Assessment of Factors Influencing the Financial Performance of Micro and Small Enterprises in Hawassa- A Case Study of Addis Ketema Sub City, Ethiopia

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ABSTRACT

The study-examined factors influence the financial performance of micro and small enterprises (MSEs) operating in Addis Ketema cub city, Hawassa. Data were collected through questionnaire from fifty micro and small enterprises. The data collected from enterprises were analyses using percentage analysis method and regression method, to see the impact of explanatory variables on profit as well as the relationship between explanatory variables and profit. The study found that experience, registration of enterprises, market share, assess to finance, level of access to finance and customer handling techniques has positive and significant impact on profit while, inflation has negative and significant impact on profit. This study serve as stepping stone for further study on similar topics and it may fill the literature gap.
Key words: Addis Ketema sub city, Hawassa, MSEs

1. Introduction
1.1. Background of the study

There is no commonly accepted definition of micro and small enterprises. In this regard, Borgarello, Marignani, Sande (2004) and Malhotra, Chen, Criscuolo, Fan, Hamel, Savchenko (2007) indicate that the definition of a micro and a small enterprise vary from country to country and from sector to sector. They also agree on the criteria to define small enterprises and say it may include turnover, assets, employment numbers, and management characteristics. The European Commission (2005) defines a small enterprise as a firm with 10-50 employees and a micro enterprise as one with less than 10 employees. Micro and small enterprises can be defined based on various criteria. Some countries may use the employment size, total assets, etc to put them as micro, small and large enterprises. According to the Ministry of Trade and Industry in Ethiopia, Micro and Small Enterprises (MSEs) are defined as follows:

1. **Micro enterprises**: - are those business enterprises, in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments (Ministry of Trade and Industry, 1997).

2. **Small enterprises: -** are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high tech establishments (Ministry of Trade and Industry, 1997).

In most fast developing countries, such as China, India, Brazil etc, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, that are of adequate quality and are reasonably priced, to a large number of people particularly in rural areas, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology (Ministry of Trade and Industry, 1997). The micro and small enterprise sector is also described as the natural home of entrepreneurship (Ministry of Trade and Industry, 1997). It has the potential to provide

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the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals. In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to generate employment and more equitable income distribution; activate competition; exploit niche markets; enhance productivity and technical change and, through the combination of all of these measures, to stimulate economic development (Ministry of Trade and Industry, 1997).

Having recognized the importance of the MSE sector to the economy, the Federal Government of Ethiopia has issued an MSE Development Strategy in 2005 followed by the proclamation for the establishment of the Federal Agency for Micro and Small Enterprises Development in 2006. Thibault, Wilcock, and Kanetkar (2002) suggest that factors influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees, which are important factors in examining the performance of small-scale business operators. Theo (2007) noted the most comprehensive summary of factors influencing performance in a literature review: individual characteristics, parental influence, business motivation and goals, business strategies, networking and entrepreneurial orientation. Generally speaking, different factors may influence the financial performance of MSEs. In view of this, the current study tries to assess the major factors influencing the financial performance (as measured by profit) of MSEs operating in the city of Hawassa, taking evidence from Addis Ketema sub- city. Hawassa city is the capital city of S/N/N/P/R, which is located 275 km far from Addis Ababa, the capital of Ethiopia.

1.2.   Statement of the problem

MSEs have become essential forces in the revival of production systems. They have got certain characteristics, which make them suitable for initiating change in production system. In Ethiopia, many of the MSEs are organized with an intention of providing employment opportunities for those citizens relatively living at a lower standard. Just like any other business, MSEs are affected by macro-economic conditions such as inflation and business specific situations such as under-capitalization, lack of experience, lack of training, lack of peer support. Therefore, these macro-economic conditions have effect on financial performance of MSEs. As part of the industrial sector, MSEs are increasingly becoming popular and important in the Ethiopian economy, as they would play a decisive role in contributing to employment creation, poverty reduction and the opening of wider distribution of wealth and opportunities. However, MSEs have faced a number of constraints, among others, lack of access to markets, finance, business information, lack of business premises, low ability to acquire skills and managerial expertise, low access to appropriate technology and poor access to quality business infrastructure (Stevenson and Annette, 2006). Following this, they are often unable to address the problems they face on their own. Thus, the purpose of this project is to analyze the factors influencing the financial performance of MSEs taking evidence from Addis Ketema sub city. So far, most researchers tried to assess the impact of MSEs on poverty reduction, income generation, agricultural productivity, and so on; but they did not address the issue of financial performance. Therefore, this research tries to assess factors, which influence the financial performance of MSEs. By dwelling on macroeconomic and business specific (MSE specific) problems, this study were conducted to shade light on the factors influencing the financial performance of MSEs (as measured by profit). Those factors affecting the financial performance of MSEs must be addressed to enhance their financial performance. In view of this, the current study tries to give answers to the following research questions.

