

Effect of Financial Management Practices on Profitability of Small-Scale Enterprise: Case Study Hawassa City Administration, Ethiopia

***A Thesis Submitted to the School of Graduate Studies of Jimma University in
Partial Fulfillment of Requirements for the Award of the MSc. in Accounting and
Finance***

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**JIMMA UNIVERSITY
BUSINESS AND ECONOMICS COLLEGE
MSc. In ACCOUNTING AND FINANCE**

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JIMMA, ETHIOPIA

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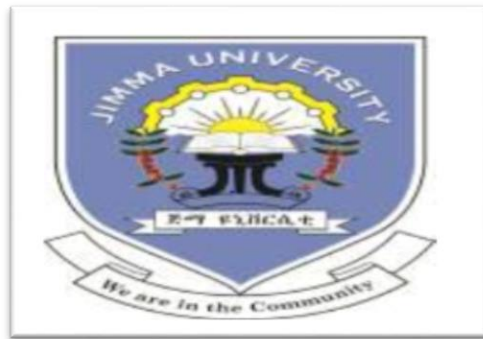
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STATEMENT OF AUTHOR

I hereby declare that this thesis entitled “Effect of Financial Management Practices on Profitability of Small-Scale Enterprise: Case Study Hawassa City Administration, Ethiopia, has been Carried out by me under the guidance and supervision of Dr. Kenenisa Lemie Debela (Ph.D.) and W/Mikeal Shibru Bekelecha (MSc, As.pro.) The thesis is original and has not been submitted for the award of the degree of diploma any university or instructions.

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Abstract

Small-Scale Enterprises (SSEs) are very important to the economic growth and development of a country. Sensible Financial Management Practices (FMP) can help Small-Scale Enterprises to become profitable and for that matter, it stays in business for a long period of time. This study was aimed to examine the effect of Financial Management practices on the profitability of Small-scale Enterprise in Hawassa City Administration. The mixed research approach was used to collect data; while, questionnaires used to collect primary data and secondary document assessments to collect secondary data. The survey was taken FMP of the 116 Small-Scale Enterprise for empirical examination from the part of Fixed Asset Management practice, Accounting Information Systems practice, capital budgeting management practice, Working Capital Management practice and Capital Structure Management practice on the Small-scale enterprises of profitability or performance. The data was analyzed by using statistical package SPSS version 20 and descriptive and econometrics tool OLS; The Results revealed that good Financial Management Practices is a backbone to Small-Scale Enterprises Profitability, success and expansion. Analytical finding revealed that, Fixed asset management practices, accounting information system and financial reporting analysis, Working Capital Management Practices, and Capital Budgeting Management Practices have a positive relationship with profitability; but Capital Structure Management Practices has a negative relationship with profitability. Accordingly, it recommended that owner-managers and financial managers are advised to improve strategically update through time and give an indication to policy maker to design supportive policy to SSEs like training, legal prospects regarding gov't support like loan accessibility.

Keywords: *financial management, financial management practices, small scale enterprises, profitability, Hawassa city administration, Ethiopia*

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ABBREVIATIONS/ACRONYMS

AIS- Accounting Information Systems
CB- Capital Budgeting
CBE- Capital budgeting evaluation
CBMP- Capital budgeting management practice
CLRA -Classical Linear Regression Assumptions
CSMP - Capital Structure Management practice
FA- Fixed Asset
FAMP- Fixed Asset Management Practice
FeMSEDA - Federal Micro and Small Enterprises Development Agency
FMP – Financial Management practice
FRA- Financial Reporting Analysis Practice
GTP - The Growth and Transformation plans
MSEs - Micro and Small Enterprises
OLS -Ordinary Least Square
SMES- Small and Medium-size Enterprises
SNNPRS -Southern Nation Nationality Peoples State
SSEs- Small-Scale Enterprises
UNDP - United Nations Development Plan
WCMP - Working Capital Management Practice

CHAPTER ONE

INTRODUCTION

This chapter provides a general introduction to the research study. The purpose is to foundations for following chapters and the study, by providing a general picture of the study. This chapter is structured into seven sections as the background of the study, statement of the problem, the objective of the study, the hypothesis of the study, the significance of the study, scope & limitation of study, and organization the thesis.

1.1. Background of the Study

The financial management (FM) provides the application with a framework for integrating financial decisions processes and financial resources in the business. This accelerates the processing of transactions and conveyance of financial information, in addition to eliminating duplicate activities and responsibilities along the administrations of the management hierarchy. FM also provides greater leverage for centralizing joint financial services to reduce operational costs associated with running multiple operational units for the shared services. Affiliation

Financial management is build up reserves for growth and expansion; by ensuring a fair return to owners, by ensuring maximum operational efficiency by efficient and effective utilization of finances, and the financial decisions can be made rationally when the small business/enterprise run with certain good successes (Brigham and Ehrhardt, 2011). The financial management practice for small-scale business generally concerning with procurement, allocation, and control of financial resources. In detail, it is used to ensure regular and adequate supply of funds to the over whole activities, to ensure adequate returns to the owners which depend upon the earning capacity, to make market price expectations shares of owners, and to ensure optimum capitals budget utilization of whole activities. In addition, FM is backbone when once the resources are procured, it should be utilized in maximum possible way at least cost, ensure safety on speculation (i.e. funds should be invested in safe projects so that adequate rate of return can be achieved), and plan a

comprehensive capital structure (i.e. there should be all-inclusive and fair composition of capital so that a balance is maintained between debt and equity capital) (McMahon, 1995; Ross, Westerfield and Jaffe, 2008). But, according to Ang (1991), Small-scale businesses do not share the same financial management problems with large businesses. The uniqueness of SSEs in roll creates unique care of financial management issues other than large business.

All over the world, most small-scale enterprises are family businesses employing one or two persons on financial management perspective. Most small-scale enterprises owners are primarily interested in earning a living to support themselves and their families according to EU and national business support program(2012). According to EU only the growing business when some success in their lives changes and they need to generate a larger income. Consequently, most SSEs including Ethiopia have not appointed financial managers to be in indicating financial management of the enterprises rather than the owner-managers (Richbell, Wardle, & Watts, 2006). The same is true SSEs in Hawassa City Administration.

In general, saying FMP include Separated from the basic accounting functions like accounting information, auditing, tax matters, the SSEs financial management is responsible for providing general leadership in all aspects of financial decision making like working capital management, budgeting and financial planning (McMahon, 1995). It has been noted that the failure to effectively discharge these broad financial management Functions has contributed largely to the global financial crisis (Osisoma, 2010). Similarly, exposed as, Zuzana & Matej (2007) careless or poor financial management practice has been identified as one of the reasons for small business failures. Small business's profitability could be hurt because of inefficient financial management and Small Business Enterprises have often failed due to lack of knowledge of efficient financial management. In this regard Mersha & Prabhaka(n. d) Suggest that increase profitability, the business enterprises should continuously improve their financial management practices and financial characteristics. A business role that has regained importance is financial resource management due to the need to make more efficient use of the resources companies

possess. In this sense, any business should consider as necessarily no matter what its size utilizes efficient financial management practices.

If (SSEs) sector well-built, it contributes significantly to the economy through creating more employment opportunities, generate higher production volumes, increase exports and be introducing innovation and entrepreneurship skills. According to Okpa, Amat, & Keith, (2012) MSEs are a major area of concern for government and non-government organizations with an objective of unemployment reduction, income generation and equitable income distribution, import substitution, innovation, poverty alleviation etc.

Asaolu (2014) explores that the common and overarching objective of the development plans has been to ensure broad-based economic growth. Because in the broad-based economic growth is the main route to poverty reduction through employment generation. Currently, Ethiopia has prioritized on MSE's development for economic growth, employment generation and building an industrial economy. To this end, the Ethiopian government has designed a National MSEs development and promotion strategy which facilitates and paves the ground for the growth and development of the sector starting from 1997. The Council of Ministers approved the Federal Micro and Small Enterprises Development Agency (FeMSEDA) with the objective to support, coordinate and help institutions that provide support for the development and expansion of MSEs in Ethiopia" (FeMSEDA,2010). FeMSEDA establishes a working relationship with regional government organizations, regional agencies responsible for MSE development, NGOs, and the private sector.

The small business sector is recognized as an integral component of economic development and a crucial element in the effort to encouragement countries out of poverty (Wolfenson, 2001). Ethiopia has incorporated the concept of micro and small enterprises (MSEs), by the endorsement of MSE Development Strategy in 1997 followed by the proclamation for the establishment of the Federal Agency for Micro and Small Enterprises Development in 1998. Small- Scale businesses are driving force for economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization has been achieved (Ariyo, 2005).

These occasions make the sector researchable area especially for developing the world including Ethiopia

The significant contribution of Small-scale enterprises to the Ethiopians economy, the potentials of the SSEs have not been exploited fully and this is a concern of all stakeholders in the economy. To utilize this emerged economy; effective financial management practice is mandatory. The investigator willing to check effect FMP mainly Fixed Asset Management (FAM), Accounting Information Systems (AIS), Capital budgeting management practice(CBMP), Capital Structure Management (CSM) and Working Capital Management (WCM) on the performance of Small-scale Business.

1.2. Statement of the Problem

Financial management is the main paths to success of a business. Financial management is the way to making a profit; that helps they decide what they can afford in terms of the store or office location, inventory purchases, employees, and equipment as well as all asset of the business (Markowitz,2003; Brigham and Ehrhardt, 2011). Both large and small firms require good management to achieve success. Typically, a small business that entails group effort, the manager provides direction to them by activities of management functions (McLaney, 2009). SSE's Owners need comprehensive financial information to set their prices and select their vendors. So, financial management gives the tools to plan for overall business growth, for diversification of their product lines, or for reaching new markets. It helps them to decide which products, services, and which markets are profitable. Effective financial management gives them tools to draw direction to the future activities, adjust their direction when needed, and help them to find their way through challenging times

Thus, the best successful performance of any business was the result of effective financial management. It plays the role of increasing the market value of that specific business joined with the role of leading towards the growth of the whole productiveness which ultimately leads to the overall success of the economy (Ariyo, 2005). The SSEs is part of the growing system of an economy and successful operation of the business can set life-lines for other industries and development of an economy. To do so the SSEs' business is expected to be financially solvent and strong through being profitable in operation O. Sunday & O.

Solomon (2012). Hence, not only measuring the financial performance of SSEs' but also clear insight about determinants that verify profitability in the business, then the problem to be investigated. The profitability of SSEs attracted the interest of entrepreneur with low capital, starting businesses and institutional supervisors.

There is variance in profitability, survival, and growth of SSEs' compared to larger firms and each other accounts for special problems in financial management (Dumbu, 2014). And, different aspects of small scale businesses such as legal form, size, and age of the business, the level of education of the owner/manager, location, and leverage Rathnasiri, (2015) and Getahun (2016) indicate that poor management practices one of indicating factor over whole performance. SSEs generally tend to be confronted with higher interest rates, as well as credit rationing due to a shortage of collateral. The issues that arise in financing differ, considerably between existing and new firms, as well as between those which grow slowly and those grow rapidly. Hence, the problem of considering the proper financial management practices to improving the profitability of SSEs. Mersha & Prabhaka(n. d) state that improving FMP is a way to increasing the businesses profitability. The most studies examine some of the FMP and some elements of it(i. e parts of each like cash management, recivable management e.t.c) ; but this study examine the effect of financial management practices specifically Fixed Asset Management (FAM) practice, Accounting Information Systems (AIS) practice, Capital Structure Management (CSM) practice and Working Capital Management (WCM) practice on the performance of Small-scale enterprises.

Additionally, the most studies conducted on combining the Small& medium enterprises (SMEs) as well as micro and small-scale enterprises (MSEs); few of them are states an evaluation of the management practices and Hindrances to the Success in some of the FMP (Dumbu, 2014; Drbie & Kassahun, 2013; Mulugeta, 2008). Also, most of the studies focused only on packed in specifically affecting factors as well as deterrents of SMEs (Ngugi, 2014). Micro-scale, small-scale and medium-scale enterprise have their own definition, criteria to establish them. Still, no study conduct that signifying factors affect the profitability of SSEs and has not been sufficiently investigated with overall financial management in Ethiopia as well as Hawassa city rather than SME's or MSE's. While taking

into consideration the inadequacy of empirical investigation into the causes of SSE's profitability, the researcher attempts to fill such gaps in empirical evidence, in addition to specific factors, by financial management's practices as economic factors that determine the profitability of SSEs' enterprises in Ethiopia, Hawassa city. The current study also informs the management of the enterprises about the strengths and weaknesses of the current financial management practices and detects the weaknesses in the current functioning of the small-scale enterprises. So, researcher specifically tests the significant effect of FMP on the performance as well as the profitability of the small-scale enterprises.

1.3. Objectives of the Study

1.3.1. General objective

The main objective of this study is to investigate the effect of financial management practices on SSE's profitability.

1.3.2. Specific objectives

- ✚ To examine effect of fixed asset management practice on profitability of SSEs
- ✚ To examine effect of accounting information systems practice on profitability of SSEs
- ✚ To examine effect of working capital management practice on profitability of SSEs
- ✚ To examine effect of capital structure management practice on profitability of SSEs
- ✚ To examine effect of Capital budgeting management practice on profitability of SSEs

1.4. Hypotheses of the Study

There are several possibilities to make an estimation of the effect of financial management practice on SSE's profitability. To reach the research objective the investigator attempts to test the following propositions. The estimation of propositions came from the previous survey in detail presented in empirical studies.

Fixed Asset Management practice includes assets, such as depreciation amount, retirements, lease information, repairs, and maintenance. The appropriate purchasing decisions are made, capital equipment generates profits for the organization whereas incorrect choices may have disastrous results for the business, since such equipment may

not be sold over the short term. Kitonga (2013) direct that top management should consider the procurement of capital equipment with care support to increase margin revenue. They conclude that fixed asset management practices positively related with profitability business. From this, the investigator hypothesizes the following proposition.

- ❖ *Hp₁: There is relationship between fixed asset management practice and profitability of SSE's in Hawassa city administration.*

Competition in the market due to globalization and technological innovations created the need for businesses to invest in different accounting information systems to meet changing needs of the business improve on current operations as well. As Esmeray (2016) found that positive relation is found between the use of AIS and profitability/ performance. Financial reporting and analysis are one of performance measurement; in this regard, the preceding research concludes as Michel and Sylvie St-Onge (2005) states FRA positively influences profit drivers; and is more likely to have a long-term, positive impact on external profit drivers and Enekwe(2015) support the positive relation. The AIS and financial reporting analysis practice incorporated in practice SSEs' that means mutually dependent. From this, the researcher hypothesizes the following proposition.

- ❖ *Hp₂ : There is relationship between AIS practice on the profitability of SSE's in Hawassa city administration.*

Without Working capital and its management no business. Norah, Mbabazize, & Shukla (2015) found that suitable working capital management practices improve their performance especially the cash management practices and the trade credit management practices and significant positive relation with the profitability of the small business. From this possible to hypotheses the next.

- ❖ *Hp₃: There is relationship between working capital management practice and profitability of SSE's in Hawassa city administration.*

Capital budgeting is the process of appraising and preference of businesses putting with the goal of increasing the value of owners. Norah *et al* (2015) found that capital budgeting decision affects organization performance of businesses with regards to rate of growth,

operating costs, cash outflow but not cash inflow or share price maximization. In contrarily, Essra'a (2016) found that there is not a statistically significant relationship between corporations used of capital budgets techniques and its size and its financial performance. So, it is possible to formulate the following hypothesis.

- ❖ *H_{p4}: There is relationship capital budgeting management and profitability of SSEs' in Hawassa city administration.*

The capital structure is how a business finances its overall operations and growth by using different sources of funds. The majorities of the earlier literature concluded that capital structure is not a major determinant of firm performance as well as profitability (Al-Taani, 2013). Others like Ong Tze San & Teh Boon Heng(2011) and Casmir & Anthony (2012) their evidence shows that that capital structure and profitability has a negative relationship with small businesses to medium business. Accordingly, the researcher hypothesizes the following proposition.

- ❖ *H_{p5}: There is relationship between capital structure management practice and profitability of SSE's. in Hawassa city administration.*

1.5. Significance of the Study

This study is significant to direct financial management practices of SSEs and to assist owner-managers, financial managers to improve performance and profitability of their businesses in Hawassa City Administration, SNNPR. In fact, it requires that managing financial matters efficiently and effectively to appreciating the comparative strengths and inefficiencies among SSEs because every rational manager's desire is optimum productivity to achieve maximum profit for the business. Also, this study contributes the literature to Small-scale Business financial management practice, which traditionally concentrates on SSEs of developing economies rather than other economies to test theories of financial management helps to confirm and expand the scope of theoretical applications.

