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Impact of Financial Management Practices on Success of Small Business Enterprises: The Case of Woliso Town, Oromia, Ethiopia

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The study aims to asses' financial management practice Impact among small business enterprise in Woliso town. The main objective of the study was to investigate the effect of financial management practices and financial management characteristics on profitability. The target populations for the study are the whole 135 business organizations found in woliso town. To reach the targeted goal, primary and secondary data were also collected. The study revealed that majority of the business get the loan from micro finance institution found in the study area and cash receipt is not recorded well, in contrast, majority of payment is recorded on daily basis. As to the factor which in inhabit good financial management practices:-Qualified accountants are too expensive to maintain (93%), Accounting records too difficult to understand (87%), Lack of internal accounting staff (73%), the business is too small (73%) were the major factor identified. Lastly majority of the study show that as financial management practices such as recording, reporting & analysis, working capital management, fixed asset management has positive impact on the profitability(SUCCESS) of the small business and majority of the business firm found in this area. Most of the business earn on average 500-1000 ETB daily while they majority incur expenses of the same amount as that of income. Most Business Enterprises have not appointed financial managers to be in charge of financial management of the company. Usually, the owners or general managers with the assistance of the accountant control financial matters of the company; therefore, owner of the business should focus on sound financial management practice well. This finding leads to the conclusion that the efficiency of financial management practices and characteristics can bring about higher profitability. Therefore, business organizations can improve profitability by raising the efficiency of financial management practices and characteristics.

Key Words: financial management, business enterprises, practices

Background of the Study

Financial management is one of the several functional areas of management but it is the center to the success of any business. Inefficient financial management, combined with the uncertainty of the business environment often led Business Enterprises to serious problems. According to Kawame (2010), careless financial management practices are the main cause of failure for business enterprises in Ghana. Regardless of whether an owner-manager or hired-manager, If the financial decisions are wrong, profitability of the company will 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 excessively on equity and maintain high liquidity and these financial characteristics affect profitability.

The ultimate success of a firm's operations depends upon sound capital budgeting decision. Entrepreneurs invest money in their businesses for a reason. The reason, generally, is to receive a return on their precious resources. To test the link between earnings performance and capital budgeting practices, Christy (1967) used growth of earnings per share as an indicator of performance, but could not establish a consistent relationship between earnings performance and capital budgeting practices. There is little doubt that financial management systems continue to be of significance to business success. Prior research by Raymond and Magnenat-Thalman 1982, Holmes and Nicholls 1989, Nayak and Greenfield 1994 and Lybaert 1998 has asserted that the quality of management accounting information utilized within the small business sector has a positive relationship with an entity's performance.
According to Barrow (2001, p56), there is enough evidence which point to small firms being inefficient users of working capital. As he puts it, "the smaller they are, the less efficient they tend to be".

Dodge, Fullerton and Robins (1994) also reported that the most important internal problems identified by small US firms relate to inadequate capital, cash flow management and inventory control. In his often quoted research on small business failure and bankruptcy, Berryman (1983), has also indicated that „poor" or „careless" financial management is a major cause of small business failure.

Since the Ethiopian People Revolutionary Democratic Front (EPRDF) led government introduced a series of economic reforms in 1992, the private sector in Ethiopia has rapidly grown in terms of the number of businesses, capital and employees. The number of private businesses and limited companies had quickly risen and the majorities are micro, small and medium enterprises. These business Enterprises have contributed considerably to growing GDP and creating jobs for labor-age people (Alemayehu & Tadele, 2004*)*.

Woliso town is one of the oldest and commercial centers found in oromia regional state, Ethiopia. According to the census made in 2007, there are about 1,060 licensed business organizations in Woliso town. Now days this number is increasing at an accelerated rate (Ministry of Trade and Industry, 1997). Although their number is increasing, inefficient financial management practices are assumed to prevail in business organizations found in Woliso town. To my knowledge, there has not been any research on financial management practice conducted on business enterprises in Woliso town. This research paper is aimed at investigating the effect of financial management practice and financial characteristics on the profitability of the small business organizations found in Woliso town .

