IMPACTS OF FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL

PROFITABILITY OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN JIMMA

TOWN

A Thesis Submitted to the School of Graduate Studies of Jimma University Partial Fulfillment of the Requirements for Master Degree of Science Accounting and Finance

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Abstract

The objective of this study is to examine the impact of financial management practices on financial profitability of small and Medium Scale Enterprises (SMEs) located in Jimma Town. Based on the descriptive and explanatory research design, the study applied quantitative approaches. This study adopted a descriptive research design in which a census of 416 targeted population of 4 sector were drawn from a list of SMEs in Jimma town, where by a proportionate random sample of 204 employees were taken from 4 sector of Small and Medium Scale Enterprises (SMEs) in Jimma Town. Questionnaires were administered as the main tool of data collection whereby 187 questionnaires were collected representing a 91.67% response rate. Primary data was collected through questionnaire sources. Inferential statistical techniques such as Pearson Correlation analysis and regression analysis were employed to test the hypotheses of association and differences. Collected data were processed using the Statistical Package for Social Science (SPSS) which was the main computer software that was utilized in data analysis. The investing practices had coefficients of estimate which were significant implying that the null hypothesis was rejected. The Capital structure practices null hypotheses were rejected implying significant impacts on financial profitability. Cash management practices were significant hence the null hypothesis was rejected. It is therefore recommended that it is important for the organizations to retain their profits so that they can reinvest and gain higher returns on investments and owners' equity. Furthermore, organizations need to utilize computers in cash management since they are efficient and effective. This study suggests the need for further research on other economic factors besides financial management practices that impacts the financial profitability of SMEs and other organizations.

Keywords: *- **Financial management practices, financial profitability, SMEs, capital structure practice and cash management practice.***

Declaration

I, Hirut Abera assert that this study entitled impacts of financial management practices on financial Profitability of small and medium scale enterprises (SMEs) in jimma Town is my own original work that has not been presented for a degree in any other university and that all sources of material have fully acknowledged.

Name: Hirut Abera   **ID/No: -------------------------**

Signature…………………………   Date…..………………….

CERTIFICATE

This research work has been submitted for the examination with our approval as university supervisors

Main Advisor: Dr. Matewos. Kebede (Ph.D.)   Co-**advisor: Mr.** Endalew Gutu (MSC)

Date: -----------/-----------/---------------   Date: --------/-----------/-----

Signature: -------------------------   Signature: ----------------

STATEMENT OF APPROVALS

IMPACTS OF FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL PROFITABILITY

OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN JIMMA TOWN

BY:

HIRUT ABERA (BA)

APPROVED BY THE BOARD OF EXAMINERS

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4……………………………………   ……………………………   …..………………

    External Examiner   **Signature**   **Date**

Acknowledgment

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Abbreviations and Acronyms

APT: Arbitrage Pricing Theory

CAPM: Capital Asset Pricing Model

CEO: Chief Executive Officer

COMESA: Common Market for Eastern and South Africa

ERM: Enterprise Risk Management

MPT: Modern Portfolio Theory

NCA: National Construction Authority

OTE: Overall Time Efficiency

R & D: Research and development

ROA: Return on Assets

ROE: Return on Equity

SADC: Southern African Development Community

SID: Strategic Investment Practices

SPSS: Statistical Package for Social Science

SME: Small Medium Enterprises

UNO: United Nations Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Micro Enterprises(SMEs) has become important academic and policy issue across the globe due to their significant role in creation of new jobs, rise in GDP, entrepreneurship and innovation. SMEs are recognized as the drivers of socio-economic growth regardless of the state of development in an economy. SMEs usually faced various challenges, especially, during the early stages of operation due to lack of human and financial capabilities to sustain and grow amidst of competitive pressures. Government and other development partners adopted various support systems to the promotion and development SMEs in order to capitalize on benefits of SMEs in economic growth and development.

The SME sector in Ethiopia is found at lower level compared to the case in developed and emerging countries where SMEs accounted for sizable amount of business and job creation in their economy. The SME development and promotion policies that have been implemented in the past two decades brought a see changes, yet the sector faced various problems hindering the potential contribution and growth in the sector (Amha & Ageba, 2006; Bekele&Worku, 2008; FDRE, 2011). The major challenges of SMEs in Ethiopia includes, among others, are related to the legal and regulatory environment, access to markets, finance, business information, business premises (at affordable rent), the acquisition of skills and managerial expertise, access to appropriate technology, access to quality business infrastructure, and in some cases discriminately regulatory practices (Mike Albu, 2001).

Existing studies on factors affecting the expansion and profitability of SMEs recognized various factors, but there is a dearth of studies on the effect of specific factors with significant effect in resolving other problems as well. In this connection studies on managerial practices in general and financial management in particular are scantly available. The proposed study; hence aimed at examining the financial management practices of SMEs in Jima city and its relationship with profitability performances.

As Meredith (1986) asserts that financial management is concerned with all areas of management, which involve finance not only the sources, and uses of finance in the enterprises but also the financial implications of speculation, production, marketing or personnel decisions and the total performance of the enterprise. However, such areas are not currently well embraced by SMEs in least developing countries including Ethiopia and vital attention needs to be paid to (Temam, 2018) in order to identify existing state of art of SMEs financial management and the suggested improvements with positive contribution profitability performance. The study were provided useful impending to policy makers and practitioners in the area of SME capacity building in devising alternative mechanisms of attracting financial management practices in SMEs.

The Global business environment has become intensively dynamic and increasingly unpredictable in recent decades, in the same way, financial management of companies has become more challenging. To achieve competitiveness, companies apply diverse financial management should be used as one of the main sustaining system for strategic implementation. For this purpose planned financial management has been developed (Narula & Duning, 2010).

According to Graham (2007), Capital budgeting techniques include non-discounted cash flow techniques (payback period and the accounting rate of return) and the low-cost cash flow techniques (net present value, internal rate of return, profitability index and discounted payback period). Financing decision (capital structure) relates to the raising of finance from various sources depending on the type of source, period of financing, cost of financing and the income. Capital structure refers to the way a company finances its property through some combination of equity, debt, or hybrid securities. This involves the decision with regards to the net profit distribution (dividend payment to shareholders and retained earnings).

Accordingly, most developing countries considered the huge potentials of the SMEs sector, and the significance, contribution and potential of the SMEs to employment creation, poverty reduction and economic growth have been recognized in Ethiopia.

Therefore, the main aim of this study was to investigate and recognize the impacts of financial management practice on financial profitability of SMEs in Jimma Town.

1.2 Statement of the Problem

The basic problem affecting Small and Medium Scale Enterprise (SMES) is the extended persistent deterioration in profitability due to insufficient prudent financial management practice (Kibet, 2013). Each year approximately 50% of Small and Medium Scale Enterprise in (SMEs) Ethiopia experience a declining financial performance (profitability) hence going under receivership regardless of the government and the private sector in Ethiopia having invested heavily in creating an enabling financial environment for doing business in Ethiopia (Momanyi & Mugenda, 2014). This prevailing problem of financial inefficiency is different from previous study financial issues because it involves not only public sectors but also private Small and Medium Scale Enterprise (SMES) (Annual report, 2015).

This crisis in the Small and Medium Scale Enterprise (SMES) may describe for compact financial management practices. Some compressed financial management practices include liquidity, investment and proper capital management practices (Namusonge, 2008). Most of the recent studies on Small and Medium Scale Enterprise (SMES) (Sakwa, 2010; Momanyi, 2014; Naibei, 2014) have majorly concentrated on one financial management portion that could determine the profitability of Small and Medium Scale Enterprise (SMES) rather than a wider range of financial management aspects that not only impact on profitability but financial profitability of Small and Medium Scale Enterprise (SMES).

Mohamed et al. (2010) acknowledged the components of financial management as investment practices, financing practices, capital structure practices and cash management practices. Chung and Chuang (2010) classified financial management practices into the following five specific areas: Capital structure management, working capital management, financial reporting and analysis, capital budgeting and accounting information system.

According to Ghadomu and Thaeer (2008), financial management practices include; Investment practice (capital budgeting decision). Investment decision refers to the preparation and managing a firm's long-term investments. Capital budgeting is used to assess whether investments in fixed assets such anew machinery, new plants, new products, and research development projects are worth pursuing.

According to Kahreman (2010), careless financial management practices are the main cause of not a success for business enterprises. Regardless of whether an owner-manager or hired-manager, if the financial practices are erroneous, profitability of the organization would be adversely affected, consequently, a business organization's profitability could be damaged because of inefficient financial management. Business Enterprises have often failed due to lack of knowledge of efficient financial management. Moreover, the uncertainty of the business environment causes Business Enterprises to rely extremely on equity and maintain high cash management and these financial characteristics affect profitability Redman (2010).

The importance of financing practices cannot be over emphasized since many of the factors that contribute to business failure can be addressed through the use of financial management practices that drive growth and the accomplishment of organizational objectives (Savan & babu et al., 2009). The finance factor is the main cause of financial suffering (Memba & Nyanumba, 2013). The objective of all financing practices is riches expansion and the timely method for measuring the nature of any financing choice is to look at the impact of such a choice on the association's execution (Kegode, 2010).

The successful financial management practice is an important factor for the success and failure of any business organization in general or SMEs in particular. Thus, so the issue of financial management is also burning and critical concern for business enterprises in Ethiopia. According to (Deresse & Rao, 2012) the efficiency of financial management practices and characteristics can bring about higher profitability is indispensable to the accomplishment of businesses organizations.

Thus, the first motive to undertake this study would be to fill gaps identified on existing empirical studies, so far reviewed. The proposed study was intended to examine impacts of financial management practice on profitability of SMEs in Jimma town to extend the literature by addressing the subject matter from the perspectives of SMEs in less sophisticated business environment and early stage of development. Further, the study were introduce additional variables to provide a comprehensive measure of financial management practices in order to fill the gap identified on conceptual definition of financial management practices on previous studies.

Therefore, the above highlight leads to the main problem of the study that was addressed by this study to investigate impacts of financial management practice on financial profitability of SMEs in Jimma town.

1.3. Basic Research Question

1. What are the impacts of investing practice on financial profitability of SMEs in Jimma Town?

2. What are the impacts of capital structure practice on financial profitability of SMEs in Jimma Town?

3. What are the impacts of cash management practice on financial profitability of SMEs in Jimma Town?

1.4. Objective of the study

1.4.1. General objective

The overall objective of this study is to examine the impacts of financial management practices on financial profitability of SMEs in Jimma Town.

1.4.2 Specific Objective

The specific objectives, on top of general objective, of the study were:

1. To determine the impacts of investing practice on financial profitability of SMEs in Jimma Town.

2. To assess the impacts of capital structure practice on financial profitability of SMEs in Jimma Town.

3. To examine the impacts of cash management practice on financial profitability of SMEs in Jimma Town.

1.5. Research Hypotheses

H01: There is no statistical significant relationship between investment practices and financial profitability of SMEs in Jimma Town.

H02: There is no statistical significant relationship between capital structure practices and financial profitability of SMEs in Jimma Town.

H03: There is no statistical significant relationship between cash management practices and financial profitability of SMEs in Jimma Town.

1.6. Significance of the Study

The primary objective of this study was to advance for financial management practices in order to enhance the financial profitability of the SMEs in Jimma Town. The study's findings were contributed in solidifying scholarly contributions towards establishing an ideal financial management practices in the context of out grower enterprises serving vast interests. In addition, it is imperative that stakeholders are consistently updated and made to understand institutional weaknesses in order to factually design a responsive policy. The study would be helpful to small and medium business enterprises, consultants, policy planners and government agencies that need to gain a better understanding into the main challenges facing SMEs in these cities. It should also bring about insights into the needed support for the SMEs sector. The result of this study was important for the Jimma town medium and small enterprises and the SMEs owners in Jimma Town since the result of this study provide them important information about the financial management practices variables that were under attention for this study was profitability management, working capital management, asset and liability management and strategic financial management practices and their effect on profitability of SMEs in Jimma Town. On the basis of the information that would be obtained from the results of this study they were plan on implementing the importance of financial management practices and their impact on profitability of SMEs in Jimma Town. Additionally, it may be used as the source of information for those who will be interested to conduct research on this area.

1.7. Scope of the study

The study explores the impact of financial management practices and profitability of SMEs in Jimma Town. The financial management practices applied in this study was cash management practices, investment practices and capital structure practices. The study's financial management was check by net profit and gross profits. In terms of geographic scope the study would conduct study on financial management practice and its effect on profitability of SMEs in Jimma Town. The study was focus only on four (manufacturing, construction, trade and service) sectors of Government organized small and medium enterprises in Jimma Town. This study would be delimited to the financial management practice and its impacts on financial profitability of SMEs in Jimma town.

1.8. Definition of Terms

Financial practice: - A form of managing organizations financial resources to attain its business objectives and maximize its profit. Financial management involves a defined sequence of steps that encompasses the full range of a organizations finances, from setting out objectives and identifying resources, analyzing data and making financial decisions, to tracking the variance between actual and budgeted results and identifying the reasons for this variance (Butt, Hunjra, & Rehman, 2010).

Investment practice: the process of identifying, evaluating, and selecting among projects that is likely to have a significant impact on the organizational competitive advantage. More specifically, the decision will influence what the organization does (i.e., the set of product and service attributes that defines its offerings), where it does it, and/or how it does it (i.e., the place of operating processes and work practices it uses (Chowdhury , 2010).

Capital structure practice: the view of capital structure argues that managers actively seek to direct the firm's capital structure to maintain the firm's overall long term goals (Brealey, Richard & Myers, 2003)

Cash management practice: the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Cash management is characterized by a high level of trading activity (Gordon, 2008).

1.9 Organizations of the Study

The study is organized into five chapters. In chapter one background of the study, background of the study area, statement of the problem, research questions, general and specific objective of the study, hypotheses of the study were deal with significance and limitation of the study. In chapter two review of related literature that supports the results of the findings was incorporated. Then, in chapter three research design, samples of data, sampling techniques, procedures of data collection and method of data analysis are included. In chapter four data are presenting, the presented data would be interpreted and analyzed. Finally, chapter five is about the summery, conclusion and recommendations of the finding.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Introduction

This section is intended to provide the reader with existing scholarly works conducted to determine the impacts of financial management practices on the profitability of SMES in Jimma town. The sections were also entailing theories, the conceptual and theoretical frameworks of the study.

2.2 Theoretical Review

Theoretical review is a structure that supports a philosophy of a research responsibility. It defines the model and philosophy which expounds on why the research gap under investigation is existence. Theories and models are formulated to explain, predict, and understand a given phenomenon that challenge and make bigger existing knowledge, within the bounds of the critical limiting suppositions (Torraco, 2007). The choice of a theory should depend on its appropriateness, ease of application, and explanatory power. The theoretical review links the studies to existing knowledge (Kiogora, 2007).

2.2.1 Modigliani and Miller Capital Structure Theory

The progressive investigation on capital structure hypothesis was pioneered by Modigliani and Miller (1958). Modigliani and Miller validated that the value of the firm is independent from its capital structure. They confirm their theory in light of various hypotheses. These presumptions are not relevant in this present reality so as the writings, their work considered best however it cannot be appropriate in practice. In 1963, Modigliani and Miller also issued a modification on their work in the past and indicated it as a "modification". Within that new study, they had pointed out that although the value of the firm is independent from its capital structure, the interest costs on the debt exhibit the difference. Furthermore, they distinguished that notion by noting that since the interest costs are tax deductible as a result of the law that guides income tax in various countries, the firms running their businesses in these countries reduces the expense risk and increases the cash streams after taxation In addition, since payments on dividends are not taxable, companies are required to pay the tax on each of their incomes and consequently, this results in fairness becoming a very luxurious source of funding. As a result, this influenced treatment makes the firms to use

their debt within their investment systems. The work of Modigliani and Miller provides a assertion to different analysts for further study. Accordingly extraordinary different hypotheses of capital structure fashioned by different specialists like static trade-off hypothesis, pecking order hypothesis and agency cost hypothesis need excessive study to identify their influence on financial management performance of Small and Medium Enterprises (Namusonge, 2015).

