia, the preceding work results in various types of business diagnostic that would be carried out for firms at different stages of development (see Box 1 for details):

1. Growth oriented firms (also covering import substitution firms): a **generic 360-degree Business Diagnostic**, including procedure for discussing and **agreeing a package of IES services** customised to the specific needs of the enterprises;
2. Export oriented firms: a specific Export oriented **Business Diagnostic**, including procedure for discussing and **agreeing a package of IES services** customised to the specific needs of the enterprises;
3. Start-up firms: a **basic Business Diagnostic** to discuss and agree the package of standard IES to be delivered once the firm is created;
4. Established firms: **an intermediate Business Diagnostic** to discuss and agree more sophisticated packages of standard IES to be delivered once the firm has survived and reached to point of being well established.

4.0 Business Diagnostics Templates

4.1 Introduction

This chapter presents the actual diagnostics tools themselves, which are designed to enable business support packages to be much more demand-driven than is currently the case (see “Review of the Industrial Extension Services (IES) System in the FDR of Ethiopia”, R.R. Pinto, 2016 and “Concept for Business Diagnosis in Ethiopia”, R.R. Pinto, 2017 for further details). In addition to the text, there is also an Excel sheet associated with this report.

A number of points are worth noting about the BD templates:

- There are two main types of business diagnostic template:
 - Relatively simple and condensed: these are simple business diagnostics for both start-ups and firms that have survived and become established. These templates are designed to be applied by **FTA’s TVET institutes/colleges** in order to ensure that the IES packages of support are geared around the needs and priorities of the **Micro and Small Enterprises (MSEs)** to the extent possible, since the nature of the four packages of services are pre-refined;
 - Relatively complex and extensive: the business diagnostics for both growth and export oriented firms that fall into the target sectors. These templates are designed to be applied by the **FeSMIDA/technology institutes** in order to ensure that the business development services packages of support are customised to the specific needs and priorities of the **Small and Medium Enterprises (SMEs)**, that they are jointly agree with the enterprise in question and that it co-finances the support.
- The templates are Excel spreadsheet based for two main reasons:
 - Simple to apply: Excel is a standard MS Office software and thus requires no additional cost for software or training;
 - Simply to modify: the Excel sheets are easy to modify (e.g. change the emphasis of the questions, delete/add new questions, etc.) and business advisors are encouraged to revise the templates as the situation evolves over time.
- The Excel sheet associated with this report include the following elements:
 - Firm Selection (Growth & Export): this enables FeSMIDA/technology institutes to identify suitable SMEs to perform the BD on.
 - Growth Template.
 - Export Template.
 - Start-up Template.
 - Established Template.
- The business diagnostics process should not last longer than two hours. The main reason is that the enterprises are very busy and the people that are likely to be interviewed are key decisions-makers. The experience during the piloting process is that while some entrepreneurs gained a great deal from the experience of undertaking the Business Diagnostic and may actively welcome a longer, detailed discussion, the business analysts should seek to undertake the analysis within two hours.

4.2 Template 1: Basic Business Diagnostics for Start-up MSEs

The main focus of this report is on manufacturing SMEs with growth/export potential (see Sections 4.4 and 4.5 below). Nevertheless, the analysis contained in Pinto (2017) demonstrated that there is a need for a Basic Business Diagnostic for start-ups (i.e. micro and small enterprises or MSEs). The TVET trainers in colleges/institutes meet new enterprises (start-ups) in order to discuss what they can offer in terms of IES. The focus of the TVET trainers in colleges/institutes is very much centred on the standard four IES packages illustrated in the Box below.

Box 4: Four Packages of IES for MSEs (through the FTA/TVET system)

- **Technical Competence:** is provided to MSEs to fill technical competency gaps created as a result of changes in technology and market flexibility;
- **Technology Support:** is provided to enable MSEs to become the main actors in technology transfer/application via adoption of 100% copied technology to start with related to the current situation;
- **Entrepreneurship Service Support:** is provided to MSEs to enable them implement modern business techniques and become competitive bases for industrial development via job creation;
- **Quality and Production (Kaizen):** is provided to MSEs to help avoid waste, reduce cost, create efficient workplaces and introduce continuous product improvement.