Statement of Problem

The danger of business failure due to lack of sound financial management practices is real. Gaskill and Auken (1993) have reported that the most internal problems identified by small US firms relate to inadequate capital, cash flow management and inventory control. Berryman, (1983) indicated that poor or careless financial management is a major cause of small business failure.

In addition, a major survey by the Insolvency Practitioner Society, (CIMA 1994) indicated that 20 per cent of UK corporate failures (the vast majority of which are small firms) were due to bad debts or poor credit management.

Most previous researchers have concentrated on examining, investigating and describing the behavior of Business Enterprises in practicing financial management. Their findings are mainly related to exploring and describing the behavior of business enterprises towards financial management practices and characteristics. Although they provided much descriptive and empirical evidence on financial management practices, it appears that there are still some gaps in the literature which need to be addressed. First, most empirical evidences came from the developed economies such as the United States of America. There seems to be a lack of evidence from less developed countries like Ethiopia. Second, most previous researchers focus on investigating and describing financial management practices. There has been little research examining the effect of financial management practices on profitability (McMahon, et al. 1993).

This lack of empirical evidence from less developed economies and the lack of examination of the effect of financial management practices and financial characteristics on profitability are major gaps in the knowledge of financial management. Therefore, it is difficult to convince business practitioners of the need for changes in practices until evidence of the effects of financial management practices and characteristics on profitability are provided and the relationship between the two variables is proved. Based on previous research findings and recognition of these gaps, a study of the effect of financial management on profitability is justified and the effect of financial management practices and financial characteristics should be developed and tested by using empirical data from less developed economies (kieu, 2004).

The case of Ethiopia is very serious. Most Business Enterprises have not appointed financial managers to be in charge of financial management of the company. Usually, the owners or general managers with the assistance of the accountant control financial matters of the company. On the other hand, most owners or managers have no formal training in management skills, especially financial management. Moreover, the concepts of financial management have also only been recognized in Ethiopia since the beginning of the 1960s, when the commercial code was introduced by the then imperial government. Hence, financial management is still one of the challenges of Business Enterprises in Ethiopia.

Literature Review

Specific Areas of Financial Management Practices

Most authors and researchers approach the specific areas of financial management in different ways depending upon their emphasis. Walker and Petty as cited by kieu (2004) defined the main areas of financial management including financial planning (cash planning, fixed asset planning, profit planning), investment decision-making, working capital management (cash, receivable and inventory management) and sources of financing (short-term and long-term financing, intermediate financing and going public). A study made in Malaysia by Mohd, et al (2010) identified the components of financial management as financial planning and control, financial accounting, financial analysis, management accounting, capital budgeting and working capital management. Chung & Chuang (2010) classified financial management practice in to the following five specific areas: Capital structure management, working capital management, financial reporting and analysis, capital budgeting and accounting information system. Generally, from the above and other literatures, it is possible to identify four major areas of financial management practices.

1. Financial Accounting, Reporting and Analysis: these include the nature and purpose of financial records, bookkeeping, cost accounting, and use of computers in financial record keeping, the nature, frequency and purpose of financial reporting, auditing, analysis and interpretation of financial performance.

2. Working Capital Management: Working capital management involves managing the level and financing of the firm's investment in current assets, which includes cash, marketable securities, accounts receivable and inventory. It is a strategy focusing on maintaining efficient levels of both components of working capital, current assets and current liabilities, in respect to each other.

3. Capital budgeting (Fixed asset) Management: Unlike working capital decision, capital budgeting decision commits funds for a long term capital projects or fixed assets which have an impact on the company's strategic position.