1.6. Limitation of the Study

No research work is perfect in all respects. This study also may face limitation some of them are as follows:

- ❖ Unavailability of well-developed sources of data in the office in the short period was an obstacle for the study
- ❖ Nature of the SSEs confronted to gather detail information within given time
- ❖ The unwillingness and lack of experience of respondents to give detail information
- ❖ For the small-scale enterprises, registration is not compulsory therefore, it may very difficult to find out an exact number of enterprises in Hawassa city administration.

Actions taken to minimization limitation

The researcher has made the study to be expressive of the facts by managing available budget, time and creating awareness on the intention and tell important of the study to the data-collector and respondents.

1.7. Scope of the Study

This study, the effect of financial management practice on the profitability of SSEs located in Hawassa city administration. The researcher has taken small scale enterprises for study. The study covers following business groups: Manufacturing, Construction, Service, Trade, and Urban Agriculture. The period covered by the study two fiscal year financial statement for each SSEs (2007- 2008 E.C) and their management practice attitude.

1.8. Organization of the Paper

The thesis report consists of five chapters. The first chapter presents the background of the study, statement of the problem, justification of the study, objectives of the study, hypothesis of study significance of the study, the scope of the study, and limitation of the study. The second chapter introduces the core issues of concern that relate to financial management practice and reviews preceding works that tackled them analytically and empirically. The third chapter provides the research design and methodological frameworks employing to accomplish the stated objective of the study. Following this, the

fourth chapter discusses results and data analysis of the study. Finally, the fifth chapter presents conclusions about the main finding of for the study, recommendations, and forthcoming study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter describes the theoretical groundwork of the study and provides a review of the literature on the nature of financial management practices and its effect on profitability. The chapter opens with some overviews of theories and concepts of financial management. This is followed by a look at the relationship between financial management practices and profitability. Finally, the chapter concludes with empirical studies on the independent variables and dependent variable.

2.2. Overviews of Small Scale and Its Financial Management

Small scale enterprise: Repeatedly called a small business, a small-scale enterprise is a business that utilizes a small number of workers/employees/ and low volume of sales; generally, privately owned and operated sole proprietorships, corporations or partnerships (Asaolu,2014) and (Oyeleran,2012). And its legal definition of varies by type of business to business and country to country the same is true for Ethiopian legal definition of SSEs. According to Ministres (2011) SSEs in industry sector the number of workers 6-30 and total asset below one million five hundred birrs exclude building and service sector the number of workers 6-30 and total asset below five hundred thousand birrs exclude building.

Financial management: Financial management is dealing with the managerial decisions that result in the acquisition and financing of long-term and short-term recognitions for the businesses. As such it deals with the situations that require selection of specific assets or a combination of assets, the selection of specific liability or combination of liabilities as well as the problem of size and growth of an enterprise. The analysis of these decisions is based on the expected inflows and outflows of funds and their effects upon managerial objectives (Brigham and Ehrhardt, 2011; McLaney E., 2009; Drucker, 1980).

Financial management for Small-scale enterprise: According to Encyclopedia of Small Business “Financial management for Small-scale enterprise can be defined as those

business activities undertaken with the goal of maximizing shareholder wealth, utilizing the principles of the time value of money, leverage, diversification, and an investment's expected rate of return versus its risk (Arsen, Darnay, and Moniqu,2007). The definition shows that small businesses' financial principles are like those of large businesses, it would be possible to measure the risk of small businesses?

The financial management has come extending way by shifting its focus from traditional approach to modern approach. The modern approach focuses on wealth maximization rather than profit maximization. This gives a longer-term scope for assessment, making way for sustainable performance by businesses.

Modern finance theories have not yet developed such a model specifically for small business, but rather explain lack of conformity to existing models in terms of failure to meet assumptions of the models because of its uniqueness (Ang, 1991), He also suggests and point out More development in this area is needed due to the very large numbers of small businesses and the need to measure their financial performance against some standard.

2.2.1. Small -Scale Enterprises Contribution to the Economy

This section reviews the importance of Small -Scale Enterprises to an economy. SSEs play vital roles in the process of industrialization, sustainable economic growth reducing unemployment and generate a large share of new jobs reduction of poverty and Contribution to the Gross Domestic Products of developed as well as devolving countries in the global economies (Ariyo, 2005; Asaolu, 2014; Association, 2015).

Edward and Cressy (1992) they have specific strengths and weaknesses that may require special policy responses because of facing different risk in behavior; on the other hand, new technologies and globalized familiarity of many economic activities transferred through them; that is potential contribution of small business (Cressy, 1992; Edward, 1992). However, many of the traditional problems facing SSEs – lack sufficient financing, difficulties in exploiting technology, constrained managerial capabilities, low productivity, and regulatory burdens become cuter in a globalized, technology-driven environment.

Small business needs to upgrade their management skills, their capacity to gather information and their technology bases (Ang, 1991; Morgan *et al.*, 2013; Regina, 2012).

Therefore, SSEs need Governments support to improve access to financing, information infrastructures, and international markets, providing regulatory, legal and financial frameworks conducive to entrepreneurship and small business start-up and growth priority.

The most scholars agreed that small businesses are the driving force for the growth and development of the economies of many countries in the world including Ethiopia (Drbie & Kassahun, 2013). Thus, the importance of these small enterprises warrants a review of literature especially for the fact that it is management that matters in the existence of the SSEs that would eventually contribute to the national objectives of a country (Association, 2015). In view of the current study which evaluated the financial management practices of SSEs, it necessary to identify the financial management practices affecting the operations of the small business in the intensive competitive business environment (Ariyo, 2005).

Studies have been carried out in the field of the importance of the small-scale enterprises to the economy. One of the mentionable researchers in this field is the study by Drbie & Kassahun(2013) which explored the role and challenges of MSEs in Ethiopia. The study established that SMEs have contributed significantly to the reduction of unemployment as the sector has become the main employer in an economy which is faced with the high closure of larger corporations (Foreman-Peck, Makepeace, & Morgan, 2006). International Trade Administration (2010) a supportive government is necessary to have a productive market” cited as Environmental Policy Update 2012, Development Strategies and Environmental Policy in East Africa. The government has shown commitment to the growth and development of the small enterprise sector by establishing an agency called agency of Small and Medium Enterprises development which work together with the small firms trying to assist them in how business should be done in the contemporary style (Ministres, 2011).

One of the significant characteristics of a successful and growing economy is a booming and blooming small enterprise sector. Development of this sector contributes to the generation of potential entrepreneurs (Nkwe, 2012). Its’ development also established that

small enterprises constantly prove to be the engine of growth and sources of technological innovations. In support of this Ayozie (2011) and states that, the role of business enterprises is essential in pulling up the country's economic development and SSEs utilize a strong influence on the economies of all countries, particularly in developing countries SSEs are the backbone of any economy as they not only create new jobs but also, they are considered as main way of innovation and technological transform.

2.1.2. Development and Financial Management of SSE's

During the growth of a small business, a business will go through the stages of the business lifecycle and encounter different challenges that require different financing sources. For example, the business will require a different strategy when it comes to market penetration, business development, and retaining market share. Deakins, Logan, & Steele (2001) state the development of SSEs leads to an increasing interest in how a small business monitors and controls its finance. It is a commonly held belief that better financial information means better control and therefore an improved chance of success. It can be speculated that recent developments in the technologies applied in e-commerce will make the small business an integral part of the most rapidly expanding part of the economy and add to the difficulties of financial control. As the business matures, operations and priorities will change therefore requiring business financing to change their accomplishment through FMP. Machoism, Onwuchekwa & Ifeanyi (n.d) indicate that SMEs should access the services of the accountant to be able to establish dependable accounting system which is characterized by generally accepted accounting practices (GAAPs) Quality accounting information will enhance SMEs' financial management as well as accessibility of finances.

2.1.3. Theories of Financial Managements

This study used the realities behind what, how and why events or activities occur and therefore it also used to explain the relationships variables as a basis for research through the understanding of various concepts of under financial management theories and related studies. Therefore, this study was used finance and liquidity theory to explain the concepts under this study.

Finance theory: Has made major advances in understanding how capital markets work and how risky real and financial assets are valued and Tools derived from finance theory, particularly discounted cash-flow analysis, are widely used (McLaney E., 2009). Thus, finance theory has had a significant impact on the determination of business arrangement (C.Myers, 1984.).

In finance theory, there are three main threads: capital budgeting, capital structure and working capital management (Thomas & J. Fred, 1988). Capital budgeting and capital structure decisions are mostly related to financing and managing long-term investments. Capital budgeting theory typically assumes that the primary goal of a firm's owners is to maximize businesses value. In addition, the businesses are assumed to have access to perfect financial markets, allowing it to finance all value-enhancing projects. While these assumptions are met, businesses can separate investment and financing decisions and should invest in all positive net present value projects (Brealey and Myers, 2003). However, financial decisions about capital structure and working capital are mostly related to financing and managing short-term investments that undertake both current assets and current liabilities simultaneously (Ross *et al.*, 2008). In most cases, short-term financial management is referred to as working capital management.

Liquidity Theory: Efficiency in financial management is important especially for production firms whose assets are mostly composed of current assets (Wachowicz, 2004). According to Heitor, Murillo, & Michael (2002) there are the most important contributions that the liquidity of a firm's assets is determined rather than an important decision firms should make. Scholars suggested that observed choices regarding liquidity will depend on firm's access to markets and the importance of future investments to the business. Thus, the liquidity of an asset and profitability business has a direct relationship. In addition, Accounting Information Systems (AIS) practice and financial statement Reporting Analysis (FRA) practice are to provide policy, system, and the tool to the effective performance of business (Muhindo, Kapute & Zhou, 2014).

In a business, the day to day transactions balances and protective balances are believed with the intention of being used to make purchases as and when required, they are

sometimes jointly referred as demand for active balances. The important point about the demand for active balances is that it is not responsive to changes in the rate of interest. The demand for speculative balances, on the other hand, is sometimes referred to as the demand for idle balances (Sunday & Solomon S., 2012).

Profit and Wealth Maximization

Profitability business is alarmed with sustaining or rising business's earnings through attention to cost control, pricing policy, sales volume, stock management, and capital expenditures. This objective is also consistent with the goal of most businesses. Liquidity management, on one hand, ensures that the business's obligations (wages, bills, loan repayments, tax payments, etc.) are paid. The owner's requirements to avoid any damage at all to a business's credit rating, due to a provisional inability to meet obligation by expecting cash shortages, maintaining the confidence of creditors, bank managers, pre-arranging finance to cover cash shortages. On the other hand, liquidity management minimizes idle cash (McMahon, 1995).

However, wealth maximization is one of the modern approaches, which involves latest innovations and improvements in the field of the business concern. The term wealth means shareholder wealth or the wealth of the persons those who are involved in the business concern. Wealth maximization is also known as value maximization or net present worth maximization. So, this objective is commonly accepted concept in the field of business (Shim and Siegel, 1998). Even though, the aim of the small business concern is earning a profit; hence, it considers all the possible ways to increase the profitability of the concern (McMahon, 1995).

Financial statements are a structured representation of the financial positions and financial performance of a business. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions (Arsen *et al.*, 2007; Brigham and Ehrhardt, 2011; McLaney E., 2009). Financial statements also show the results of the management's stewardship of the resources hand over to it.

The Financial Statement Analysis is a process of critical evaluation of the financial information contained in the financial statements to understand and make decisions regarding the operations of the business. It is basically a study of the relationship among various financial facts and figures as given in a set of financial statements, and the interpretation thereof to gain an insight into the profitability and operational efficiency of the firm to assess its financial health and prospects. The term 'financial analysis' includes both 'analysis and interpretation. The term analysis means simplification of financial data by methodical classification given in the financial statements. Interpretation means explaining the meaning and significance of the data. These two are complimentary to each other. The analysis is useless without interpretation, and interpretation without analysis is difficult or even impossible. more specifically, the analysis is undertaken to serve objectively first, to assess the current profitability and operational efficiency of the firm as well as its different departments to judge the financial health of the firm and to ascertain the relative importance of different components of the financial position of the firm. Second, to identify the reasons for the change in the profitability financial position of the firm. Finally, to judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position of the firm (Wachowicz, 2 004).

2.3. Empirical Literature Review

Studies show that small-scale enterprises have enormous contributions in reducing economy, creating employment opportunities, increasing income of individuals or improve the standard of living of citizens, especially in urban area. Scholars have been conducting a scientific research and get ample results in SSEs. The following are some of the reviews of evidence that show the real effect of FMP of the sector of small-scale enterprises in other countries experience and few Ethiopian cases.

2.3.1. Effect of Fixed Asset Management Practice (FAMP) on SSEs profitability

Rathnasiri (2015) and Regina (2012) states that considering FA very important because fixed asset generally represents a significant percentage of the total asset on any business. This decision can be considered as an investment which is financed from long-term, rather than from working capital. On this account, it is very important to consider not only the

purchase price of capital equipment but also the total cost of ownership. The appropriate purchasing decisions are made, capital equipment generates profits for the organization whereas incorrect choices may have disastrous results for the business, since such equipment may not be sold over the short term. On this regard, Kitonga (2013) direct that top management should consider the procurement of capital equipment with care support to increase margin revenue. The researcher supports the discussion of above scholars and proposes FAMP has a positive relationship with protectability of SSEs in Hawassa city administration.

2.3.2. Effect of Accounting Information System Practice (AISP) on SSEs profitability

Accounting Information System Practice

In theory, using AIS improve the business-level performance of a business. Increased competition in the market due to globalization and technological innovations created the need for companies to invest in different accounting information systems to meet changing needs of the business as well as improve on current operations. In relation to this (Urquía *et al.*, 2011) noted that the key benefits for SSEs in using AIS are: the better adaptive capability to changing conditions, better management of transactions, and more competitiveness with relative business.

Urquía *et al* (2011) found that IT adoption resulted in an increase in sales and inventory turnover thorough process and their general finding revealed that AIS has the positive effect of on performance of SMEs. Similarly findings of Devaraj& Kohli (2003) a positive link between IT usage and spending of firm-level performance. Nurhadi *et al* (2016) State that reason that drives to adopt E-Commerce are the benefits of E-Commerce to increase competitiveness, enhance marketing performance as well as the encouragement of external factors. According to Muhindo *et al* (2014) findings showing that ‘the most small-scale businesses do not apply accounting information systems which result in low profits; som tana sly, there is a positive relationship between accounting information systems and profitability level of small scale businesses which are used AIS. Accounting information system plays an important role in our economic and social systems especially in its

management and great work it does in facilitating management decision-making process. However, it is worthy to note that it would take several years for firms to realize the benefits from adoption of AIS; Moreover, one cannot simply rely a great deal on AIS (Wah, 2000). As indicated by Urquía *et al* (2011) AIS can still be insufficient and has several shortcomings that the company must be able to address. This shows that the adoption of AIS is not an end but rather, part of the means to achieve business objectives. It can be considered as a subsystem that is heavily dependent on other subsystems of the business in achieving the main goals of the business. At this end, the researcher proposes supportive finding for SSEs in Hawassa city administration.

Financial Statements Reporting & Analysis Practice (FRAP)

Financial Statement Ratio Analysis describes the significant relationship which exists between various items of a balance sheet and a statement of profit and loss of a firm. As a technique of financial analysis, accounting ratios measure the comparative significance of the individual items of the income and position statements. It is possible to assess the profitability, solvency, and efficiency of an enterprise through the technique of ratio analysis. Financial ratio analysis significantly related to effective management of the business as well as the performance of firm (Adedeji, 2014). Empirically, (Michel and Sylvie St-Onge(2005) found that positively influences only profit drivers that are under employee control; and is more likely to have a long-term, positive impact on external profit drivers than on internal profit drivers, Chinedu (2015) also support. In contrary, there is inefficient asset management financial ratio negatively related to profitability as well as the performance of businesses (Chinedu, Ifeoma, & Monday, 2013).

Financial Statement reporting standard: is the business performance of small-scale business enterprise aims at considering the financial reports with a view of; first, which a standard financial report contributes to or detracts from the growth of a small business. The second which the financial reports of corporate business organization comply with statutory provisions. Finally, uniformity and conflict which exist in the financial reporting regulations given the multiplicity of regulators. Therefore, financial reporting standards and every regulation their bear on the financial statement and to the extent the selected

SSEs has either complied with or disobeyed the relevant statutes. So, International Financial Reporting Standard Council Updates Financial Reporting Standard for Smaller Entities time to time in this regard this paper concerning to insight the effect on profitability SSEs. Odhiambo & Kerongo(2014) conclude that international financial reporting standards are an important component in the performance of SSEs. To this end, the researcher is interested in examining the cumulative effect AIS&FRA in Hawassa city of small scale business and to determine profitability as well as performance in certain small-scale business.