Source: FTA IES Implementation Training Manual

Nevertheless, a Basic Business Diagnostic would be important for the TVET trainers to perform in order to better engage with the enterprises/entrepreneurs and understand their aims, needs and thus set out the full range of IES options to entrepreneurs, perhaps also securing a degree of customisation of the standard packages of IES to the actual needs of the entrepreneurs. This is clearly not the case at the present time, as illustrated in Pinto (2016).

The Basic Business Diagnostic is a simple template enabling the TVET trainers to systematically determine the nature of a start-up and its needs prior to discussing and agreeing the exact package of standard IES to be delivered.

The Basic Business Diagnostics is quite simple (yes/no answers, rather than scores, which require experience and judgement) and does not require training, as it is self-explanatory.

The Basic Business Diagnostics for start-ups/new MSEs is presented briefly below (structure) and in detail in the Excel sheet.

The main elements of the Start-up Template are as follows:

1. General Firm Information
2. Diagnosing Strategic Competence
3. Diagnosing Entrepreneurship Capacity
4. Diagnosing Technology Capacity
5. Diagnosing Technical Competency
6. Diagnosing Quality and Productivity / Kaizen
7. Diagnostic Summary Sheet

4.3 Template 2: Intermediate Business Diagnostics for Established MSEs

It is clear that the basic needs of a start-up are very different from those of a firm that has survived and become established in terms of its market/product/business. Such a firm is beyond the risky survivalist stage (i.e. template 1 above for start-ups) but nowhere near the stage of growth/export potential (i.e. templates 3 and 4 below for much more developed and sophisticated enterprises).

Therefore, as recommended by Pinto (2017), it makes sense to undertake an Intermediate Business Diagnostic for Established MSEs. The TVET trainers would undertake a formal review with the owner/entrepreneur in order to assess progress and perform the Intermediate Business Diagnostic. The emphasis is still primarily on delivering the four standard IES packages (see Box 3 above), but the Intermediate Business Diagnostic (a less sophisticated version of the Advanced Business Diagnostics for Growth/Export Oriented SME – see below) would be very important for the TVET trainers to perform in order to discuss and agree an intermediate package of IES to be offered to MSEs and agreed by them.

The Intermediate Business Diagnostics is slightly longer (4 pages) but does not require training (still based on “yes” and “no” options), as it is self-explanatory.

The Intermediate Business Diagnostic for Established MSEs is presented briefly below (structure) and in detail in the Excel sheet.

The main elements of the Established Template are as follows:

1. Firm Metrics
2. General Firm Information
2. Diagnosing Strategic Competence
3. Diagnosing Market Presence/Entrepreneurship
4. Diagnosing Technology Capacity
5. Diagnosing Technical Competency
6. Diagnosing Quality and Productivity / Kaizen
7. Diagnostic Summary Sheet

4.4 Template 3: Advanced Business Diagnosis for Growth Oriented SMEs

The Pinto (2017) report which led to the preparation of the Business Diagnostic templates presented in this report focused specifically on determining the needs of the growth/import substitution/export oriented SMEs. It concluded that these are relatively few (perhaps 3-6%) such firms and that their needs are much more sophisticated than for MSEs. Not only are these firms SMEs but it is likely that the great majority of the target firms were likely to be medium-sized, rather than micro or small.

It is noted that state support to such firms to maximise their economic potential does not typically involve isolating a particular problem that the entrepreneur is already aware of (though firms are normally vocal about the one factor that is holding back their business from prospering, such as lack of finance or foreign exchange controls). Instead, international experience of Business Diagnostics supports the approach of undertaking a 360-degree

assessment of such firms to enable a thorough analysis to be performed and to facilitate its business needs and priorities to be identified.

A model of such a Business Diagnostic was present in Section 2.4 above. This model was used as the basis for developing the draft Advanced Business Diagnosis for Growth Oriented SMEs (and Export Oriented SMEs – see below). The draft Templates for Growth and Export were tested with targeted Ethiopian enterprises during December 2017 and the templates were then refined according to the feedback received, including the fact that the diagnoses should last no longer than 2 hours, since the firms / entrepreneurs are very busy and find it difficult to engage for longer (unless the discussion is split in two parts).