4. Financial Planning and Control (Management Accounting)**:** this includes financial objectives and targets, cost-volume-profit analysis, pricing, short term financial budgeting and control, and management of responsibility centers. Chung & Chuang (2010

Effect of Financial Management Practices on Profitability

The effect of financial management practice on profitability was found to be positive. Paramasivan, et al (2009) argued that financial management helps to improve the profitability position of business organizations with the help of strong financial control devices such as budgetary control, ratio analysis and CVP analysis. Mcmohon & Holmes (1991) pointed out that financial managers are crucial to the profitability, survival and well being of small business enterprises. In his study on small business in Vietnam, Kieu (2004) found out that efficiency in financial management practices such as accounting information system, financial reporting and analysis, working capital management, fixed asset management and financial planning and good performance in financial characteristics such as liquidity and business activity has a positive impact on profitability. In addition, the study conducted by Chung and Chuang (2010) also reveals efficiency in capital structure management, working capital management, financial reporting and analysis; capital budgeting and accounting information system has a positive impact on profitability of business organizations. Chung & Chuang (2010).

Effect of Efficiency in Accounting, Reporting and Analysis Practice

Tourna and Germanos (2000) studied about the role of accounting information on business strategy formulation in Greece. The study found out that, the use of accounting information system helped owners or managers to design and implement a strategic plan that will enable their business profitable in the long run. Kieu (2004) also found out that efficiency in accounting information system and financial reporting and analysis enhanced profitability. The efficiency of business organizations in this case was approximated by the on time and accurate recording and summarizing of business transactions, the frequency of preparing financial report and financial analysis, the degree of computerization of the accounting information system (kieu, 2004). In addition, different accounting and financial management books also confirm that good accounting, reporting and financial analysis practice enhance performance by helping decision makers design and implement wise and strategic decisions.(Kieu 2004)

Effect of Working Capital Management on Profitability

In the study conducted in Belgium, Deloof (2003) found out that the way working capital is managed will have a significant impact on the profitability of a firm. Padachi (2006) investigated the relationship between profitability measured by return on assets and working capital management by taking 58 firms in Mauritius using panel data analysis for the period 1998 -2003. The regression result showed that high investment in inventories and receivables is associated with low profitability. Gill, et al (2010) also studied 88 American firms and found out statistical significant relationship between cash conversion cycle and profitability. From this, the following hypothesis can be formulated.

Effect of Capital Budgeting on Profitability

Capital budgeting decisions are critical to the success of any firm. Brigham & Ehrhardt (2008) argued that capital budgeting decision is vital to a firm's financial well being and are among the most important decisions that owners or managers of a firm must make. Their rationale for that belief is that capital budgeting decision often involves significant capital outlay to acquire fixed assets. Additionally, the acquisition of these assets often comes with long lasting and recurring financial obligation. Furthermore, efficient utilization and control and management of acquired fixed assets are also equally important. Appropriate acquisition process, proper record keeping , periodically evaluating the efficiency of the fixed asset, regular repair and maintenance and proper disposal of fixed assets will enhance the performance of firms. In a study conducted in South Africa, Olawale, et al (2010) found out that the use of sophisticated investment appraisal techniques such as NPV and IRR methods have a positive impact on the profitability of firms.

Effect of Financial Planning on Profitability

Companies typically prepare a wide array of plans and budgets. Some of which include sales plan, production plan, cost plan and expense budget and budgeted income statement and balance sheet. These budgets are very important to anticipate the future in advance. This will in turn help to minimize risks and because of the tradeoff between risk and return, profitability increases. Therefore, preparing detailed financial plan or budgets will have a positive effect on profitability of the firm (Horngreen , Datar & Foster , 2006).

Effect of Financial Characteristics on Profitability

Liquidity measured by current ratio, leverage measured by debt ratio and business activity measured by total asset turnover ratio are the three independent financial characteristics used in this study.

Liquidity measured using current ratio refers to the relative proportion of current assets such as cash, receivables and inventories as compared to current liabilities. The greater the relative proportion of liquid assets, the less risk of running out of cash and profitability decrease, since these liquid assets become idle and do not earn any revenue. On the other hand, when liquidity of a firm is low, the risk is very high and profitability will increase because of the tradeoff between risk and profitability (Higgins, 1995).

