A Study Of Financial Management Practices In Micro And Small Scale Enterprises: A Case At Hawassa City Administration, Sidama, Ethiopia

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Abstract

This study investigated financial management practices of micro and small-scale enterprise in Hawassa city. For achieving the intended objective, the study stretched to the five sub sectors of the enterprises namely manufacturing, construction, services, trade, urban agriculture. The information gathered through questionnaire from a sample of 92 operators. Stratified random sampling method was used to draw a representative sample. Statistical analysis utilized was descriptive statistics. The result of the study revealed that about half of MSEs have sound practices of financial planning, analysis and control and accounting information, majority of them do not have a practice of sales records. Regarding purchase record and financial reporting 72% said that they have purchase record and about 18.5% of MSEs do not prepare financial report. In general study also indicated that a greater number of MSEs had a growth rate that could be considered low (score 1and 2 on the scale) as compared to the number of MSEs whose growth rate could be considered high (score 4 and 5on the scale). Recommendations to improve financial management practices include training of the owners of micro and small-enterprises.

Keywords: Financial Management, Micro-finance, Enterprises, Management Practices.

1. Introduction

1.1. Background of the study

The proliferation of macro and small enterprises and their significantly large numbers in sub- Saharan Africa is much greater than official statics indicate (Beth, Wanjeri & Mwangi, 2011). It is estimated that up to 30% of the working population in sub-Saharan Africa is employed in this sector (Mensah, 2007). In the World Bank report on 2020 world development indicator, there is a great emphasis for government in Africa to improve infrastructure as a means of spurring economic growth and reducing poverty. The report further states that for development, investments are critical for poverty reduction and that private investment has tremendous potential to contribute to economic growth. The private sector is also deemed to be engine of productivity, growth, job creation and generator of higher income.

Investments in this sector would result in the provision of basic conditions that empower poor people by improving health, education and infrastructure (Beth et al, 2011).MSEs are among those private owned organization that are seen as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets, enhance productivity and technical change and through all of these stimulate economic development (ministry of trade and industry,1997).

The continued growth of the income &small enterprise sector in sub –Saharan Africans an indication that their operations are profitable given that all profit-making companies survive

in the market as long as they remain profitable (Caruters and Espeland,1991).

According to Ozar (2008), there has been a growing tare has been a growing interest & attention in the roll small enterprise play in the economic since the 1980s.

One of the reasons for this concede rebel attention is that those enterprises have been found to have potential to generate employment and also to contribute to poverty alleviation in most countries in sub-Saharan Africa where social environments have worsened over time due to increasing level of unemployment as well as increasingly widening gaps of income inequality. Be grow (1999) for those micro & small enterprises have been credited for providing local opportunities and training local savings in to local investment.

In spite of the strategic important of MSE sector it currently appears in Ethiopia and particularly in the Sidama regional state that MSEs face multidimensional challenged and or problems that constraint their prosperity future expansion. In this regard, lack of proper systems, internal resources and organizational capabilities, among, other could be the major problem the MSEs face.

There is growing recognition of the important role Micro, Small and Medium Scale Enterprises (SMEs) play in the economic development of most countries. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. [1] Argues that SMEs are particularly important in supporting economic growth and livelihoods in developing countries.

The advent of micro and small enterprises is a very recent phenomenon in Ethiopian history. While it has been argued by different scholars about it is potential of engine for any country in inspiring the growth and development of economy (National Micro and small Enterprise's strategy of Ethiopia, 1997).

In all forms of business units, financial management systems are of crucial importance. In fact, they are of significant to business success. Sound financial management is crucial to the survival and well-being of small enterprises of all types (Fatoki, 2012). According to Tung and Aycan (2008), Petrus (2009) and Naquvi(2011) cited in Fatoki(2012),

failure factors of MSEs include poor business and financial management competencies. Much can be said about the impact of financial management on financial performance of firms.

According to management study guide (2012), financial management decisions include: investment (capital budgeting) decisions, working capital management decision, financial (capital structure decision, and dividend decisions. It further explains each of the decision variables as follows:

1.   Investment (capital Budgeting) decision refers to the process of planning and managing a firm's long –term investments. Capital budgeting is used to evaluate whether investment in fixed assets such as new machinery, new products, and research development project are worth pursuing. Capital budgeting techniques include non-discounted cash flow techniques (payback period and the accounting rate of return) and discounted cash flow techniques (net present value, internal rate of return, profitability index and discounted payback period).

2.   Working capital management involves managing the short-term assets and liabilities of affirm. It ensures that affirm has sufficient cash flow in order to meet its short – term debt obligation and operating expenses.

3.   Financial (capital structure) decision relates to the raising of finance from various sources depending on the type 0f source, period of financing, cost of financing and the returns. Capital structure refers to the way a company finances its assets through some combination of equity, debt, or hybrid securities.

4.   Dividend decision involves the decision with regards to the net profit distribution to owners/shareholders and retained earnings (Management Study Guide, 2012).