2.3.3. Effect of Working Capital Management Practice (WCMP) on SSEs profitability

Working capital management is the lifeblood of every small-scale business, therefore management of working capital considered as one of the most important areas in the field of financial management. In this area, so many studies have been done on effects of working capital management practice on profitability by different researchers. Working capital management is very important in enterprises management because it directly affects the liquidity and profitability of a firm. Norah, Mbabazize, & Shukla (2015) the optimal management of working capital are very imperative since it is expected to contribute positively to the success of the business. Some empirical finding that supports positive effect (Dumbu, 2014; Sayeda, 2012; Stephanou, 2010). To this end the SSEs to reach optimal working capital management the firm manager should control the trade-off between liquidity and profitability accurately.

To this end the researcher is interested in examining effect working capital management in Hawassa city of small scale business and to determine profitability as well as performance in certain small-scale business, the efficiency of working capital management is determined by the efficient administration of its various components like cash management, accounts receivable management, and inventory management.

2.3.4. Effect Capital Budgeting Management Practice (CBMP) on SSEs profitability

Capital budgeting is the process of appraising and picking out long-term investments that are in consonance with the goal of increasing the value of owners. Norah *et al* (2015) achieve that capital budgeting decision affects organization performance of businesses with regards to rate of growth, operating costs, cash outflow but not cash inflow or share price maximization. In contrarily, Essra'a (2016) generalizes as there is not a statistically significant relationship between corporations used of capital budgets techniques and financial performance and Joseph & Ohioirenoya, (2013) empirical data collected from ninety-eight enterprises in the Obuasi Municipality (Ghana) achieve supportive result that capital budgeting management has a negative relationship with business enterprise profitability. However, Joseph & Ohioirenoya discussion was impartial according to with capital budgeting theory, but they are comparing only with cost, CBMP and business enterprise's profitability. The researcher believed that incurring a cost to it the business premises maximizing owners' wealth, over whole performance, and strong R&D while capital budgeting effectively applied. To this end, the researcher is interested in examining effect CBMP in Hawassa city of small scale business and to determine profitability as well as performance in certain small-scale business.

2.3.5. Effect of Capital Structure Management Practice (CSMP) on SSEs profitability

The capital structure is how a business finances its overall operations and growth by using different sources of funds. Debt comes in the form of bond issues or long-term notes payable, while equity is classified as common stock, preferred stock or retained earnings. Short-term debt such as working capital requirements is also considered to be part of the capital structure.

An optimal capital structure is the best debt-to-equity ratio for a firm that maximizes its value. The optimal capital structure for a company is one that offers a balance between the ideal debt-to-equity ranges and minimizes the firm's cost of capital. In theory, debt financing generally offers the lowest cost of capital due to its tax deductibility; however, it

is rarely the optimal structure since a company's risk generally increases as debt increases (Ross et al.,2008) .

So many empirical studies conducted in this area under discussion; but, majorities find out that statistically, capital structure is not a major determinant of firm performance as well as profitability (Al-Taani, 2013). Accordingly, Ong Tze San & Teh Boon Heng (2011) and Casmir & Anthony (2012) their evidence shows that that capital structure and profitability has a negative relationship with small businesses to medium business. To this end, the researcher is interested in examining effect capital structure management in Hawassa city of small scale business and to determine profitability as well as performance in certain small-scale business.

2.4. SSE's Profitability Measurements

Profitability is closely related to profit, but it is the metric used to determine the scope of a company's profit in relation to the size of the business. Profitability is a measurement of efficiency – and ultimately its success or failure. It is expressed as a relative, not an absolute, amount. Profitability can further be defined as the ability of a business to produce a return on an investment based on its resources in comparison with an alternative investment. Although a company can realize a profit, this does not necessarily mean that the company is profitable.

Profitability is one of the most difficult attributes of SMEs to conceptualize and measure (Ross et al., 2008). Generally, the difference between revenues and costs is considered as profit in accounting. This measurement of profitability, however, ignores risk. From an economics point of view, “a firm is profitable only if its profitability is greater than investors can achieve independently in the capital market” Ross et al,(2008) on this basis, Ross and others propose some means to quantify profitability. According to Moyer *et al* (2006), these are profit margin or return on sales, return on assets, and return on equity.

In general, for this study return on asset performable because of uniqueness, SSEs firms begin their activities undercapitalized with inadequate financial resources. Additionally,

small firms, unlike their larger counterparts, are unable to raise capital in the public debt and equity markets (Ang, 1991). Return on assets measures your ability to use their assets to earn profits. Assets include cash and cash equivalents, as well as physical items of tangible value, such as buildings, equipment, and inventory, that you own. The net income amount on their income statement and divide it by the total assets number on their balance sheet to compute return on assets after tax and interest.

2.5. Conceptual Framework

The term, financial management focuses on both the acquisition of financial resources on as promising terms as possible and the utilization of the assets that those financial resources have been used to purchase, as well as looking at the interaction between these two activities in accounting view, the focus of attention is on the balance sheet, rather than the profit and loss account or the cash flow statement (Neely, 2007).

According to Neely, Accounting measures of performance are restricted largely to providing confirmatory evidence that the beliefs of a new entrant to the business concerning current earnings are based on auditable as well as reportable fact. But it must also be recognized that the calculation of accounting earnings is a matter of judgment as well as fact. For example, a charge representing the depreciation in value of capital assets forms a major cost item in the accounts of most businesses. However, this requires an assessment to be made of the expected future life of these assets, and their likely residual value at the end of this life. Clearly, this requires the exercise of a considerable degree of judgment, and different accountants might well reach different conclusions as to the amount of profit to be reported.

Profitability business is alarmed with sustaining or rising business's earnings through attention to cost control, pricing policy, sales volume, stock management, and capital expenditures. This objective is also consistent with the goal of most businesses. Liquidity management, on one hand, ensures that the business's obligations (wages, bills, loan repayments, tax payments, etc.) are paid. The owner's requirements to avoid any damage at all to a business's credit rating, due to a provisional inability to meet obligation by

expecting cash shortages, maintaining the confidence of creditors, bank managers, pre-arranging finance to cover cash shortages. On the other hand, liquidity management minimizes idle cash balances, which could be profitable if they are invested (McMahon, 1995).

However, wealth maximization is one of the modern approaches, which involves latest innovations and improvements in the field of the business concern. The term wealth means shareholder wealth or the wealth of the persons those who are involved in the business concern. Wealth maximization is also known as value maximization or net present worth maximization. This objective is universally accepted concept in the field of business (Shim and Siegel, 1998). Even though, the Aim of the small business concern is earning a profit; hence, it considers all the possible ways to increase the profitability of the concern (McMahon, 1995).

The theoretical concepts achieved through effective financial management practices, in relation to Objectives, decisions and major areas of financial management on the profitability of SSEs. (Meredith, 1986). Objectives and decisions, and areas of financial management are relevant to financial management practices. The specific areas of financial management are viewed as a theoretical framework for financial management practices while objectives and decisions of financial management are viewed as influencing factor on the profitability of SSEs. So, the profitability of SSEs is a proper function of financial management.

The most important of them are: Fixed Asset Management (FAM) practice focuses on acquisition of fixed asset, registration of it yearly depreciating and disposal; Accounting Information Systems (AIS) practice and Financial Reporting Analysis (FRA) practice mainly practices development of accounting system as well as all accounting transaction with accounting principles, reporting with acceptable accounting standards incorporating with computerized system of accounting the analyzing the progress through financial ratio. Both AIS and FRA incorporating to gather accelerate over the whole operation of businesses.

The Working Capital Management (WCM) practice mainly focused on managing current cash, inventory, account receivable account payable; capital budgeting management practice (CBMP) of the small-scale business mainly include cash estimation, business plan and marketing strategy and Capital Structure Management (CSM) practice of SSEs are not yet developed but traditionally includes few equity and larger debt because in developing countries main supporting establisher was gov't (Ayozie, 2011;Okpa, Amat, & Keith, 2012).

The relationship between financial management practices & profitability of SSEs.

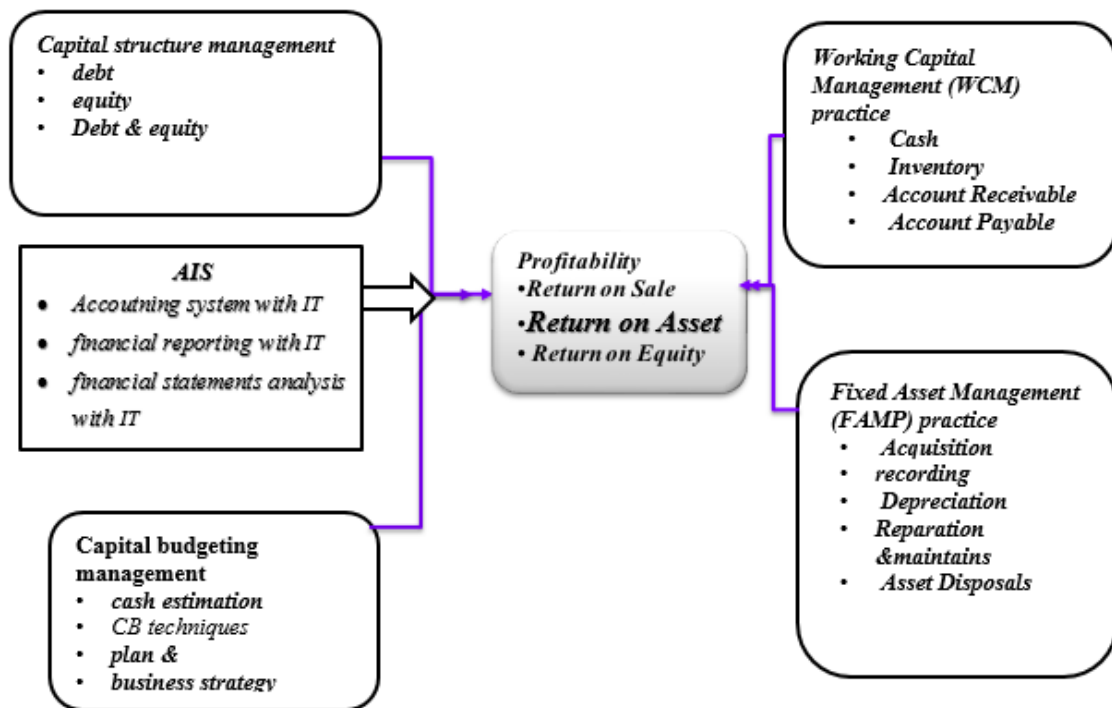


Figure: 1 Conceptual Framework

Source: Developed for this study in, 2017 by investigator

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design and Approach

This study was employed a qualitative and explanatory research design. It involves a mixed research method, it focuses on collecting, analyzing, and mixing both quantitative and qualitative data in a study. Its central idea is that the use of quantitative and qualitative approaches, in combination, provides a better consideration of research problems (Creswell and Clark 2011). Finally, the analysis, demonstrate the collected data and often uses visual aids such as graphs and charts to help the reader in understanding data distribution by using IMB SPSS version 20 software.

3.2. Sample and Sampling Procedure

3.2.1. The Case Area

Hawassa town is in the southern part of Ethiopia, Southern Nations, Nationalities and Peoples Regional State, in Sidama Zone at 275 km from Addis Ababa. Hawassa city is divided into Eight (8) sub cities and each sub-city are divided into 32 Kebeles, These Eight sub-cities are *Hayek Dare, Menehariya, Tabor, Misrak, Bahil-Adarsh, Addis-Ketema, Hawela-Tula and Mehal* sub-city.

3.2.2. Population

The term population means all members that meet a set of specifications or a specified principle. So, the population of this study taken from 2008/2015/16 report total of 2316 SSEs in Hawassa city Addiministration registered in trade and industry department.

3.2.3. Sampling Procedure and Sample Size

In this study, the sample was selected using stratified sampling technique by considering the SSEs in all sectors (i.e. manufacturing, construction, service, trade, and urban agriculture) as strata. In stratified sampling technique, heterogeneous populations are divided into several homogeneous sections or groups. These groups are called “Strata”. The samples from each stratum were drawn by applying simple random sampling technique.

The sample size was determined using the formula given by Yamane (1967) in drawing an adequate sample size from a given population at 95% confidence level, 0.5 degrees of variability and 9% level of precision.

$$n = \frac{N}{1 + e^2(N)}$$

Equation 1: Sample size

Where; n = sample size required for the study

N= Total population size

e = level of precision

$$\text{Accordingly, } n = \frac{2316}{1 + (0.09)^2(2316)} \approx 116$$

Hence, the sample size for this study is 116.

After determining the sample size required for the study, the sample size of each sector (stratum) was determined in probability proportion to the size of the sector (Stratum) using the following formula:

$$n_i = \frac{n}{N_i} N \quad (\text{Cochran, 1977})$$

Equation 2: Sample size allocation

Where; N = Total population size

N_i=Population size of sector i

n = sample size required for the study

n_i = sample size of sector i

Sample size allocation (proportional allocation for SSEs in each sector)

$$n_1 = \frac{116 \times 417}{2316} \approx 21 \text{ of manufacturing SSEs}$$

$$n_2 = \frac{116 \times 834}{2316} \approx 42 \text{ of construction SSEs}$$

$$n_3 = \frac{112 \times 556}{2316} \approx 28 \text{ of service SSEs}$$

$$n_4 = \frac{121 \times 347}{2316} \approx 17 \text{ of trade SSEs}$$

$$n_5 = \frac{121 \times 162}{2316} \approx 8 \text{ of urban agriculture SSE}$$

Table 1 : Strata for each Sector in SSEs in Hawassa city administration.

No	Strata of Sector in SSEs	population	Sample size
1	SSEs in Manufacturing sector	417	21
2	SSEs in Constriction sector	834	42
3	SSEs in Service sector	556	28
4	SSEs in Trade sector	437	17
5	SSEs in Urban Agriculture sector	162	8
	Total	2316	116

Source: Author construct from Hawassa city Administration Trade and industry department annual report, 2008

3.2. Source of Data and Data Collection Procedure

For this study, both primary and secondary data were used. The period covered by the study two fiscal year financial statements for each SSE's to make the average (2007 & 2008 E.C) and their management practice attitude. The primary data was collected by enquiring the sampled SSEs Likert-scale questionnaire. The questionnaire sub-divided into two sections. Section "A" for demographic information and sections "B" for financial management practices employed by the small business. The questionnaire was designed to obtain the

information required. A five-point Likert scale was used in the design of the financial management practice questions. The secondary data was collected from financial statements of each SSEs from enterprise department and revenue authorities of Hawassa city administration then calculate the average for each SSEs.

3.2. Method of Data Analysis & Presentation

3.2.1. Descriptive statistics

Descriptive statistics was employed to analyze the characteristics of the demographic and educational status of manager or owner-manager. It assesses the status of the financial management practice. The data was analyzed to generate descriptive statistics such as percentages, means, and standard deviations. The data was presented using tables, charts and cross tabulations.

3.2.2. Correlation and Regression model analysis

The research problem in this study is to examine whether a relationship exists between financial management practices and profitability. In this study, two methods were applied. First, correlation models to measure the degree of association between dependent and independent variables under consideration and to determine whether multi-Collinearity exists among dependent variables each other.

Finally, multiple regression analysis used to examine the relationship and effect of independent variables on the dependent variable. This was also used by previous researchers such as (Mersha & Prabhaka, n. d; Charles & Karanja, 2014; Syed &Yasir, 2006). The Multiple linear regression analysis is an appropriate statistical technique for examining this research problem. Murphy (1989) Indicated multiple regression analysis allows the appraiser to determine whether a relationship exists between independent variables and a dependent variable. To examine the effect of financial management on the profitability of Hawassa city's SSEs multiple linear regression models was used for the analysis of the data.

$$ROA = f(\text{FAMP}, \text{AISP}, \text{FRAP}, \text{CSMP}, \text{WCMP})$$

Equation 3: The empirical equation will be estimated

$$ROA = \beta_0 + \beta_1 (\text{FAMP}) + \beta_2 (\text{AIS}) + \beta_3 (\text{WCMP}) + \beta_4 (\text{CBMP}) + \beta_5 (\text{CSMP}) + \epsilon$$

----- Equation 4: The Model

ROAE = Profitability of SSEs \longrightarrow dependent variable

β_0 = constant

$\beta_{(1-5)}$ = coefficient of the independent variables

ϵ = error term

FAMP= Fixed Asset Management Practice

WCMP= Working Capital Management Practice

AISP= Accounting Information Systems Practice

CBMP=capital budgeting management practices

CSMP= Capital Structure Management Practice

3.2.1. Definition of Variables in the Model

3.2.1.1. Independent Variables of the Model

To make the variable measurable financial management practices was measured with sets of questioner on selected management practices using the Likert scoring system consisting of five categories of poor represented by (p), fair represented by (F), good represented by (G), very good represented by (VG) and excellent represented by (E) because SSEs have applied FMP early. The Likert scoring system weights have been assigned as 5 for E, 4 for VG, 3 for G, 2 for F, and 1 for P. Since there were five items, a respondent may score a maximum and a minimum for each FMP constructed practices. Scholars for e.g. Covin, Green, Slevin (2006) use the average of the item scores to measure the value of constructed statements. Therefore, the average of the scores for five items measures the value of 'need for achievement' construct for a respondent. The researcher uses same technique applies to all constructed FMP with a Likert-scale. For taking definite decisions, a weight average was calculated by using excel for each respondent (i.e. each SSEs) and the average remark was taken to smooth the variables. It is important to identify important explanatory variables that will affect the SSEs profitability. All-important explanatory variables briefly

defined in Chapter two in empirical review part. By reviewing the existing theory and past findings of empirical research, the possible effect financial management practice on SSEs profitability in the study area will be identified. SSEs profitability was assigned to all sampled SSEs as the dependent variable to be regressed on the identified independent variables.