In physics, a lever is advice to increase force. In business financial leverage measured by Debt ratio is a device used to increase owners return (Brigham & Ehrhardt, 2008). Higgins (1995) argued that the impact of financial leverage on return on equity depends on the size of return on investment and the after tax interest rate. Financial leverage measured by debt to total asset increases return on equity, when return on investment is greater than the after tax interest rate. When the return on investment is less than the after tax interest, increase in leverage reduces the return on equity. Therefore, leverage improves financial performance when things are going well but worsens performance when things are going poorly (Uwalomwa and Uadiale ,2012)

Many people believe that assets are good things: the more the better. The reality is just the opposite. Unless a company is about to go out of business, its value is in the income stream it generates and its assets are simply a necessary means to this end. In dead, the best possible company would be the one that produces income without any asset. Other things constant, financial performance improves as asset turnover rise (Higgins, 1995).

Financial Management in Different Business Area

Financial management is generally defined as the management of capital sources and uses in order to achieve a desired goal. Financial management is that managerial activity which is considered with the planning and controlling of the firm's financial resources. The role of the financial manager is to ensure that there is capital sufficient enough to finance activities, and this capital is available at the right amount, at the right time, at the lowest cost. The field of finance is closely related to economics. The financial manager must understand the economic framework within which his firm is operating, and also be able to use economic theories as guidelines for efficient business operation. The primary economic principle used in managerial finance is managerial analysis, the principle that financial decisions should be made and actions taken only when the added benefits exceed the added costs. Financial management is, in effect, applied economics because it is concerned with the allocation of a company's scarce financial resources among competing choices. Started as a branch of economics, it draws heavily on economics for its theoretical concepts even today.

The subject of financial management is of immense interest to both academicians and practicing managers. It is of great interest to academicians because the subject is still developing, and there are still certain areas where controversies exist for which no unanimous solutions have been reached as yet. Practicing managers are interested in this subject because among the most crucial decisions of the firm are those which relate to finance, and an understanding of the theory of financial management provides them with conceptual and analytical insights to make those decisions skillfully (Yaregal Abegaz, 2007).

In saving and credit unions financial management is defined as the process of managing the funds of the society most likely with a view of serving the members satisfactorily as stipulated in their by-laws. These facilities are aimed at mobilizing the savings and make economic use of available resources with increased awareness and economic use of resources for majority the cooperatives members (Associates in Integrated Development (AFRICA) Limited, 2007).

Prudent financial management is critical and needs good information and monitoring. As financial institutions have to observe prudential norms that will protect depositors and ensure the continuation of the business on a sustainable and profitable basis. Thus, they need the skills and tools to ensure objective and monitor able measures of depositor protection, financial structure, asset quality, profitability, and liquidity. For this, a sophisticated management information system (MIS) is required, often not feasible to be managed at the primary financial cooperative level. Financial cooperatives have to charge interest on their loans and fees for other services and products that are adequate to cover all costs and risks, to thereby ensure their profitability. However, the factors determining interest rate policy differ from those of banks. Cost of funds may be different, as deposit rates are typically lower than that in banks. Administration costs are different, as financial cooperatives deal with numerous very small deposits, but administrative services are typically very low cost or even provided on an unpaid, voluntary basis. Risk is different, as financial cooperatives operate much more on local knowledge and trust. Finally, profit margins will be different, as financial cooperatives are not profit maximizing, but mutualist service organizations. One key issue in many financial cooperatives is that the low lending rates may be coming at the expense of low deposit interest rates that sometimes are not adequate to offset the level of inflation. This can occur because of the domination in governance of members who are net-borrowers and hence benefit from low lending rates. It can also occur because of inadequate understanding of financial management. Either way, this risks the sustainability of financial cooperatives (World Bank, 2007).