1.2. Statement of the problem

In Ethiopia SMEs are owned by one person or small group of people managed by their owners and relations, and with the other little help. Lack of various resources made information system to remain at lowest level. Majority of them have no of good record, the type of records and the management information. (Gibrehiwot, 2005).

Studies have also shown that the owners in most cases use judgments (6%) anticipation (32%),

past experience (15%) with no method (27%) to control inventory (David, etal, 2001). As a result, the owners fail to realize the importance of external source of capital in order to affect expansion in the business. The poor credit control that disallows monitoring of performance challenges production, pricing, marketing, capital expenditure decision, and in the end inadequate capital available to the sector thus lead to poor financing. More over SMEs launched without a feasibility report, wherever such reports were prepared the purpose was to use them as recommendation to obtain institutional finance than to serve as a plan to make the unit a success. Therefore, they are weak in aspects like marketing, finance, personnel management, general administration, accountings, and public rapport

Consequently, these SMEs:

a)   Lack of competent management which is the consequence of inability of owners to employ the services of experts.

b)   Use of obsolete equipment and methods of production because of owner's inability to access new technology.

c)   Full excessive competition which resulted from sales which is a consequence of poor finance to cope with increased competition in the industry.

Micro and small enterprises in Hawassa city are also one of the enterprises supposed to be faced with the above listed problems. Hence, researcher is going for research in the area of financial management practices with reference to small and micro enterprise.

1.3. Objectives   of the study

1.3.1. General   objective

The overall objective of the study is to investigate the financial management practices of Micro and small business- enterprises in Hawassa City Administration.

1.3.2. Specific objectives

1.   Identify indicators of good and poor financial management of micro and small enterprises in the city.

2.   Analyse their financial challenges faced by micro and small enterprises due to lack of financial management practices.

3.   To examine the relationship between changes in financial management practices and business financial status and performance.

4.   To find the strengths and weaknesses in financial planning and control, accounting information, financial analysis, management accounting, working capital management and investment decisions made by MSEs.

1.4. Research questions

In this research the following research questions was answered

1, what are indicators of good and poor financial management of micro and small enterprises in the city?

2, can you find any financial failure faced by micro and small enterprises due to lack of financial management practices?

3, Is there a relation between changes in financial management practices and business's financial performance?

4, What are the strengths and weaknesses in financial planning and control, accounting information, financial analysis, management accounting, working capital management and investment decisions made by MSEs?

1.5. Significance of the study

The finding of the study hopes to be significant in identifying the various financial management practices of micro and small enterprises that promotes their growth.

1.   The researcher hopes that suggestion and recommendation of the study would help the concerned body by providing high light of the information about the sector.

2.   Provide valuable information for government and their interested body to take some corrective action

3.   The finding of the study would be important to the academicians and researchers who can use it as a springboard for other researches/studies.

1.6. Scope and Limitations of the study

The study recognized its scope as well as the limitation. This study would mainly focus on the impact of financial management practice on micro and small enterprises which are found in

Hawassa. In doing so, sample of 30 MSE associations was selected from some sub cities of Hawassa. Therefore, the study is limited to the micro and small enterprises in Hawassa. The result of the paper, therefore, would be limited to those mentioned above enterprises cannot generalized to all MSE in Ethiopia.

2. RESEARCH METHODOLOGY

2.1 Description of the study Area

Hawassa city is the capital of SNNPRS. It is one of the fast-growing cities in Ethiopia. Hawassa is found at 275 km from Addis Ababa. The area covers 50 square km and population is around 306000 (CSA, 2007 EC). Hawassa city has 8sub cities and 32 kebeles. The city is becoming centre for business and economic activities. A lots of job opportunities are being opened by MSEs. In the past four years the most beneficiaries of micro and small-scale Enterprises in Sidama Regional State, cities are Hawassa, Wondo Genet and Bensa Daye cites respectively (SIDAMA TRADE and INDUSTRY bureau, Annual report of 2020).

A report in 2015 by Hawassa city trade and Industry office, Micro and Small-scale Enterprises shows that, there are five sub sectors in micro and small-scale Enterprise's sector. Each sub sector contributes to the general population of the MSEs in Hawassa city. Generally, there are a total of 1936 enterprises operating in all sub sectors of the MSE. They account for 475 operating in manufacturing 415.in construction 295, in small trade 647, in services and 104 in urban agriculture enterprises are in the operation (annual report of Hawassa city Trade enterprise development, 2020.

2.2. Research Design

The type of research employed under this study is descriptive research. Descriptive research is concerned with determining the frequency with which an event occurs or relationship between variable. The major purpose of descriptive research is description of the state of affairs as it exists at present.

Moreover, the study would utilize cross-sectional data in the sense that all relevant data can be collected at a single point in time. The reason for preferring across-sectional study is due to the vast nature of the study and the limitation of time. In this study, combination of qualitative and quantitative approaches of doing research is employed.

2.3. Types and Sources of Data

2.3.1. Primary Data and Sources

Primary data refer to information obtained by the researcher on the variables of interest for the specific purpose of the study. The primary source of information required is collected from the operators and employees of selected enterprises in Hawassa city. In order to get in the target, the study used well-designed questionnaire as best instrument. It was filled by the owner managers and operators of enterprises.