2.2.2 Liquidity Preference Theory

In 1936, John Maynard Keynes in his book, the model idea was initially created in order to make clear the assurance of the interest rate as determined by the supply and demand for cash. In macro-economic hypothesis, liquidity preference makes reference to the requirement for cash, measured as liquidity.

The enthusiasm for cash as an advantage was conjectured to be dependent on the superior unavoidable by not holding bonds (here, the expression "bonds" can be comprehended to similarly speak to stocks and different less liquid resources as a rule, and in addition government bonds). Interest rates, he contends, cannot be a reward for sparing all things considered in light of the fact that, if an individual accumulates his savings in cash, holding it under his mattress, he will get no interest, in spite of the fact that he has in any case abstained from expending all his present income. Rather than a reward for saving, enthusiasm, in the Keynesian examination, is a reward for separating with liquidity. As indicated by Keynes, cash is the most liquid resource. Liquidity is an attribute to an asset.

According to John, Mynard and Keynes (1936), Liquidity trap is pictured in an IS–LM chart. A money interrelated development (the move from LM to LM') has no impact on balance loan fees or yield. In any case, monetary extension (the move from IS to IS") prompts a larger amount of yield with no adjustment in loan fees: Since interest rates are unaltered, there is no crowding out. A liquidity trap is a circumstance, portrayed in Keynesian Economics, in which financial support of the private banking structure by the central bank fails to reduce the interest costs consequently making financial planning not enough. A liquidity trap occurs when people hold against their money and rarely spend anticipation of a competitive and more profitable season for instance deflation decreased overall demand or in times of crisis such as was. The most prominent characteristics of a liquidity trap are interest rates that are as low as zero and the variances in cash

distribute fails to have a significant effect in terms of its ability to change the level of costs. In its unique origination, a liquidity trap alludes to the wonder when expanded cash supply neglects to lower interest rates. Generally central banks make an effort to reduce costs on loans through the buying of bonds with the recently acquired income. Within a liquidity trap bonds almost do not have any profit on premiums and this makes them be equated to money. On the other hand, within the limited variant of the Keynesian theory in which occurs, it is established that cash related approach affects the economy just through its effect on the cost of credit. Subsequently, in the event that an economy falls into a liquidity trap, further increases in the cash stock will fail to additionally decrease costs of financing and as a result do not encourage.

Keynes (2000) notes that interest for liquidity is dictated by three thought processes: to start with, the transactions intention: people like to have liquidity in order to assure their capacity to carry out especially on basic needs since their income is not constantly available to them. The measure of liquidity needed is determined by the amount of income such that the higher the income, the higher the amount of cash requested for increased transactions. Additionally, the cautious thought where people want to have liquidity basing on unprecedented issues that require big spending. The measure of cash requested for this reason is higher with higher income levels. Third, speculative intent where people hold liquidity on the assumption that the cost of bond will decrease over a certain period of time, At the moment where the finance costs decrease, people request more cash and hold onto it until the loan payment increases which would ultimately result in reduced costs a current bond to maintain its yield in line with the cost of the load. Consequently, the lower the loan cost, the more cash requested (and the other way around). From this hypothesis, it is apparent that any SMEs organization must grasp pertinent money related management practices on concerning its money/liquidity with a specific end goal to continue focused and important in the market either by embracing conventional, existing or both methodologies of finance management and application.

2.2.3 Cash Management Theory

This model was determined by Morton Miller and Daniel Orr in 2009 trying to create a more reasonable way to deal with finance management over Baumol's model. The model figures out how to accomplish a sensible level of authenticity while not being excessively detailed. It

conjectures that the aggregate cash flows are constantly distributed with very low levels of the mean and standard deviation. This is a stochastic or a probabilistic model which accepts instability in finance management. It accepts that the day by day cash flows are unverifiable and in this manner take after a trendless chance walk. This model thusly sets bounds inside which money have to be managed. These cut-off points are: A furthest breaking point, which is the most tremendous value of money to be held, lower restrict, which is the base value of money to be held (thought to be zero), and Return point, which is the target amount of money considered optimal.

Gadome and Thaeer (2008) point out that the roundness of finance and a current resource together with their successful taking care of for all intents and purposes decides the survival or death of a concern. An attempt ought to keep up satisfactory liquidity for its smooth working. In the event that materials are thoughtlessly bought, it will bring about dormant moderate moving and outright stock. In any case, deficient value of stock will result to stock outs and interference in operations (Gadome & Thaeer, 2008). Money should likewise be kept up at a perfect level. It might likewise result to expanded cost because of misusing, waste and theft. Namusonge (2008) notes that excessively or deficient level of money equalizations mean money is not appropriately used. Inadequate level of finance balance for instance can prompt stoppage in business operations. An organization might be beneficial however with no liquid finance which can result to operations intrusions. The organization can likewise be constrained into ending up by its creditors.

2.2.4 Agency Theory

Among the major issues that result in confusion among managers and shareholders is the issue of free cash flows. Office costs ascended from detachment of proprietorship and control and irreconcilable circumstances between classifications of operators (Jensen, 1986). Williamson (1988) portrays debt as a disciplinary instrument that can be utilized to assure that managers are inclined to the creation of wealth for the equity holders. In this manner, in the firms that have great cash flow and profitability, expansion of the level of debt that the firm holds can be used as a tool through which the number of managers and their powers can be reduced in order to avoid them using the assets of the firm for their own benefit at the expense of the organization.

The other different issue is that managers may not get every one of the advantages of their exercises. This is seen when managers' participate in responsibility is low. At the time when the

manager's expansion stock has increased to a high level, this level of wastefulness decreases substantially. Accordingly, Huang, Song (2010) demonstrate that this is fine because by increasing the level of debt rather than stock issuance keep from decreasing the manager's share of possession of interest.

Debts payment decreases cash streams that are accessible for managers (Stulz, 2011). Yet, then again, he expresses that this lessening will diminish the chances of gainful venture. Thus, organizations with little amount of debt have access to more opportunities to create more ventures and in comparison to other highly animated organizations in the industry, have a higher level of liquidity. The increased expense of debt means that there is an increased expense related to liquidation and organization costs related with the view of investments by stakeholders. Expenses combined with the benefits of alternative money related sources are "tradeoff" until the irrelevant cost of value is equated to the minimal cost of debt, resulting in the attractive capital structure and increasing the value of the firm. The alternative assumption as presented by Meyers (2010) and Faraghar (2002) present a firm's position in terms of debt as the total outcome of past investment and capital structure activities. In this assumption, normally called "pecking order" organizations with a positive net present value will endeavor to fund their new investments by first using existing internal assets and in the absence of internal assets, they could fund the venture with less risky debt, then with risky debt and finally with equity. In this way funding investments by using internal assets could be the least costly source and the firm's finance structure is the outcome of past cash streams and investment opportunities.

2.3 Empirical Literature Review

As Zikmund (2007) point out that empirical or observational literature review eludes to a coordinated investigate of published and related reviews that talks about hypotheses and presents exact outcomes that are significant to the current review. Literature review is a outlying reaching study of past request recognized with a research question. Kaifeng and Miller (2010) indicate that in spite of the fact that it can frequently be comprehensive in degree, covering many years, maybe even hundreds of years of material, it ought to likewise be barely custom-made, tending to just the scholarship that is specifically identified with the research question. Kaifeng and Miller (2010) points out that literature review aids the analysts to declare why their investigation is warranted.

2.3.1 Financial Management Practice

Financial management makes a better feeling of financial idea for the organization, more keen concentration on what is deliberately imperious and improved comprehension of a quickly developing condition (Obado, 2013). In that regard, directing management in Small and Medium Scale enterprises have a pivotal significance as Enterprises need to work and compete inside settings of great risk and vulnerability.

As Zinch (2011) depict financial management is independent investments as the way toward building up a strategy to direct an organization as it activities to attain its vision, mission, objectives and goals and prevent it from straying off course. In addition, Gwaya, Kiyondi and Oyugi (2013) indicate that financial management behavior in Small and Medium Scale enterprises includes an endeavor to adapt all the more viably to the immense and increasing requests exuding from the external and internal sources (i) giving the improvement of the organization a long-extend bearing; (ii) figuring and implementing a general idea of the organization; (iii) producing, actualizing, and regulating fundamental methodologies and sub-systems; and (iv) using such exceptional "strategic" devices as qualities/shortcomings investigation and opportunity/risk investigation, among others.

The need for implementing the approaches and procedures of financial management in Small and Medium Scale enterprises can be attributed to the varying states of carrying out business. Albeit, wanyande (2011) note that independent companies are presented to greater risks and susceptibility illustrious with large business, the conservative business management style of Small and Medium Scale enterprises proprietors or business people for the most part tending to disregard the financial management methods, which needed to experience sincere modifications with the developments in the investment condition, as the business individuals and capitalists turned out to be more aware of the difficulties and the opportunities of the settings they are competing in and the feasible competitive advantages their ventures needed to produce, for accomplishing their organizational objectives. In that regard, the potential favorable circumstances of a key viewpoint for Small and Medium Scale enterprises proprietor/directors, summarized by Wanyande (2011) as empowering the business person or entrepreneur to review and express a dream, guaranteeing the checking and investigative of the firm and its condition, encouraging the disclosure of new forecast and qualities, controlling the rebuilding of the venture, controlling the procedures of decision making

inside the venture, giving a beginning stage to the particular of destinations, going about as a typical language for the venture's partners (Wanyande, 2011) were soon recognized by Small and Medium Scale enterprises firms proprietor/administrators, focused to keep up an economical organizational performance and improved levels of aggressiveness.

After the reviews demonstrating that the primary source of failure of business are the absence of fiscal planning, forced access to financing, absence of capital, impulsive development, low financial and monetary protrusion, inordinate settled resource speculation and capital miss-management (Gwaya , Kiyondi & Oyugi, 2013), the idea of planned financial management exercises in ventures began to choose ubiquity among scholars.

Financial management comprises of fiscal systems which are objectives, examples or options planned to enhance and enhance fiscal management so as to accomplish corporate outcomes where fiscal strategy speaks to a way to accomplish and keep up business intensity and position an organization as a first-class business (Selvan *et al.,* 2009).

Reviews have demonstrated that, in spite of the significance of finacial thinking and application on the behavior of financial management in manufacturing companies which need to work in settings of great risk and instability with restricted assets. Jenkinson (2008) asserts that Small and Medium Scale enterprises proprietor/managers regard production/service or marketing capacities as needs especially in the establish period of new pursuits, which in the end comes about with poor monetary administration, and much of the time failure of business. It is likewise exposed that, business visionaries, up to this point have a general tendency to disregard the components of financial management (Wanyande, 2010), though the absence of financial management viewpoint in the monetary issues is a noteworthy hazard on the life span of Small and Medium Scale enterprises as large portions of the variables that add to failure can be overseen appropriately with systems and money related practices that drive development and the organization's destinations (Selvan et al, 2009). Within the financial management literature, there has been a lot of research centering on categorizing of fundamental constructs of financial management.

Among these, Goodhart (2008) has been dissecting and classifying the acts of financial management in Australia, UK and US Small and Medium Scale enterprises. As to the independent factor of financial management practices in these reviews, as opposed to the past reviews pushing

a general classification for the components of financial management, Okumu (2010) contended that, significant factors of financial management practices in SMEs can fluctuate starting with one nation then onto the next, contingent upon the advancement of the setting of corporate area. Observational reviews led on SMEs of various nations upheld their contention, demonstrating presence of a noteworthy change among the significant constructs of financial management practices in various settings of study. For instance, Peel and Redman (2010) considered capital planning and financing practices as the real components that define financial management practices for private ventures in UK. In addition, Nguyen (2011) contend that the practices which are manifestly recognized with the productivity and performance of Small and Medium Scale enterprises in Vietnam are those connected with the accounting information structures, financial planning, working capital management, fixed asset management and financial reporting and investigation.

Butt, Hunjra and Rehman (2010) leaned more towards capital structure decision, dividend policy, investment evaluation approaches, working capital and monetary evaluation as the commonly and generally acknowledged practices in financial management in Pakistan. On the other hand, studies carried out in Turkey on the latest update on financial management of SMEs firms and the study showed that both similarities and extensions with regard to previous assessments carried out in different backgrounds, which is explained in detail in the subsequent section. Strikingly, no investigated study, to date, endeavored to break down the changes in the acts of financial management in Small and Medium Scale enterprises organizations inside various settings and approach the lead of these practices from a financial management perspective, taking the impact of these practices on organizational performance, as a base.

2.3.2 Financial Profitability

According MKok (2014) notes that financial profitability can be characterized as an independent indicator of how best an organization can use resources from is important approach of business and produce incomes. This aspect is also used as a common pointer of a firm's common financial health within the timescale and can be used to consider over similar organizations within similar sectors of operation or to focus on ventures or areas in general. Chowdhury (2012) asserts that the performance dimension idea demonstrates that workers can build the value of the firm by

increasing the extent of an organization's future cash streams, by speeding up the acquisition of those cash streams, or by making them progressively certain or less risky.

There are a comprehensive collection of methodologies to measure financial profitability, however all methods should to be taken in totality. A portion of the indicators of financial profitability are return on equity, liquidity proportions, asset management ratios, profitability ratios, leverage ratios and market value ratios (Crowe, 2009).

As Ceylan, Emre and Asl (2008) indicate that a generally used indicator of organizations financial performance is the amount of the firm's profits. The firm's profit can be gauged by the return on a bank's assets (ROA), a fraction of a bank's profits to its total assets. The income decisions of firms reveal profits prior and then after taxation.

Mbatha (2012) distinguished that the utilization of financial profitability could at present be legitimized in light of the fact that it replicates what managers really contemplate to be financial profitability and, irrespective of the likelihood that this is a compound of different indicators like accounting profits, profitability, and cash flow. Financial profitability is dictated by the complementary measures; profit or value added; sales, expenses, spending plan; expenses or use and stock exchange markers (e.g. share price) and independence. Mediators for the financial performance additionally incorporate the accounting indicator of profitability; return on equity (ROE) and return on asset (ROA).

2.3.3 Investment Practice

Mkok (2014) contends that investment practices (IPs) are the practices on ventures which significantly affect the long term financial and operational profitability of organizations and which greatly affect the competitiveness of firms. Investments for the most part have impact on the product or services sets of organizations, and geological degree and distribution of their operations. Organization innovative work, acquisitions and mergers, the presentation of new product lines, the establishment of new manufacturing procedures and business advances are ordinary cases for SIDs in the related literature. Ayman (2011) in his review contends that SIPs significantly affect the long term financial and operational profitability of organizations, and significantly affect the competitive advantage of firms. As one of the SIPs, internationalization is a standout amongst the most imperative and most complex practices. It has its exceptional dangers, instabilities in the

process are high and making estimations about future cash streams is hard. Keeping in mind the end goal to settle on a sound internationalization choice, leaders ought to make great estimations on numerous factors, for example, market demand, offer value, trade rates and future monetary and political states of the new market. Assessing those factors turns out to be considerably harder when the firm is new to the new market. Studies here pointed out the significance of learning in a fruitful internationalization. Patra, (2008) analyzed the connection amongst finance and SIDs and the circulation of cash dividends and returns of the share trading system in Taiwan and China, utilizing the rundown of modern organizations in Taiwan and China, as indicated by the for Granger causality to researched the dynamic connection between these organizations, and the review found out that there is a relationship between profits (returns) and between each of the investment decision and the choice of the cash dividend allocation in both Taiwan and China, and in this way the study suggests that the required leaders look for the participation and concordance of these practices together to accomplish popular objectives.

Selvan *et al.* (2009) study intended to test the SIDs made by organizations and systems sought after by these organizations to achieve a competitive level, whereby data gathered from Celaya was examined. The study found that most small and medium-sized ventures take the financing decision by method for serious methodology connected notwithstanding the age of the organizations in the market and sales level and this implies Mexican organizations do not have the capacity to compete and this lessens development and expansion and a few organizations take an unseemly monetary practices for the procedure, and that organizations that oversee resources and liabilities are skillful and are the most aggressive.

Barako (2010) recommends that organizations ought to attempt investment projects that will create positive net present value. This is to state that capital expenditures in the present time frame ought to create future corporate profit that surpasses the value of the underlying consumption.