3.2.1.2. The Dependent Variable of the Model

The return on asset is more comprehensive profitability measurements indicators because it measures management's ability to generate earning from a business's total asset. SSEs profitability is as ROA dependent variable in the model and which is the return on asset (ROA) ratio, expressed as a percentage, complements the return on asset (ROA) The information which identifies the SSEs profitability from their financial statements.

Formula: **Return on asset** = $\frac{\text{Net income after tax}}{\text{Average total asset}}$ ----- Equation:5 Return on Asset.

Widely used by business owners, the ROA ratio is an important measure of a business's earnings performance. The ROA tells common shareholders how effectively their money is being employed. Peer business, industry, and overall market comparisons are appropriate; however, it should be recognized that there are variations in ROAs among some types of businesses. In general, financial analysts consider the return on asset ratios in the 15-20% range as representing attractive levels of investment quality (retrieved from investopedia.com).

Table 2: Variables Information

Variable name	Variable code	Variable type	Measurement	Hypothesis Expectation with SSEs profitability
Fixed Asset Management Practice	FAMP	Independent	Observed weighted average	Positively significant
Accounting Information Systems Practice	AIS	Independent	observed weighted average	Positively significant
Working Capital Management Practice	WCMP	Independent	observed the weighted average	Positively significant
Capital budgeting Management Practice	CBMP	Independent	observed the weighted average	Positively significant
Capital Structure Management Practice	CSMP	Independent	observed weighted average	negatively significant
Profitability of SSEs	ROA	dependent	ROA	

Source: Author construct from variable discussion for this study, 2017

The Likert scoring system weights have been assigned as 5 for E, 4 for VG, 3 for G, 2 for F, and 1 for P, this means Poor = p, fair = F, good = G, very good =VG and excellent =E

3.2.1. Goodness of Fit of the Model

In linear regression, the R-square statistic measures the proportion of the variation in the response that is explained by the model. So, the artificial R-square statistics for the approximation of the goodness of fit is computed, instead of larger possible R-square statistics indicate that more of the variation is explained by the model. It is an overall model test which doesn't assure every independent is significant

Another measure of goodness fit used in regression analysis is the count R-square, which indicates the number of sample observation correctly predicted by the model. The count R-square is based on the principle that if the estimated probability of the event is less than

5%, the event will not occur and if it is greater than 5% the event will occur (Maddala, 1992).

3.2.2. Data Validity and Reliability

Data validity refers to how well the result of a research can give the right test to the research hypothesis (Remenyi, Williams & Arthur 1998). To ensure validity, information from previous studies and different kinds of literature which cover all the areas of the study are used. The theoretical framework reflecting these previous studies, the questionnaire was based on the theoretical framework to arrive at the right answer to the research problem. A preliminary test was conducted to test the validity of the research instruments about financial management practices at the SSEs in Hawassa city administration. For data reliability, the researcher designed the questionnaire using an elaborate procedure of reviewing the relevant literature.

Baker (1994) suggest that, 10%-20% of sample size for actual study is reasonable number of participant to consider enrolling in a pilot. Therefore, to measure internal consistency, the researcher was used pre-test by taking randomly 20% of 116 respondents from each sector and test responses for reliability test

Table 3: Table Reliability Statistics

Variables	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
FAMP	.897	.906	7
AIS	.728	.714	9
WCMP	.706	.684	8
CBMP	.711	.733	8
CSMP	.899	.906	8

Source: Preliminary Data Test

George and Mallery (2003) provide the following rules of thumb: “ $\alpha > 90\%$ is Excellent, $\alpha > 80\%$ is Good, $\alpha > 70\%$ is Acceptable, $\alpha > 60\%$ is Questionable, $\alpha > 50\%$ is Poor, and $\alpha < 50\%$ is Unacceptable. The preliminary test of Cronbach’s alpha above table show that FAMP designed questionnaire ($\alpha = 89.7\%$) reliable, AIS designed questionnaire (α

=72.8%) reliable, WCMP designed questionnaire ($\alpha =70.6\%$) reliable, CBMP designed questionnaire ($\alpha =71.1\%$) reliable, and CSMP designed questionnaire ($\alpha =89.9\%$) reliable this indicated that the designed questionnaire was contain excepted financial management practices were reliable alleged above table 3.

3.3. Ethical Considerations

Permission sought from the participants before the conduct of the study. This was done through sending of introductory letters to the management of the selected SSEs and their approval received before the commencement of the data collection. The researcher made telephone calls and prior visits to management so that data gathering periods are scheduled at convenient hours in order not to excessively interrupt their work schedules. For the sake of mystery, no names or any identifiable information from respondents are taken to prevent possible victimization. The respondents were informed that their participation was voluntary and as such, they can select out at any stage of the research process.

CHAPTER FOUR

DATA ANALYSIS, RESULTS, AND DISCUSSIONS

4.1. Introduction

The purpose of this study is to examine the relationship between financial management practices and profitability of SSEs in the Hawassa city administration, Southern Region of Ethiopia. The analysis first present characteristics of the respondent, characteristics of financial management practices and profitability of SSEs. Pearson's correlation coefficient and Ordinary Least Square estimates were used in the analysis of this research. The analysis involves 116 SSEs which have been in operation at least two preceding years.

4.1. Characteristics of SSEs and Respondents

This section describes the distribution of the various characteristic variables of the SSEs including the dependent variable (profitability) and the various financial management practices that have been hypothesized to influence the dependent variable in this study.

The reason behind studying the characteristics of Small-scale business their operational managers to consult them accordingly. That, FMP provides to them with a framework for integrating functional processes and financial resources in your business. This accelerates the processing of transactions and conveyance of financial information, in addition to eliminating duplicate activities and responsibilities along the organization's chain of command. Systems integration also provides you greater leverage for centralizing shared services to reduce operational costs associated with running multiple operational units for the shared services.

4.1.1. Demographic Data Distribution of SSEs

Table 4 illustrates the demographic characteristics of the SSEs. There were 116 SSEs that have information on the variables of interest.

Table 4: Demographic data summary

		Frequency	Percent	Valid Percent
Sex of respondent	female	29	25.0	25.0
	Male	87	75.0	75.0
	Total	116	100.0	100.0
Age of respondent	19-28	19	16.4	16.4
	29-35	63	54.3	54.3
	36 and above	34	29.3	29.3
	Total	116	100.0	100.0
Level of Education	Primary school	14	12.1	12.1
	Secondary school	22	19.0	19.0
	College and above	80	69.0	69.0
	Total	116	100.0	100.0
Qualification respondents	BA in accounting & finance	11	9.5	9.5
	BA business management	15	12.9	12.9
	Other	90	77.6	77.6
	Total	116	100.0	100.0

Source: Author construct from survey data, 2017

Above Table 4 tell us, 29 respondents were female accounts 25% of total and 87 respondents were male accounts 75% of total and age of respondents were 19 respondents were between 19-28 accounts 16.4% , 63 respondents age were lie between 29-35 accounts 54.3% the higher percent respectively very productive age, and 34 respondents age were 36 accounts 29.3% . The preceding table tells us the respondents' education level; primary school accounts 12.1% of 116 respondent, secondary school accounts 19 % of 116 respondents, and College and above 69% of 116 respondents'.

4.1.2. Primary and Secondary Data Presentation

Primary data was taken from SSEs managers, accountants or representatives about their financial management practices performance. The respondent's agreement /responses/for each SSEs was calculated by using Excel and their weighted average was taken to account for each financial management practices and secondary data was taken from each SSEs financial statement reports. Total asset and net profit after tax of the two-fiscal-year taken then each year values were for each SSEs was calculated by using Excel for average and calculated for return on an asset by using the formula of ROA (See appendix).

The Likert scoring system weights have been assigned as 5 for E, 4 for VG, 3 for G, 2 for F, and 1 for P, this means Poor = p, fair = F, good = G, very good =VG and excellent =E

WA =weighted average

Qi= number of finical management practices dispatched for each SSEs i=1-5 labeled for FMP

Table 5: Survey Categorical Data Performing Method

	Variables	P	F	G	VG	E	SUM	Qi	WA
		1	2	3	4	5			
1	Fixed Assets Management practice (FAM P)	P+F+G+VG+E=SUM					SUM	7	WA
		SUM/Q1 =WA							
2	Accounting Information System Practice	P+F+G+VG+E=SUM					SUM	9	WA
		SUM/Q2 =WA							
3	Working Capital Management Practice	P+F+G+VG+E=SUM					SUM	8	WA
		SUM/Q3 =WA							
4	Capital Budgeting Management Practice (CBMP)	P+F+G+VG+E=SUM					SUM	8	WA
		SUM/Q4 =WA							
5	Capital Structure Management Practice	P+F+G+VG+E=SUM					SUM	8	WA
		SUM/Q5 =WA							
6	Return on asset	ROA = $\frac{\text{net profit after tax}}{\text{total asset}}$							

Source: Constructed by Researcher for this Study, 2017

4.2. Results Analysis and Discussion

In general, though everything owned by SSEs business includes assets like cash, facilities, machinery, equipment, vehicles, inventory, etc. and comparing asset to what they perform in fiscal years in terms of profit. ROA simply shows how effective their business is using those assets to generate profit. Profitability is assessed relative to costs and expenses, and it is analyzed in comparison to assets to see how effective a company is in deploying assets to generate sales and eventually profits. The term return in the ROA ratio customarily refers to net profit or net income, a number of earnings from sales after all costs, expenses, and taxes. The more assets a business has combined, the more sales and potentially more profits the business may generate. As economies of scale help lower costs and improve margins, the return may grow at a faster rate than assets, ultimately increasing return on assets

4.2.1. Descriptive Statistics

Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data (Bruce., *et al* 2009).

4.2.1.1. Descriptive Statistics for Main Variables

First, describing some important characteristics of SSEs is essential before descriptive analysis because it is the basis for making a descriptive analysis. The important characteristics of SSEs in this study include the type of SSEs, age SSEs, qualification of managers, the status of managers, and a financial statement summarizing the status of SSEs. The researcher clearly displayed variables containing nominal data, showing the percentage or frequencies of respondents (SSEs characteristics) who fall into each category. A chart is used for showing the proportions (percentages) of an individual variable.

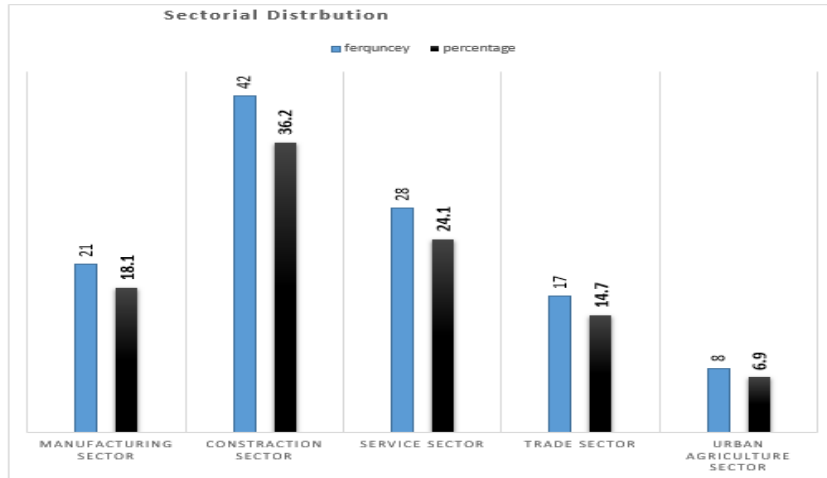


Figure 2: Sectorial Distribution

Sources: Author construct from survey data, 2017

Figure 2 shows the same data expressed as percentages within each sector. It shows that 18.1% accounts for the manufacturing sector, 36.2% accounts for the construction sector, 24.1% accounts for the service sector, 14.7% accounts for trade sector, and 6.9% urban agriculture's sector. This indicates that construction sector dominates in SSEs sectoral distribution in Hawassa city admiration.

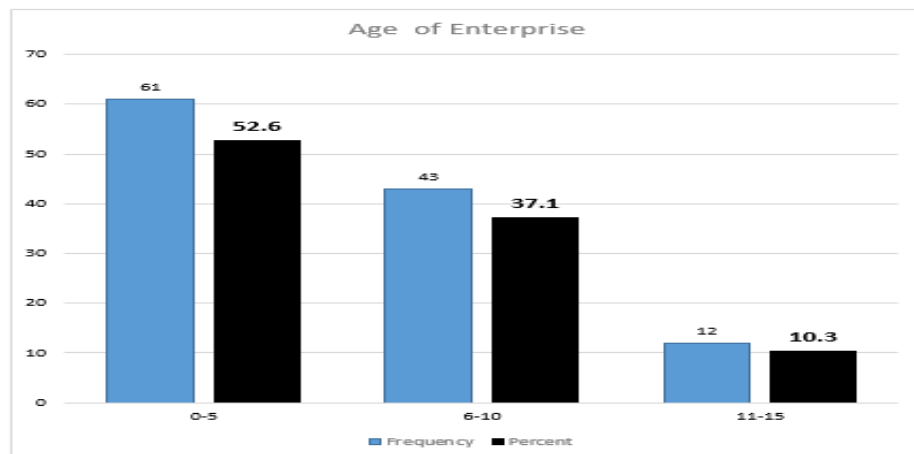


Figure 3: Age of Enterprise

Sources: Author construct from survey data, 2017

Figure 3 shows the same data expressed as percentages within each age category. It shows that 52.6 % accounts for age category 0-5, 37.1 % accounts for age category 6-10, and 10.3% accounts for age category 11-15. This indication shows that age category 0-5 account the highest percentage meaning Hawassa city administration Small-Scale Enterprises young.

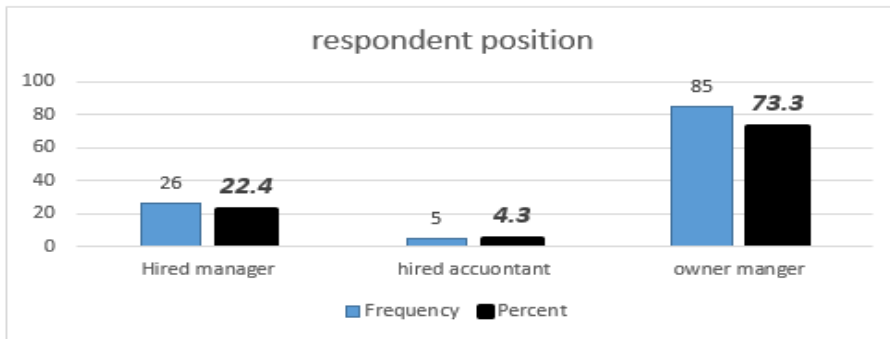


Figure 4: Chart of Respondent Position

Sources: Author construct from survey data, 2017

Figure 4 shows the same data expressed as percentages within each respondent's position in SSEs. It shows that 22.4 % accounts for hired managers 4.3 % accounts for hired accountant, and 73.3% accounts for owner-manager. This indication shows that owner-manager dominantly manage SSEs sectoral distribution in Hawassa city administration

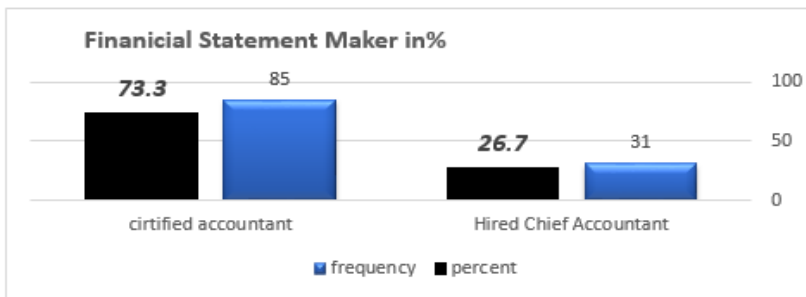


Figure 5: Financial Statement Maker

Sources: Author construct from survey data, 2017

Figure 5 shows the same data expressed as percentages within each respondent's/SSEs/ regarding financial statement preparation. It shows that 26.7 % accounts for hired accountant and 73.3 % account for certified accountant. This indicates that majority of SSE's financial statements done by certified accountant in Hawassa city administration.