Besides, a personal interview was conducted with the MSEs operators and the relevant owner managers who heads the enterprises in the selected sectors. The interview method of data collection was chosen due to its high response rate.

2.3.2. Secondary Data and Source

The source of secondary data in this study was collected from files, manuals, strategies and policy papers which is used to provide related information. Besides, variety of books, published and/or unpublished government documents and newspaper was reviewed to make the study successful.

2.4. Sampling technique and sample size

Sample populations, which are assumed to be representatives of the SME's were selected and interviewed. Accordingly, Hwassa city is chosen as a study area for this research. This is because Hawassa is the capital city of the SIDAMA and the number and distribution of MSEs are large and increasingly growing which makes it suitable for this study. The other reason is its convenience for researcher to collect data in short time.

The appropriate technique used to draw a representative sample was Stratified random sampling This technique is preferred since it is used to assist in reducing partiality when dealing with the population. The information gathered from Hawasa Micro and Small-scale Enterprises Agency annual report indicates total population of the city micro and small-scale Enterprises are 1936

Enterprises in the five sub sectors

In order to draw the sample population, the following formula was used for the calculation of the sample size: Given by" Yemanne".

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

$$N = \frac{1936}{1 + 1936(0.1)^2}$$

N=99.9 approximately the sample size was being 100.

Where

N=sample size   n=population of the study=1936 e=margin of error =10%

Accordingly, 100 respondents were being selected from the total 1936 MSEs. These 100 respondents were selected from manufacturing, construction, service, trade and urban agriculture on proportional basis.

The following table shows the strata population and sample size of the study area.

Table 2.1 Total population of the subsectors and strata population.

No	Sub sectors of the enterprises or Strata	Total population (Nh)	Strata(nh)	Remarks nh=(Nh/N)n where nh=sample size of stratum Nh=population size for stratum N=total population size (1936) N==total sample size =100
1	Manufacturing	475	25	
2	Construction	415	22	
3	Services	647	33	
4	Urban agriculture	104	5	
5	Small scale trading	295	15	
	Total	1936	100	

Source: Hawassa trade and industry MSED, 2020EC report.

2.5. Data processing and analysis

2.5.1. Data processing

The primary data collection process is carried out in the working sites of enterprises. In data processing procedure, coding, classification and tabulation of the collected data was used. Data processing has two phases namely: data clean-up and data reduction. During data clean-up the collected raw data was edited to detect irregularity, error and omissions in responses and checking that the questions are answered precisely and consistently.

Data reduction is assigning of numerical values or other symbols used to reduce responses in to a limited number of categories or classes. Doing this, the processes of arranging large volume of unrefined data into classes or groups on the basis of common characteristics are applied. Data having the common characteristics were placed together. Finally, tabulation was used to summarize the raw data and displayed in the form of tabulation for further analysis.

2.5.2. Data analysis

To achieve the stated objectives and answer the research questions, various methods of data analysis were used in connection with identifying the effects of financial management practices in SME's. Responses were acquired using questionnaires and summarized and presented using descriptive statistics such as percentage, mean and standard deviation.

In order to execute the analysis, statistical package for social science (SPSS) version 20 was also used to analyze the data obtained from primary sources. Moreover, descriptive statistical analysis was employed to analyze information collected from informal interviews and information captured through observation and discussion about the financial management practices, strategies and performances of SME's in Hawassa City administration.

2.6 Validity and Reliability of Instruments

2.6.1 Validity of Instruments

Validity is the degree to which a test measures what it claims to measure. A pilot study was conducted to refine the methodology and test instrument such as questionnaire before administering finally. Questionnaire was tested on potential respondents to make the data collecting instrument's objective, relevant and suitable to the problem and reliable.

Besides, proper detection by an advisor was also taken to ensure validity of the instruments.

Finally, the improved version of the questionnaires was printed, duplicated and dispatched.

2.6.2 Reliability of Instruments

The reliability of instruments measures the consistency of instruments. In this study each statement was but a 5-point Likert response scale which includes strongly agree, agree, normal, disagree and strongly disagree, based on this an internal consistence reliability test was conducted in Hawassa city with a sample of 18 operators and the Cronbach's alpha coefficient for the instrument was found as 0.866 which is highly reliable.

2.7 Ethical consideration

The purpose of the research is properly informed to all the participants included in this study. And their willingness and consent are secured previous to the beginning of distributing questionnaires. The study maintained the confidentiality of the self-identity of each participant.

In all cases, names are kept confidential and collective names like respondents are use.

3. ANALYSIS AND DISCUSSION

The goal of this study is to assess financial management practices on micro and small enterprises operating at Hawassa city. In this chapter, descriptive data analyses are presented. The first phase involved editing, coding and the tabulation of data and was checked for possible incorrect entries and corrections. This study targeted 100 MSEs in Hawassa city and 92 of the questionnaires ware returned and found useful for the study. This gave a response rate of 92%, which is acceptable or. The analysis is, therefore, done using 92 questionnaires received from the respondents. The content covered in this chapter includes demographic information of MSEs, variables related with financial management practices based on survey result.