In addition, Wasike (2011) notes that the capacity of a firm to make monetary value stems specifically from its ability to generate profit over its cost of capital. As it looks to gain profits enhanced than those of its rivals, it must get and keep up a place of competitiveness. This must be accomplished when the firm has assets that drive it towards a competitive edge. To be sure, the capacity to oversee gainful client connections is an advantage of numerous effective enterprises (Magara, 2012).

According to the few studies carried out in this area, fixed asset (capital budgeting) which is a key venture decision, notwithstanding that the decision about whether to make a fixed asset investment is significant to developed organizations with respect to the effect of this resolution on the long term income of a small or medium sized organization, absence of a very much organized key approach when making fixed asset practices is a noteworthy issue territory for built-up organizations working in Turkey (Guler, 2010; Çetin & Btrak, 2009). By and large the assets attached to the acquisitions of fixed assets, for example, buildings or equipment, are in substantial sums with long development periods, issues in fixed asset venture practices conceivably convey the danger of debilitating the money prerequisites of day by day generation/benefit operations, especially when the income effect is not obviously dissected before making the venture. Zikimund (2010) note that as the fundamental encouragement driving fixed asset interests in independent ventures is to build the effectiveness, therefore benefit of the endeavor , the mistakes and insufficiencies in making these practices and acting as needs be damage the profitability in this way the money related and general performance of the organization, while poor investments towards having more propelled product or service facilities restrains the development of the organization, which emphasize the significance of a vital standpoint when taking and actualizing fixed asset investment practices. Okumu (2010) showed that the findings are possibly going to be more positive when these essential practices are implemented considering the organizational purposes, for example, development or productivity and coordinating the fixed assets in like manner, beginning with the essential inquiries of what amount of that venture is required for a superior general performance and how might we dispense our fixed assets to this interest in the most ideal way imaginable, if that investment is a prerequisite for our short and long term objectives and targets. Along these lines, the methods and closures would be overseen in a more appropriate manner, as far as amplifying the viability and effectiveness of the fixed asset achievement.

2.3.4 Capital structure practice

Capital structure practices have a significant effect on the organization's financial profitability. Precisely how organizations select the level of debt and equity in their capital structures remains a mystery. Capital structure is the combination of debt, equity, internal sources or government proprietorship that funds the organization's strategic plan (Ongore, 2011). The powerful

administration of capital structure guarantees the accessibility of required finance to finance the future development and enhance financial profitability. The debt equity relationship relies on the way ventures are included like organization's line of business and its improvement. An organization is supposed to be very leveraged in the event that it incorporates the most extreme debt source of funds in its capital structure, which comes about, the organization discovers its opportunity of activity confined by its lenders and may have its profitability influenced with the payment of high interest costs. There is a huge difference between the business and the individual organizations inside an industry as far as capital structure is concerned.

The normal agency issues that are doubtless going to emerge in circumstances where proficient managers control the profits of a organization in which they are not shareholders are unfriendly determination (incorrect conclusions) and moral hazard (failures of managerial integrity). Kiogora (2010) contended that these issues regularly emerge in light of the fact that managers do not have the imperative inspiration to guarantee reasonability since they don't have a stake in the residual income of the firm. Managerial ownership is the most questionable and undetermined type of firm possession, and has mixed effects on performance. Though ownership by managers might be viewed as an arrangement of balancing the interests of managers with those of shareholders, since the mid 1990's, the Ethiopian Government has sought after a strategy of divestiture, focused on reducing the level of state responsibility for with a view to pulling in private sector support in management of the underperforming state enterprises. It was anticipated that this arrangement would mix present day management styles into people in public sector that would at last enhance performance of the organizations. The way that government responsibility for was found to in any case affect firm performance adversely is maybe a sign that the divestiture program is up till now to achieve a basic level where its value can start to think about corporate performance.

Relevant literature with respect to the connection between ownership by companies and firm profitability underscores that investors contrast in how much they are set up to go for risk (Chebii, Kipchumba & Wasike (2011). Firm owners settle on undertaking decisions that are affected by their interests and inclinations. At the point when a firm procures shares in another firm, the shareholders of the main firm amplify their venture inclinations, interests and risk taking conduct to that new firm. The fascinating thing about firm ownership by different firms in Kenya is that the holding firms are commonly huge organizations with the capacity to revamp their branch/associate

operations to safeguard non-performing subsidiaries. The vast majority of these holding firms have likewise detailed great performance amid the time of study. The great performance of the organizations they maintain is accordingly, steady with the documented practice by firms to augment their venture inclinations and risk taking conduct to the organizations they buy.

As Nyoike (2010) carried out a study on the capital structure on organizations listed at the Nairobi Stock Exchange to investigate the relationship between capital structure and financial profitability of the firms. The study recognized that there was a significant and positive association between leverage and return on equity, liquidity and return on investment.

Furthermore, Magara (2012) approved out a study on capital structure and its determinants at the Nairobi Securities Exchange. The study sought to determine the real factors affecting capital structure between 2007 and 2011. The study focused on the factors related to the firm size, tangibility and expansion rate of the firm. The findings of this study revealed a positive and significant relationship between the size of the firm, tangibility and the rate of growth and the degree of influence of the organization.

However, the study did not take into explanation the moderating effect of board structure and composition. As indicated by Jostarndt (2010), successful organizations with a worldwide presence have a tendency to be expansive, with settled administrative frameworks that are imitated (with insignificant customization) in all their branches and subsidiaries abroad. The shortcoming of this review is the powerlessness to completely examine industry-particular issues because of the general approach of this review. The agricultural sector, which is the mainstay of the Ethiopian economy, comes last as far as representation with under ten listed firms. Generalizations have in this manner been made with respect to performance of sectors, however which require more examinations. Accordingly, this study focuses on the impact of the capital structure on the financial profitability of SMEs in Jimma town.

2.3.5 Cash Management Practice

Wasike *et al.* (2009) indicated that organization require money and other liquidity assets or current assets to meet their bills or current liabilities as they often fall in amount outstanding. If an organization has poor current assets in relation to its current liabilities, it may be required into

liquidation. Cash management issues can arise from the lack of the capacity to convert the current assets into cash in a profitable way or from difficult to deal with bad debt losses. In this way, Kiogora (2012) notes that cash management is an vital standpoint that passes on a decent image about the capacity of the organization to produce money and pay short-term liabilities and long-term debts as they fall due. Subsequently, liquidity ratios are perceived to focus on the relationship between different groups related to current assets and current liabilities to measure the level of liquidity of an organization. Liquidity ratios aid in establishing the competence of the financial management approach that the firm uses (Mathenge, 2012). Furthermore, current, quick and cash ratios the three types of liquidity ratios that are typically visualized. In his study on liquidity management and is consequence on firm productivity in Indian steel industry, Sri (2011) used current ratio and total liquidity as indicators of liquidity. In this study, it was found out that there was a positive and significant relationship between liquidity and firm profitability. Be that as it may, with the end goal of this review, debts and current assets and also fiscal management practices were considered. Graham (2007) notes that financial management likewise called liquidity management practice is the way toward setting up and controlling cash streams into and out of the organization and financial balances held by a business at a given point in time. Naibei (2013) depicted financial management as the way toward guaranteeing that enough money is accessible to meet the organization costs of a business and goes for diminishing the cost of holding cash. Profitable financial management comprises the guarantee of the optimal finance to hold by bearing in mind the tradeoff between the opportunity cost of holding excessive money and the trading expense of holding too little money (Ross *et al.,* 2008). Arsov (22008) notes that there is a need for careful planning and monitoring of cash streams after some time to decide the ideal trade to hold out any given time in firm.

An evaluation by (Kwame, 2011) determined that the setting up of a cash balance policy guarantees reasonable cash planning and investment of extra money. These discoveries concur with those of Kiogora (2012) who found out that fiscal budgeting is helpful out getting ready for lack and excess of money and affects the financial profitability of the organizations. The attestation by Ochola *et al.* (2010) that declining the time cash is tied up in the working cycle enhances a business' profitability and market value promotes the importance of effective cash management practices out enhancing business performance.

Eiliott (2012) characterized cash management as a piece of treasury administration, which is characterized as a piece of the primary duties of the central finance administration group (Torracco, 2007). Mark (2008) states that the particular errand of an ordinary treasury work incorporate cash management, risk management, equivocation and insurance management, account receivable management, account payable management, bank relations and investor relations (as refered to in Kytönen, 2009). Hayes (2011) imagines that this definition is reliable with the (as refered to in Srinvasan & Kim, 2006) arrangement of cash management regions as cash balance management, cash gathering, cash mobilization and concentration, cash distribution, and banking system design. Cash balance management incorporates administration of cash position, short term borrowing, short term investment, cash forecasting. (Hayes, 2011) feeling is that the orders of Tiegen's cash management and Srinvasan and Kim's cash balance management are firmly related ideas. Hayes (2011) characterizes cash management as working and budgetary transactions. The working transactions incorporate bookkeeping records, invoicing, terms of sales, cash collection, cash control and handling, cash forecasting. The financial transactions incorporate improvement of cash, short term investments, short term borrowing, interest rate risk management, exchange rate risk management, payment systems, information systems and banking investor relations (Ochoa, 2011). From these measurements, in his review, Ochoa distinguished the accompanying liquidity practices among firms:

A. Aggressive cash management

An aggressive cash management strategy focuses on the organizations dynamic control and administration of current assets with the point of limiting them (Hussain, Farooz & Khan, 2012). Under this arrangement, current assets are just requested as they are expected to encourage the operation of the business. Selvan (2009) notes that aggressive cash approach comes about out insignificant level of interest in current assets versus fixed assets. Different things being the same, an aggressive cash strategy comes about out lower current assets, brings down costs, a shorter cash conversion cycle, higher risk and higher income required to compensate the risk (Pinches, 1997). Hussain *et al.* (2012) found that organizations that used an aggressive investment strategy with low level of current assets eventually increase the level of profitability.

B. Conservative cash management

Conservative cash management is a motionless approach, in which current assets develop in size whatever the circumstance (Myers, 2007). A conservative cash strategy sets a more famous extent of assets in short term assets against long term assets with opportunity cost of low level profit (Odek & Ochala, 2013). Conservative cash approach puts a more noteworthy extent of capital in liquid assets instead of profitable assets (Shubiri, 2011). In monitoring current assets, the strategy is more conservative, if the firm uses more current assets in relation to total assets (Waegeman, 2008). Gwaya (2013) established out that a conservative cash strategy positively affects a company's profitability and value. Waegeman, (2008) found out that organizations don not significantly take after either aggressive or conservative working capital approaches. Hence, a few firms take after aggressive and others moderate cash management approaches. There is no solid partiality that a more aggressive approach in one territory is balanced by a more conservative approach in the other (Waegeman, 2008). Okumu (2010) interpreted that organizations have a tendency to embrace conservative cash approach amid the period of high business unpredictability and aggressive cash approach during the season of low instability.

C. Moderate/ matching cash management

According to Obado (2013), a few firms take after the matching rule, in which the development structure of fund matches the development time of the venture or asset. Here, the fixed assets and current assets which are required on permanent premise are financed through long term sources. While current assets financing needs change consistently, they are financed by short term borrowings. The hypothesis suggests that extreme cash in corporate finance records is not really for the firm (Kibet, 2013).Unnecessary cash might be developed due to poor corporate management.

Tradeoff, pecking order and free cash flow theories more often than not clarify the example of cash holdings. Nyoike (2012) notes that firms, as per tradeoff hypothesis and by expansion the matching methodology, set their suitable amount of cash holdings by weighting the peripheral expenses and minor advantages of holding cash (Afza & Ndiritu, 2009). The level of cash a firm keeps up is portrayed by its approaches with respect to working capital prerequisites, income administration, dividend payments, ventures and asset management to give balanced cash

something to do as conceivable to adjust the time predictable to create products, turn over stock or convey services.

2.4 Critique of the Existing literature

From the above empirical studies, it can be evidenced that most studies have dealt with itemized financial management practices that is individual practices on either capital structure (Nimalathasan & Valeriu, 2010), investment practices (Arsov, 2008), liquidity practices (Nguyen, 2011) and financial management practices (Oyedijo & Akinlabi 2010 & 2008; Nmadu, 2011; Akingbade, 2010). Secondly, smallest amount empirical studies have researched on the above financial management practices' effects on financial profitability. Instead, most of them dealt with profitability as the sole benchmark of financial profitability. There are various yardsticks of organizations financial performance rather than profitability example return on capital employed, return on assets, operating expenses control, debts ratios etc. (Myers, 2007). Thirdly, least empirical studies have dealt with specific SMEs is the backbone of any given economy (Barako et al., 2010). Lastly, it is high time the economy realized its investment in the research concerning the Small and medium scale so as to restrain against unauthorized SMEs introduction in to Ethiopia lest the business collapses (KSB, 2015).

According to Myers, (2007), in analyzing the financial profitability of a organizations, it's prudent to consolidate all the parameters concerned in the financial management as a whole so as to gauge the structure of an organization in terms of financial management profitability.

2.5 Conceptual Framework

Kombo and Tromp (2010) depict an idea is a unique or general thought gathered or got from particular examples. Selvan (2010) remarks that not at all like a hypothesis, an idea does not require talk to be comprehended. Kombo and Tromp (2010) state that a conceptual framework is an arrangement of wide thoughts and standards borrowed from applicable fields of enquiry and utilized to assemble a resulting introduction. The conceptual framework for this study exhibits the relationship of financial management practices and financial Profitability of Small and Medium Scale enterprises which will presented in Figure 2.1 under which it conceptualizes that financial management practices (investment practices, capital structure practices, liquidity practices and risk management practices) impact on financial management on profitability of SMES in Jimma Town.

Investment Practices

- Research & development
  Practices
- Tangible capital practices
- Acquisition practices

Dependent Variable

Capital structure Practices

- Equity practices
- Debts practices
- Internal finance sourcing
  practices

Financial Management

(Financial Profitability)

- **Net profit**
- **Return on assets**

Cash Management Practices

- Aggressive cash management
  practice
- Conservative cash   management
  practice
- Moderate/matching cash
  management practices

Figure 2.1: Conceptual Framework

According to the conceptual framework (figure 1), it is generally accepted that there are many factors which influence profitability of small and medium scale enterprises. This study would focus on four groups of factors; Investment Practices, Capital structure Practices, Liquidity Practices and Financial Profitability. The section on Investment Practices describes: Research & development Practices, Tangible capital practices, Joint venture practices and Acquisition practices. Capital structure Practices sight to determine the extent to which the Equity practices,

Debts practices, internal finance sourcing practices influenced profitability of small and medium scale enterprises.

In this study, cash management Practices related factors seem into the Aggressive cash management practice, Conservative cash management practice and Moderate/ matching cash management practices. The end result is that financial profitability of small and medium scale enterprises can be net profit or return on assets.

2.6 Research Gaps

From the previously mentioned empirical reviews, unambiguously few reviews have been led in connection to the consolidated financial management practices and their consequences for the financial profitability of organizations. Oludhe (2011) in his review founded that there is a significant relationship between the financial management practices on financial profitability of the organizations. Nguyen (2011) contended that the primary practices which were largely connected with the profit and performance of the organizations as the practices identified with the accounting information frameworks, financial planning, working capital management, fixed asset management and financial reporting and investigation. In Australia, Ozkan (2009) utilized financial record keeping as the main general indicator of financial management in private firms while in Pakistan, Butt, Hunjra and Rehman (2010) focused on capital structure decision, dividend policy, investment appraisal approaches, working capital and financial valuation as the most documented financial management practices.. Nguyen (2011) also affirms that profitable cash management comprises the confirmation of the suitable amount of cash to hold by putting into consideration the tradeoff between the opportunity cost of holding on top of excess cash and the trading expense of holding excessively little amounts. Besides little research has underscored on the small and medium scale enterprises which is sickly in the current economies. Most of the performances were measured by return on assets or Return on Equity yet it can be deduced from the criticisms that an entity's financial profitability can also entail a profits parameter. It is on the above criticisms that a knowledge gap exists on a premise that this study provides an insight analysis of the influence of various financial management practices (investment, capital structure and cash management) on the financial profitability of the organizations.

2.7 Summary

This chapter has furnished the person who reads with this research related theories (capital structure theory, leverage theory, liquidity preference theory and agency theory) which outlined the relevancy of financial management practices and their origin. The chapter has gone further outlining the conceptual framework which has related the independent variables and the dependent variables. Hypothetical variables have been explained by the empirical studies which have further enclosed way for the criticisms that lead to the research gap.