This would be followed by a discussion of the possible solutions jointly with the entrepreneur. A package of IES services customised to the specific needs of the enterprise can be determined and agreed. Following this, the relevant FeSMIDA/Technology Institute coordinator would approach all the relevant potential providers of the customised business services package (i.e. universities, technological institutes, TVET/polytechnics, BDS providers, etc.) and ensure that these are delivered. The FeSMIDA/Technology Institute coordinator would support the enterprise throughout the process, including determining the financial and co-financing aspects. The aim would be to help the enterprise to achieve growth/export/import substitution and then allow it to take its economic destiny into its own hands, freeing-up resources to focus on the next firm from the target group.

The Advanced Business Diagnosis for Growth Oriented SMEs requires deployment of experienced business analysts, including training and mentoring to be performed effectively.

The Advanced Business Diagnosis for Growth Oriented SMEs is presented briefly below (structure) and in detail in the Excel sheet.

There are actually two parts to the Growth Template.

Firstly, there is a need to determine the **Eligibility of Firms** (Firm Selection Sheet for Business Diagnostic). The main elements are as follows:

1. Financials
2. Metrics
3. General Firm Information
4. Information and Materials
5. Decision

Secondly, there is need to perform the **Business Diagnostic** itself (Advanced Business Diagnostic for Growth Oriented SMEs). The main elements are as follows:

1. General Firm Information
 2. Diagnosing Strategic Competence
 3. Diagnosing Production Competence
- Capability group: Cost
Capability group: Time
Capability group: Quantity
Capability group: Quality

4. Diagnosing marketing competence
 - Capability group: Communication
 - Capability group: Distribution
 - Capability group: Getting Orders
5. Diagnosing resource management competence
 - Capability group: Information Resources
 - Capability group: Human Resources
 - Capability group: Financial/Physical Assets
 - Capability group: Networks & Relationships
7. Diagnostic Summary Sheet

It is evident the Advanced Business Diagnosis for Growth Oriented SMEs activity is much more sophisticated than the previously presented Basic (start-up MSEs) and Intermediate (Established MSEs) templates. The following activities are foreseen:

- Training of FeSMIDA/technology institutes/private sector business service providers;
- Mentoring the above;
- Selection of eligible SMEs;
- Undertaking Advanced Business Diagnosis for Growth Oriented SMEs;
- Presentation of the results (radar diagrams) to the entrepreneur and discussion;
- Jointly agreed demand-oriented package of business services to be delivered;
- Commitment by the enterprise in question to co-finance the agreed package of business services;
- Coordination, monitoring and evaluation of the delivery of the agreed package of business services.

These various issues are discussed in the next Chapter, which applies primarily to the Advanced Business Diagnosis for Growth/Export Oriented SMEs.

4.5 Template 4: Advanced Business Diagnosis for Export Oriented SMEs

Pinto (2017) recommended the need for an Advanced Business Diagnosis for Growth/Import Substitution/Export Oriented SMEs. However, the process of piloting the business diagnostic templates led to the self-evident conclusion that Export oriented SMEs are very different from the Growth/Import Substitution oriented SMEs.

These differences meant that it was not possible to create the necessary export specificity within the Advanced Business Diagnosis for Growth Oriented SMEs and a separate Advanced Business Diagnosis for Export Oriented SMEs was created.

The Advanced Business Diagnosis for Export Oriented SMEs requires deployment of experienced business analysts, including training and mentoring to be performed effectively.

The Advanced Business Diagnosis for Export Oriented SMEs is presented briefly below (structure) and in detail in the Excel sheet.

As in the case of the Growth Template, there are actually two parts to the Export Template.

Firstly, there is a need to determine the **Eligibility of Firms** (Firm Selection Sheet for Business Diagnostic). The main elements are as follows:

1. Financials
2. Metrics
3. General Firm Information
4. Information and Materials
5. Decision

Secondly, there is need to perform the **Business Diagnostic** itself (Advanced Business Diagnostic for Export Oriented SMEs). The main elements are as follows:

1. General Firm Information
2. Diagnosing Export Readiness
3. Diagnosing Product and Production
4. Diagnosing Markets and Marketing
5. Diagnosing Export Development
6. Diagnostic Summary Sheet

The same implementation principles apply as in the preceding discussion (template 3 above).

These are discussed in greater detail in the next Chapter.

5.0 Business Diagnostics Implementation

5.1 Introduction

The preceding Chapter and the Excel sheet presented the Business Diagnostics tools that have been developed for the Ethiopian context. The templates are designed to be simple to use and to enable the entrepreneurs/business analysts to easily visualise the results in the form of radar diagrams.