The importance of Cash Management to the success of Small Business

Managing cash flow which is a struggle for many business owners involves-Forecasting Collecting ,Disbursing, Investing & planning for the cash a company needs to operate smoothly. A business must have enough cash to meet it's obligations as they come due or it will experience bankruptcy. Creditors, employees & lenders expected to be paid on time, which require cash. Proper cash management permeates entrepreneurs to adequately meet their cash demands of their businesses avoid unnecessarily large cash balances & stretch the profit-generating power of each credit or dollar their companies own. Entrepreneurs must have the discipline to manage cash flow from the first day of its operation. Although cash problem affect all companies young businesses are more prone to suffer cash shortages because all the available cash is used for their productive activities& their cash generating activities have not reached the level to generate enough cash to cover rapidly growing expenses.(Jayshri J Kadam,2006)

Research design

In this research, both survey and secondary data methods were used in combination. Survey (primary data based study) was used as a research technique in this study because it is very useful to investigate financial management practices of many Business Enterprises. Therefore, the study design more of descriptive and some quantitative. Sources of data were owner of the business, managers of small scale businesses, Representatives of micro finance who give loans to small-scale businesses, Accountancy firms who have been auditing the accounts of small scale businesses. The financial statements of the business organizations were the source of such information. The audited financial statements of the selected business organizations for the year 2012/13 were collected from Woliso town revenue office for uniformity purpose.

To investigate financial management practices of many business enterprises primary data were required. As a result, to collect this primary data, Semi-structured interview based on open-ended, flexible questionnaires and some structured interviews were designed and delivered to Business Enterprises to collect primary data.

Sampling techniques and Sample size

Due to limitation of time and fund, the target population in this study could not cover all business organizations in Ethiopia. As the study requires more of secondary data, only business organizations that keep books of account were selected purposively. Therefore, the sampling technique for the study was purposive sampling techniques.

The target population for the study is therefore, business organizations in Woliso town. According to the data obtained from Woliso town trade and industry office, there are about 2,060 licensed business organizations of all sizes as of June 2014. But all these are not taken for the study. According to the data obtained

from Woliso town revenue office, of the business organizations available in the town, only 135 business organizations have been keeping accounting records till June 2014. Therefore, the target populations for the study are the whole 135 business organizations. Since their number is small and manageable, the total 135 business organizations were considered for the study.
The data collected from both primary and secondary sources were first edited and examined to detect errors and omissions for further correction, and then the data edited can be followed by coding. In this study descriptive method of analysis method applied which can be expressed in the form of qualitative and tables, graphs, percentage etc.

Results and Discussions

This part deals with the major analysis and discussions of the collected data from small Business Enterprises found in Woliso town on financial management practice on the base of questionnaire and interview made with the concerned body. Therefore, analysis were based on the research objectives and presented as follows.

Table 4.1 Demographic background of the respondents

No	Item	Alternative	No of respondent	Percentage %
1	Sex	Male	95	70%
		Female	40	30%
		Total	135	100%
2	Position in the business	customer service	27	20 %
		Owner	81	60 %
		Accountant	13	10 %
		Total	135	11 %
				100%
3	Educational status	Diploma	27	20%
		First degree	95	70%
		Above first degree	14	10%
		Total	135	100%
4	Work experience	<3 year	67	50%
		4-6 year	40	30%
		Above 7 year	27	20%
		Total	135	100%

As indicated in the above table 4.1 95(70%) of the respondents are male and the remaining 40(30%) are female. Based on the above table number of male is greater than the number of female in the business organization.

As it is displayed on the above table the position of respondent in business enterprises found in woliso town 27(20% of the respondents are customer servant, 81(60%) are owners of the business and 13(10%) office assistance.

As shown, in the above table, 27(20%) of the respondents show that as they are diploma holder 95(70%) of them are above first degree holder and 14(10%) of them are above first-degree holder. In addition, regarding the work experience of the employee 67(50%) of the respondents have less than three years of work experience and 40(30%) of the respondents have work experience of 4-6 years and 27(20%) of the respondents have above 7 years. These would somehow enable the accomplished their assigned task with greater confidence and would ultimately benefits their business to achieve its objective.

Source of fund, cash receipt, cash payment system for small business enterprise

Since most of the respondents did not have finance background, the researcher had to explain most of the technical terms to help in obtaining the appropriate responses. To prevent a situation whereby some of the respondents will try to hide information the researcher visited each to examine some of the documents requested for. Documents like profit and loss accounts, balance sheets, cash flow statements and business plans were examined. During the visits to the respondents, opportunity was taken to observe how things were done in the various shops.