CHAPTERTHREE

RESEARCH METHODOLOGY

3.1 Introduction

This section emphasizes on the approaches employed to give arrangement to the research process in collecting and analyzing data to address the research objectives. It covers the research design, target population, sampling techniques, and research instruments and data analysis methodologies. According to Dawson (2010), research methodology is the philosophy or general principles which guide the research. Kombo and Tromp (2009) as well as Zikmund *et al.* (2010) advance that research methodology deals with the interpretation of the methods applied in carrying out the research studies.

3.2 Research Design

Kerlinger (2011) notes that research design is the planning of conditions from collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the logical way in which individuals or other units are compared and analyzed and acts as the foundation of making clarifications from the research data. It is the blue print for the compilation, measurement and analysis of data. It is a plan and structure of investment comprehended so as to gain answers to research questions (Coopers & Schindler, 2008). This study were adopted a descriptive survey design. According to Salkind (2009), descriptive survey design is a method of collecting data by interviewing or administering a questionnaire to a sample of individuals which can be used when collecting information about peoples' attitudes, opinions, habits or any other social issues. Descriptive research is a depiction of the state of affairs as it exists (Orodho & Kombo, 2002). Selvan (2011) concurs that a descriptive study is undertaken in order to determine and be able to describe the characteristics of the variables of concentration in a situation. Selvan (2011) state that descriptive study has several advantages like; it helps in understanding the characteristics of a group in a given situation, assists in systematic thinking about aspects in a given situation. It also offers idea for more investigate and research and helps in making certain easy decisions. Zikmund, Babin, Carr and Griffin (2010) say that descriptive research is to illustrate characteristics of objects, people, groups, organizations, or environments.

In other words, descriptive research tries to "paint a picture" of a given situation by addressing who, what, when, where, and how questions. Descriptive research design were appropriate for this study as it help in understanding the impact of financial management practice and its impact on financial profitability of SMEs in Jimma Town and therefore answers "what" question of the study.

The study were used quantitative research design that utilizes data sources (questionnaire) and research approaches would be used in the course of sample size determinations in given target population. Quantitative data was analyzed by using descriptive statistical tools by using SPSS 20. The target populations for the study were: employees, experts, and administrators of each bureau and qualitative study conducted with chief executive of the offices. For purpose of data analysis the logistic regression model would use frequencies, percentages and, inferential statics such as Pearson correlations, one way ANOVA and the coefficient of determination would be employed in course of data analysis.

3.3 Target Population and Sampling Method

Target population is a population to be sampled from whom information is gathered to conduct the study (Yeraswork2010). Sampling refers to the process by which part of the population is selected and conclusions are drawn about the entire population (Cooper and Schindler, 2001). A target population is the population to which the study ideally was like to generalize his or her results. The study was conducted in Jimma Town to test the impacts of financial management practice on financial profitability of SMEs. There are so many unsuccessful small and medium enterprises that are found in each kebeles but it is difficult to get their full information to include them in the study. The target population of the study includes Government Organized SMEs in Jimma Town. The choice of these the town is based on size and concentration of SMEs. There are 416 employees in four sectors of small and medium business enterprises in the last three years (2017-2019).

Table 3.1: - Distribution of Sample Size over Target Population

No	Category of SMEs	Medium	Small	SMEs
1	Manufacturing	22	106	128
2	Construction	18	87	105
3	Trade	19	68	87
4	Services	22	74	96
	Total	81	335	416

3.2.1 Sampling Technique and Sample Size

Kombo and Tromp (2009) and Kothari (2004) describe a sample as a collection of units chosen from the universe to represent it. A study that collects too much data is also wasteful. Therefore, before collecting data, it is essential to determine the sample size requirements of a study (Gerstman, 2009). Given the small number of 4 sectors of SMEs in Jimma town, which of course did not warranty sampling to be carried out (Salkind, 2010), a census study was conducted to capture all 4 sectors of small and medium scales (SMEs), in jimma town. However sampling would be adopted to determine the number of respondents from the SMEs.

The study concentrated on 4 registered sectors of SMEs operating in Jimma town as at September 2019 which have a population of 416 employees including the managing directors of each Group of sector enterprises (MOT, 2019). To take account of representation of all functional areas of the departments, proportional random sampling was used to obtain a sample size of respondents. It must be noted that this approach was consistent with the practice of surveying key informants knowledgeable about organizational matters by virtue of their positions. The sample size would be selected by Sekaran, 1992, sample size determination formula and, stratified random sampling technique. (Kothari, 2004), recommends stratified random sampling because it is accurate, easily accessible, divisible into relevant strata and it enhances better comparison; hence representation across strata.

Purposive sampling was adopted to identify the respondents from each enterprise to suite the total sample of respondents.

The study group the population into strata. From each stratum, the study is use simple random sampling to select the respondents. This sampling design was used because the population of the study is not homogenous and is to be sub-divided into sub-units. Accordingly, this study would apply proportionate Stratified Random Sampling technique involves in determining sample size in each stratum in a proportionate manner to the study population. Therefore, application of proportionate Stratified Random Sampling generates more accurate data of each enterprise from each strata or subgroup. The sample size for collecting quantitative data were determined using Slovin's formula as indicated in (Sekaran, 1992).

Based on (Sekaran, 1992), sample size determination formula, can get a grand total sample of 204, at 95 % confidence level and 0.05 precision levels.

This study was employs the following formula to determine sample size:

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

Where,   n=sample size

N= total population

e= precision level (sampling error)

In this case the total population N= 416

Hence, using the above formula $n = \frac{416}{1 + 416(0.05)^2}$

$n = \frac{416}{2.04}$ n=204

As a result, the sample size for the study was 204 members of the target population.

3.3 Source of data and Method of Data Collection

3.3.1 Source of data

For the proper achievement of the objectives of the study, the study used primary data source. The study was used quantitative data to analyze the study .Quantitative data is defined as "any data collection technique (such as a questionnaire) or data analysis procedure (such as graphs or statistics) that generates or uses numerical data" (Saunders *et al 3.5* 2009:151). These would be

collected through questionnaire from employees, administrators, experts and chief executives of the organizations.

3.3.2 Method of Data Collection

In order to accomplish the objectives of this study, the primary source of data were used. By using these methods the study would be able to supplement each other in their methodological weaknesses. To this end, questionnaires were used as the source of data gathering instruments.

I. Questionnaires

Based on the data collection method, Kooper (2010) classified research into two types: observation and surveys. However, Salkind (2010) expands this classification into four basic types: surveys, experiments, and observation and secondary data studies. Survey is a research technique in which information is gathered from a sample of people by use of a questionnaire (Salkind, 2010). Experiment holds the greatest potential for establishing cause-and-effect relationships. The use of experimentation allows investigation of changes in one variable while manipulating other variables under controlled conditions (Hedges, 2010). Observation allows the researcher to monitor and record information about subjects without questioning them (Emory, 2010). Secondary data are data gathered and recorded by someone else prior to the present needs of the researcher (Salkind, 2010).

In terms of research technique, this research were utilized both survey and secondary data methods. Survey was chosen as a research technique in this study to investigate and describe financial management practices of SMEs in Jimma town.

The argument for choosing survey was based on two major reasons. Firstly, survey provides a quick, efficient and accurate means of assessing information about the population. Secondly, survey is more appropriate where there is a lack of secondary data (Kooper, 2011). In this case, secondary data of financial management practices of SMEs in Jimma Town may not be available; thus, conducting a survey to gain information about financial management practices is necessary. Surveys would be further classified by the communication medium used into mail, telephone survey and personal interview (Emory, 2005), (Salkind, 2010). Mail survey is a self-administered questionnaire sent to respondents through the mail. Telephone survey is a method of survey in which respondents are contacted by telephone to gather responses to survey questions (Kooper, 2011). Personal interviews are direct communications where in interviewers in face-to face

situations ask respondents questions (Kooper, 2011). In Ethiopia, there are difficulties in collecting data, especially data concerning financial information. Therefore, selection of appropriate methods to communicate with respondents is very important in the surveys. This selection is based on (1) the possibility of communicating with respondents, (2) the advantages and disadvantages of the most typical surveys and (3) the budget allocated for the study. Each of survey methods (personal interview, Questionnaires, telephone interview and mail survey) have both advantages and disadvantages in terms of different perspectives.

However, item non-response, possibility for respondent misunderstanding, and respondent cooperation or participation are probably the most important factors for success of a survey (Kooper, 2011).Therefore, this study were used ''Questionnaires'' as an instrument to obtain information about financial management practices from the respondents (heads of departments, Chief Accountants, section heads and other relevant employees where need arose).

3.4 Validity and Reliability

Kothari (2004), state that validity indicates the degree to which an instrument measures what it is supposed to measure, that is, the degree to which differences found with measuring instruments reflect accurate differences among those who are tested. This tests the construct validity of the instruments which is the measure of the degree to which data obtained from an instrument meaningfully and accurately reflects or represents a theoretical concept. Two different instruments that measure the same concept would be used. Validity is a characteristic of measurement concerned with the extent that test measures what the study actually wishes to measure and that the difference found with a measurement tool reflect accurate differences among participants drawn from a population (Cooper & Schindler, 2008). In developing and constructing the questionnaire the study was involved in constant consultation with the opinions in order to establish the construct validity of the instrument. As observed by Vogt (2007), a number of studies were use this instrument and found both their reliability and validity values to be acceptable to the population being studied and in a different context thus recommended for testing the validity and reliability of the instruments.

3.4.1 Validity of Instruments

Vogt (2007: 117) defines validity as the truth or accuracy of the research. Saunders et al (2009) adds that it is the extent to which the data collection instrument measures as well as the appropriateness of the measures coming to accurate conclusions. A validity test were conducted for content, criterion and construct validity to test how well the instrument is representative, captures relationships between the variables as well as measure of the concepts (Saunders et al, 2009; Vogt, 2007; and Sekaran and Bougie, 2010). Therefore to ensure validity study the triangulation technique by using questionnaires data analysis with and done through piloting of the data collection instruments used to collect data. The data collection instruments designed in such a way that they measure, attitudes and opinions of respondents towards the obstacles of MSEs to the maximum degree possible.

3.4.2 Reliability Analysis

Reliability is defined by Vogt (2007) as the reliability of either measurement or plan to give the identical conclusions if used at different times or by different scholars. The first step in ensuring reliability is as long as clear operational definitions of the variables under study. Afterward, internal consistency was measured through inner stability reliability (Sekaran and Bougie, 2010) as well as split-half reliability using Cronbach's alpha. If R2 (Alpha) worth equals to 0.7 and more than, then the instrument will consider satisfactory (Cronbach, 1951; and Sekaran and Bougie, 2010). The importance of reliability instruments is that after the data collection, reliability analysis was done and the findings for each of the variables are presented by using statistical analysis. The overall reliability coefficients of the questionnaire were discussed and would check the most reliable items, generally, all the items in the questionnaire.

The most standard test of inter-item consistency reliability is Cronbach's alpha coefficient. Sekaran and Bougie (2010) distinguished that it designates the degree to which an instrument is error free, consistent and stable across time and also across the various items in the scale. Hence, the Cronbach alpha coefficient test was engaged to measure the internal consistency of the instruments used and the coefficient alpha of these variables were reported in Table 3.2. As shown in Table 3.2, the Cronbach alpha test showed values ranging from a low of .942 (Investing practice) to a high of .994 (financial profitability). These findings were in line with the rule of

thumb recommended by Hair *et al.* (2010) where coefficient of 0.60 is regarded to have an average reliability while coefficient of 0.70 and above indicates that the instrument has a high reliability standard. Therefore, all items were included in the research instrument.

Table 3.2 Reliability Statistics

Financial management Practices	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
Investing practice	.942	.956	10
Capital structure practice	.990	.991	9
Liquidity practice	.992	.992	9
Financial profitability	.994	.994	12
Overall	**.995**	**.995**	**40**

(Source: Own Survey, SPSS V20, 2020)

From table 3.2 above, the overall reliability coefficient of the questionnaire was 0.995. Financial profitability seemed to have had the most reliable items but, generally, all the items in the questionnaire were reliable. This implies that the instrument was reliable for use in data collection

3. 5 Method of Data Analysis

The survey items are coded in a manner that was generating the types of data through questionnaire items in close-ended questions for quantitative data. The study was cleaned the collected data before entering into the Microsoft Excel spreadsheet which will be later copied into the Statistical Package for Social Science (SPSS). Qualitative content analysis would be the major approach that the study was used in analyzing the qualitative data. Hsieh and Shannon (2005) define it as a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or pattern. This would allow the study to understand the realities of the respondents. The study undertook a descriptive analysis where presentations were made through tables indicating the frequency and percentages and was complement by the study's interpretation. It involved uncovering structures, extracting important variables, detecting any irregularity and testing any assumptions (Kombo and Tromp, 2006).

3.5.1 Quantitative Data Analysis

Quantitative research design combines a descriptive and explanatory research method. The quantitative data analysis consisted of numerical values from which descriptions such as mean and standard deviations were made (Kombo and Tromp, 2006).

Data collected were checked to ensure regularity and accuracy; this is useful in ensuring that the objectives of the study being addressed. Analysis was done according to the objectives of the study, data generated by questionnaires are cleaned, edited and coded before analysis would done; subsequently analyzed by using the Statistical Package for Social Sciences (SPSS) programme. Specifically, Pearson's correlation coefficient and regression were used to analyze the effect of different variables on profitability of SMEs. Moreover, data obtained from the documents were analyzed in narration to complement the outcome of the data collected through questionnaire. This would facilitate the study to reach at some relevant conclusion and recommendations.

3.6 Measurement of variables

The variables are measured using nominal and ordinal types of measurements. The questionnaires specifically for respondents are measured on a five interval Likert Scale or Ordinal scale, the level of agreement would be ranked as strongly agree, which reflected more agreement than just agreement or strongly disagree compared to just disagree. Ordinal Scale as measurement of variables did not only categorize the elements being measured but also ranked them into some order. Hence, the number in the ordinal scale represented relative place or order among the variables (Mugenda and Mugenda, 1999; Amin, 2005). The nominal scale of dimension was applied to cases which have some common characteristics such as sex, age, and employment title among others. Within nominal measurement of variables, numbers are assigning only for the purposes of identification but were not allowed for comparison of the variables to be measured. Additionally, interval scales of measurement were used to confine personal data of respondents.

3.7 Model Specifications

Multiple regression analysis allows the researcher to terminate whether a relationship exists between several independent variables and a dependent variable (Murphy III, 2010). The research problem in this study was to determine whether a relationship existed between financial management practices and financial profitability of SMEs in Jimma town. This study employed

multiple regression analysis to examine simultaneous impact of capital structure (CAP), Cash Management Practices (CMP) and investment practices (INV) on profitability of SMEs in Jimma town (Y). The multiple regression equation in this study without the moderating variable is as follows:

$$Y = \beta_0 + \beta_1 INV + \beta_2 CAP + \beta_3 LIQ + e$$

Where:

Y= Financial Profitability

β = beta, the coefficient of each independent variable

X1= INV (research & development decision, tangible capital practices, joint venture practices, acquisition practices)

X2= CAP (equity practices, debts practices, internal finance sourcing practices, government ownership practices)

X3 = CMP (Aggressive cash management, Conservative cash management, Moderate cash management)

ε = error term that denotes the unexplained practices affecting financial profitability.

The data obtained from the questionnaires were primarily quantitative and is analyzed using linear multiple regression to identify the most important and statistically significant financial practices that impacts most of SMEs financial profitability. According to IBM (2010), linear multiple regression is beneficial in situations where there are more than two explanatory variables and/or response variables. Andy (2010) notes that the above statistical tests would be conducted through the use of Statistical Package for Social Science (SPSS) version 20.