4.2.1.2. Small-scale Enterprise Performance Measurement

In general, thought everything owned by SSEs business includes assets like cash, facilities, machinery, equipment, vehicles, inventory, etc. and comparing that to what you made these years in terms of profit. ROA simply shows how effective their business is at using those assets to generate profit. Profitability is assessed relative to costs and expenses, and it is analyzed in comparison to assets to see how effective a company is in deploying assets to generate sales and eventually profits. The term ROA ratio customarily refers to net profit or net income, a number of earnings from sales after all costs, expenses, and taxes. The more assets a business has combined, the more sales and potentially more profits the business may generate. As economies of scale help lower costs and improve margins, the return may grow at a faster rate than assets, ultimately increasing return on assets.

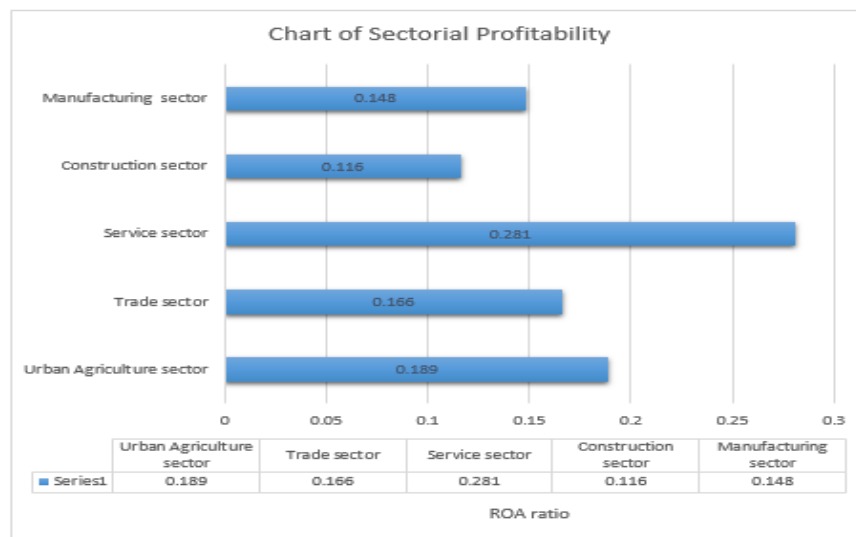


Figure 6: Chart of Sectorial Profitability

Sources: Author construct from survey data, 2017

Above Figure 6 tell that the variations of ROAs among types of businesses. In general, financial analysts consider the return on equity ratios in the 15-20% range as representing attractive levels of investment quality. Hence, the SSEs in Hawassa city administration representing attractive levels of investment quality because the all sector return on asset ratio above and service sectors most attractive with return on asset ratio of 28.1%

Bellew Table 6 presents the outcomes of the descriptive statistics for main variables involved in the model of this study. The total number of observation for each variable was 116 (i.e., data for 5 SSEs sectors for the period from the year 2007/2013-2014 to 2008/2014-2015). Key figures, including mean, standard deviation, minimum and maximum value were reported. This was generated to give an overall description of data used in the model and served as data screening tool to force into a situation in which they must respond or act reasonable figure.

Table 6: Table of Descriptive Statistics

	FAMP	AIS	WCMP	CBMP	CSMP	ROA
N Valid	116	116	116	116	116	116
Mean	3.82713	3.36312	3.44241	3.41678	3.63531	.17398
Std. Deviation	.818231	.823502	1.087169	.924701	.799235	.165137
Minimum	1.000	1.000	1.000	1.000	1.250	-.453
Maximum	5.000	4.888	5.000	5.000	5.000	.590
Percentage	77%	67%	69%	68%	73%	17%

Source: Author construct from survey data, 2017

Standard deviation is most widely used a measure of dispersion of a series which the extent to which shows the extent of which values of a variable differ from a fixed value such as the mean. The result shows that the Standard Deviation of all independent variables' (i.e. financial management practices) practicing near to mean of the adopted financial management practices by small-scale businesses indicate that there is the approximately very good experience of performing FMP and experiencing with ROA very low near to 1% Indicate that low percent of profitability of SSEs. To generalize descriptive analysis the variation of FMP & ROA from mean presented below pie chart.

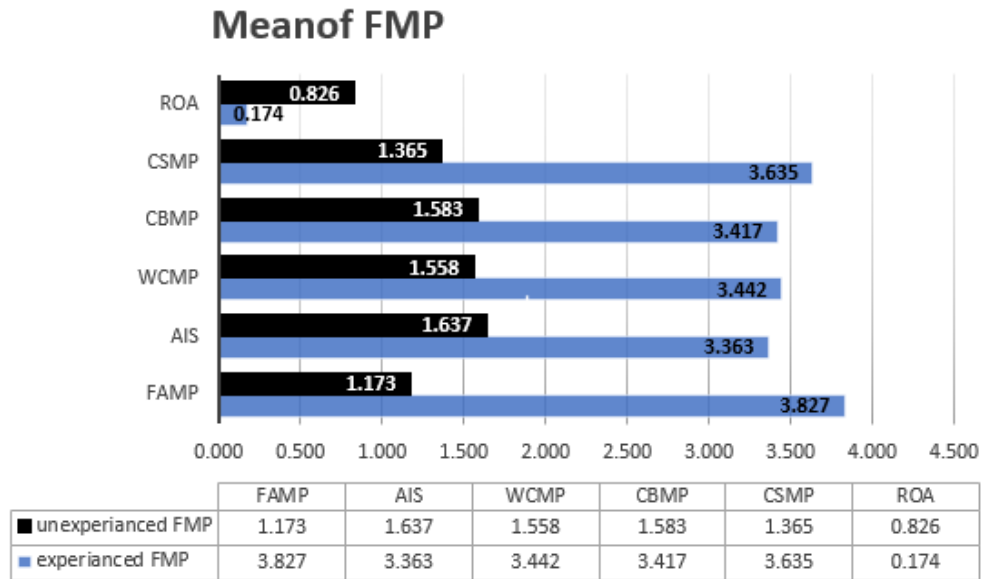


Figure 7: Chart for Financial Management Practices

Sources: Author survey result, 2017

The financial management practices (FMP) of this study shows that SSEs/respondents/reactions for dispatched practices experienced; fixed asset management's practices 77%, accounting information system practices 67%, working capital management's practices 69%, capital budgeting management practices 68%, capital structure managements 73%, and profitability measure that is return on asset 17% the considered practices of SSEs.

4.2.2. Correlation Analysis

As mentioned in the third chapter, the purpose of the correlation matrix in this study was to show the linear association between the dependent and independent variables. The correlation measures the direction and strength of the linear relationship between dependent and independent variables. Daney and Rediy (2004) categorize value of the correlation coefficient and strength of correlation like 1 value of correlation coefficient means perfect, the 0.7-0.9 value of correlation coefficient means strong, 0.4-0.6 value of correlation coefficient means moderate and 0.1-0.3 value of correlation coefficient means weak. The correlation coefficient is usually written as r (Moore, 2009).

Correlation analysis is made to investigate the relationship between variables. Correlation matrixes were used for association among variables. This was also used by previous researchers such as (Mersha & Prabhaka, n. d; Charles&Karanja, 2014; Ofwa et al., 2015) and (Sayeda, 2012). The correlation analysis includes dependent variable Return on Asset (ROA) and independent variables such as Fixed Asset Management (FAM), Accounting information system (AIS), Working Capital Management (WCM), capital budgeting management (CBM), and capital structure management (CSM).

Table 7: Correlation Matrix of Dependent and Independent variables

		Correlations					
		ROA	FAMP	AIS	WCMP	CBMP	CSMP
Pearson	ROA	1.000					
Correlation	FAMP	.599**	1.000				
	AIS	.685**	.527	1.000			
	WCMP	.722**	.469	.650	1.000		
	CBMP	.698**	.493	.615	.651	1.000	
	CSMP	-.325**	-.158	-.239	-.339	-.107	1.000

** . Correlation is significant at the 0.01 level (1-tailed).

Sources: Author Survey SPSS result, 2017

There were 116 cases (n) that had scores on both financial management practices and profitability. The first Pearson correlation coefficient was positive ($r = 0.599$), indicating a strong positive relationship between Fixed Asset Management Practices and profitability. Also, this refers that, the appropriate purchasing decisions are made, capital equipment generates profits for the business whereas incorrect choices may have disastrous results for the business, since such equipment may not be sold over the short term. The second Pearson correlation coefficient was positive ($r = 0.685$), indicating a strong positive relationship between AIS and profitability. The relationship shows that effectively applies the AIS to SSEs and uses acceptable financial reporting & analysis hold up the SSEs sustainability with attractive profitability. The third Pearson correlation coefficient was positive ($r = 0.722$), indicating a strong positive relationship between WCMP and profitability. This

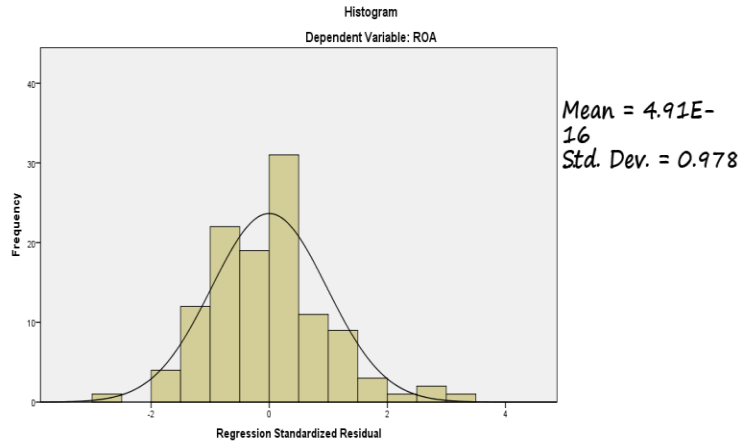
shows that without working capital management is the backbone of any business success. And SSEs' reached optimal working capital management the firm manager should control the trade-off between liquidity and profitability accurately. The fourth Pearson correlation coefficient was positive ($r = 0.698$), indicating a strong positive relationship between CBMP and profitability. In the case of CBMP scholars found out both positive and negative relation, this indicating that capital budgeting decision affects business performance of businesses with regards to rate of growth, operating costs, cash outflow but not cash inflow or share price maximization. The last Pearson correlation coefficient was positive ($r = -0.325$), indicating a negative relationship between CSMP and profitability. The capital structure management practices have no strong relation with SSEs profitability. This indicates that SSE grand average to financial management practices and the two-year average return on asset have higher positive linear relationship expect CSMP.

The coefficient of determination was 83.20 percent indicating that grand average to financial management practices explained 83.20 percent of the variance in profitability of SSEs. This supports (Turyahebwa et al, 2013) who found the financial management practices explained on SSEs' profitability variance.

4.3.3. Examination Linear Regression Model Assumptions

4.3.3.1. Normality

There are several methods of assessing whether data are normally distributed or not. They fall into two broad categories: graphical and statistical. Simple test the probability of finding an event is rare (less than 5%) and the finding was of normality statistically significant at 0.000 and Cumulative frequency (P-P) plots also normal. Test for normality residual plots are worth examining and are easily accessible in SPSS. There are several methods of assessing whether data are normally distributed or not



Sources: Author construct from survey data of SPSS result, 2017

Figure 8: Regression Standard Residual Histogram

- ❖ One of the tests is Histogram of residuals, so that, the survey result show that standardized residuals normally distributed errors more likely normal a normal distribution
- ❖ They fall into two broad categories: graphical and statistical. Simply f the probability of finding an event is rare (less than 5%) and it's finding was normality statistically significant 0.000 and Cumulative frequency (P-P) plots also normal.

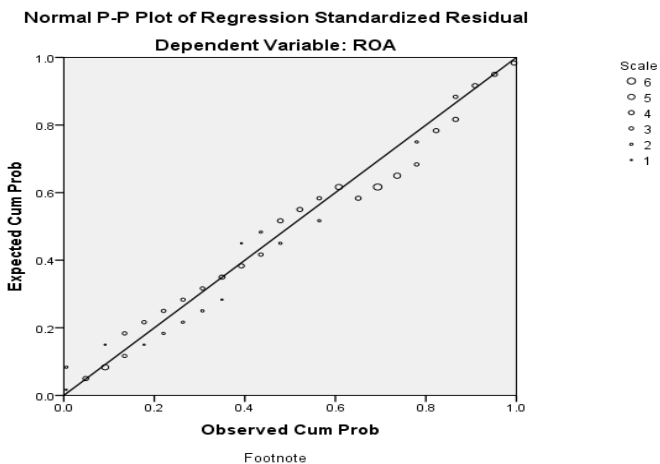


Figure 9: Normal P-P Plot

Sources author construct from survey data of SPSS result, 2017

- ❖ Normal probability plot of residuals – another way of visually testing for normality (normally distributed errors lie in a straight line along the diagonal).

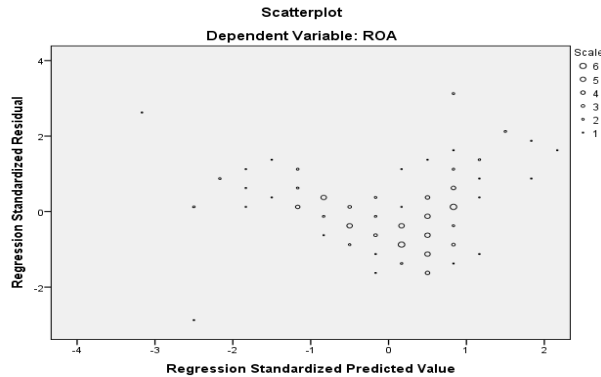


Figure 10: Scatter Plot

Sources author construct from survey data of SPSS result, 2017

The presence of outliers can also be detected from the Scatterplot. To check whether this abnormal case is having any unnecessary influence on the results of the whole model, we can check running Cook's Distance value of the Residuals Statistics table. Tabachnick& Fidell (2001) Cases with values larger than 1 are a potential problem.

Table 8: Table of Residuals Statistics

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Residual	-.262	.288	.000	.091	116
Cook's Distance	.000	.199	.011	.027	116

a. Dependent Variable: ROA

Sources: Author construct from survey data of SPSS result, 2017

The result shows that in the Cook's Distance value of the Residuals Statistics table lay between minimum 0 and maximum 0.199 this indicates that the presence of outliers in the Scatterplot is not a series problem as well as does not influence the model. The presence of outliers came from some service sector and construction in practice labor intensive as well as more depend on human knowledge.

The results show that Normal probability p-plot of standardized residuals normally distributed errors near to straight line along the diagonal; and make confidence on the normality of the model researcher test another test of normality which is Skewness and Kurtosis. Test of Skewness is a measure of the asymmetry and kurtosis is a measure of 'peakedness' of a distribution.

Table 9: Table of normality

		Statistic
ROA	Mean	.17398
	Skewness	.287
	Kurtosis	1.752
	N	116

Sources: Author construct from survey data of SPSS result, 2017

As proposed at West *et al* (1995), there will be a considerable departure from normality if a Statistic value of skewness is greater than 2 and a considerable departure from normality if a Statistic value of Kurtosis is greater than 7. But, according to our result, the Statistic value of skewness is 0.287 which is not greater than 2 and the Statistic value of kurtosis is 1.752 which is not greater than 7. This indicates that the data come from normal distribution.

4.3.3.2. Test for Heteroscedasticity

The assumption of homoscedasticity states that the variance of the errors is constant. Heteroscedasticity is the case where the off-diagonal elements of the covariance matrix are not zero, the most concerned with here states that the variance of each of the sampling distributions. If the residuals of the regression have systematically changing variability over the sample, that is a sign of Heteroscedasticity. Heteroscedasticity is a symptom of omitted variables, measurement errors, or non-constant parameters, then OLS estimators will be biased and inconsistent. Assumed that ϵ_i were independent, identically distributed normal variables, each with mean zero; but it is merely one of the side effects of a failure of one of the other assumptions that also causes bias and inconsistency Gujarati(2003) & Greene(2000).

Therefore, in this model no heteroscedasticity problem because; the R of over whole model high, the over whole model of F significant at 0.00, covariance matrix are zero off-diagonal elements and All independent variable significant less than 5% see the model summary 14 below table and table of below table 15 or see Appendix c.

4.3.3.3. Test for Autocorrelation

According to Chris Brooks (2008), assumption said that the CLRM's disturbance terms are the covariance between the error terms over time is zero. In other words, it is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are "auto -correlated" or that they are "serially correlated". To test this assumption the Durbin–Watson (DW) statistical test was applied.