3.1. Demographic Information of MSEs

The demographic information gathering in this study include aspects like age of respondents, gender, marital status, education level, number of employees or members, number of years the MSE is in operation and the sector in which the MSE is operating, pricing strategy and objective of MSE's.

According to the survey result,92 out of 100 respondents below 20 years represent 2.2% of the respondent followed by the age of 21-30 representing 57.6%, 31-40 representing 29.3% ,41-50 representing 9.8% and age above 50 represented by 1.1%. The table shows that more than half of the respondent 53(57.6%) individual engaged in the operation of the micro and small-scale enterprise businesses are at their younger age and the number of individuals decreases as the age increases. Significantly large portion of the respondent (67.4%) are male and the rest are female. This disproportion of gender may be due to different socio- economic challenges women are facing. Regarding marital status, 63% of the respondents are married, 35.9% are single and the remaining 1.1% are others, showing married youths tend to engage in the business more. Regarding their educational background, about 4.3% of the respondents are unable to read and write.6.5% of the respondents can only read and writes. The other 5.4 and 32.6% of the respondents have only elementary and secondary school education respectively. The remaining

34.8 and 16.3 % of the respondents represents TVET and College graduates respectively. Individuals graduated from higher education involved in MSEs are small in number. This is because most of higher education graduates look jobs in the formal institution. The door of formal institution for graduates is more open than other with little or educational experience. But recently the involvement of graduates in business is increasing mainly due to their inability to find a suitable in for formal institutions and the growing marketing

opportunities of MSE's. About three forth (77.2%) of MSEs are operated by MSE members ranging from one to five. 38% of the respondents operated less than 2years the remaining more than half of the respondents revealed that the enterprises are being operated for more than two years. Micro enterprise accounts (64.1%) of respondent and small enterprises account (35.9%) of respondent. Most of respondents are engaged in micro businesses. This is because micro enterprises can be established with small amount of money with synergy of individuals. Of the sectors MSEs are operating, service is a sector in which most of the MSEs are operating (36%) while urban agriculture is sector with least involvement (6%). Service section is mostly supported by government fund. The demographic information is summarized in the table below.

Table 3.1 Demographic information of MSEs

MSE back ground information		Frequency	Percent
Age	below 20 years	2	2.2
	20-30 years	53	57.6
	31-40 years	27	29.3
	41-50 years	9	9.8
	above 50 years	1	1.1
	Total	92	100.0
Gender	Male	62	67.4
	Female	30	32.6
	Total	92	100.0
Marital status	Married	58	63.0
	Single	33	35.9
	Other	1	1.1
	Total	92	100.0
Educational level	Unable to write and read	4	4.3
	Reads and write	6	6.5
	Elementary school	5	5.4
	Secondary School	30	32.6
	TVET graduate	16	17.4
	College Diploma	16	17.4
	First degree and above	15	16.3
	Total	92	100.0
Number of operators	1-5 employees	71	77.2
	6-10 employees	12	13.0
	11-15 employees	9	9.8
	Total	92	100.0
years of operation	0-2 years	35	38.0
	2-4 years	30	32.6
	above 4 years	27	29.3
	Total	92	100.0
size of Business	Micro	59	64.1
	Small	33	35.9
	Total	92	100.0
MSE business sector	Manufacturing	25	27
	Construction	14	15
	Service	33	36
	Urban agriculture	5	6
	Trade	15	16
	Total	92	100

Source: Survey data (2021)

3.2. Pricing strategy of MSEs

On the practice of pricing Strategy adopted by MSEs, respondents were asked whether they have pricing strategy for products or services. As indicated in table 4.2 below 2.2% of the SME's have no pricing objective. While the other 26.1% of them mentioned that their pricing is based on experience and (33.7%) responded that they consider market situation and competitor's price and remaining 38.1 % laid that they consider combination of experience, competitors' price and market situation while they set their pricing objective.

Table 3.2 pricing strategy adopted by MSEs

	Frequency	Percent
No strategy followed	2	2.2
Based on experience	24	26.1
Competitors and market	31	33.7
Combined	35	38.0
Total	92	100.0

Source: survey data (2021)

3.3. Financial Management Practices

Under this section the result of the survey on MSEs' financial planning, analysis and control, accounting information, financial reporting, working capital management and investment decisions are presented in detail.

3.3.1. Financial Planning, Analysis and control

On the financial Planning, analysis and control, respondents were asked to rate how much they agree or disagree on the existence of short-, medium- and long-term plans of their business, whether they analyze the trends of their profit, sales, total assets and market shares and on financial control made by comparing actual results with planed targets. The mean averages of response between 3.83 and 3.93 showing the agreement on the existence of financial planning, analysis and control. Table 4.3 below shows the descriptive statistics of financial planning, analysis and control practices of MSEs in Hawassa city. The mean value of 27.14 (which is above average score of 21) reveals the level of practices of financial planning, analysis and control among MSE's. This result is consistent with study by Fatoki, 2012 which shows MSEs rarely Practice financial planning, analysis and control.