3.8. Ethical Consideration

The purpose of the study is to explain the participants and the study were asked their consent to answer questions in the questionnaires. The study also informed the participants that the information they provided was only used for the study purpose. Accordingly, the study were used the information from his participants only for the study purpose. To ensure the safety, social and psychological well-being of respondents and others participant;

i.   The researcher was getting an introduction letter from the Jimma University of Post Graduate Studies that introduces him to Jimma Town out his study.

ii.   The researcher had got permission from the Manager of the sectors four SMEs Government Offices of Jimma Town to carry out the study.

iii.   The researcher seeks consent of the respondents.

iv.   The researcher ensures that the information were given as treated with confidentiality.

v.   The researcher also quotes all the authors used in the study.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the reliability and data analyses of the administered questionnaires, the presentation of the analyses and the fall out of the results as well as discussions for the study. Descriptive statistics such as frequency and mean were used in the analysis while inferential statistics such as factor analysis, correlation analysis and regression analysis were adopted.

4.2 Response Rate

Questionnaires were distributed to 204 employees in small and Medium Scale Enterprises (SMES) located in Jimma Town. A total of 17 questionnaires were not returned. Only 187 questionnaires were reasonably and adequately completed representing 91.7% response rate (Table 4.1). This response rate was deemed satisfactory as recommended by Field (2013) who recommends 75% as a rule of the thumb for minimum responses. Further, regarding the works of Jaworski and Kohli, 1993; Patra *et al*., 2010, this response rate is considered acceptable and is comparable to research on similar topics in marketing.

Among the total target population a few sample of the population were selected and taken using simple random sampling technique. This was done through Slovin's formula according to (Sekaran, 1992), so the study computed and founded 204 sample sizes as it was illustrated in chapter three.

Based on this, data were sent to 204 respondents face to face. However, with unknown reason some respondents were not willing to respond. Hence, data were collected from 187 out of 204 respondents. Therefore, the overall response rate was 91.67 percent. Besides, in this chapter findings from the study were presented and discussed. Here the findings from the study are explained. Moreover, supportive literature pertinent to the study objective is also, where necessary, referred to. It is expected that this has made the discussion and analysis of the findings more systematic and comprehensive.

Table 4.1: Response Rate of Questionnaires

Responses	Number	Percentages
1.Administered questionnaires	204	100%
2. Incomplete	17	8.3%
3. Completed	187	91.67%

(Source: Owen survey, 2020)

4.3 Demographic Information

The study sought and obtained the gender details of respondents who participated in the research. Like other country, in Ethiopia both females and males are operating in SMEs at different positions as owners, accountant and managers or employees. The study takes into consideration the respondents personal characteristics to give general information about respondents and to assist the researcher understanding on the findings. Variables included here are gender, highest educational level and position in business.

The study put into account the gender of the respondents. From the results, 54% (101) of the respondents were female and 46% (86) of them were male. The results indicate that there is an almost equal representation of both male and female employees though female employees comprise the majority. Since both male and female individuals are given a chance to share their knowledge, the outcome for the organization is likely to be greater. Basically, there is a distinctive set of skills brought about by the diverse workforce.

Furthermore, most enterprises use education as an indicator of a person's skill levels or productivity (Barako, 2010). The study therefore deemed it important to establish if the educational level of the employees had a bearing on the financial profitability. From the results, 41.71% (78) of the respondents have a first degree level, 24.06% (45) diploma level, Masters level 16(8.56), certificate level 9.09%(17) and 16.58% (31) of the respondents other level of education. It is evident that the employees possess the requisite skills to perform their duties effectively. As such, the employees' educational attainment was part of the organizations' human capital.

The position in business was ascertained by the study. From the findings, 67.91% (127) of the respondents are accountants, 11.76% (22) are managers, 7.49% (11) chief accountants and 12.84% (14) others. This distribution presented a diversified base of information given the contribution of the different business positions. This indicates that the study sought answers from respondents' who engaged in different business activities. This division of SMEs by sector was believed to be helpful to study each sector critical factors that affect the financial profitability of SMEs. This is because firms in different sectors of the economy face different types of problems.

The study sought to know the business behaviors of the respondents in Jimma Town. The study established that most (31.02%) of the respondents were engaged in manufacturing sector followed by 24.60% of the respondents who engaged in construction operation and then (22.99%) of the respondents were engaged in services sector. Also 21.39% of the respondents were engaged in trade sector.

Table 4.2: Showing the background information of the respondents

Characteristics	Category	Frequency	Percentage	Valid Percent	Cumulative Percent
1. Gender	Male	86	46	46	46
	Female	101	54	54	100
2. Level of education	Masters	16	8.56	8.56	8.56
	Undergraduate	78	41.71	41.71	50.27
	Diploma	45	24.06	24.06	74.33
	Certificate	17	9.09	9.09	83.42
	Other	31	16.58	16.58	100
3. Position in Business	Manager	22	11.76	11.76	11.76
	Chief accountant	14	7.49	7.49	19.26
	Accountants	127	67.91	67.91	87.16
	Others	24	12.84	12.84	100
4. Main activity of the enterprise	Manufacturing	58	31.02	31.02	31.02
	Construction	46	24.60	24.60	55.62
	Trade	40	21.39	21.39	79.01
	Service	43	22.99	22.99	100

(Source: Owen survey, 2020)

4.4 Impacts of Financial Management Practices on Financial Profitability

4.4.1 Impacts of Investing Practice on Financial Profitability

The results on investing practices are as presented in table 4.3. The findings explain that 48.13% of the employees greatly agreed that their organization has invested in other businesses enterprises. Furthermore, only 36.51% of the employees agreed that their organization has acquired other SMEs to enlarge production output. This disagrees with Abu-Rub (2012), who found out that most organizations have engaged in diverged acquisitions and takeovers which lead to overcapitalization hence low financial profitability. Moreover according to the other findings of this study, only 29.90% of the respondents agreed that the organizations have joined together with other competitors/customers to enhance comparative advantage. According to Baraza (2010), integration with competitors embraces comparative advantage at a low cost which is helpful to the organizations participating. It was also revealed that few organizations have other organizations processing projects running parallel to small and medium scale enterprises (SMEs). This is evidenced by a 37.63% of the respondents who agreed on this note. Besides, 33.67% of the employees agreed that their organizations participate in research and development. With little R&D, the organizations are not able to gain competitive advantage by performing in ways that some of the competitors cannot easily duplicate. Therefore SMEs have ended up failing due to little knowledge about the dynamic business environment (Wasike, 2011).The findings of this study indicated that 24.90% of the respondents were not sure rather uncertain on whether their organizations deal in property/building investment. Furthermore, there is doubt of 15.06% on whether the organization involves each individual in investment plans. This represented that mainly, investment decisions are fully signified by each organization's view. Investment decisions are fruitful if they engage each employee in terms of performance contracting so that each employee appreciates the plan for each activity hence achieving the set financial goals (Okumu, 2010). Moreover, the study discovered that 44.12% of the employees agreed that the organizations have their own possess production input.

From the results, it is clear that 57.40% of the respondents agreed that their organizations trade their product produced with other organization. This implies that the organizations could make additional money to supplement their core investments. This practice may be beneficial only if the

management is transparent (Patra, 2008). Similarly, there was a finding that only 51.58% of the respondents agreed that the organization's investment policy is reviewed frequently to enhance their production power. To sum up, findings on investing practices summed up to a mean of 2.1818, standard deviation of 1.16356. The results inferred that the employees were generally in agreement with the items on investing practices.

Table 4.3: Descriptive statistics of investing practice

Investing Practice	SD %	D %	N %	A %	SA %	Mean	Std. Deviation
1. Your organization has invested in other businesses enterprises	28.00	23.52	6.77	32.09	16.04	1.8021	0.91487
2. Your organization has acquired other SMEs to enlarge production output	27.14	36.35	31.23	28.09	8.42	1.7701	0.87717
3. Your organization has joined together with other competitors/customers to enhance comparative advantage	16.90	33.79	19.41	22.83	7.07	1.7433	0.97734
4. Your organization has other processing projects running similar to processing SMEs	12.29	27.43	22.65	23.92	13.71	1.7647	0.94370
5. Your organization participates in research and Developments	28.04	25.34	23.50	19.06	4.06	1.7112	0.83088
6. Your organization deals in property investment	21.71	19.72	24.90	29.56	4.11	1.9495	0.96013
7. Your organization involves each individual in investment plans	23.14	24.18	15.06	32.77	4.85	1.8877	.94653
8. Your organization possess its production input	23.29	17.37	16.84	34.31	9.81	2.0802	1.16351
9. Your organization trades with the product it produced	11.64	19.57	11.39	42.13	15.27	2.9876	1.00387
10. Your organization's investment policy is reviewed frequently to enhance their production power	13.61	12.35	22.46	40.41	11.17	2.9462	1.08763

Key: SD = Strongly Disagree, D= Disagree, N = Neutral, A = Agree, SA = Strongly Agree

4.4.2 Correlation Results for Investment Practices and Financial profitability

A correlation analysis for the construct investment practices was conducted to find out how investment activities like research and development, joint venture and acquisition practices strategy correlated with financial profitability. Table 4.4 shows that the Pearson correlation coefficient was 0.841 a clear indication that investment activities has a strong correlation with financial profitability (p-values > 0.05). The significance of Investment practices verses financial profitability enhancement as indicated in the figure, the plots are on the first quant rate in the line of best fit. These findings imply that there is a strong relationship between investment practices and financial profitability. According to Ibrahim, (2012), investment practices greatly determine the organizations financial profitability in all aspects.

Table 4.4: Correlation results for investment practices and financial profitability

Correlations

Constructs	Correlations Basis	Financial Profitability	Investing practice
Financial Profitability	Pearson Correlation	1	$.841^{**}$
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	306.684	233.636
	Covariance	1.649	1.256
	N	187	187
Investing practice	Pearson Correlation	$.841^{**}$	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	233.636	251.818
	Covariance	1.256	1.354
	N	187	187

**. Correlation is significant at the 0.01 level (2-tailed).

4.4.3 Simple Regression Results for Investment practices and financial profitability

Table 4.5 presents the regression model the regression model of Investment practices with a coefficient of determination of $R^2 = 0.707$ and R= 0.841 at 0.05 significance level. The coefficient of determination indicates that 69.72% of the variation on financial profitability is influenced by investment practice. This shows that there exists a positive relationship between investment practices strategies on financial profitability. The test of beta coefficient shows that there is a significant relationship between investment practices and financial profitability as positive. The coefficient significance of investing practice effect as .705 and is significantly greater than zero since the significance of t-statistics 0.00 is less than 0.05. This exhibits that the high level of investment practices as having a positive effect on financial profitability. These findings are in line with (Orodhe, 2013) that investment practices issues such as research & development practices, tangible capital practices, joint venture practices and acquisition practices affects financial profitability.

Table 4.5: Simple regression results - Investment practices and financial profitability

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.841[a]	.707	.705	.69716	.274

a. Predictors: (Constant), Investing practice
b. Dependent Variable: Financial Profitability

4.4.4 ANOVA for Investing Practices and Financial Profitability

ANOVA was conducted to establish the homogeneity of data. As indicated in Table 4.6, if the observations were drawn from the same population, their variances would not differ much. The F statistic value of 445.988 implied that the combined model was significant and was suitable in predicting financial profitability. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional probability of (0.05). According to the analysis of Variance table there were significant differences between the investing practices in the mean number of financial profitability $F(1, 185) = 445.988$ P<0.05

Table 4.6: ANOVA – Investing Activities

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	216.767	1	216.767	445.988	.000[b]
	Residual	89.917	185	.486		
	Total	306.684	186			

a. Dependent Variable: Financial Profitability

b. Predictors: (Constant), Investing practice

4.4.5 Regression Coefficients of Investing Practices and Financial profitability

Analysis of the regression model coefficients is shown in table 4.7. From the table there is a positive beta co-efficient of 1.126 as showed by the co-efficient matrix with a P-value = 0.000 < 0.05 and a constant of 0.743 with a p-value = 0.000 < 0.05. Therefore, both the constant and investing practices contribute significantly to the model.

Therefore, the model can provide the information needed to predict financial profitability from investing practices. The regression equation is presented as follows:

$Y = 1.457 + .928 X1 + \varepsilon$; Where Y = Financial profitability, X**1** is the Investing practices and ε is the error term.

Table 4.8: Regression Coefficients of Investing Practices and Financial profitability

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.457	.109		13.420	.000
	Investing practice	.928	.044	.841	21.118	.000

a. Dependent Variable: Financial Profitability

Model = Y = 1.457+.928 X1

4.5 Impacts of Capital Structure Practice on Financial Profitability

4.5.1 Descriptive statistics for Capital Structure Practice

The researcher sought to establish capital structure practices among respondents of the sampled organizations. Table 4.8 illustrates the results. Study findings showed that 38.5% of the respondents agreed that their organizations have finances involving ordinary shares. This implies that the organizations are able to benefit from capital growth in the event that they do not do well. On the other hand 33.69% of the respondents agreed that the organization has retained profits as part of its finances as such, the organizations are able to reinvest since there is more capital available for growth and higher returns on investments and owner's equity (Mwangi, 2010). The study findings also confirmed that only 37.61% of the employees agreed that the management increases reserves as finances after reporting net profit. As a result, profit achieved by the firms is applied financial ratios in financial analysis of your business and is of aid in times of financial constraints (Kiogora, 2010). There are 52.94% of employees who agreed that the organizations applied financial ratios in financial analysis of the business. This does not coincide with (Kibet, 2010) who concluded that organizations don't redeem their preference shares. Moreover, the study findings indicated that only 38.5% of the employees agreed that the organization's finances are reviewed frequently (mean = 2.8984, SD = 1.17563). Therefore, there is inaccurate, untimely and irrelevant information upon which to base decisions and assess profitability.

According to Ongore (2011), lack of updated Organizational financial reviews leads to a decline in the financial profitability. Additionally, 24.06 % of the respondents only agreed while only 8.02% of the respondents strongly agreed that the organization analyzes financial statements as a part of its finances in the balance sheet. This means that majority of the SMEs organizations are not frequent analyzes financial statements as a part of its finances in the balance sheet throughout.

Also, the findings portrayed that 54.1% of the employees disagreed and remained doubtful on the organization's finances being partly owned by the private sector implying that the organizations could not benefit from direct investment from the state in case of financial difficulties. This finding is not in line with Kaumbuthu, (2010) who found out that government involvement in the financing of the organization may lead to more losses rather than being privatized.

Furthermore, this study revealed that 42.24% of the respondents agreed that the organizations' funds have greater percentage of debts than owner equity's and the organization prefers debts more than owner equity's as part of its finance. This means that the majority of the organizations are highly geared leading to losses due to loans repayments and interest expenses.

Table 4.8: Descriptive statistics on Capital Structure Practice

Capital Structure Practice	SD %	D %	N %	A %	SA %	Mean	Std. Deviation
1. Your Organization has finances involving ordinary shares	5.88	26.74	28.88	34.22	4.28	3.0428	1.00978
2. Your Organization has retained profits as part of its finances	6.42	20.85	39.04	28.34	5.35	3.0535	.98228
3. The management increases reserves as finances after reporting net profit	8.56	32.08	21.39	31.02	6.95	2.9572	1.12081
4. Your organization applied financial ratios in financial analysis of your business	6.96	25.13	14.97	46.52	6.42	3.2032	1.10297
5. Your organization analyzes financial statements as a part of its finances in the balance sheet	11.23	30.48	25.67	24.60	8.02	2.8770	1.14575
6. Your organization prefers debts more than owners capital contribution or investment	4.81	20.32	21.93	36.36	16.58	3.3957	1.12813
7. Your organization's fund has greater percentage of debts than owner's equity	7.49	17.11	33.16	29.41	12.83	3.2299	1.10986
8. Your organization's finances are Partly Owned by the private owner's	7.48	20.86	25.67	37.97	8.02	3.1818	1.08711
9. Your organization's finances are reviewed frequently	7.49	42.78	11.23	29.41	9.09	2.8984	1.17563

KEY: SD = Strongly Disagree, D= Disagree, N = Neutral, A = Agree, SA = Strongly Agree

4.5.2 Correlation results of Capital Structure Practices

According to Orodho (2003, Correlation is a term that refers to the strength of a relationship between two variables. A strong or high correlation means that two or more variables have a strong relationship with each other while a weak or low, correlation means that the variables are barely related. Correlation coefficient can range from -1.00 to +1.00. The value of -1.00 represents a perfect negative correlation while a value of +1.00 represents a perfect positive correlation. A value of 0.00 means that there is no relationship between variables being tested (Orodho, 2003). The most widely used types of correlation coefficient are the Pearson R which is also referred to as linear or product moment correlation. This analysis assumes that the two variables being analyzed are measured on at least interval scales. The coefficient is computed by taking the covariance of the two variables and dividing it by the product of their standard deviations. A value of +1.00 implies that the relationship between two variables X and Y is perfectly linear, with all data points lying on a line for which Y increases and X increases. Conversely a negative value implies that all data points lie on a line for which Y decreases as X increases (Orodho, 2003). In this study Pearson correlation was carried out to determine how the research variables related to each other. Pearson's correlation reflects the degree of linear relationships between two variables. It ranges from+1 to -1. A correlation of +1 means there is a perfect positive linear relationship between variables (Young, 2009).