Table 10: Table of Durbin-Watson test

Model Summary	
Model	Durbin-Watson
1	2.078

Sources: Author construct from survey data of SPSS result, 2017

That is, $\tilde{\rho}$ is bounded to lie between -1 and $+1$. Substituting in these limits for $\tilde{\rho}$ to calculate DW would give the corresponding limits for DW as $0 \leq DW \leq 4$. The Durbin-Watson Statistics (D-W stat.) from the table below indicates that the DW test result was 2.078 which is less than 4, therefore no evidence for the presence of autocorrelation.

Additionally, Autocorrelation is the case where the off-diagonal elements of the covariance matrix are not zero, the most concerned with here states that the variance of each of the sampling distributions should be the same, so a covariance matrix of residuals from repeated samples should have a constant value scalar down the diagonal and zero's off the scalar diagonal also hence no evidence for the presence of autocorrelation below table.

4.3.3.4. Test for Multicollinearity

According to Greene (2000), Multicollinearity is a high degree of correlation (linear dependence) among several independent variables. It commonly occurs when independent

variables are incorporated in a regression model. When the correlation coefficients of independent variables are very high there is a sign of multicollinearity, but high correlation coefficients do not necessarily imply multicollinearity. Additionally, we can make a judgment by checking related statistics, such as tolerance value or variance inflation factor (VIF), Eigenvalue, and condition number (Gujarati, 2003).

Table 11: Table of Coefficient Correlations

		Coefficient Correlations ^a				
Model		CSMP	CBMP	FAMP	AIS&FRA	WCMP
1	CSMP	1.000				
	CBMP	-.179	1.000			
	FAMP	.025	-.193	1.000		
	AIS&FRA	.075	-.273	-.260	1.000	
	WCMP	.295	-.419	-.090	-.334	1.000

a. Dependent Variable: ROA

Sources: Author construct from survey data of SPSS result, 2017

The survey result shows that the correlation coefficients independent variables are not high all correlation coefficients less than 0.3 below in the table. So, there is no evidence of multicollinearity in the incorporated in a regression model.

Table 12: Table of Collinearity Statistics

Model	Collinearity Statistics			
	Tolerance	VIF	Eigenvalue	Condition Index
1 (Constant)				
FAMP	.669	1.494	.109	7.306
AIS	.476	2.103	.030	13.940
WCMP	.430	2.326	.026	15.081
CBMP	.478	2.093	.021	16.607
CSMP	.856	1.168	.011	22.609

a. Predictors: (Constant), CSMP, CBMP, FAMP, AIS, WCMP

b. Dependent Variable: ROA

Sources: Author construct from survey data of SPSS result, 2017

Tolerance value or variance inflation factor (VIF) statistically test multicollinearity. If sign multicollinearity of VIF Greater than $1/(1-R^2)$ or Tolerance Value Less than $(1-R^2)$ Roughly less than 0.1 and Eigenvalue less than 0.01, and condition number Greater than 50 (or 30) The finding supports this rule of assumption then there is no evidence of multicollinearity in the incorporated in a regression model below in the table because $1/(1-R^2) = 1/(1-0.693) = 3.257$, i.e. All values of VIF >3.257 , all variables' Tolerance Value greater than 0.1, all variables' Eigenvalue greater than 0.01, all variables' condition number less than 30, and all variables' Proportion of Variation less than 0.7.

4.3.4. Results of Regression Analysis

This section presents a discussion of the results of inferential statistics. The researcher conducted a multiple regression analysis to determine the relative importance of each of the variables with respect to the effect of financial management practices on the profitability of Small-scale Enterprises. The researcher used the statistical package SPSS version 20 and advance excels, to enter and compute the measurements of the multiple regressions for the study. Findings are presented in the following summarized tables namely model, ANOVA Analysis of Variance table and coefficient table.

4.3.4.1. Model Summary

In the model summary table R-squared R^2 is a statistic that explains the amount of variance accounted for in the relationship between variables. Sometime R^2 is called the coefficient of determination, and it is given as the square of a correlation coefficient (Gujarati, D. N, 2003; David S. Moore, 2009; Weisberg, 2005).

Table 13: Table of Model Summary

Model Summary ^b				
Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	.832 ^a	.693	.679	.093584

a. Predictors: (Constant), CSMP, CBMP, FAMP, AIS&FRA, WCMP

b. Dependent Variable: ROA

Sources: Author construct from survey data of SPSS result, 2017

Coefficient of determination describes the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (i.e. financial management practices on the profitability of Small-scale Enterprises) that is explained by all the 5 independent variables namely Fixed Asset Management (FAM) practice, Accounting Information Systems & Financial Reporting Analysis (AIS) practice, and Working Capital Management (WCM) practice, capital budgeting management (CBM) practice, and Capital Structure Management (CSM) practice. The five independent variables that were studied, explain 69.3 % of variance in financial management practices on the profitability of Small-scale Enterprises in Hawassa city admiration as represented by the R^2 . This means that other factors not studied in this research contribute 30.7% of the variance in the dependent variable. Therefore, further research should be conducted to establish the effect of financial management practices on the profitability of Small-scale Enterprises.

The other issues here the model summary presents the goodness of fit of multiple linear regression equations. It does so by computing a slightly different statistic called adjusted R^2 . Singh, K (2007) categorize widely accepted in the social and psychological applications that an adjusted R^2 of above 75% is very good; between 50–75 % is good; between 25–50 % is fair and below 25 % is poor and in this study, the model to be good because Adjusted $R^2=67.9\%$, it lies between 50–75 %.

4.3.4.2. ANOVA (Analysis of Variance)

The basic principle of ANOVA is to test for differences among the means of the populations by examining the amount of variation within each of these samples, relative to the amount of variation between the samples. According to (David S. Moore, 2009) multiple regressions, there is a corresponding ANOVA (Analysis of Variance) F test, but it tests the hypothesis that all the regression coefficients (except for the intercept) are 0. The P-value is the probability that a random variable having the $F(p, n - p - 1)$ distribution is greater than or equal to the calculated value of the F statistic.

Table 14: Table of ANOVA

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.173	5	.435	49.616	.000^b
	Residual	.963	110	.009		
	Total	3.136	115			

a. Dependent Variable: ROA

b. Predictors: (Constant), CSMP, CBMP, FAMP, AIS&FRA, WCMP

Sources: Author survey SPSS result, 2017

From a result of Table 14 above, the significance (P-value=0.000) is less than 0.05. This indicated that the Overall Regression Model is significant indicating that the independent variables have the combined significant effect on the dependent variable which is financial management practices on the profitability of Small-scale Enterprises.

4.3.4.3. Coefficients of Multiple Regression Analysis

Regression Coefficients are used for prediction, in multiple models to construct confidence intervals for a mean response and prediction intervals for a future observation (Gujarati, 2003) and (Weisberg, 2005). The meaning of regression coefficient is as measures the change in the mean value of profitability of small-scale enterprise as well as Expected profitability, per unit change in financial management practices, holding the value of financial management practices constant. Put differently, it gives the direct /or the average effect of a unit change in financial management practices on the mean value of profitability of the small-scale enterprise, net of any effect that financial management practices may have on the mean profitability of the small-scale enterprise.

Table 15 :Table of multiple regression coefficients

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.341	.069		-4.931	.000
FAMP	.042	.013	.209	3.239	.002
AIS	.039	.015	.194	2.531	.013
WCMP	.041	.012	.268	3.330	.001
CBMP	.051	.014	.287	3.760	.000
CSMP	-.026	.012	-.124	-2.171	.032

a. Dependent Variable: ROA

Sources: Author survey SPSS result, 2017

Table 15 indicates that all the independent variables have significant effect on the dependent variables (ROA) because the significance(P-value) is less than 5%(0.05).

The regression model is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

Substituting the values of coefficients of independent variables in from the Table 15, the regression model can be written as follows:

$$ROA = -.0341 + 0.042FAMP + .039AIS + 0.041WCMP + 0.051CBMP - 0.026CSMP$$

According to the above equation independent variables, fixed asset management practices, accounting information system and accounting reporting analysis practices, working capital management practices, and capital budgeting management practices have statistically significant positive effect on dependent variable (ROA) while capital structure management practices has statistically significant negative effect on dependent variable (ROA).

Fixed Asset Management Practices

The effect estimation result of the study revealed that there exist a significant and positive relationship between fixed asset management and profitability of Small-scale Enterprises

in Ethiopia, Hawassa city administration with a regression coefficient of 0.042, t-statistics of 3.239 and at a p-value of 0.002. Thus, the result of the regression output is consistent with the hypothesis of the study.

The regression result of this study is the support preceding finding of different researchers. For instance, Rathnasiri (2015) and Regina (2012) finds a significantly positive association between fixed asset management practices and profitability of Small-scale Enterprises. Kitonga (2013) study also suggests fixed asset management practices as significant determinants of profitability. A study from the identified fixed asset management practices are important determinant factors of profitability and it is positively related.

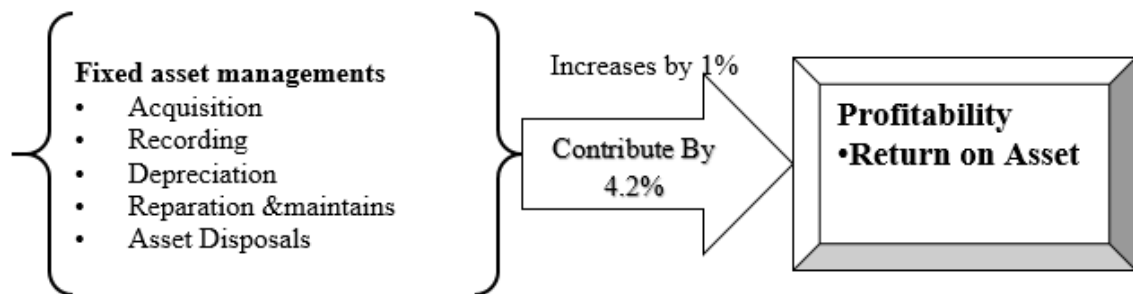


Figure 11: Relationship between FAMP&R

Developed from survey questioner and regression result, 2017

Accounting Information System

With a regression coefficient of 0.039, t-statistics of 2.531 and p-value of 0.013 the regression results of the study show that there is a statistically significant positive relationship between accounting information system and financial reporting analysis and profitability of Small-scale Enterprises significant. For this reason, the results are reliable with the hypothesis of the study.

This regression result is confirming the finding of the previous study done by Sajady *et al* (2008) which showed that the AIS has positive effect on performance. And in support to this finding another study previously done by Urquia *et al* (2011) shows that IT adoption resulted in an increase in sales and inventory turnover thorough process.

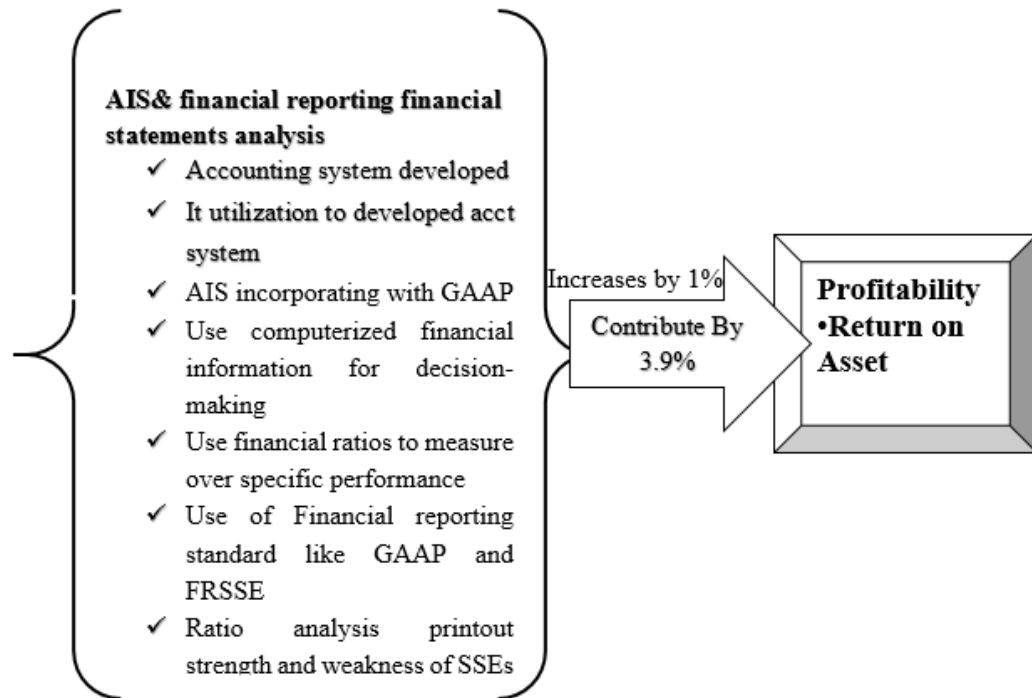


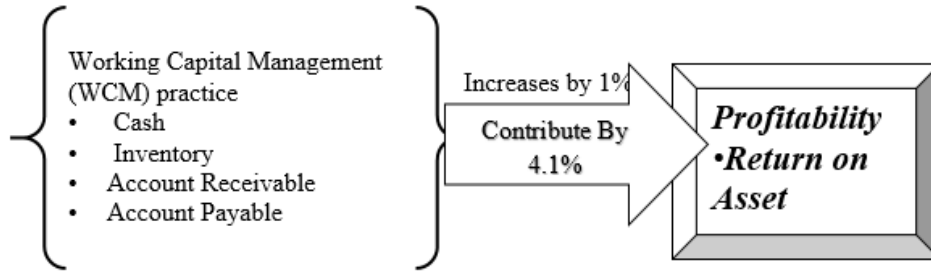
Figure 12: Relationship between AIS and ROA

Developed from survey questioner and regression result, 2017

Working Capital Management Practices

The estimated coefficient of working capital management practices with a regression coefficient of 0.041, t-statistics of 3.330 and p-value of 0.001 the regression results of the study show that there is a statistically significant negative relationship between in Working Capital Management Practices and profitability of Small-scale Enterprises significant. For this reason, the results are reliable with the hypothesis of the study.

The regression result of this study is confirming the finding of different previous literature. Like (Dumbu, 2014;2015; Sayeda, 2012; Stephanou, 2010; Robert et al., 2012) their findings concluded that without effective working capital management no successful small-scale businesses. One of the research objectives was to analyze the extent to which small and medium, business manages their finances with regards to business and (Quayyum, 2012) he concludes that the manufacturing firms of Bangladesh have enough scope to better their performance by efficiently managing their working capital



Developed from survey questioner and regression result, 2017

Figure 13: Relationship between WCMP&ROA

Capital Budgeting Management Practices

The estimated coefficient of capital budgeting management practices with a regression coefficient of 0.051, t-statistics of 3.76 and p-value of 0.000 the regression results of the study show that there is a statistically significant positive relationship between in Capital Budgeting Management Practices and profitability of Small-scale Enterprises significant. For this reason, the results are reliable with the hypothesis of the study. This study consistent with Kamwine et al (2015) concludes that capital budgeting decision affects business performance of businesses with regards to rate of growth, operating costs, cash outflow but not cash inflow or share price maximization. But, the finding doesn't conform Joseph et al (2016) and Essra'a (2016) there empirical finding and discussion because they analyze in view of cost incurred to employing CBMP; the researcher analyzes not only in prospect of cost of employing CBMP analyze in view of cash estimation, CB techniques, plan and strategy of the business, and evaluation performance.

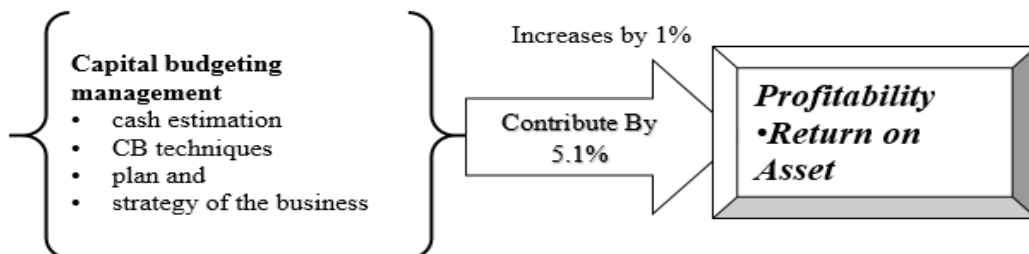


Figure 14: Relationship between CBMP&ROA

Developed from survey questioner and regression result, 2017

Capital Structure Management Practices

The estimated coefficient of capital structure management practices with a regression coefficient of -0.021, t-statistics of -2.171 and p-value of 0.032 the regression results of the study show that there is a statistically significant negative relationship between capital structure management Practices and profitability of Small-scale Enterprises significant. For this reason, the results are reliable with the hypothesis of the study.