Table 3.3 descriptive statistics of financial planning, Analysis, and control

		N Valid	Mean	Std. Deviation	Minimum	Maximum
Planning	MSE sets financial objective for one year	92	3.90	1.017	1	
	MSE sets financial objective for ten years	92	3.80	1.082	1	
	MSE analyses profit trend	92	3.87	.928	1	
	MSE analyses sales trend	92	3.93	.849	2	
	MSE analyses trend of total asset	92	3.91	.898	2	
Analysis	MSE analyses trend of market share	92	3.89	.883	1	
Control	MSE compares financial objective with financial performance	92	3.83	.979	1	

Source: survey data (2021)

Table 3.4 financial planning, analysis and control practices of MSEs

Category of MSE		Frequency	Percent	Valid Percent	Cumulative Percent
MSE sets financial objective for one year	strongly disagree	3	3.3	3.3	3.3
	Disagree	10	10.9	10.9	14.1
	normal	4	4.3	4.3	18.5
	Agree	51	55.4	55.4	73.9
	Strongly agree	24	26.1	26.1	100.0
	Total	92	100.0	100.0	
MSE sets financial objective for ten years	strongly disagree	3	3.3	3.3	3.3
	Disagree	12	13.0	13.0	16.3
	normal	10	10.9	10.9	27.2
	Agree	42	45.7	45.7	72.8
	Strongly agree	25	27.2	27.2	100.0
	Total	92	100.0	100.0	
MSE analyses profit trend	strongly disagree	3	3.3	3.3	3.3
	Disagree	4	4.3	4.3	7.6
	Normal	16	17.4	17.4	25.0
	Agree	48	52.2	52.2	77.2
	Strongly agree	21	22.8	22.8	100.0
	Total	92	100.0	100.0	
MSE analyses sales trend	Disagree	8	8.7	8.7	8.7
	Normal	12	13.0	13.0	21.7
	Agree	50	54.3	54.3	76.1
	Strongly agree	22	23.9	23.9	100.0
	Total	92	100.0	100.0	
MSE analyses trend of total asset	Disagree	11	12.0	12.0	12.0
	Normal	8	8.7	8.7	20.7
	Agree	51	55.4	55.4	76.1
	Strongly agree	22	23.9	23.9	100.0
	Total	92	100.0	100.0	

Category of MSE		Frequency	Percent	Valid Percent	Cumulative Percent
MSE analyses trend of market share	strongly disagree	1	1.1	1.1	1.1
	Disagree	8	8.7	8.7	9.8
	Normal	11	12.0	12.0	21.7
	Agree	52	56.5	56.5	78.3
	Strongly agree	20	21.7	21.7	100.0
	Total	92	100.0	100.0	
MSE compares Financial objective with financial performance	strongly disagree	4	4.3	4.3	4.3
	Disagree	6	6.5	6.5	10.9
	Normal	11	12.0	12.0	22.8
	Agree	52	56.5	56.5	79.3
	Strongly agree	19	20.7	20.7	100.0
	Total	**92**	**100.0**	**100.0**	

Source: survey data (2021)

3.3.2 Accounting Information

On accounting information, as depicted in Table 4.5 MSEs were asked about the existence of sales, expenses, purchase, drawings, fixed assets, inventories, cash, receivables and payables books and records. They rated their level of agreement (disagreement) on the existence of accounting records. As depicted in the table below 7 out of 92 respondents disagree that they have sales records and 78 out of 92 agree that they have one. Of the 92 respondents,9 disagreed on having purchase record while 72 said they have purchase record. The average of all accounting information records on agreement scale except receivables record. Descriptive statistics of accounting information also shows the record keeping practice average of scale. This result is consistent with other studies like fatoki (2012). Maintaining accounting information helps the enterprises to efficiently manage and control their assets and hence it leads to better financial performance. The practice can help enterprises in efficiently running of their business operations.