4.5.3 Correlation Results for Capital Structure Practice and Financial Profitability

A correlation analysis for the construct capital structure practices was conducted to find out how capital structure activities like equity, government ownership and retained earnings practices correlated with financial profitability. Table 4.9 shows that the Pearson correlation coefficient was 0.915 a clear indication that capital structure practices has a strong correlation with financial profitability (p-values <0.05). The significance of capital structure practices verses financial profitability enhancement as indicated in the figure, the plots are on the first and second quant rate in the lines of best fit. These findings indicate that there is a strong relationship between capital structure practices and financial profitability. According to Kaumbuthu, (2011), capital structure does not much assists the organization in terms of financial profitability in the short run. But a sound capital structure may assist the organizations excel financially because the shareholders' funds can be applied to run capital projects.

Table 4.9: Correlation results for capital structure practice and financial Profitability

Correlations

Constructs	Correlations Basis	Financial Profitability	Capital Structure Practices
Financial Profitability	Pearson Correlation	1	.915[**]
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	288.952	233.209
	Covariance	1.554	1.254
	N	187	187
Capital Structure Practices	Pearson Correlation	.915[**]	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	233.209	218.096
	Covariance	1.254	1.173
	N	187	187

**. Correlation is significant at the 0.01 level (2-tailed).

4.5.4 Regression Results of capital structure practices

According to Armstrong (2012), regression analysis is a statistical tool for the examination of relationship between variables. In most cases, the researcher seeks to preserve the casual effect of on variable upon another. Regression analysis authorizes you to model, examine and explore spatial relationship, and can help explain the factors behind observed spatial patterns. Regression analysis is also used for prediction of future and past behavior given the explanatory factors. In statistical modeling, regression analysis is a statistical procedure for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a response variable and one or more explanatory variables (or predictors). More specifically, regression analysis helps one understand how the characteristic value of the response variable (or criterion variable) modifies when any one of the explanatory variables is varied, while the other explanatory variables are held fixed. Most commonly,

regression analysis estimates the conditional expectation of the dependent variable given the independent variables that is, the average value of the dependent variable when the independent variables are fixed. Less frequently, the focus is on a quartile, or other location parameter of the provisional distribution of the response variable given the explanatory variables. In all cases, the estimation target is a function of the explanatory variables called the regression function. In regression analysis, it is also of interest to illustrate the variation of the response variable around the regression function which can be described by a probability distribution. A related but distinct approach is Necessary Condition Analysis (NCA), which estimates the maximum (rather than average) value of the dependent variable for a given value of the independent variable (ceiling line rather than central line) in order to identify what value of the independent variable is necessary but not sufficient for a given value of the dependent variable (Morellee, 2014). Regression analysis is widely used for prediction and forecasting, where its use has substantial go beyond the field of machine learning. Regression analysis is also used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships. In restricted circumstances, regression analysis can be used to infer causal relationships between the independent and dependent variables. However this can lead to illusions or false relationships, so caution is advisable; for example, correlation does not imply causation (Waegeman, 2008). Many techniques for carrying out regression analysis have been developed. Familiar methods such as linear regression and ordinary least squares regression are parametric, in that the regression function is defined in terms of a finite number of unknown parameters that are estimated from the data. Nonparametric regression refers to techniques that allow the regression function to lie in a specified set of functions, which may be infinite-dimensional (Freedman, 2005).

4.5.6 Simple Regression Results for Capital Structure Practice and Financial profitability

Table 4.10 presents the regression model the regression model of capital structure practices with a coefficient of determination of $R^2 = 0.838$ and R= 0.915 at 0.05 significance level. The coefficient of determination indicates that 51.81% of the variation on financial profitability is influenced by capital structure practice. This shows that there exists a positive relationship between capital structure practices on financial profitability. The test of beta coefficient shows that there is a significant relationship between capital structure practice and financial profitability as positive.

The coefficient significance of capital structure effect as .837 and is significantly greater than zero since the significance of t-statistics 0.00 is less than 0.05. This demonstrated that the high level of capital structure practices has a positive effect on financial profitability. These findings are in line with (Namusonge, 2012) that capital structure practices such as equity practices, debts practices, internal finance sourcing practices, government ownership practices affects financial profitability.

Table 4.10: Simple regression results capital structure practice and financial profitability

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.915[a]	.838	.837	.51809

a. Predictors: (Constant), Capital structure practice

b. Dependent Variable: Financial Profitability

4.5.7 ANOVA for Capital Structure Practice

ANOVA was conducted to establish the homogeneity of data. As indicated in table 4.11, if the observations were drawn from the same population, their variances would not differ much. The F statistics value of 957.557 implies that the combined model was significant and was sufficient in predicting financial profitability. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional probability of (0.05). According to the analysis of Variance table there were significant differences between the capital structure practices in the mean number of financial Profitability $F(1, 185) = 957.557$ P<0.05

Table 4.11: ANOVA – Capital Practice

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	257.027	1	257.027	957.557	.000[b]
	Residual	49.658	185	.268		
	Total	306.684	186			

a. Dependent Variable: Financial Profitability

b. Predictors: (Constant), Capital structure practice

4.5.8 Regression Coefficients of Capital Practice and Financial Profitability

Analysis of the regression model coefficients is shown in table 4.12. From the table there is a positive beta co-efficient of 1.001as indicated by the co-efficient matrix with a P-value = 0.000 < 0.05 and a constant of 0.125 with a p-value = 0.000 < 0.05. Therefore, both the constant and capital practices contribute significantly to the model. Therefore, the model can provide the information needed to predict financial profitability from capital practices. The regression equation is presented as follows:

Y = 0.125+1.001X2; Where Y = Financial profitability, X2 is the capital structure practices and ε is the error term.

Table 4.12: Regression Coefficients of Capital Practice and Financial Profitability

<table>
<tr><th colspan="7">Coefficients</th></tr>
<tr><th>Model</th><th colspan="2">Un standardized Coefficients</th><th>Standardized Coefficients</th><th>t</th><th>Sig.</th></tr>
<tr><th></th><th>B</th><th>Std. Error</th><th>Beta</th><th></th><th></th></tr>
<tr><td>(Constant)</td><td>0.125</td><td>.120</td><td></td><td>-.378</td><td>.706</td></tr>
<tr><td>1 Capital structure practice</td><td>1.001</td><td>.032</td><td>.915</td><td>30.944</td><td>.000</td></tr>
</table>

a. Dependent Variable: Financial Profitability

Model = 0.125+1.001X2

4.6 Impacts of Cash Management Practice on Financial Profitability

4.6.1 Descriptive Statistics for Cash Management Practice

The study sought to establish how the SMEs practice liquidity or cash management practices. The results are as presented in table 4.13 bellow. The study has discovered that 55.08% of the employees disagreed and doubted whether the organizations prepare cash budget on a monthly basis. Without preparation of cash budgets, the organizations end up misappropriating cash receipts and payments, (Elliot, 2009). Moreover, the result reflected that 44.39% of the respondents disagreed that organization utilizes computers in cash management. Computers allow the employees to prepare a number of financial reports. For instance, spreadsheets help in

preparing cash budgets based on possible future situations. Such actions may lead to organizations not managing their cash timely (Weinraub & Visscher, 2008).

Furthermore, only 28.88% of the employees agreed that the organizations balance the conservation of cash and quick application of cash in investments. This practice interferes with generation of more cash and may further reduce profits and increase risks (Deari, 2012). Similarly the study findings explain that only 34.22% of the organizations' liquidity policy is reviewed frequently by organization as per the inflation rate. This means that most organizations do not employ liquidity processes and tools that are tailored to the specific requirements of the firms.

According to Shubiri (2011), whenever organizations fail to review their liquidity policy frequently, they end up spending outside the practical reality on the ground hence poor financial profitability. Besides, of the employees were in agreement that their organizations prefer applying any few available cash for future ventures (mean = 3.0535, SD = 1.14409). This implies that there is no misuse of funds as any few available cash is applied in future ventures. On the other hand, 19.79% of the respondents agreed that their organizations prefer tradition practices of cash management. Since there is no preference of traditional practices of cash management, there is no lack of infrastructure and legal backing to support new forms of businesses. This finding supports Hussein (2011), who found out that a conservative cash policy sets a greater proportion of funds in short term assets versus long term assets with opportunity cost of low level profit. Conservative cash policy places a greater proportion of capital in liquid assets as opposed to productive assets (Shubiri, 2011). In managing current assets, the policy is more conservative, if the firm uses more current assets in proportion to total assets (Wamalwa, 2010).

In addition, it was revealed by the findings that 44.38% of the employees agreed that the organizations experience cash shortages. Cash as a current asset must be present in the organization for payment of operational activities. However, there was doubt of 14.14% from employees on whether the organizations conserve cash for long time before deciding on its application. Finally the findings reflected that 40.64% of the employees disagreed on the fact that the organizations experiences cash surplus. This implied that on most occasions the organizations had sufficient cash for operation. In general, the results on the liquidity or cash practices summed

up to a mean of 2.9572, standard deviation of 1.20407; hence there was normal distribution of the response in cash practices.

Table 4.13: Descriptive Statistics for Liquidity or Cash Practice

Descriptive Statistics

Cash Management practices Indicators	SD %	D %	N %	A %	SA %	Mean	Std. Deviation
1. Your organization Prepares cash budget on monthly basis	3.74	32.09	19.25	36.90	8.02	3.1337	1.07177
2. Your organization determining the target cash balance of the business	9.63	33.68	14.44	35.30	6.95	2.9626	1.16568
3. Your organization prefers applying any few available cash for future ventures	6.95	33.16	16.04	35.30	8.55	3.0535	1.14409
4. Your organization balances the conservation of cash and quick application of cash in investments	16.04	34.76	20.32	19.79	9.09	2.7112	1.21462
5. Your organization prefers tradition practices of cash management	18.18	29.95	32.08	16.58	3.21	2.5668	1.06739
6. Your organization experiences cash shortage always	15.51	30.48	9.63	32.08	12.30	2.9519	1.32098
7. Your organization Preparing cash budget	10.16	30.48	35.30	16.04	8.02	2.81283	1.078752
8. Your organization Utilizes computers in cash management	10.70	33.69	12.83	17.11	25.67	3.1337	1.39827
9. Your organization's liquidity policy is reviewed frequently by the organization as per the inflation rate	11.23	33.16	21.39	20.32	13.90	2.9251	1.24208

Key: SD = Strongly Disagree, D= Disagree, N = Neutral, A = Agree, SA = Strongly Agree

4.6.2 Correlation Results for Cash Management Practice and Financial Profitability

A correlation analysis for the construct Cash Management practices was conducted to find out how liquidity practices correlated with financial profitability. Table 4.14 shows that the Pearson correlation coefficient was 0.951 a clear indication that liquidity practices has a strong positive correlation with financial profitability (p-values >0.05) (Wong, 2012). The significance of cash management practice verses financial profitability enhancement as indicated in the figure, all the plots are on the first quant rate in the line of best fit. These findings entail that there is a strong relationship between cash management practices and financial profitability. According to Nyabwanga (2011), liquidity and cash management assists the company budget and apply funds according to the laid down policies hence excellence profitability.

Table 4.14: Correlation results for cash management practice with financial profitability

Constructs	Correlations Basis	Financial Profitability	Cash management practice
Financial Profitability	Pearson Correlation	1	.951**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	306.684	301.011
	Covariance	1.649	1.618
	N	187	187
Cash management practice	Pearson Correlation	.951**	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	301.011	326.406
	Covariance	1.618	1.755
	N	187	187

**. Correlation is significant at the 0.01 level (2-tailed).

4.6.3 Simple Regression Results for Cash management Practice

Table 4.15 presents the regression model the regression model of Cash Management practices with a coefficient of determination of $R^2 = 0.905$ and R= 0.951 at 0.05 significance level. The coefficient of determination indicates that 39.66 % of the variation on financial profitability is influenced by cash management practices. This shows that there exists a positive relationship between liquidity practices on financial profitability. The test of beta coefficient shows that there is a significant relationship between liquidity practices and financial profitability as positive. The coefficient significance of liquidity practice effect as .905 and is significantly greater than zero since the significance of t-statistics 0.00 is less than 0.05. This demonstrates that the high level of liquidity practices as having a strong positive effect on financial profitability. These findings are in line with (Kibet, 2012) that cash management practices issues such as Aggressive cash management practice, Conservative cash management practice and Moderate cash management practices affect financial profitability.

Table 4.15: Simple regression results - Cash management practice and financial profitability

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.951ᵃ	.905	.905	.39656	.254

a. Predictors: (Constant), Cash management practice

b. Dependent Variable: Financial Profitability

4.6.4 ANOVA for Cash management Practice Financial Profitability

ANOVA was conducted to establish the homogeneity of data. As indicated in table 4.16, if the observations were drawn from the same population, their variances would not differ much. The F statistic value of 1765.139 entail that the combined model was significant and was sufficient in predicting financial Profitability. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional probability of (0.05). According to the analysis of Variance table there were significant differences between the cash management practices in the mean number of financial Profitability $F(1, 185) = 1765.139$ p<0.05.

Table 4.16: ANOVA Cash management Practices and Financial Profitability

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	277.591	1	277.591	1765.139	.000^b
	Residual	29.094	185	.157		
	Total	306.684	186			

a. Dependent Variable: Financial Profitability

b. Predictors: (Constant), Cash management practice

4.6.5 Regression Coefficients of Cash management Practice and Financial Profitability

Analysis of the regression model coefficients is shown in table 4.17. From the table there is a positive beta co-efficient of 0.951 as indicated by the co-efficient matrix with a P-value = 0.000 < 0.05 and a constant of 0.448 with a p-value = 0.000 < 0.05. Therefore, both the constant and Liquidity practices contribute significantly to the model. Therefore, the model can provide the information needed to predict financial profitability from Liquidity practices. The regression equation is presented as follows: Y = 0.448+.922X3+ ε; Where Y = Financial profitability, X3 is the Cash management practices and ε is the error term.

Table 4.17: Regression Coefficients of Liquidity Practice and Financial Profitability

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.448	.078		5.764	.000
	Cash management practice	.922	.022	.951	42.014	.000

a. Dependent Variable: Financial Profitability

Model = 0.448+.922X3+ ε

4.7 Financial Profitability

This section presents the respondents 'opinion on Financial Profitability of the organizations. The results are summarized as below.

4.7.1 Descriptive Statistics for Financial Profitability

Table 4.18 presents the respondents' views on the financial profitability. Twelve items were measured on a 5-point Liker scale. 44.30% of the respondents agreed that the organization's current assets were more than current liabilities meaning that the organizations have a positive working capital. Further the findings indicated that 20.86% of the employees were neutral on the fact that the organizations 'total of cash, accounts receivable and short term investments were greater than current liabilities. However 29.79% of the employees agreed that that the organizations' total of cash, accounts receivable and short term investments was greater than current liabilities. Only 28.35% of the respondents agreed that the Organization's total debt supersedes total assets.

Further only 39.04% of the respondents agreed that their organization's net income is greater than total Assets. On the other hand, the findings indicated that only 27.81% of respondents agreed that their organization's gross profit in relation to sales was greater than 50%. There was doubt if the organizations' net income is greater than total assets, the organizations'' gross profit was greater than 50%. In relation to whether the organization's net income is greater than ordinary owner's equity 22.99% of the respondents were in doubt on this profitability, the organizations' total liabilities exceeds owner's equity. On being questioned about whether the respondents' organization cost of sales exceeds average stock, it emerged that 42.89% of the respondents agreed.