The researcher finding support the earlier empirical studies conducted in this area majorities find out that statistically, capital structure is not a major determinant of firm performance as well as profitability (Al-Taani, 2013). Accordingly, (Ong Tze San & Teh Boon Heng, 2011) and (Casmir & Anthony, 2012) their evidence shows that capital structure and profitability has a negative relationship with small businesses to medium business. The researcher supports their discussion and the empirical result of scholars (Rathnasiri, 2015) and Getahun (2016) SSEs were generally be disposed to be confronted with higher interest rates, as well as credit rationing due to a shortage of collateral. This is the reason for negative relationship small-scale business capital structure and their profitability.

Thus, the result shows that relatively the most significant factor is capital budgeting management followed by working capital management. Consequently, all stated independent variables except capital structure management practices have a positive effect on the profitability of Small-scale Enterprises.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1. Introduction

This objective of the study was to determine the relationship between financial management practices and profitability of Small-scale Enterprises and effect of financial management practices on the profitability of Small-scale Enterprises. This chapter is a recap of the discussions and findings drawn from the previous chapters. Significant findings are summarized, conclusions drawn, recommendations made to policy makers in addition to further recommendations on opportunities for further research.

5.2. Summary and Conclusion

5.2.1. Summary

To achieve the proposed objective, a mixed methods research approach was adopted. However, by considering the nature of the study, quantitative research approach was dominantly used. To collect the necessary data the study mainly used survey of documents (structured review of financial records). In addition to this, to support the results obtained from the qualitative method, in Likert scale with selected SSEs managers/owner-managers were also conducted. To this end, the collected data from a sample size of 116 SSEs over the period of 2007 to 2008 were analyzed using descriptive statistics, correlation matrix and multiple linear regression analysis. The analyses were made in accordance with the stated hypotheses and specific research objective formulated in the study.

To conduct the empirical analysis, one dependent variable (profitability measured by ROA), and five fixed asset management (FAM) practice, accounting information systems and practice, financial reporting analysis (AIS&FRA) practice, capital structure management (CSM) practice and working capital management (WCM) practice. The variables were selected by refereeing different theories and empirical studies that have been

conducted SSEs. The proposed of the hypothesis conducted to this study and its findings summarized below in the table.

Table 16: Table finding summary

Hypothesized Financial Management Practices on profitability	Result of the Finding
There is a positive relationship between fixed asset management practice and profitability of SSE's	Supported
There is a positive relationship between AIS and financial reporting analysis practice on the profitability of SSE's.	Supported
There is a positive relationship between working capital management practice and profitability of SSE's	Supported
There is a positive relationship capital budgeting management practice and profitability of SSE's.	Supported
There is a negative relationship between capital structure management practice and profitability of SSE's	Supported

5.2.2. Conculusion

- ❖ Descriptive statics findings suggested that all included financial management practices e in this study experienced in average $65\% \leq FMP \leq 80\%$, but the small-scale enterprises /businesses/profitability finding reviled that return on asset averagely 17% of return on invested asset functional.
- ❖ Correlation matrix finding shows that; it is evident there is a positive and significant correlation between financial management practices and small-scale business profitability. The multiplicative effect of all practices including fixed asset management (FAM) practice, accounting information systems and practice, financial reporting analysis (AIS&FRA) practice, (CSM) practice and working capital management (WCM) practice have a strong association with business profitability; but capital structure management has a negative association with business profitability.

- ❖ The adjusted value of R square (0.679) indicates the independent variables in this study i.e. fixed asset management practice, accounting information systems, and practice, financial reporting analysis practice, working capital management practice, capital budgeting management practice, and capital structure management practice jointly explain about 67.9% percent of the variation in the profitability of small-scale enterprises/ businesses/.
- ❖ The regression coefficient of FAMP at 0.042 indicates that when FAMP increases by 1% then the ROA will increase by 4.2 %. The analysis suggests that a positive and significant relationship between fixed asset management practice as independent variable and profitability of small-scale enterprises/ businesses/ in Ethiopia, Hawassa city administration. It implies that small scale enterprises/ businesses/ with a high rate of fixed asset managements are in a better position of being profitable.
- ❖ The regression coefficient of AIS&FRA at 0.039 indicates that when AIS&FRA increases by 1% then the ROA will increase by 3.9 %. The analysis suggests that a positive and significant relationship between accounting information systems practice and financial reporting analysis practice as independent variable and profitability of small-scale enterprises/ businesses/ in Ethiopia, Hawassa city administration. It implies that small scale enterprises/ businesses/ with a high rate of accounting information systems and practice and financial reporting analysis practice managements are in a better position of being profitable.
- ❖ The regression coefficient of WCMP at 0.041 indicates that when WCMP increases by 1% then the ROA will increase by 4.1 %. The analysis suggests that a positive and significant relationship between working capital management (WCM) practice as independent variable and profitability of small-scale enterprises/ businesses/ in Ethiopia, Hawassa city administration. It implies that small scale enterprises/ businesses/ with a high rate of working capital management (WCM) practice are in a better position of being profitable.
- ❖ The regression coefficient of CBMP at 0.051 indicates that when CBMP increases by 1% then the ROA will increase by 5.1 %. The analysis suggests that a positive

and significant relationship between capital budgeting management practice as independent variable and profitability of small-scale enterprises/ businesses/ in Ethiopia, Hawassa city administration. It implies that small scale enterprises/ businesses/ with a high rate of capital budgeting management practice are in a better position of being profitable.

- ❖ The regression coefficient of CBMP at - 0.026 indicates that when CBMP increases by 1% then the ROA will be decreased by -0.026 %. The analysis suggests that a negative and significant relationship between capital structure management practice as independent variable and profitability of small-scale enterprises/ businesses/ in Ethiopia, Hawassa city administration. It implies that small scale enterprises/ businesses/ with the rate of capital structure management practice are in a no effect on the profitability.

5.1. Recommendation

In the light of the above, the researcher would like to suggest to owner/managers that the careful FMP is vital for the survival of their businesses. Poor management of FMP a means that assets are unnecessarily used of all resources hence reducing performing ability which distraction of productive scarce assets such as plant, machinery, cash, fiscal asset, and human assets so affecting financial performance.

- ❖ First significant positive effect of financial management practice on return on asset advised the owner/managers of SSEs to following if they want to make better use of good financial management practices, first to be competent and fulfill administration requirements the business must record day to day transactions related to their business.
- ❖ Secondly, significant positive effect of AIS on return on asset advised owner/managers of SSEs to use proper development accounting system, proper utilization information technology, prepare financial statement and reports as per acceptable standards like GAAP and FRSSE with IT.

- ❖ Thirdly, the significant positive effect of working capital management practices on return on asset advised owner/owner-manager of SSEs to increases managerial accounting strategy to monitor and utilize the working capital, like current assets and current liabilities, to ensure the most financially efficient operation of the business. Because the primary purpose of working capital management is to make sure the business always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.
- ❖ Fourthly, significant positive effect of capital budgeting practices on return on asset advised owner/owner-manager of SSEs to improve long-term capital budgeting of the business becomes secured to the plan while making the decision to purchase an asset, managers need to forecast the revenue over the life of that asset, and capital budgeting decisions ultimately define the strategic plan of the business.
- ❖ Finally, significant negative effect of capitalization structures also refers to the percentage of funds contributed to a firm's total capital employed by equity owners, and debt-holders, in the form of common stock, preferred stock and debt. A company's capitalization structure has a significant bearing on measures of its profitability and financial strength, such as net profit margin, return on equity, debt-equity ratio, interest coverage and so on.
- ❖ According to this result, the locale government and federal government guided Action regarding support and training, legal prospects regarding government support like loan accessibility and establishment criteria rather than supporting together with medium and micro-scale enterprise because small scale businesses are dominant over the country.

5.2. Future Research

In this study, the mixed research design was used in which data on financial management practices was collecting only for the current year and compared with the financial performance of the two financial years (2007 E.C./2013/20014 & 2008 E.C/2014/20015). The researcher suggests that further research is done using longitudinal research design so that the relationship is tested in a period of more than two years. This study sampled a total of 116 SSEs from the population of the study is 2316 SSEs. The researcher recommends that the same study is repeated but by taking in sample all over the country's' the SSEs should be included in the study and more comprehensive survey throughout the country has suggested as a future study area to conclude at the country level.

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Appendix A

JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING & FINANCE

Questionnaire

DESTA YOHANNES

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SSEs

Hawassa

Dear Sir,

The aim of this questionnaire is to seek information regarding financial management practices and profitability of SSEs. The questionnaire will be distributed to 121 Small-scale Enterprise sectors. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study of the effect of financial management practices on the profitability of SSEs sectors.

I would like to assure you that the information you provide will be accessible only to the academic purpose. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study.

If you have anything that requires further clarification please do not hastate to contact me.
Your truthful and thoughtful response is vital!

Thank you for your participation!

Kind regards!

Destá Yohannes

PART A: GENERAL INFORMATION OF THE ENTERPRISE

Write or please tick (√) as appropriate your response or agreement with each of the following statements. Your honest responses will be completely anonymous and will only be used for academic purposes only.

Write your appropriate response

- 1. Sex -----
- 2. Age of respondent -----
- 3. Experience of respondent -----
- 4. Type of Enterprise -----
- 5. Age of Enterprises -----

Please tick (√) as appropriate in the spaces provided

6. Education

- a) Primary school
- b) Secondary school
- c) College and above

7. Qualification

- d) BA in Accounting & Finance
- e) BA Economics
- f) BA business management
- g) other

8. Your functional position in the enterprise?

Please tick (√) as appropriate in the spaces provided

- a) Hired manager
- b) Owner
- c) Owner-Manager

9. Financial statement was done by

- A. hired chief accountant
- B. certified public Accountant

SECTION B: FINANCIAL MANAGEMENT PRACTICES ADOPTED BY THE ENTERPRISE

Please tick (√) as appropriate your agreement with each of the following statements

The Likert scoring system weights have been assigned as 5 for E, 4 for VG, 3 for G, 2 for F, and 1 for P, this means Poor = p, fair = F, good = G, very good =VG and excellent =E

10. Fixed Assets Management practice (FAM P)		1	2	3	4	5
1	The enterprise has appropriate acquiring decisions, and recording are made for fixed asset					
2	The enterprise fixed assets are often managed using asset tags, which are tracked through serial numbers or piece codes.					
3	Movement of fixed assets should be authorized by senior management					
4	Top management consider (authorized by senior management) the procurement of capital equipment with care					
5	The enterprise FA has value in generating profits by Calculating annual depreciation expense schedules for each asset and store the results in the Depreciation Expense Record.					
6	The enterprise non-current assets count is carried out every year					
7	The repair and maintenance of fixed assets is carried out regularly and at end dispose the asset					
11. Accounting Information System Practice		1	2	3	4	5
1	The enterprises effectively developed accounting system					
2	The enterprises have generally a computer-based method for tracking accounting activity in conjunction with information technology resources					
3	The enterprises' an accounting information system combines accounting practices, such as the Generally Accepted Accounting Principles (GAAP), with modern information technology resources.					
4	Use computerized financial information to decision-making & to publish financial statements					
5	All financial statements are objectively prepared to measure over specific performance					
6	The enterprise's the financial statements are prepared in accordance with GAAP as well as Financial reporting standard for small-scale enterprise (FRSSE) and the process incorporated with IT					
7	The enterprise's financial statement analysis helps to assess the operational efficiency of the management of a business.					
8	The enterprise's financial statement analysis shows the current position of the firm in terms of the types of assets owned by a business firm and the different liabilities due against the enterprise.					
9	The enterprise's ratio analysis pinpoints strengths and weaknesses from which strategies and initiatives can be formed.					
12. Working Capital Management Practice		1	2	3	4	5

1	The enterprise has a working capital management system					
2	The enterprise maintains inventory records which are updated regularly					
3	The enterprise's receivables & payables management system is fully programmed					
4	The enterprise 's optimal cash balances & cash flow to meet daily needs maintained by the company at all times					
5	The enterprise's WCM maximizes ROI or return on current asset investments.					
6	The enterprise prepares cash flow forecasts to identify future surpluses and deficits					
7	The enterprise's Working capital is a measure of both a company's efficiency and its short-term financial health.					
8	The enterprises could convert different accounts within its balance sheets into cash or sales.					
13. Capital Budgeting Management Practice (CBMP)						
1	The enterprise's capital budgeting decisions carefully planned and it has strategy to accomplish your objective					
2	The enterprise's basic techniques that are used to make capital budgeting decisions are described.					
3	The enterprise when evaluating a capital budgeting, that estimate the after-tax cash flows the asset is expected to generate in the future.					
4	The enterprise when evaluating a capital budgeting, examine the risk associated with the project and how the existing assets of the businesses will be affected if the plan is purchased.					
5	The enterprise has Careful and effective planning to reduce the financial risk as much as possible.					
6	Capital investment decisions are to be carried out and performed carefully and effectively to save the business from financial loss.					
7	The enterprise's capital budgeting decisions are maximizing owner's wealth					
8	The enterprise's Capital budgeting usually calculate each project's future accounting profit by period and the cash flow by period					
14. Capital Structure Management Practice		1	2	3	4	5
1	The enterprise has appropriate financing policy					
2	The enterprise capital structure of the company optimizes owner's wealth					
3	The enterprise selects source of capital after evaluating their cost capital					
4	The enterprise has prepared mix debt and equity					
5	The enterprise capital structure provides a room for expansion or reduction of debt capital so that, according to changing conditions, adjustment of capital can be made.					
6	The enterprise's risk factor can be avoided if the project is financed by issues equity capital.					
7	The enterprise has fully utilized the debt facility according to their capabilities					
8	The enterprise's capital structure protects the business enterprise from over-capitalization and under-capitalization					

Appendix B

Some Important Tables of Regression

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.17398	.165137	116
FAMP	3.82713	.818231	116
AIS	3.36312	.823502	116
WCMP	3.44241	1.087169	116
CBMP	3.41678	.924701	116
CSMP	3.63531	.799235	116

Correlations

		ROA	FAMP	AIS	WCMP	CBMP	CSMP
Pearson Correlation	ROA	1.000	.599	.685	.722	.698	-.325
	FAMP	.599	1.000	.527	.469	.493	-.158
	AIS	.685	.527	1.000	.650	.615	-.239
	WCMP	.722	.469	.650	1.000	.651	-.339
	CBMP	.698	.493	.615	.651	1.000	-.107
	CSMP	-.325	-.158	-.239	-.339	-.107	1.000

Sig. (1-tailed)