Table 3.5 Accounting information of record practices of MSEs

Category of MSE		Frequency	Percent	Valid Percent	Cumulative Percent
MSE keeps sales record	strongly disagree	5	5.4	5.4	5.4
	Disagree	2	2.2	2.2	7.6
	Normal	7	7.6	7.6	15.2
	Agree	47	51.1	51.1	66.3
	Strongly agree	31	33.7	33.7	100.0
	Total	92	100.0	100.0	
MSE keeps purchase record	strongly disagree	6	6.5	6.5	6.5
	Disagree	3	3.3	3.3	9.8
	Normal	12	13.0	13.0	22.8
	Agree	40	43.5	43.5	66.3
	Strongly agree	31	33.7	33.7	100.0
	Total	92	100.0	100.0	
MSE keeps expense record	strongly disagree	4	4.3	4.3	4.3
	Disagree	4	4.3	4.3	8.7
	Normal	11	12.0	12.0	20.7
	Agree	45	48.9	48.9	69.6
	Strongly agree	28	30.4	30.4	100.0
	Total	92	100.0	100.0	
MSE provides for depreciation	strongly disagree	5	5.4	5.4	5.4
	Disagree	21	22.8	22.8	28.3
	Normal	17	18.5	18.5	46.7
	Agree	35	38.0	38.0	84.8
	Strongly agree	14	15.2	15.2	100.0
	Total	92	100.0	100.0	
MSE makes drawing	strongly disagree	7	7.6	7.6	7.6
	Disagree	19	20.7	20.7	28.3
	Normal	10	10.9	10.9	39.1
	Agree	44	47.8	47.8	87.0
	Strongly agree	12	13.0	13.0	100.0
	Total	92	100.0	100.0	
MSE records drawing	strongly disagree	8	8.7	8.7	8.7
	Disagree	21	22.8	22.8	31.5
	Normal	8	8.7	8.7	40.2
	Agree	39	42.4	42.4	82.6
	Strongly agree	16	17.4	17.4	100.0
	Total	92	100.0	100.0	
MSE keeps fixed asset register	strongly disagree	4	4.3	4.3	4.3
	Disagree	12	13.0	13.0	17.4
	Normal	12	13.0	13.0	30.4
	Agree	41	44.6	44.6	75.0
	Strongly agree	23	25.0	25.0	100.0
	Total	92	100.0	100.0	
MSE keeps stock record book	strongly disagree	4	4.3	4.3	4.3
	Disagree	17	18.5	18.5	22.8
	Normal	14	15.2	15.2	38.0
	Agree	43	46.7	46.7	84.8
	Strongly agree	14	15.2	15.2	100.0
	Total	92	100.0	100.0	
MSE keeps cash record	strongly disagree	5	5.4	5.4	5.4
	Disagree	11	12.0	12.0	17.4
	Normal	10	10.9	10.9	28.3
	Agree	39	42.4	42.4	70.7
	Strongly agree	27	29.3	29.3	100.0
	Total	92	100.0	100.0	
MSE Keeps receivables record	strongly disagree	14	15.2	15.2	15.2
	Disagree	25	27.2	27.2	42.4
	Normal	10	10.9	10.9	53.3
	Agree	31	33.7	33.7	87.0

	Strongly agree	12	13.0	13.0	100.0
	Total	92	100.0	100.0	
MSE keeps payables record	strongly disagree	10	10.9	10.9	10.9
	Disagree	21	22.8	22.8	33.7
	Normal	9	9.8	9.8	43.5
	Agree	36	39.1	39.1	82.6
	Strongly agree	16	17.4	17.4	100.0
Total		92	100.0	100.0	

Table 3.6. Descriptive statistics of accounting information of MSEs

MSEs category		N Valid	Mean	Std. Deviation	Minimum	Maximum
	MSE keeps sales record	92	4.05	.999	1	5
	MSE keeps purchase record	92	3.95	1.093	1	5
	MSE keeps expense record	92	3.97	.999	1	5
	MSE provides for depreciation	92	3.35	1.152	1	5
	MSE makes drawing	92	3.38	1.175	1	5
	MSE records drawing	92	3.37	1.255	1	5
	MSE keeps fixed asset register	92	3.73	1.110	1	5
	MSE keeps stock record book	92	3.50	1.094	1	5
	MSE keeps cash record	92	3.78	1.156	1	5
	MSE keeps receivables record	92	3.02	1.326	1	5
Accounting information	MSE keeps payables record	92	3.29	1.297	1	5

Source: survey data (2021)

3.3.3. Financial reporting

On the practice of financial reporting about 18.5% of MSEs responded that they do not prepare financial report 18 out of 92 respondents replied that they prepare financial report on monthly basis. The average of respondent prepares financial report once in a year. Research studies (Bekel,2012, Fatoki,2012) show financial reporting practice among MSEs is at its inception.

Table 3.7. MSE prepares financial report

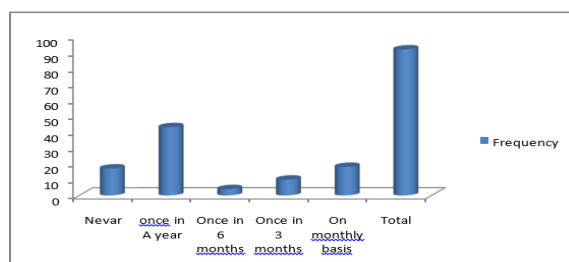| Category of MSE	Frequency	Percent	Valid Percent	Cumulative Percent
Nevar	17	18.5	18.5	18.5
once in a year	43	46.7	46.7	65.2
Once in 6 months	4	4.3	4.3	69.6
Once in 3 months	10	10.9	10.9	80.4
On monthly basis	18	19.6	19.6	100.0
Total	92	100.0	100.0	

Source: survey data (2021)

Figure 1 MSE prepares financial report
(Source; primary data (2021)

3.3.4. Working capital management

The result as depicted in Table 4.8 show that out of 92 respondents,(29 MSEs) do not account their cash on daily basis but the majority MSEs account their cash on daily basis and 36 of the 92 do not deposit their collection to bank on regular basis.31 respondents showed their disagreement on having inventory management practices and 49 respondents show that there is no credit sales of their products or services,65 showed absence fixed collection deadline of receivables,24 respondents disagree on purchase on account and lack of fixed due dates for payment of payables. This shows that most MSEs do not sell on credit but purchase on credit their by having no credit guide lines for collection of receivables or payment of payables. Study by Olawaki (2012) also shows similar result that most MSEs do not practice working management. Nyamao et.al(2011)indicated also efficient management practices of working capital management is fundamental for the financial performance management .This result shows half of MSEs practice working capital management which is fundamental for the Financial performance of micro and small Enterprises.