The findings finally showed that only 27.27% agreed that their organization's total liabilities exceed owner equity .The results imply that the employees were mostly undecided on the items. The above findings confirm that financial profitability of the organizations are wanting especially when it comes to the ratio between net income and total debts which seems to be low (Mbatha , 2012). Financial profitability of an organization may be felt whenever revenue and income generations are low in terms of net income and gross profits (Kibet, 2010).

Table 4.18: Descriptive statistics for Financial Profitability

Financial Profitability	SD %	D %	N %	A %	SA %	Mean	Std. Deviation
1. Your organization's current assets were more than current liabilities	15.51	30.48	9.63	26.73	17.65	3.0053	1.38151
2. Your organization's total of cash, accounts receivable and short term investments were greater than current liabilities	16.04	32.62	20.86	22.30	7.49	2.7326	1.19729
3. Your Organization's total debts supersede total assets	17.11	34.23	20.22	19.79	8.56	2.6845	1.21457
4. Your organization's Net income is greater than total Assets	8.02	35.16	17.11	35.30	6.42	2.9893	1.12637
5. Your organization's gross profit in relation to sales was greater than 50%.	11.23	36.36	24.60	21.93	5.88	2.7487	1.10031
6. Your organization's net income is greater than ordinary owner's equity	11.23	26.74	22.99	30.48	8.56	2.9840	1.17077
7. Your organization's cost of sales exceeds average stock by 50%	11.23	35.30	16.58	25.13	17.76	2.9091	1.23448
8. Your organization's total liabilities exceeds owner's equity	11.23	33.16	28.34	14.44	12.83	2.8449	1.19250
9. Your organizations long term investing plan has been followed	11.74	32.09	13.90	17.12	25.15	3.1230	1.39541
10. Your Organization's long term capital structure practices have increased the organization's profits	11.23	11.23	33.16	23.53	20.86	3.3155	1.24085
11. Your Organization's long term financing plans have assisted the organizations income base	5.88	16.04	22.30	41.71	13.37	3.4064	1.09031
12. Your Organization's long term liquidity management has speared the organizations competitive border	9.63	33.16	14.44	34.22	8.55	2.9893	1.18680

Key: SD = Strongly Disagree, D= Disagree, N = Neutral, A = Agree, SA = Strongly Agree

4.8 Tests for the Assumptions of Multiple regression model

4.8.1 Normality

The study tested the normality of the regression model to determine whether the assumption of normality of distribution was attained. This assumption formally applies to the distribution of the errors (or, equivalently, the conditional distribution of the response variable) for any given combination of values on the predictor variables, Matt N, Carlos A, and Deson K (2013). One way of measuring the normality of distribution is through checking the level of *skewness* and *kurtosis*. Usually the value of ***skewness and kurtosis*** for normal distribution is varied from 1 to -1.

From table 4.19 we found that the *skewness* and *kurtosis* of investing Practices, Capital Structure Practices, Liquidity Practices and Financial Profitability for the sample is within the range for normality (-1.0 to +1.0. On the other hand the central limit theorem (CLT), one of the most important theorems in statistics, implies that under most distributions, normal or non-normal, the sampling distribution of the sample mean will approach normality as the sample size increases (Hays, 1994).

However, since the sample size of or survey is 187 and greater than 30, the sampling distribution of statistics will follow a normal distribution, and the use of the statistical test with this variable is appropriate.

Table 4.19 Descriptive statistics

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Investing practice	187	.592	.178	-.762	.354
Capital structure practice	187	-.773	.178	-.442	.354
Cash management practice	187	-.307	.178	-1.222	.354
Financial Profitability	187	-.559	.178	-.703	.354
Valid N (listwise)	187				

4.8.2 Linearity

Findings in figure 4.1 showed a random pattern; with no nonlinearity this is true because points are not equally above and below the Y axis 0 line. Thus, the assumption that the data was linear and normal was eventually attained.

The model that relates the response Y to the predictors X1, X2, X3... Xn, is assumed to be linear in the regression parameters (Chatterjee&Hadi, 2012). This means that the response variable is assumed to be a linear function of the parameters (ß1,ß2,ß3…..ßn) but not necessarily a linear function of the predictor variables X1, X2, X3...Xn, as cited by, Matt N, Carlos A, and Deson K (2013).

The result of this study also showed that, there is a linear relationship between the independent variables and the profitability of organization. This means that, for every increase in the independent variable the dependent variable will increase.
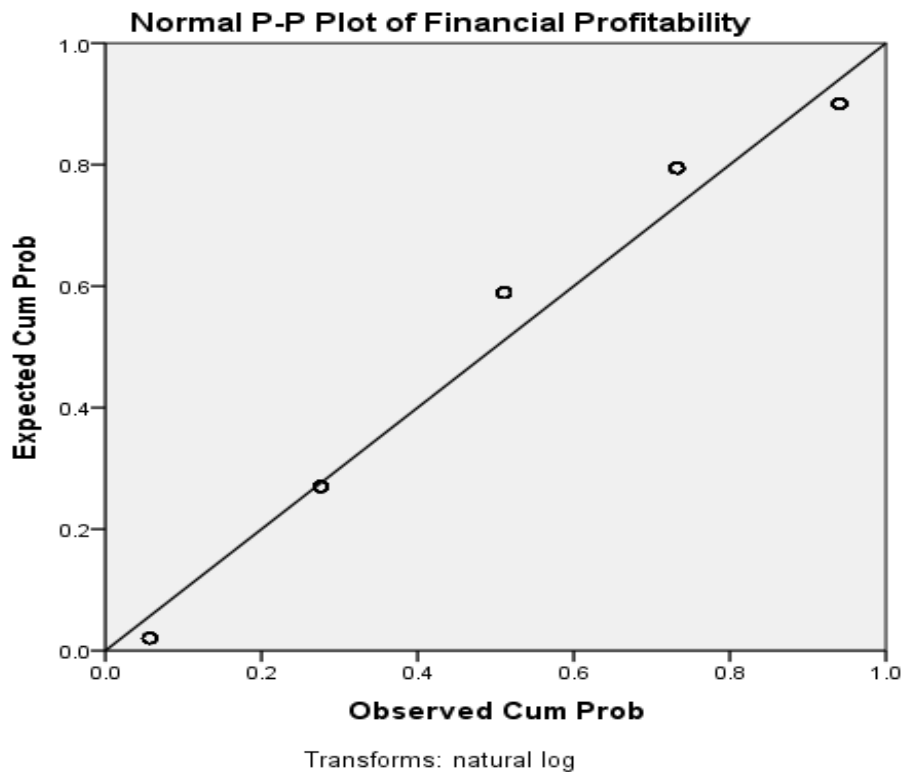
Figure 4.1: Linearity

4.8.3 Homoscedasticity

A plot of standardized values shows that the residual points are closer to the regression line hence signifying the variances are constant. As a result, homoscedasticity is assumed as explained in figure 4.2 bellow.
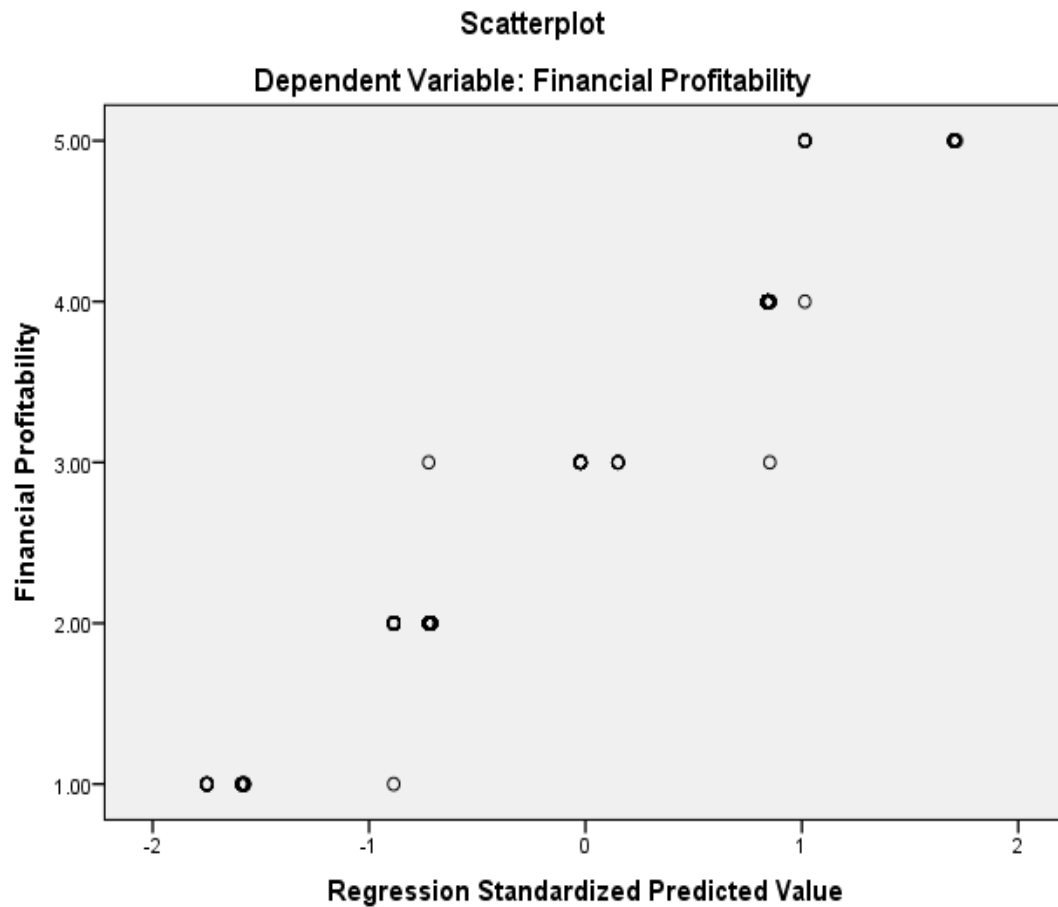
Figure 4.2: Homoscedasticity

4.8.4 Multicollinearity

According to Kerlinger (2011), Multicollinearity means that two or more of the independent variables are highly correlated and this situation can have damaging effects on the results of multiple regressions. The correlation matrix was a powerful tool for getting a rough idea of the relationship between predictors. To assess multicollinearity, examine the relationship between the independent variables. Multicollinearity exists when Tolerance is below .10; and the average VIF is larger than 2.5. According to (Hair et al., 2006) the pair-wise correlation among the independent

variable should not exceed 0.80. Based on this, in this study the tolerances of independent variables as displayed in table 4.20 range from .126 to .103 and its VIF ranges 7.921 to 9.682. These shows, the coefficients are greater than the specified ranges. So we assume multi co linearity is a problem.

Table 4.20: Multicollinearity

	Coefficients		
Model	Standardized Coefficients	Collinearity Statistics	
	Beta	Tolerance	VIF
(Constant)			
Investing practice	.206	.214	4.679
Capital structure practice	.303	.182	5.487
Cash management practice	.681	.106	9.424

a. Dependent Variable: Financial Profitability

4.8.5 Test of fit

Study findings in table 4.21 indicated that the above discussed coefficient of determination was significant as evidence of F ratio of 719.644with p value 0.000 <0.05 (level of significance). Thus, the model was fit to predict financial profitability using, investing practices, capital structure practices, and cash management practice practices.

Table 4.21: Test of fit

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	282.720	3	94.240	719.644	.000[b]
	Residual	23.965	183	.131		
	Total	306.684	186			

a. Dependent Variable: Financial Profitability
b. Predictors: (Constant), Cash management practice, Investing practice, Capital structure practice

4.8.6 Outliers

With regard to univariate outlier, a case shows odd responses compared to the rest of the cases on a single variable of the study, whereas, a case showing peculiar responses on more than one variable is called multivariate outlier (Kerlinger, 2011). In order to detect univariate outliers, it is suggested by Kerlinger (2011) to examine univariate skewness and kurtosis. The value of skewness above 3 and kurtosis above 10 may activate caution, as it may be a univariate outlier (Kerlinger, 2011).

Similarly, testing for multivariate outliers require examining Mahalanobis D2 measure (Byrne, 2010; Hair *et al.,* 2010). In this case, value lower than 0.001 (statistical significance lower than 0.001) indicates a possible case of multivariate outlier (Tabachnich & Fidell, 2001). Both univariate and multivariate outliers' tests were conducted. The examination of univariate skewness and univariate kurtosis given in Table 4.19 and 4.20 clearly show that there were no offending values. Similarly, Mahalanobis distance or metric was examined and a total of 4 cases resulted with a value lower than 0.001, indicating a possible chance of multivariate outliers. Therefore, these cases were not considered for further analyses, leaving only 187 cases.

4.9 Overall Empirical Model

4.9.1 Overall correlation results

The study used Pearson Product Moment correlation analysis to assess the nature of the relationship between the independent variables and the dependent variable as well as the relationships among the independent variables (Wong & Hiew, 2015; Jahangir & Begum 2008). Wong and Hiew (2015) further hypothesize that the correlation coefficient value (*r*) ranging from 0.10 to 0.29 is considered weak; from 0.30 to 0.49 is considered medium, and from 0.50 to 1.0 is considered strong. As per table 4.22, there was a strong relationship between investing practices with financial profitability (r = 0.841, *p*-value < .01). Also, the study exhibited a strong relationship between capital structure and financial profitability (r = 0 .915, *p*-value < .01) and liquidity cash with financial profitability(r = 0.951, *p*-value < .01).

Table 4.22: Correlation Results

<div align="center">Correlations</div>

Financial Profitability		Financial Profitability	Investing practice	Capital structure practice	Cash management practice
Financial Profitability	Pearson Correlation	1	.841**	.915**	.951**
	Sig. (2-tailed)		.000	.000	.000
	N	187	187	187	187
Investing practice	Pearson Correlation	.841**	1	.795**	.887**
	Sig. (2-tailed)	.000		.000	.000
	N	187	187	187	187
Capital structure practice	Pearson Correlation	.915**	.795**	1	.904**
	Sig. (2-tailed)	.000	.000		.000
	N	187	187	187	187
Cash management practice	Pearson Correlation	.951**	.887**	.904**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	187	187	187	187

**. Correlation is significant at the 0.01 level (2-tailed).

4.9.2 Overall Simple regression Model results

Table 4.23 demonstrates the model summary of simple regression model; the results indicated that all the three predictors (investing practices, capital structure practices and liquidity practice) explained 96 percent variation of financial Profitability. This implied that considering the three study independent variables, there is a probability of predicting financial Profitability by 96% (R squared = 0.922). Autocorrelation, also known as serial correlation, refers to the correlation of error components across time periods. This condition violates the classical assumption of regression analysis but it is a reasonable characteristic of error term in time series analysis (Wooldridge, 2003). From the findings, the Durbin- Watson value was within the thumb rule (.962) which shows lack of serial correlation.

Table 4.23: Simple Regression Model results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.960[a]	.922	.921	.36188

a. Predictors: (Constant), Cash management practice, Investing practice, Capital structure practice

b. Dependent Variable: Financial Profitability

4.9.3 Multivariate Logistic Regression Analysis for Financial Profitability controlling financial management practice

A multivariate logistic regression was used to model the relationship between all explanatory variables and financial profitability that were found significant in the binary stage. The regression model took the following equation:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

i. Y = Odds of Financial Profitability

ii. $\{\beta_i; i=1, 2, 3\}$ = the coefficients for the various independent variables

iii. Xi for; *X1= INV* (research & development decision, tangible capital practices, joint venture practices, acquisition practices)

X2= CAP (equity practice, debts practice, internal finance sourcing practice, government ownership practice)

X3 =CMP (Aggressive cash management, Conservative cash management, Moderate cash management)

ε = error term that denotes other unexplained factors affecting financial Profitability. Thus the financial management practices model was as follows:

$Y = \beta_0 + \beta_1 INV + \beta_2 CAP + \beta_3 CMP + \varepsilon$

The model analysis transformed into the following regression results from table 4.26

$Y = .153 + .134X1 + .331X2 + 0.660X3 + \varepsilon$

This model represented in table 4.24 shows that investment practices have a significant relationship with financial Profitability (p<0.001). An increase in investing activities increases the

probability of having high financial Profitability by 13.4%. The findings imply that those firms with high investing activities have higher chances of having higher financial profitability as compared to those without or with low investing activities.