This enables the entrepreneur to easily visualise where the firm performs well and where there are weaknesses. This in turn enables the business analyst to engage with the entrepreneur to determine the package of businesses to be delivered.

The first two (Basic and Intermediate) tools are relatively simple and do not require further explanation. The package of services to be delivered is mostly standard packages connected with the four main types of Industrial Extension Services (see Box 3) that the FTA and TVET College / Institute system is already set-up to deliver. This process is coordinated by the FTA and implemented through the network of TVET colleges and institutes. The only difference is that the Basis and Intermediate Business Diagnostics will need to be performed as a standard part of the process of delivering IES in the future. No training is needed or foreseen and the process is straight-forward.

However, the situation is different for the Advanced Business Diagnosis for Growth / Export Oriented SMEs. Not only is the business diagnostic process much more sophisticated, requiring both training and mentoring for experienced business analysts, but the key point is that it enables the business analyst to engage with the entrepreneur to jointly determine a package of demand-oriented, customised business services that will enable them to proceed to the next level of development. The firm must also deliver the necessary co-finance, but also senior management commitment in order to implement the agreed package of business services.

FeSMIDA / technology institutes will coordinate the delivery of services as per the agreed plan, using a mixture of business support services, potentially including universities, technology institutes, private sector providers, etc. Finally, the overall business diagnostic will need to be monitored and evaluated to ensure delivery of value for money.

Below, the key principles expected to be involved in the process are set out, including:

- Selection of enterprises;
- Business Analysts;
- Diagnostics Process;
- Commitment and Co-financing;
- Agreeing Package of Business Services;
- Delivering Package of Business Services;
- Continuous Improvement of Business Diagnostics;
- Business Diagnostics for Start-ups and Established MSEs (for FTA);
- Next Steps.

5.2 Selection of enterprises

This report has concentrated mostly on enterprises with the potential to grow and develop rapidly following the process of Business Diagnosis and delivery of the package of customised business services. The focus of the Advanced Business Diagnostics templates is respectively on the grow-oriented and export-oriented enterprises. The first issue is thus to define the process for selecting the firms that fall into this category of enterprises. This is important since the right target group has to be accessed, while at the same time making sure that the business support delivers value added to the firms that can benefit most from such support. This connects with the related issue of ensuring that state support does not substitute what firm would have done on their own anyway. Lastly, it is also important to ensure that state support is targeted in a manner which does not distort the market.

5.2.1 Growth-oriented enterprises

1. Use the national definition of MSMEs: large enterprises are not eligible for support. In terms of the other enterprises, it is likely that most micro and small enterprises will not be eligible because they are not as advanced in their business processes.
2. Only firms that are no older than 10-15 years will be eligible for support. It should be noted that this period is much longer than would be the case internationally but reflects the specificities of Ethiopia's IES/manufacturing support system. Over time, it will be appropriate to target support on young enterprises, rather than well-established (and presumably profitable and mature) ones.
3. Obtain time-series data for the following variables (2012-2017): determine the trend and make a judgement about the dynamics of the enterprise and thus its eligibility to participate:
 - Turnover (Mil Birr): The annual sales volume net of all discounts and sales taxes.
 - Free Cash Flow (Mil Birr): The presence of free cash flow indicates that a company has cash to expand, develop new products, buy back stock, pay dividends, or reduce its debt. High or rising free cash flow is often a sign of a healthy company.
 - Net Profit (Mil Birr): Net profit is a measure of how profitable a business is. It is calculated by taking revenues and adjusting for the operating expenses, depreciation, interest, taxes and other expenses.
 - Market Share (%): Market share shows how close a business is to becoming competitive. It refers to a business's portion of sales within the market in which it operates.
 - Return on Investment (%): Return on investment (ROI) is a measure of the relative amount of money a business is making relative to its investment.
 - Exports (%): Products of local origin sold to other countries.
 - Staff turnover (%): Rate of workers leaving the firm.
 - Staff change (%): Growth/decline in employment in the firm.
 - Capacity utilisation (%): Extent to which the productive capacity of firm is being used.
4. Focus on the domestic market: the firm is focused on the domestic market and must have already developed a product(s) and/or service(s) which are in demand and which have good market potential for further growth, including the potential for import substitution.