Table 3.8 Working capital management practices of MSEs

Category of MSE		Frequency	Percent	Valid Percent	Cumulative Percent
MSE accounts cash balance daily	strongly disagree	8	8.7	8.7	8.7
	Disagree	11	12.0	12.0	20.7
	Normal	10	10.9	10.9	31.5
	Agree	43	46.7	46.7	78.3
	Strongly agree	20	21.7	21.7	100.0
	Total	92	100.0	100.0	
MSE deposits its collections regularly	strongly disagree	10	10.9	10.9	10.9
	Disagree	17	18.5	18.5	29.3
	Normal	9	9.8	9.8	39.1
	Agree	33	35.9	35.9	75.0
	Strongly agree	23	25.0	25.0	100.0
	Total	92	100.0	100.0	
MSE accounts row material, work in process, finished product and inventories regularly	strongly disagree	7	7.6	7.6	7.6
	Disagree	11	12.0	12.0	19.6
	Normal	10	10.9	10.9	30.4
	Agree	42	45.7	45.7	76.1
	Strongly agree	22	23.9	23.9	100.0
	Total	92	100.0	100.0	
MSE sells on credit	strongly disagree	11	12.0	12.0	12.0
	Disagree	26	28.3	28.3	40.3
	Normal	12	13.0	13.0	53.3
	Agree	29	31.5	31.5	84.8
	Strongly agree	14	15.2	15.2	100
	Total	92	100.0	100.0	

MSE has number of days to repay credits	strongly disagree	13	14.1	14.1	14.1
	Disagree	21	22.8	22.8	37.0
	Normal	31	33.7	33.7	70.7
	Agree	19	20.7	20.7	91.3
	Strongly agree	8	8.7	8.7	100.0
	Total	92	100.0	100.0	
MSE purchase on credit	strongly disagree	10	10.9	10.9	10.9
	Disagree	8	8.7	8.7	19.6
	Normal	6	6.5	6.5	26.1
	Agree	55	59.8	59.8	85.9
	Strongly agree	13	14.1	14.1	100.0
	Total	92	100.0	100.0	
MSE has number of days to pay its debits	strongly disagree	13	14.1	14.1	14.1
	Disagree	14	15.2	15.2	29.3
	Normal	27	29.3	29.3	58.7
	Agree	29	31.5	31.5	90.2
	Strongly agree	9	9.8	9.8	100.0
	Total	92	100.0	100.0	

Source: survey data (2021)

Table 3.9. Descriptive statics working capital management of MSEs

MSE category		N Valid	Mean	Std. Deviation	Minimum	Maximum
working capital management	MSE accounts cash balance daily	92	3.61	1.204	1	5
	MSE deposits its collections regularly	92	3.46	1.338	1	5
	MSE accounts RM, WIP, finished product and inventories regularly	92	3.66	1.189	1	5
	MSE sells on credit	92	3.64	5.259	1	52
	MSE has number of days to repay credits	92	2.87	1.160	1	5
	MSE purchase on credit	92	3.58	1.170	1	5
	MSE has number of days to pay its debits	92	3.08	1.197	1	5

Source: survey data (2021)

3.3.5. Investment Decisions made by MSEs

To assess the investment decisions of MSEs, respondents were asked if they did any feasibility study for their business. Out of 92 respondents 21.8% answered that they did not study about the feasibility of their venture.38 respondents representing (41.3%) revealed that they made a study to some extent based their previous experience but they do not show which evaluation criteria they used for their decision purpose. A study by olawaki (2011) also shows MSEs hardly practice investment decisions when commencing their business venture. Previous experience and Exposure are their driving motives in starting the undertakings.

Table 3.10. Feasibility study done by MSEs before starting their venture

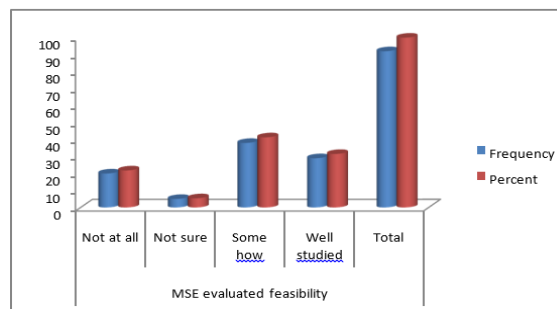| Category of MSE		Frequency	Percent	Valid Percent	Cumulative Percent
MSE evaluated feasibility	Not at all	20	21.8	21.8	21.8
	Normal	5	5.4	5.4	27.2
	Some how	38	41.3	41.3	68.5
	Well studied	29	31.5	31.5	100.0
	Total	92	100.0	100.0	

Source: survey data (2021)

Figure 2 Feasibility study done by MSEs before starting their venture

3.4. Financial Performance of MSEs

Assessment of financial performance status of MSEs working at Hawasa city is one of research objectives included in the study. In order to achieve this purpose, respondents were asked to rate their perceived extent of growth in their businesses profit, and sales.