Table 4.2 source of fund, cash receipt, cash payment system for small business enterprise

Questions	Alternative	No.	%
What are the sources of your fund?	-Owned fund -Bank loan -Loanfrom microfinance -Government assistance -other	20 10 95 10	15 7.5 70 7.5
Was the loan sufficient to undertake your intended purpose?	yes No	90 45	67 33
Did you spend the entire loan for your intended purposes (specified above) only?	yes No	135 0	100 0
Is cash receipts are recorded daily in your business?	No Yes Total	95 40 135	70 30 100
Is cash payment is recorded in your the business?	Yes No Total	108 27 135	80 20 100
Do you have known about financial management?	Yes No Total	95 30 135	78 22 100
How do you allocate your budget for capital budget and working capital?	-Separately -In combination Total	5 130 135	4 96 100
Do you think you will generate income immediately after your investment?	Yes No Total	102 33 135	76 24 100
Do you know your monthly profit and loss?	Yes No Total	67 68 135	50 50 100

As stated on the above table, the respondents were asked about their source of fund. Accordingly 20(15%)of the respondents answered as their source of fund was owned fund., 10(7.5%), respondents responded as their source fund was bank loan and government assistance and 95(70%), of respondent answered as their source of fund were loan from microfinance institution.

Besides this, they were asked whether the loan they get is sufficient to run the business or not, 67% of respondent said the fund they get through loan is enough to run the business and 33% of respondent said as it is not sufficient to run entire activities. Finally all respondents (100%) of those who take loan, were spent the loan for specified purpose. Therefore, from this it is possible to conclude majority of the business get the loan from micro finance institution.

In addition, 95(70%) of the respondents stated cash receipt is not recorded daily book sheet, whereas, 40(30%) of the respondents stated that cash receipts were recorded in the book sheet daily. Moreover, 108(80%) of the respondents stated that cash payment was recorded on daily basis in contrast 27(20%) of the respondents stated that cash payments were not recorded in the account daily. Based on this, the majority the cash receipt was not recorded in contrast majority of payment is recorded daily.

Finally, 95(78%) of the respondents have know how about financial management while 30(22%) of the respondents didn't have any know-how about financial management. As to the allocation of the budget 130(96%) allocate capital budget and working capital in combination without identification while five (4%) of the respondents allocate their budget separately for each. On immediate return of the investment 102(76%) generate income immediately after their investment where as 33(24%) of did not generate income after their investment. Therefore, we can say majority of the business owner have expertise about financial management, allocate the budget in combination and generate income immediately from their investment.

Lastly the respondents were requested whether they identify their profit and loss at the end of the month consequently, 67(50%) identify their profit and loss while 68(50%) didn't identify it

Factors promoting and inhibiting financial management practices

The importance of analyzing past business financial statement in the investment decision-making process cannot be over-emphasized. A financial statement highlights the previous financial performance of a business and gives a broader picture of the financial capability of the borrower and the manner the business‟ finances have been managed.

In the study area the respondents were asked whether they us computer or not, none of the respondents have ever used computers to prepare their accounts. The availability of affordable computers and suitable software has played an important part in promoting the practice of sound financial management. Stuart McChlery, et al, (2004)‟s study also identified the use of computerized accounting system as a major factor in promoting sound financial management system.

Even though all the respondents stated that they have employed internal accounting staff, 60% do not prepare management accounts at the end of the month. The factors that inhibit the preparation of monthly management accounts were:

- Qualified accountants are too expensive to maintain (93%). To these respondents they are scared by the consultancy fees, qualified accountants charge their clients. The qualified accountants also complain that these small firms have poor payment culture despite the fact that they spend a lot of time when it comes to the auditing of small business.
- Accounting records too difficult to understand (87%). The lack of accounting knowledge on the part of owner/managers account for this situation.
- Lack of internal accounting staff (73%). The inability of these small firms to pay good salaries to their employees makes it very difficult to attract qualified accounting staff.
- The lack of internal accounting staff as an inhibiting factor for the practice of sound financial management system collaborates with the findings of Stuart McChlery, et al (2004).
- The business is too small (73%). Some owner/managers feel it is only big firms that have to keep proper books of account and prepare financial statements regularly. This is an erroneous impression, which should be discarded as the survival of their businesses depends on practicing sound financial management.