The quantitative data is not sufficient to determine eligibility. There are other factors that need to be taken into consideration, including:

- General firm information (such as vision, objectives, recent development, growth intentions (domestic/international market);
- Commitment (e.g. willingness to undertake business diagnostic, to engage senior management in the process and to co-finance customised business support).

The collection and analysis of this information (and any other information, such as business plans), enables a decision to be made about whether to proceed with the Business Diagnostic or not.

5.2.2 Export-oriented enterprises

1. Use the national definition of MSMEs: large enterprises are not eligible for support. In terms of the other enterprises, it is likely that most micro and small enterprises will not be eligible because they are not as advanced in their business processes.
2. Only firms that are no older than 10-15 years will be eligible for support. It should be noted that this period is much longer than would be the case internationally, but reflects the specificities of Ethiopia's IES/manufacturing support system. Over time, it may be appropriate to target support on young enterprises, rather than well-established (and presumably profitable and mature) ones.
3. Obtain time-series data for the following variables (2012-2017): determine the trend and make a judgement about the dynamics of the enterprise and thus its eligibility to participate:
 - Turnover (Mil Birr): The annual sales volume net of all discounts and sales taxes.
 - Free Cash Flow (Mil Birr): The presence of free cash flow indicates that a company has cash to expand, develop new products, buy back stock, pay dividends, or reduce its debt. High or rising free cash flow is often a sign of a healthy company.
 - Net Profit (Mil Birr): Net profit is a measure of how profitable a business is. It is calculated by taking revenues and adjusting for the operating expenses, depreciation, interest, taxes and other expenses.
 - Market Share (%): Market share shows how close a business is to becoming competitive. It refers to a business's portion of sales within the market in which it operates.
 - Return on Investment (%): Return on investment (ROI) is a measure of the relative amount of money a business is making relative to its investment.
 - Exports (%): Products of local origin sold to other countries.
 - Staff turnover (%): Rate of workers leaving the firm.
 - Staff change (%): Growth/decline in employment in the firm.
 - Capacity utilisation (%): Extent to which the productive capacity of firm is being used.
4. Focus on the international market: the firm is currently focused on the domestic market and must have already developed a high-quality product and/or service which is established in the domestic market, is approaching maturity and has the potential to be exported, thus stimulating further rapid growth.

The quantitative data is not sufficient to determine eligibility. There are a number of other factors that need to be taking into consideration, including:

- General firm information (such as vision, objectives, recent development, growth intentions (domestic/international market));
- Commitment (e.g. willingness to undertake business diagnostic, to engage senior management in the process and to co-finance customised business support.

The collection and analysis of this information (and any other information, such as product catalogues, export plans, etc.), enables a decision to be made about whether to proceed with the Business Diagnostic or not.

5.3 Business Analysts

The Business Diagnostic for growth/export-oriented enterprises is designed to be as simple as possible to use and adapt (see 6.7 Continuous improvement of the business diagnostic). However, this does not mean to say that anyone can use it effectively. On the contrary, unless the business analyst has the necessary training and experience, the resulting package of services arising from the business Diagnostic process may not be effective.

Therefore, three issues are important:

1. Selection of staff for the Business Diagnostic: the staff selected to perform the business diagnostic should have a background which means that they are knowledgeable about business processes and be sufficiently credible in their experience, analysis and recommendations that experienced managing directors / entrepreneurs will be willing to engage in the change management process and commit the necessary financial and staff resources to it. The business analyst should have following profile:
 - a. Highly developed interpersonal skills;
 - b. At least 10 years of work experience;
 - c. At least 5 years of relevant experience with the business sector;
 - d. At least 3 years of experience of contact with firms/MSMEs;
 - e. At least 2 years of experience of business development services provision.
2. Training on the Business Diagnostic tool: the business analysis that will perform the Business Diagnostics should be trained on the tools and the principles behind them. This is expected to be in the form training to be delivered by and experienced, rounded expert in SME/innovation/competitiveness themes. The target groups are:
 - a. FeSMIDA staff at federal, regional and local level;
 - b. Technology Institutes;
 - c. Interested business consultants (private sector).
3. Background material: there are two main reference documents in conjunction with the Business Diagnostics tools presented in this report:
 - a. International Trade Centre (2003) The Business Management Model: A framework for international competitiveness, Geneva;
 - b. International Trade Centre (2014) A Guide to Diagnose a Business and its Management, Geneva.