Table 4.11 indicates that on an average the extent of growth profit and sale was very low and had mean value of 2.02,2.57 respectively. As depicted in Table 4.11, higher number of MSEs had a growth rate that can be considered low (score 1and 2 on the scale) as compared to the number of MSEs whose growth rate could be considered high (score 4 and 5on the scale).

Table 3.11. Respondents' perception on extent of growth on financial performance indicator

Financial performance indicator			Frequency	Percent	Valid Percent	Cumulative Percent
		Very low (1)	27	29.3	29.3	29.3
		Low (2)	18	19.6	19.6	48.9
		Medium (3)	26	28.3	28.3	77.2
		High (4)	10	10.9	10.9	88.0
		Very high (5)	11	12.0	12.0	100.0
Growth in profit		Total	92	100.0	100.0	
		Very low (1)	43	46.7	46.7	46.7
		Low (2)	19	20.7	20.7	67.4
		Medium (3)	21	22.8	22.8	90.2
		High (4)	3	3.3	3.3	93.5
		Very high (5)	6	6.5	6.5	100.0
Growth in sale		Total	92	100.0	100.0	

Table 4.12 shows the descriptive statistics for financial performance of the MSEs. The result show that the financial performance range from a minimum value of 2 maximum value 10 .The result also show an average financial performance index of 4.59 with the score deviating from the mean score by 1.333. This average score is less than 12, and hence, the current financial performance of MSEs in Hawasa city is on a very low average. A similar study by Nayamao et.at (2011) established that most of the small businesses studied reported a deteriorating or failing performance.

Table 3.12. Descriptive Statistics of financial performance of MSEs

	N	Minimum	Maximum	Mean	Std. Deviation
Category of MSE based on annual sales	92	1	5	2.57	1.333
Category of MSE based on annual profit growth	92	1	5	2.02	1.192

4.   CONCLUSION   AND RECOMMENDATION

In this chapter the conclusions and recommendation are discussed. For clarity purpose, the conclusions are based on the research objectives of the study. The findings of the study will be recommendation to government bodies, operators of MSEs, financial institutions and suggestion for other researchers.

4.1. Conclusion

This research was conducted in Hawasa city in selected enterprises with the principal objective assessing the financial management practices on micro and small-scale enterprise operators engaged in the five-sub sector. The study specifically attempted to investigate the existing financial management practices and to recommend possible solution to alleviate the problems of MSEs financial performance. Based on the objectives and findings of the study, the following conclusions are drawn.

1.   The practice of setting short and long-term targets, following up and analysing the status of set target, analysis of trend and taking action to control variations is not being practiced by nearly most MSEs.

2.   Some of the MSEs do not keep accounting information and record related to sales, purchase, expenses, assets, receivables, inventories and more importantly cash.

3.   Practice of management accounting like costing and pricing objectives and strategies is not followed by partially MSEs. Most of MSEs follow traditional way of costing and pricing. Pricing of working capital management is nearly non-existent.

4.   Efficient management cash, inventories, receivable and payable are crucial for fate of any business but practice at a very insignificant level with MSEs. Undertaking feasibility study to examine the investment evaluation and decision before beginning business venture has not been practiced in formal way by great majority of MSEs.

5.   Financial performance of MSEs as measured in changes in profit and sales is at low level for MSEs operating at Hawassa city.

4.2. Recommendations

It essential to suggest for corrective and complimentary action to be taken by MSEs themselves, by government, finance institutions and other stakeholders in order to enhance financial performance of MSEs. Such recommendations demand an in-depth analysis of the influence of different factors regarding the sector. Based on the findings and conclusions of the study, the following recommendations are forwarded.

MSEs are backbone of all economies and are key source of employment generation and economic growth in advanced industrialized countries as well as in emerging and developing economics. They should therefore be able to operate consistently and become sustainable in the long run. This study provides the following recommendations to the effect of financial management practices

1.   Operators of MSEs should realize the importance of planning, analysis and control. Training on how to set goals, measure performance and institute the control process is very important to the survival of MSEs.

2.   Evaluation of investment through the use of feasibility study is also important to the MSEs.

3.   They should also realize the importance of keeping records of sales, purchases, expense, assets and liabilities and give equal importance to working capital management.

4.   They should adopt financial practice to present their status operation and performance to external bodies. In addition, MSEs operators can use accountants and finance people to assist them in adopting financial management practices.

5.   At last the micro and small Enterprises Development Agency and trade and Industry office should make it part of their commitment in training the MSEs on how to keep books of account and the planning and reporting process.

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