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin - Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.832 ^a	.693	.679	.093584	.693	49.616	5	110	.000	2.078

a. Predictors: (Constant), CSMP, CBMP, FAMP, AIS, WCMP

b. Dependent Variable: ROA

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.173	5	.435	49.616	.000 ^b
	Residual	.963	110	.009		
	Total	3.136	115			

a. Dependent Variable: ROA

b. Predictors: (Constant), CSMP, CBMP, FAMP, AIS, WCMP

Coefficients ^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	-.341	.069		4.931	.000	-.478	-.204					
FAMP	.042	.013	.209	3.239	.002	.016	.068	.599	.295	.171	.669	1.494
AIS	.039	.015	.194	2.531	.013	.008	.069	.685	.235	.134	.476	2.103
WCMP	.041	.012	.268	3.330	.001	.017	.065	.722	.303	.176	.430	2.326
CBMP	.051	.014	.287	3.760	.000	.024	.078	.698	.337	.199	.478	2.093
CSMP	-.026	.012	-.124	2.171	.032	-.049	-.002	-.325	-.203	.115	.856	1.168

a. Dependent Variable: ROA

Coefficient Correlations ^a

Model		CSMP	CBMP	FAMP	AIS	WCMP	
1	Correlations	CSMP	1.000	-.179	.025	.075	.295
		CBMP	-.179	1.000	-.193	-.273	-.419
		FAMP	.025	-.193	1.000	-.260	-.090
		AIS	.075	-.273	-.260	1.000	-.334
		WCMP	.295	-.419	-.090	-.334	1.000
	Covariances	CSMP	.000	-2.887E-005	3.859E-006	1.359E-005	4.268E-005
		CBMP	-2.887E-005	.000	-3.434E-005	-5.727E-005	-7.011E-005
		FAMP	3.859E-006	-3.434E-005	.000	-5.202E-005	-1.436E-005
		AIS	1.359E-005	-5.727E-005	-5.202E-005	.000	-6.281E-005
		WCMP	4.268E-005	-7.011E-005	-1.436E-005	-6.281E-005	.000

a. Dependent Variable: ROA

Collinearity Diagnostics ^a

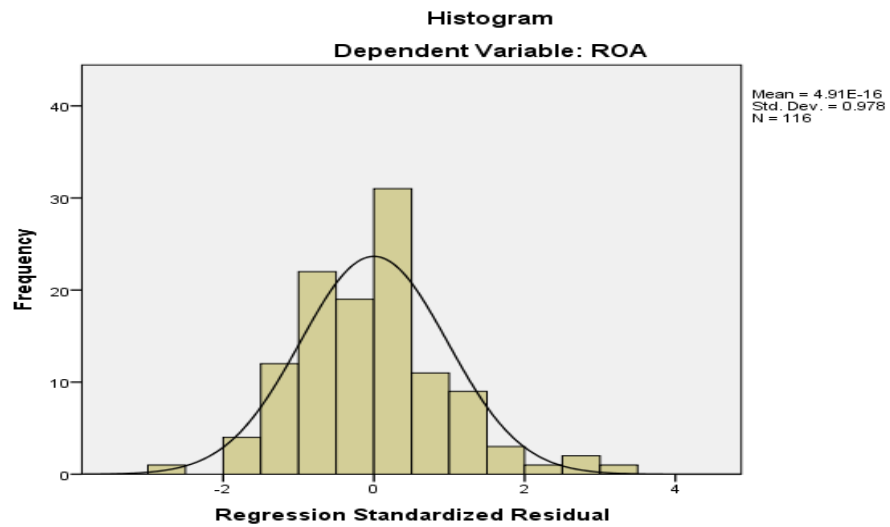
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions					
				(Constant)	FAMP	AIS	WCMP	CBMP	CSMP
1	1	5.803	1.000	.00	.00	.00	.00	.00	.00
	2	.109	7.306	.01	.00	.01	.09	.02	.19
	3	.030	13.940	.01	.50	.06	.15	.21	.13
	4	.026	15.081	.03	.03	.00	.54	.70	.01
	5	.021	16.607	.00	.30	.88	.14	.02	.00
	6	.011	22.609	.95	.16	.05	.08	.06	.66

a. Dependent Variable: ROA

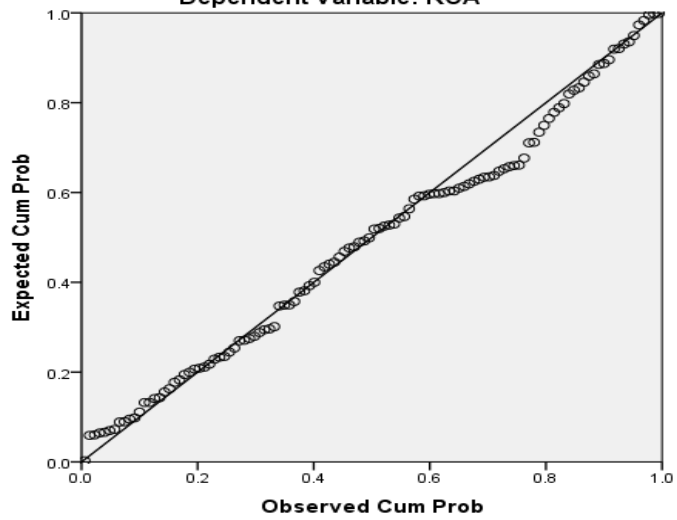
Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.24858	.44790	.17398	.137451	116
Std. Predicted Value	-3.074	1.993	.000	1.000	116
Standard Error of Predicted Value	.012	.043	.020	.006	116
Adjusted Predicted Value	-.28532	.43747	.17362	.138075	116
Residual	-.262492	.288613	.000000	.091527	116
Std. Residual	-2.805	3.084	.000	.978	116
Stud. Residual	-2.974	3.125	.002	1.008	116
Deleted Residual	-.295031	.296408	.000358	.097368	116
Stud. Deleted Residual	-3.087	3.259	.004	1.023	116
Cook's Distance	.000	.199	.011	.027	116
Centered Leverage Value	.008	.201	.043	.031	116

a. Dependent Variable: ROA

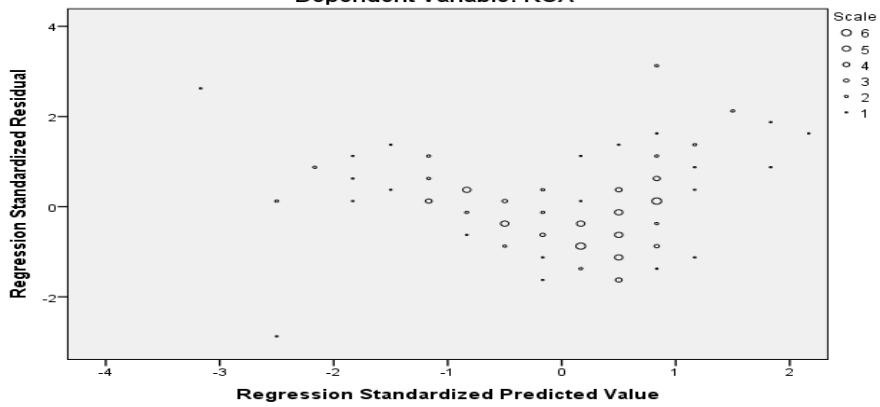
Some Important Tables of Charts



Normal P-P Plot of Regression Standardized Residual
Dependent Variable: ROA



Scatterplot
Dependent Variable: ROA



Appendix C

financial statement report's data of SSEs

No of SSE	Total asset			net profit			ROA	
	A	B	C=A+B/2	D	E	F=D+E/2	G=F/C	
	2007	2008	Average	2007	2008	Average	Return	
1	332135.42	388114.10	360124.76	33480.460	29624.02	31552.24	0.088	manufacturing
2	1271493.13	1569788.97	1420641.05	22513.800	153743.39	88128.595	0.062	manufacturing
3	112397.	144778.	128587.50	14000.000	9255.690	11627.84	0.090	manufacturing
4	152452.07	258114.79	205283.43	72471.000	98022.16	85246.58	0.415	manufacturing
5	84784.930	134843.84	109814.38	19899.430	31585.54	25742.48	0.234	manufacturing
6	114320.00	166900.88	140610.44	40345.390	49390.06	44867.72	0.319	manufacturing
7	676003.000	653320.320	664661.660	119476.020	17046.910	68261.465	0.103	manufacturing
8	111191.680	500000.000	305595.840	21044.680	24696.560	22870.620	0.075	manufacturing
9	2416253.550	1267399.750	1841826.650	323197.380	685922.980	504560.180	0.274	manufacturing
10	205556.850	234739.230	220148.040	15819.900	23849.910	19834.905	0.090	manufacturing
11	174463.560	212357.370	193410.465	29779.410	36450.840	33115.125	0.171	manufacturing
12	188687.370	213441.010	201064.190	22199.720	43906.090	33052.905	0.164	manufacturing
13	1043025.690	1035702.540	1039364.110	25149.380	55217.860	40183.620	0.039	manufacturing
14	79538.280	110673.190	95105.735	19469.510	15330.150	17399.830	0.183	manufacturing
15	92277.890	426075.320	259176.605	153328.12	129485.320	141406.720	0.546	manufacturing
16	351580.430	50382.240	200981.335	28890.890	14299.460	21595.175	0.107	manufacturing
17	128568.130	692,38.03	128568.130	62915.280	36495.300	49705.290	0.387	manufacturing
18	144721.370	167765.490	156243.430	-56074.040	-85409.490	-70741.760	-0.453	manufacturing
19	105344.430	220699.440	163021.935	24,44.83	29219.380	29219.380	0.179	manufacturing
20	243217.610	271801.380	257509.495	2497.180	1934.160	2215.670	0.009	manufacturing
21	807040.000	810789.630	808914.815	24500.000	5992.700	15246.350	0.019	manufacturing
22	548001.990	530397.000	539199.495	16297.880	-17603.390	-652.755	-0.001	constriction
23	273835.480	1320954.36	797394.920	-45428.320	-52567.640	-48997.980	-0.061	constriction
2	928992.480	155051.250	542021.865	63359.790	209450.42	136405.11	0.252	constriction
25	1463655.20	1158121.46	1310888.33	86337.160	159950.52	123143.84	0.094	constriction
26	1145953.94	1412269.02	1279111.48	152772.11	138647.01	145709.56	0.114	constriction
27	373482.520	881078.820	627280.670	14084.280	108193.83	61139.055	0.097	constriction
28	1313862.42	1155367.89	1234615.15	159702.72	291033.39	225368.05	0.183	constriction
29	507458.000	1961031.82	1234244.91	16041.000	4527.660	10284.330	0.008	constriction
30	474647.400	525194.250	499920.825	76519.730	51909.160	64214.445	0.128	constriction
31	59326.200	247230.960	153278.580	805.000	26776.960	13790.980	0.090	constriction
32	585515.020	32976.030	309245.525	9643.720	12109.590	10876.655	0.035	constriction
33	2471.070	703055.830	352763.450	1729.750	64972.660	33351.205	0.095	constriction
34	50716.000	380599.170	215657.585	16000.000	-4305.170	5847.415	0.027	constriction
35	51086.450	265682.700	158384.575	1080.450	4716.700	2898.575	0.018	constriction
36	683450.480	1121770.58	902610.530	94572.900	101138.37	97855.635	0.108	constriction

37	146753.850	136252.710	141503.280	38222.380	5613.160	21917.770	0.155	constriction
38	1146501.00	927844.360	1037172.68	73166.600	295220.45	184193.52	0.178	constriction
39	803018.950	885295.460	844157.205	63457.510	406908.38	235182.94	0.279	constriction
40	984632.340	1012963.14	998797.740	7288.810	175114.92	91201.865	0.091	constriction
41	625466.790	935789.220	780628.005	31765.910	57733.140	44749.525	0.057	constriction
42	2596.800	223849.730	113223.265	1817.788	18100.020	9958.904	0.088	constriction
43	211752.920	254726.430	233239.675	25554.230	35960.500	30757.365	0.132	constriction
44	305995.000	594024.140	450009.570	10276.740	41818.000	26047.370	0.058	constriction
45	1494619.85	1241742.29	1368181.07	231164.34	105049.32	168106.83	0.123	constriction
46	152278.000	148103.720	150190.860	-23317.940	-21990.830	-22654.385	-0.151	constriction
47	130722.270	574230.930	352476.600	34993.310	10146.000	22569.655	0.064	constriction
48	332288.960	401436.690	366862.825	50318.620	74920.220	62619.420	0.171	constriction
49	1200000.00	1326724.00	1263362.00	503184.23	686414.41	594799.32	0.471	constriction
50	402774.890	464803.390	433789.140	41364.450	56528.860	48946.655	0.113	constriction
51	420940.620	309698.090	365319.355	6375.680	9090.910	7733.295	0.021	constriction
52	174117.790	425875.210	299996.500	154483.86	40884.520	97684.190	0.326	constriction
53	106200.000	128353.380	117276.690	5795.380	6690.600	6242.990	0.053	constriction
54	105344.430	220699.440	163021.935	7051.700	4445.540	5748.620	0.035	constriction
55	1302707.83	1493079.35	1397893.59	1134544.6	71006.060	602775.36	0.431	constriction
56	213400.000	65570.000	139485.000	-49700.000	6233.190	-21733.405	-0.156	constriction
57	632261.340	720579.650	676420.495	97628.560	85895.720	91762.140	0.136	constriction
58	59333.240	785839.530	422586.385	20876.590	155065.70	87971.145	0.208	constriction
59	136823.270	142668.690	139745.980	2987.350	5136.280	4061.815	0.029	constriction
60	12327.070	329286.830	170806.950	27614.220	3869.390	15741.805	0.092	constriction
61	155626.050	170700.220	163163.135	62648.270	2616.850	32632.560	0.200	constriction
62	232515.160	221531.480	227023.320	36918.290	138449.39	87683.840	0.386	constriction
63	620171.000	557547.430	588859.215	44913.290	72085.000	58499.145	0.099	constriction
64	227119.330	316557.180	271838.255	165602.140	137809.580	151705.860	0.558	service
65	113188.310	138442.380	125815.345	82688.310	65309.732	73999.021	0.588	service
66	138713.670	155653.310	147183.490	19871.910	19504.280	19688.095	0.134	trade
67	104944.000	126985.860	115964.930	104913.600	126985.86	115949.73	1.000	service
68	134599.820	205827.400	170213.610	55203.000	54516.120	54859.560	0.322	service
69	121610.920	136164.120	128887.520	53367.150	52680.450	53023.800	0.411	service
70	908271.450	132350.570	520311.010	43248.710	43200.970	43224.840	0.083	service
71	168582.030	197132.990	182857.510	23347.640	25789.030	24568.335	0.134	service
72	40300.960	60896.000	50598.480	2650.000	33492.650	18071.325	0.357	service
73	98362.210	113642.930	106002.570	32940.230	25847.570	29393.900	0.277	service
74	117044.980	110930.330	113987.655	56883.800	759.750	28821.775	0.253	service
75	52189.550	200082.890	126136.220	-41253.250	31059.330	-5096.960	-0.040	service
76	111992.280	156146.300	134069.290	41344.600	42412.390	41878.495	0.312	service
77	86453.190	79581.860	83017.525	14514.110	37091.090	25802.600	0.311	service

78	132634.000	107880.000	120257.000	27044.140	57588.183	42316.162	0.352	service
79	172959.980	140754.990	156857.485	42093.320	49859.390	45976.355	0.293	service
80	39884.200	609744.000	324814.100	26507.590	17412.600	21960.095	0.068	service
81	27675.220	321398.690	174536.955	-3022.210	59094.690	28036.240	0.161	service
82	101506.320	172846.090	137176.205	50995.580	54320.850	52658.215	0.384	service
83	96262.340	145706.600	120984.470	4518.800	30001.340	17260.070	0.143	service
84	92867.410	557363.110	325115.260	42868.190	64496.480	53682.335	0.165	service
85	464468.580	378999.910	421734.245	136920.240	87850.180	112385.21	0.266	service
86	227754.560	498310.720	363032.640	77140.420	92360.460	84750.440	0.233	service
87	178783.640	231329.240	205056.440	40150.220	63312.240	51731.230	0.252	service
88	239264.580	266675.620	252970.100	15813.460	24629.370	20221.415	0.080	service
89	74943.650	110479.460	92711.555	24452.000	26542.000	25497.000	0.275	service
90	89620.570	137551.640	113586.105	81666.930	70081.530	75874.230	0.668	service
91	58215.560	265411.260	161813.410	45700.000	67139.730	56419.865	0.349	service
92	138713.670	155653.310	147183.490	19871.910	19504.280	19688.095	0.134	trade
93	618000.750	4685505.22	2651752.98	51760.490	53260.180	52510.335	0.020	trade
94	87227.810	134163.840	110695.825	15192.250	37355.470	26273.860	0.237	trade
95	88676.130	105692.570	97184.350	15270.980	16662.390	15966.685	0.164	trade
96	184673.370	251132.430	217902.900	52250.250	51142.540	51696.395	0.237	trade
97	76635.000	122789.320	99712.160	56167.040	45530.610	50848.825	0.510	trade
98	171211.500	212404.150	191807.825	761.700	34286.140	17523.920	0.091	trade
99	106750.000	150700.000	128725.000	18792.682	24673.200	21732.941	0.169	trade
100	127846.054	203993.930	165919.992	16858.030	23650.100	20254.065	0.122	trade
101	221565.840	246337.100	233951.470	23083.260	24063.200	23573.230	0.101	trade
102	141036.000	183226.270	162131.135	29205.000	30427.490	29816.245	0.184	trade
103	311640.150	802959.380	557299.765	45643.210	49270.000	47456.605	0.085	trade
104	43958.200	113538.040	78748.120	5674.840	27292.380	16483.610	0.209	trade
105	158224.750	189466.220	173845.485	9517.370	23616.770	16567.070	0.095	trade
106	491199.030	265525.490	378362.260	39129.370	-43334.000	-2102.315	-0.006	trade
107	106775.850	161689.940	134232.895	14825.630	52017.090	33421.360	0.249	trade
108	124959.480	186924.160	155941.820	33330.100	34204.370	33767.235	0.217	trade
109	231373.180	1433346.98	832360.080	100727.090	91581.110	96154.100	0.116	U agriculture
110	382701.020	907608.270	645154.645	91420.980	93377.330	92399.155	0.143	U agriculture
111	207772.840	133028.440	170400.640	45554.610	60292.520	52923.565	0.311	U agriculture
112	46336.360	58600.000	52468.180	25835.700	36085.500	30960.600	0.590	U agriculture
113	1212973.86	0.000	606486.930	13356.770	0.000	6678.385	0.011	U agriculture
114	93422.910	93422.910	93422.910	23538.900	21418.700	22478.800	0.241	U agriculture
115	221500.000	246337.100	233951.470	23083.260	24063.200	23573.230	0.110	U agriculture
116	194682.530	231938.460	213310.495	28215.510	8256.920	18236.215	0.085	U agriculture