5.4 Diagnostics Process

The diagnostic process will only be effective if it is designed to be a partnership between the analyst and the entrepreneur. Several steps are foreseen in the process:

1. **Company agreement:** the process is not compulsory, and its effectiveness depends entirely on the willingness of target firms to participate in the exercise, their agreement with the results of the diagnostic, as well as their commitment (e.g. time, co-financing, management resources, etc.) to the implementation of the jointly agreed customised package of business services. Therefore, it is paramount to engage and persuade the entrepreneur/managing directors that it is in their interest to engage fully in the process, including committing the necessary time for the Business Diagnostic (ca. 2 hours).
2. **Company materials:** before visiting the firm, it is necessary to obtain any relevant information required for the Business Diagnostic including:
 - a. Business Plan;
 - b. Export Plan;
 - c. Product / Services materials (electronic and printed);
 - d. Company annual report;
 - e. Manuals (e.g. HRD, Quality Control, etc.);
 - f. Other relevant company material and data.
3. **Location visit:** before starting the Business Diagnostic it is important for the analyst to undertake a visit of the site or sites of operation and photographs for later use and to aid the analytical process. This includes the following:
 - a. Micro location;
 - b. Infrastructure;
 - c. Property (land, buildings);
 - d. Machinery and layout;
 - e. Facilities for staff, etc.
4. **Detailed discussions:** the questions in the Business Diagnostic are designed to generate a discussion between the business analyst and the entrepreneur/managing director/owner/shareholder. The aim is to obtain the views of the firm on the various aspects covered by the business diagnostics as a basis for forming judgements on the performance of the firm.
5. **Specific scores:** however, the assessments of the score for each question (1-5) is made by the business analyst based on his/her professional judgement, informed by the entrepreneur's views. This independent/external assessment is critical to the overall value added and thus effectiveness of the Business Diagnostic.
6. **Visualisation of the results:** once the discussion is over and the scores are awarded, the Business Diagnostic enables user-friendly visualisation of the results. The major gaps / weaknesses (especially scores in the 1-3 range) will be the focus of discussion with the entrepreneur. The discussion may lead to fine-tuning of the final scores in response to previously not known/discussed factors.
7. **Diagnostic Summary Sheet:** the final part of the process is to determine the actual package of customised business services to deliver in support of the growth/export aims of the firm. This is the outcome of a partnership between the business analyst and the entrepreneur / managing director, with the latter leading the decision-

making process, since they will co-finance the agreed package of business services.

There are 3 elements to the Diagnostic Summary Sheet:

- a. List of issues (up to 10) requiring attention based on the business Diagnostic;
- b. List of Top 5 issues prioritised by the entrepreneur, based on the discussions;
- c. The Tasks to be performed (bullet points) for the Top 5 Priorities.

5.5 Commitment and Co-financing

It is critical for the entrepreneur/managing director to agree the customised package of business services as well as their prioritisation, not least because they are expected to co-finance the work and also commit the necessary company resources (especially senior management time and effort) to the implementation process. As an aside, co-financing does not apply to the other planned Basic / Intermediate Business Diagnostics for start-ups and established MSEs since the business services are connected with the standard packages of industrial Extension Services and will continued to be provided for free via the TVET system.

Obtaining high level firm commitment is of critical importance and will determine, to a great extent, the success or otherwise of the Advanced Business Diagnostic initiative. There are three main elements to ensuring the necessary commitment:

1. Partnership: the firm must be fully involved in the process, must recognise the value of the recommended changes and must take the lead in determining the customised business service solutions, as well as their prioritisation;
2. Co-financing: the enterprise must be willing to contribute to the package of business services customised to its specific needs and which are designed to help it to grow, become more productive and competitive and ultimately more profitable. These are not start-ups or early growth enterprises, so will be in a position to be able to afford to co-finance the change management process. The principle of co-financing is non-negotiable: if an SME is not willing to co-finance, all activities will be terminated, and attention will focus on SMEs that do understand and do support the principle involved;
3. Sliding scale of co-financing: the minimum amount of company co-financing can be applied on a sliding scale of 25%-75%. The criteria for determining a level of co-financing include:
 - a. The maturity of the enterprise (e.g. number of years established);
 - b. The degree of profitability of the enterprise;
 - c. The number of times the enterprise is supported (e.g. 75% the first time; 50% the second time and 25% the third and final time). After receipt of such support, the firm should be in a position to commission future business development services directly (e.g. from universities and private sector providers, thus stimulating “graduation” to the private sector);
 - d. The discussions with the firm and judgements about the affordability of the package to the SME in question.