From the discussions that the researcher had with stakeholders like, bank managers and chartered accountants based on the responses from the study, it came to light that accounting is generally not viewed as a core part of many businesses hence these small firms tend not to employ qualified finance personnel. Most of these small firms assume they are saving money by employing cheap labour to carry out accounting functions. The practicing accountants the researcher talked to also confirmed that most small firms come to them when they have to present financial statements and cash flow to their bankers to support their loan applications.

In the study area, the owner/managers of small firms who have good educational background tend to practice sound financial management as they appreciate its importance‟, has not been supported by evidence from the study. This is because no owner/managers who were university graduates prepared any form of management accounts. Thus, there is no relationship between the educational background of owner/managers and the use of financial management practices.

Considering the importance of efficient management of cash by small firms, it is not surprising that only 10% of the respondents claimed they never used cash budgeting, where as 33% used cash budgeting very often‟. However, most of them still keep large cash balances in their bank accounts, which do not earn any interest.

The study shows that 68% of the respondents financed recent capital projects from loans from banks and micro finance. This implies that these businesses are not able to generate enough funds internally to finance capital business.

The popularity of payback as an investment evaluation method continues to grow, as is evidenced in this study, despite its known drawbacks. Only (36%) of the respondents indicated that they have ever used the pay back method. These firms used the pay back method because the information presented to them is easy to understand.

The other capital budgeting techniques like Accounting rate of return, Discounting cash flow and internal rate of returns have never been used by the business studied. The availability and use of qualified finance personnel in the developed economies contribute significantly to the use of these advanced capital budgeting techniques. Unlike his counterpart in the advanced economies, the owner/managers of the small firms studied do not have access to qualified finance personnel, as they cannot afford to pay them well.

Effect of financial management practices on the profitability of business enterprises

Table 4.3 effect of financial management practices such as accounting, reporting and analysis, working capital management, fixed asset management on profitability

Questions	Alternative	No of respondent	Percentage %
What is the effect of financial management practices such as accounting, reporting & analysis on profitability?	Positive	120	89%
	Negative	5	3%
	Both	10	7.4%
	None	0	0
	Total	135	100
What is the effect of financial management practices such as working capital management, fixed asset management on the profitability of firms?	Positive	132	98 %
	Negative	0	0 %
	Both	3	2 %
	None	0	0 %
	Total	135	100%

As indicate on the above table, 120(89%) of the respondent stated as the financial management practices such as accounting, reporting & analysis has as positive effect on the profitability at the same time 5(3%) responded as it has negative effect on profitability and 10(7.4%) of responded as it has both positive and negative effect on profit. On the second question, 132(98%) of the respondent answered as working capital management, fixed asset management has positive effect on profitability. In general from this is possible to conclude that majority of the respondent agreed that as financial management practices such as accounting, reporting & analysis, working capital management, fixed asset management has positive impact on the profitability of the small business.

Total revenue and Expenditure (expense) of small business enterprise

Entrepreneurs invest money in their businesses for a reason. The reason, generally, is to receive a return on their precious resources. To test the link between earnings performance and capital budgeting practices, Christy (1967) used growth of earnings per share as an indicator of performance, but could not establish a consistent relationship between earnings performance and capital budgeting practices. Accordingly, in the study area the income, expense and working capital management presented as follows

Table 4.4 the revenue and expense they generate from the business daily

Questions	Alternative in birr	No of respondent	Percentage %
How much do you incur expenses or expenditure for your business daily?	100-500	20	14%
	500-1000	105	78%
	1000-1500	7	5.2%
	>2000	3	2%
		135	100
How much income or revenue do you get from your business daily?	100-500	4	3 %
	500-1000	125	93%
	1000-1500	3	2 %
	>2000	3	2%
	Total	135	100%

As shown on the table 4.4 regarding their daily income and expenses, 78%,14%, 5.2% and 2% of the respondent incur expenses of 500-1000, 100-500 , 1000-1500 , >2000 birr respectively. In addition to this, 93%,3%,2%,2% the business firm earn the daily income of 500-1000, 100-500 , 1000-1500 , >2000 birr respectively. Therefore, it is possible to conclude from this the majority of the business firm found in this area earn on average 500-1000 ETB daily while they majority incur expenses of the same amount as that of income.