Table 4.24 shows that capital structure practices have a significant relationship with financial profitability (p<0.000). An increase in capital management practices increases the probability of having high financial profitability by 33.1%. The findings imply that those organizations with effective capital management practices have higher chances of having higher financial productivity as compared to those without prudent capital management practices. These findings differ from Kaumbuthu (2011), who disagrees with these findings on the note of return on equity which decline due to capitalization of funds.

In addition table 4.24 shows that cash management practices have significant relationship with financial profitability (p<0.000). An increase in liquidity and cash management effectiveness increases the probability of having high financial Profitability by 66%. The findings entails that those firms with effective liquidity management have higher chances of having higher financial profitability as compared to those without liquidity and cash management. The study findings agreed with those of Wasike (2008) who examined the cash management activities of organizations in 2008. The study suggested that cash management has significant influence on financial performance in terms of profitability aspects.

In conclusion the study support the hypothesis that financial management practices dimensions such as investment, cash management and capital structure practices influence significantly the financial profitability of the organizations.

Table 4.24: Multiple regression Analysis

Coefficients

Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.153	.087		1.765	.001
Investing practice	.134	.049	.206	2.089	.003
1 Capital structure practice	.331	.053	.303	6.252	.000
Cash management practice	.660	.061	.681	8.740	.000

a. Dependent Variable: Financial Profitability

4.10. Test of hypotheses

Hypothesis 1 (H$_{o1}$) postulated that investing practices had no significant effect on financial profitability. According to table 4.24 above, findings showed that investing practices had coefficients of estimate which was significant basing on $\beta_1 = 0.206$ (p-value = 0.000 which is less than $\alpha = 0.05$) implying that the null hypothesis was rejected and it was concluded that investing practices has significant effect on financial profitability. This indicated that for each unit increase in investing practices, there was up to 0.206 unit increase in financial profitability. The effect of investing practices was stated by the t-test value = 2.089 which indicated that the effect of investing practices was more than the error associated with it.

Consistently, Ibrahim, (2012) argues that investment practices (IPs) have significant effects on the long term financial and operational profitability of the organizations. This was also the case with Ayman, (2010) who repeat that investment practices (IPs) have significant effects on the long term financial and operational of organizations hence gaining competitive advantage.

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Hypothesis 2(Ho2) stated that capital structure practices has no significant effect on financial profitability. According to Table 4.24 above, findings revealed that capital structure practices had a coefficient of estimate which was significant basing on $\beta_2 = 0.303$ (p-value = 0.000 which is less than $\alpha = 0.05$).The null hypothesis was thus rejected and it was concluded that capital structure practices had a significant effect on financial profitability. This suggested that there was up to 0.303 unit increase in financial profitability for each unit increase in capital structure practices. The effect of capital structure practices was more than the effect that attributed to the error, this was indicated by the t-test value = 6.252.

In line with the study findings, Barringer (2010) hypothesized that capital structure practices have great effect on the firm's financial profitability. However, a study carried out by Kaumbuthu (2011) found a negative relationship between debt equity ratio and ROE. Furthermore, Shubiri (2012) in his exploration of parameters pertinent to credit risk management revealed that default rate, cost per loan assets and capital adequacy ratio had an inverse impact on bank's financial profitability. On the other hand, the default rate was the best predictor of financial profitability.

Hypothesis 3 (Ho3) stated that liquidity cash had no significant effect on financial profitability. According to Table 4.24 above, nevertheless, study findings revealed that liquidity cash had coefficients of estimate which was significant basing on $\beta_3 = 0.681$ (p-value = 0.001 which was less than $\alpha = 0.05$) hence the null hypothesis was rejected. This indicated that for each unit increase in liquidity, there was 0.681 units increase in financial profitability. In addition, the effect of cash management was stated by the t-test value = 8.740 which implied that the standard error associated with the parameter was less than the effect of the parameter.

Additionally, cash management practices exhibited a positive and significant effect on financial profitability. Consistently, Kibet, (2013) recognized that cash budgeting is beneficial in planning for shortage and surplus of cash and has an effect on the financial profitability of the organizations. Besides, Ross *et al.* (2008) asserted that reducing the time cash is tied up in the operating cycle increases a business's profitability and market value highlights the importance of efficient cash management practices in enhancing business profitability. However, a study by Oludhe (2011) revealed that capital adequacy, asset quality, management efficiency and liquidity had weak relationship with financial profitability.

4.10.1 Summary of Hypotheses

Table 4.25: Summary of Hypotheses and the Result

Hypothesis	Relationship	Results
H01	Investment practices has no significant impact on financial profitability	**Rejected**
H02	Capital structure practice has no significant impact on financial profitability	**Rejected**
H03	Liquidity practices has no significant impact on financial profitability	**Rejected**

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This study investigated the impacts of financial management practices on financial profitability of SMEs in Jimma Town. The financial management practices studied included investment, capital structure, and liquidity practices. Financial profitability indicators that were studied included net profit, net assets and debts ratios. This section concentrates the findings of the study and gives conclusions upon which recommendations are drawn. Suggestions for further study are also confined as a way of filling the gaps identified in the study. The study followed four objectives and three hypotheses upon which the findings and conclusions are allied to.

5.2 Summary of Findings

The study sought after to explore the impact of financial management practices on the financial profitability of SMEs in Jimma Town. Specifically, the study assessed investment practices, capital structure practices and Cash management practices on the financial profitability of the organizations.

The study established a number of findings summarized as follows.

5.2.1. To Determine the Impacts of Investment Practices on Financial Profitability

The results on investing practices revealed that the organizations trade its product to other organizations. They also have their own input for their production and other manufacturing processing projects running parallel to their product processed. In an attempt to gain competitive advantage, the firms have engaged in R&D and have also joined together with other competitors/customers. Moreover, the firms have acquired other SMEs to enlarge production output. As well, there investment policy is reviewed frequently to enhance their production power. It is however uncertain if each individual is involved in the investment plan, if the organization deals in property/building investment and whether investment has been made in business enterprises.

5.2.2. To assess the impact of capital structure practice on Financial Profitability

Results on capital structure practices revealed that the organizations have finances involving owner equity. The organizations retain profits as part of their finances. Also, the management increases reserves as finances after reporting net profit. Furthermore, the organizations finances are partly owned by the private sector and organization's finances are reviewed frequently. In addition, the organizations analyzes financial statements as a part of its finances in the balance sheet. However, there is doubt whether the organizations applied financial ratios in financial analysis of the business, if the organizations funds have greater percentage of debts than shares and whether the organization prefers debts more than shares as part of its finances.

5.2.3. To evaluate the impacts of cash management practice on Financial Profitability

The findings regarding cash management practices revealed that the organizations prepare a cash budget on a monthly basis. There is also utilization of computers in cash management. Furthermore, the organizations balance the conservation of cash and quick application of cash in investments. Moreover, the organization's liquidity policy is reviewed frequently by the organization as per the inflation rate. There is also preference towards tradition practices of cash management and application of any a small number of available cash for future ventures. In spite of this, the organizations experience cash shortages.

However, there is doubt whether the organizations conserve cash for long time before deciding on its claim and if the organization experiences cash surplus.

5.2.4 The Overall Effect of the Variables

The study findings demonstrated that there is a great effect of all the three variables to the financial profitability of SMEs in Jimma Town. Test of overall significance of all the three variables jointly, investment practices, capital structure practices and liquidity practices, basing on the ANOVA, at 0.05 level of significance found the model to be significant as a result it can be adequately be used to predict financial profitability of the organizations.

5.3 Conclusions

5.3.1 Conclusions on the impact of Investment Practice on Financial Profitability

It is important to conclude that investing practices have a positive and significant effect on the financial profitability. From the results, investment has been made in other ventures such as manufacturing processing projects hence facilitating the growth of the organizations. This has also resulted to the development of advanced production facilities leading to increased production output. Regardless of this, optimum operation of the organizations has not been realized. The underlying reason for this is inadequate investment in property/building investment as well as involvement of stakeholders in the investment plan. As a result, this has to be addressed in order to obtain higher profit returns of the organizations.

5.3.2 Conclusions on the impact of capital structure practice on Financial Profitability

Capital structure practices exhibited a positive and significant impact on financial profitability. The organizations had made no good use of capital structure mix practices like equity, retained earnings, debts from various financial institutions and less government funds were involved in the capital structure. In reality many organizations had no organized modality for ensuring that retained earnings are kept as a back-up for future developments. Additionally since most organizations experienced financial losses, they had no much available as retained earnings. The few with profits could distribute much of their earnings to the shareholders as dividends so as to ensure that there is availability of funds to enhance their future growth and overall profitability. As a result, majority of the organizations were not able to reinvest since they had less availability of capital for growth hence less returns on investments leading to meager profits in future financial periods.

5.3.3 Conclusion on the Impacts of cash management practice on financial Profitability

The findings from the study have revealed that liquidity practice has a positive and significant effect on the financial profitability. This implies that liquidity practice make it easier for the

organizations to plan and control finances. This process can be made easier by the use of computers hence organizations can balance between the conservation of cash and its quick application in investments. However majority of the managers in the organizations strongly agreed that they had not been embracing salient liquidity management practices. For instance there are no cash conversion techniques; no minimum cash balances to be retained by the organizations bank account, neither did they have fixed accounts at the bank. Managers agreed that whenever there were cash surpluses, the employees and suppliers could be paid punctual outside the credit period and laid down cash policies. This has contributed to the dwindling of profitability of the organizations.

5.4 Recommendations

The study has revealed that investing practices are instrumental in enhancing the organization financial profitability. Consequently, it is necessary for the organizations to engage in Research and development so as to perform in ways that some of the competitors cannot easily duplicate. Furthermore, there is need to join together with other competitors/customers so as to gain competitive advantage. Moreover, the concerned stakeholders need to be involved in the investment plan. Additionally, an investment policy that is reviewed frequently by the organization to enhance their production power needs not to be in place. Since capital structure practice enhance financial profitability, it is important for firms to retain their profits so that they can reinvest and gain higher returns on investments and owners' equity. Moreover, there is need for the management to review finances frequently so as to recognize areas that need to be improved on.

Cash management practice contributes significantly to improved financial profitability. It is important for organizations to prepare cash budgets on a monthly basis so that they can control cash receipts and payments. Also, organizations need to utilize computers in cash management since they are efficient and effective.

5.5 Limitations of the study

In evaluating the study results the following limitations ought to be borne in mind. Financial constraint was one of the problems in order to undertake the study because every activity requires its own expense in the study. Additionally, finding updated review of literature concerning the factors that impact financial management profitability was also the other

hindrance for further investigation on the study. The study was also constrained unavailability of new literature review which supports objectives of the study. There are external (Uncontrollable) variables that confronted the investigation and conclusion although the study tried his best to design his research as properly as possible. Moreover, sampling restrictions are also other serious problem that underweight the researcher's conclusions. The employees in the SMEs organization were too busy with their daily work, due to this fact; the respondents had to find time within their tight schedules to fill in the questionnaires. Beliefs and feelings that are used in the study of perception may change over time and across different personalities. Also respondents may have given some biased or dishonest response. The study also was limited to only Jimma town SMEs given that all the factors discussed in this part of study are not found as adversely affecting in Jimma town the same way profitability of the organizations.

5.6 Suggestions for Future Research

This study recommends that another study be done to supplement finding in this study. Specifically, demographic characteristics considered in the study may not be exhaustive to explain all the demographic factors that influence financial performance. Future research could include other characteristics such as marital status in order to give a comprehensive result. A comparative study across different industries might also be a more valuable contribution to this area of research. Moreover, the researcher has rejected the null hypothesis and accepted the alternative hypothesis that financial management practices significantly relate to financial profitability, there is no evidence that financial profitability is entirely dependent on the three independent variables. As such further research need to be carried out to establish what other factors contribute significantly to financial profitability of the organizations.

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APPENDICES

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE

Dear Respondent,

I am a student of Jimma University pursuing a Masters in Accounting and Finance. The questionnaire is intended to help the study to get information on impacts of financial profitability of SMEs in Jimma Town. The purpose of the study is purely academic and information given will be treated with the highest degree of confidence. You have been selected as a key respondent for this study. Please read each statement below very carefully and indicate your genuine opinion or feeling for each item. Since the success of the study highly depends on your honesty in rating these items, you are kindly requested to respond accordingly. You are requested to answer each question. The information will be kept strictly confidential, and will not be used to assess you in any way and the data collected is only used for academic purpose in general the questionnaire, no need of writing your name. Your co-operation will be greatly appreciated! Please tick the answer which represents your opinion on the subject.

I appreciate your participation in this effort.

Thank you

SECTION A: DEMOGRAPHIC INFORMATION

In this section the study would like you to provide some background information about yourself.

Kindly tick √ OR circle appropriately.

1. What is your gender?   Male   ☐   Female   ☐

2. What is your highest education level?

   Masters ☐   undergraduate ☐   Diploma ☐   Certificate ☐

   Others specify …………………………………………………………

SECTION B: COMPANY PROFILE

1. Name of your Organization ……………………………………………………

2. What is the size of your organization?

   Small   ☐

   Medium   ☐

3. What is your position in your business?

   Owner   ☐

   Manager   ☐

   Chief-accountant   ☐

   Other, please specify --

4. Do you ever attend management training programs related to financial management in a year?

   Never   ☐   Rarely (from 1 to 2 attendances)   ☐

   Sometimes (3 to 4 attendances)   ☐   frequently (more than 4 attentions)   ☐

5. What best describes your background?
   Management general   ☐

   Technical field   ☐

   Business general   ☐

   Financial management   ☐

   Others...

II: DATA SECTION

Please put tick mark (√) in front of the following items indicating the level of your agreement or disagreement regarding the following work in your organization. 1=strongly disagree 2=disagree 3=indifferent 4=agree 5=strongly agree

No	Investing Practices	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	Your organization has invested in other businesses					
2	Your organization has acquired other SMEs to enlarge production output					
3	Your organization has joined together with other competitors/customers to enhance comparative advantage					
4	Your organization has other processing projects running similar to processing SMEs					
5	Your organization participates in research Developments					
6	Your organization deals in property investment					
7	Your organization involves each individual in investment plans					
8	Your organization has possess its production input					
9	Your organization trades with the product it produced					
10	Your organization's investment policy is reviewed frequently to enhance their production power					
	Capital Structure Practices	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
11	Your Organization has finances involving ordinary shares					
12	Your Organization has retained profits as part of its					

		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	finances					
13	The management increases reserves as finances after reporting net profit					
14	Your organization applied financial ratios in financial analysis of your business					
15	Your organization analyzes financial statements as a part of its finances in the balance sheet					
16	Your organization prefers debts more than owners capital contribution or investment					
17	Your organization's fund has greater percentage of debts than owner's equity					
18	Your organization's finances are Partly Owned by the private owner's					
19	Your organization's finances are reviewed frequently					
	Cash Management Practices	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
20	Your organization Prepares cash budget on monthly basis					
21	Your organization determining the target cash balance of the business					
22	Your organization prefers applying any few available cash for future ventures					
23	Your organization balances the conservation of cash and quick application of cash in investments					
24	Your organization prefers tradition practices of cash management					
25	Your organization experiences cash shortage always					
26	Your organization Preparing cash budget					
27	Your organization Utilizes computers in cash management					

28	Your organization's liquidity policy is reviewed frequently by the organization as per the inflation rate					
	PROFITABILITY	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
29	Your organization's current assets were more than current liabilities					
30	Your organization's total of cash, accounts receivable and short term investments were greater than current liabilities					
31	Your Organization's total debts supersede total assets					
32	Your organization's Net income is greater than total Assets					
33	Your organization's gross profit in relation to sales was greater than 50%.					
34	Your organization's net income is greater than ordinary owners' equity					
35	Your organization's cost of sales exceeds average stock by 50%					
36	Your organization's total liabilities exceeds owner's equity					
37	Your company's long term investing plan has been followed					
38	Your Organization's long term capital structure practices have increased the organization's profits					
39	Your Organization's long term financing plans have assisted the organization's income base.					
40	Your Organization's long term cash management has speared the organizations competitive border					