5.6 Agreeing Package of Business Services

The actual package of business services to be delivered is the by-product of undertaking the Business Diagnostics discussed in this report. It is important that these are set out clearly and can be delivered to the satisfaction of all concerned.

5.6.1 Diagnostic Summary Sheet

The Business Diagnostic will result in the Diagnostic Summary Sheet, which sets out the package of business services to be delivered and is determined in partnership with the entrepreneur / managing director. It comprises three elements:

- List of issues (up to 10) requiring attention based on the business Diagnostic;
- List of Top 5 issues prioritised by the entrepreneur, based on the discussions;
- The Tasks to be performed (bullet points) for the Top 5 Priorities.

Other steps are required in the process of determining and delivering the package of customised business services.

5.6.2 Implementation Plan

The Diagnostic Summary Sheet is not sufficient. It must be followed-up with specification of responsibilities, deadlines and budgets/co-financing, resulting in an Implementation Plan, as illustrated in the Table below. The Implementation Plan will need to be coordinated with all the relevant state and private sector partners before it can be finalised.

Table 1: Illustration of an Implementation Plan

Measure (example)	Responsibility	Deadline	Budget
Export Plan	SME Consultant Technology Institute	Jan-Mar 18	Birr 15,000 SME: 50% FeSMIDA: 50%
1.1.1 First Draft	SME Consultant Technology Institute	Feb 18	
1.1.2 Final Draft	SME Consultant Technology Institute	Mar 18	
1.1.3 Implementation	SME Technology Institute	Mar 18 – Dec 20	SME: 100% of implementation costs

5.6.3 Contractual Agreement

The agreed Implementation Plan will be discussed and finalised with the SME, resulting in a signed contractual agreement between the SME and FeSMIDA (or Technology Institute since they have expressed an interest in using this tool and applying to their respective area of sectorial interest). This will ensure that all partners connected with the package of business services are committed to deliver the work as per the Implementation Plan, including the associated costs that they will co-finance.

5.7 Delivering the agreed Package of Business Services

The key body coordinating the process is FeSMIDA and the technology institutes. It is critical for there to be a clear overall custodian of the Business Diagnostics, as well as their evolution over time.

5.7.1 Resource Mobilisation (co-financing)

The approach deployed is based on the principle of co-financing. The targeted firms are expected to finance between 25-75% of the costs arising (see Section 6.5 above). The flip-side of this is that the balance in co-financing must be met by FeSMIDA/technology institutes. This means that these bodies must commit to a dedicated, medium term-budget (ideally for 5 years) to test and implement the business diagnostic-based business support.

5.7.2 Coordination with business service partners

The actual delivery of the business support services (training, consultancy, etc.) is not likely to be delivered by a public body such as FeSMIDA. Some or all the technology institutes will be in a position to contribute to the delivery of the agreed and signed Implementation Plan. However, it is inevitable that others will need to be involved in the process, not least universities, colleges, institutes and others, depending to the particular business need identified in the business diagnostic and agreed in the Implementation Plan. It is certain that the above listed institutions will need to be supplement with private sector business service providers. The specialist, value adding business services that lead directly to higher performance, productivity, profitability, etc. of the particular target group of the business diagnostics are likely to be provided only in part by state institutions. The rest will be delivered by private sector business development service providers.

The role of FeSMIDA (and technology institutes) will be to agree the Implementation Plan (see above) with the various bodies that will be involved, including the budget/costs involved before implementation can begin, as well as the coordination of the agreed Implementation Plans.

5.7.3 Coordination with business service providers

The choice of universities/colleges/institutes/private sector business service providers to deliver the support to the selected companies should not be imposed on the participating SMEs. In addition to agreeing the package of services and the cost allocation, it is essential for the firms to be involved in the selection of the business services providers that they feel will deliver their particular requirements most effectively. Should the business support prove to be unsatisfactory, the firms should also be in a position to replace the selected business services provider, if they are not performing according to reasonable expectations. The rationale for this is simple: the SMEs are co-financing the package of business services.