Working capital is the capital available for conducting the day-to-day operations of an organization. It is often defined simply as "current assets less current liabilities". Working capital is essential to a firm's long-term success and development, and the greater the degree to which the current assets cover the current liabilities, the more solvent the company. The control of working capital can be subdivided into areas dealing with stocks, debtors, creditors and cash. Considering the importance of efficient management of cash by small firms, it is not surprising that only 10% of respondents claimed that they never used cash budgeting, whereas 33% used cash budgeting very often.

Summary

As we have seen in chapter four the following finding were derived. The position of respondent in business enterprises found in woliso town 27(20% of the respondents are customer servant, 81(60%) are owners of the business and 13(10%) office assistance. Majority of the business get the loan from micro finance institution. And the in majority of the business cash receipt is not recorded in contrast majority of payment is recorded daily. As to the factor which in inhabit good financial management:-Qualified accountants too expensive to maintain (93%), Accounting records too difficult to understand (87%), Lack of internal accounting staff (73%), the business is too small (73%) were the major factor identified.

Lastly, majority of the respondent agreed that as financial management practices such as accounting, reporting & analysis, working capital management, fixed asset management has positive impact on the profitability of the small business. Most of the of the business firm found in this study area earn on average 500-1000 ETB daily while they majority incur expenses of the same amount as that of income.

Conclusion

Small firms do not follow the right procedure when engaging their staff. All the firms studied even though have employed people they did not give them any appointment letters when they were first engaged.

From the above findings, it can be concluded that left on their own the owner/managers of the sample firms will not prepare any management accounts. For a profit making entity, the main strategic objective is to maximize shareholder wealth. This means achieving the maximum profit possible consistent with balancing the needs of the owners. The profits made by an entity can only be measured by preparing financial statements. Thus, it will be very difficult for the owner/managers of the small firms studied to be able to compute their profits when they do not prepare financial statements.

Sound financial management is essential to the success of a business. Successfully managing financial resources is important in new as well as expanding businesses, so time should be taken to develop and implement financial plans that will ensure the success of small firms

The action and inactions of owners of small firms could also act as significant barriers to the development of sound financial management systems. The lack of understanding of accounting information presented in the form difficult to understand could act as barriers in implementing sound financial systems

Small firms are much less likely to employ accountants it was not surprising to note that none of the respondents did ever us the more sophisticated capital budgeting techniques like discounted cash flow. It is not advisable to use the pay back on its own for investment appraisal and it should be combined with at least one other technique, preferably, based on discounted cash flow procedures, to ensure that all project returns are taken into account. The inability of small firms to make use of Computerized accounting systems also act as a barrier to the successful implementation of sound financial management practices.

A study of Ethiopia's economic history shows that most small firms collapse on the death of the owner/managers. This results from the fact that whilst these owner/managers were alive they did not have any succession plan in place for the continuance of their businesses. Some do not even allow their employees know their major suppliers as they think their employees may take their businesses from them if they are allowed to have contact with their major suppliers. Thus, lack of faith in employees of these small firms has contributed significantly to the low survival rate of these small firms.

Recommendation

This finding leads to the conclusion that the efficiency of financial management practices and characteristics can bring about higher profitability. Therefore, business organizations can improve profitability by raising the efficiency of financial management practices and characteristics. Sound financial management is essential to the success of businesses organizations. Successfully managing financial resources is important in new as well as expanding business. Therefore, time should be taken to develop and implement financial management practices that ensure success of business enterprises.

The action and inactions of owners of small firms could also act as significant barriers to the development of sound financial management systems. The lack of understanding of accounting information presented in the form difficult to understand could act as barriers in implementing sound financial systems. Therefore, owner of the business should focus on sound financial management practice.

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