5.8 Continuous Improvement of Business Diagnostics

The Advanced Business Diagnostics have been developed based on international good practice and experience, especially the growth oriented template. They have been pilot tested with Ethiopian enterprises that fall into the target group, so as to make sure that the

questions/issues covered are relevant to the intention of the Business Diagnostic. However, there is no reason to consider the templates to be fixed and immutable.

Rather, the emphasis should be on FeSMIDA (and technology institutes) to consider the templates as a framework for improvement and refinement, based on their particular needs, sectorial priorities and practical experience gained in the application of the business diagnostic tools.

The templates have been designed to be simple to use and also simple to change. This means that both FeSMIDA and the technology institutes are encouraged to consider them to be tools to be actively improved upon over time.

However, for quality control purposes and to ensure that the templates do not lose their coherence, intention and target group, it is necessary for FeSMIDA (and the technology institutes) to allocate responsibility for coordination of further development of the business diagnostics templates to one person/Unit.

5.9 Business Diagnostics for Start-ups and Established MSEs (for FTA)

This chapter has focused mostly on the Advanced Business Diagnostics for growing / export oriented SMEs as these two Advanced Business Diagnostics developed are much more sophisticated than the Basic and Intermediate Business Diagnostics set-out in this report.

The Basic Business Diagnostics for Start-ups template presented in this report is short and mostly limited to a focus on the existing packages of IES services (taking into consideration the results of the “Small and medium manufacturing industries need assessment survey report: Final Draft” 2017). The Intermediate Business Diagnostics for Established MSEs template is broader, as there is a need for greater demand orientation, while still working with the current FTA / TVET IES system.

Both Business Diagnostics templates are sufficiently simple (“yes” and “no” responses) and intuitive that no training is required. Should the FTA / TVET colleges and institutes feel the need for such training, it should be a simple matter to organise this, through the potentially large volumes of trainers in the TVET colleges and institutes would be a complicating factor.

5.10 Next Steps

5.10.1: Training

It is necessary to deliver training to the FeSMIDA, technology institutes and private sector providers (e.g. business consultants) on the Advanced Business Diagnostics templates. It is recommended that this be done by a mixture of international and national experts. A suitably qualified and experience team might comprise Mr. Georg Villinger and Dr. Salomon Wole as they have the necessary background and experience of MSMEs, Ethiopia and domestic firms to undertake the training effectively.

5.10.2: Mentoring

In addition to the training, it is necessary to oversee the trained business analysts in the implementation of business diagnostics. The Advanced Business Diagnostics templates are demanding tools requiring experience to ensure that the diagnosis, the discussions and the recommendations to the target firms are framed appropriately. It is recommended that Dr. Salomon Wole undertakes this role, given his direct involvement in testing and finalising the Business Diagnostic tools. Since Dr. Salomon Wole would be involved in the training (see above), it would ensure continuity there is also engagement in the mentoring process.

5.10.3: Co-financing

For the process to work, it is essential for FeSMIDA / technology institutes to obtain funding for the co-financing (see Section 5.5 Commitment and Co-financing). It is necessary to plan on a reasonable sum of funds (e.g. minimum of EUR 250,000 per annum), depending on the number of firms to be supported. The first phase of the initiative should be designed to be implemented for a period of 5 years. This would be monitored and evaluated (see below) in order to determine whether a possible second phase would be worthwhile implementing.

5.10.4: Delivery

The Business Diagnostics and the determination of package of customised support, as well as agreement with companies and co-financing is only a part of the overall process. An important part of the process will be to select and contract with suitable business experts to deliver the agreed, customised business support services. Suitably qualified and experienced experts are essential to the successful and effective delivery of business services. This will include the technology institutes, the universities, the colleges/institutes and the private sector, both domestic and international. The EBRD, World Bank, etc. are in a position, by virtue of their previous and current project activities, to supplement the list of potential private business consultants. The success of the business diagnostic initiative will be dependent on the quality of experts deployed to support the growth- and export-oriented manufacturing enterprises.

5.10.5: Monitoring and Evaluation

The business diagnostic initiative will need to be monitored and evaluated on a regular basis to assess impact. This means that 6 monthly and annual reports will be produced focusing on inputs, outputs, problems and solutions, as well as overall use of funds.

If the initiative is planned for 5 years, there should be a mid-term evaluation and an independent end-term evaluation to assess overall impact and determine the basis for the second phase of support, should the business diagnostic initiative deliver value for money.