1.2.1.   Main research question

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a. What factors affect the financial performance (as measured by profit) of MSEs operating in Addis Ketema sub city?

1.2.2. Specific research questions

1. What constraints do MSEs operating in Addis Ketema sub city currently face?
2. How do MSEs operating in Addis Ketema sub city perform in terms of the financial performance dimensions?
3. How do different factors (constraints) affect the financial performance of MSEs operating in Addis Ketema sub city?

1.3. Objectives of the study

1.3.1. General objective

The main purpose of this study is to examine factors influencing the financial performance of micro and small enterprises operating in Addis Ketema sub city.

1.3.2. Specific objectives

This study also attempts to achieve the following specific objectives:

1. To examine the extent to factors such as education level, experience, registration, satisfaction, market share and access to finance play roles in increasing MSEs profit.
2. To scrutinize the effect of level of access to finance, customer handling and keeping techniques, diversification of product, inflation, socio – culture and training on MSEs profit.
3. To provide important recommendations on how MSEs owners would overcome factors that affect the profit of MSEs and increase their profit.

1.4. Scope and Limitations of the Study

The main aim of this study is to look into the factors influencing the financial performance of micro and small enterprises. The study was only focus on MSEs operating in the Hawassa city, Addis Ketema sub city. Among the different types of business classifications based on their size, this study were focus only on micro and small business enterprises. Even if there are so many problems that need to be addressed in the MSE sector this study only focuses on assessment of factors influencing the financial performance of MSEs. Yet, there are different constraints, which limit the study, not to go as intended, such as time constraint, budget constraint, and lack of reference and written document to refer.

1.5. Organization of the paper

Generally, the paper was organized into five chapters. The first chapter is introduction that contains background of the study, statement of the problem, objective of the study, significance of the study and the scope and limitation of the study. The second chapter was look into some previously conducted related researches and literatures on the subject, presents conceptual framework as well as hypotheses. The third chapter presents research methodology. The fourth chapter dwells on analysis and interpretation of the data collected. Finally, the fifth chapter provides summary of findings, conclusions reached, and the recommendations forwarded.

2. Literature Review and Conceptual Framework

2.1. Definition of Financial Performance

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Metcalf and Titard, 1976).

2.2. Empirical Studies

The word 'Performance is derived from the word 'parfourmen', which means 'to do', 'to carry out' or 'to render'. It refers the act of performing; execution, accomplishment, fulfillment, etc. In

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border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frich Kohlar, "The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but also the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance. Performance is the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualized, operationalised and measured in different ways (Srinivasan, 1994), thus making cross-comparison difficult. Among the most frequently, used operationalisations are survival, growth in employees, and profitability (Lerner, Brush, and Hisrich, 1997). Global Entrepreneurship Monitor (2004) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualized, operationalised and measured in different ways thus making cross-comparison difficult. Cooper (1998) examined various factors, which influence business performance such as experience, education, access to finance, market share, training, inflation, occupation of parents, gender, race, age, and entrepreneurial goals. Lerner and Hisrich (1997) conducted a study on Israeli women entrepreneurs and categorized the factors that affect their performance into five perspectives, that is, motivations and goals, social learning theory (entrepreneurial socialization), network affiliation (contacts and membership in organizations), human capital (level of education, skills) and environmental influences (location, sectoral participation, and socio political variables). Performance is often defined simply in terms of output terms such as quantified objectives or profitability. Brumbach

in Armstrong (2006:7) defines performance as both behaviour and results. This definition covers the achievement of expected levels as well as objective setting and review. The underlying thought behind this study is actually to investigate this relationship bearing in mind that if the behaviour of management is right, then the expected levels of output will be achieved (success) and vice versa for failure. Success and failure are taken as the two ends of the performance continuum.

Chandler and Hanks (1994:77) argue that the model of individual job performance indicate that performance is a function of ability, motivation and opportunity. The performance of a business founder is measured by the performance of the organisation (Schein, 1987), which is in turn influenced by the environment in within which the organisation emerges (Covin and Slevin, 1989; Hofer and Sandberg, 1987; Tsai, 1991). Thibault, Wilcock, and Kanetkar (2002) suggest that factors influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees, which are important factors in examining the performance of small scale business operators. The most comprehensive summary of factors influencing performance was noted in a literature review by Theo (2007) to include: individual characteristics, parental influence, business motivation and goals, business strategies, goals and motives, networking and entrepreneurial orientation. Firm financial performance can be measured in many different ways. According to Dixon, Nanni, Vollman (1990), performance measurements in the literature until the 1980s largely concentrated on financial indicators, such as profit, return on investment, sales per employee, and productivity. Commencing from the late 1980s onwards, less tangible and non-financial measures have been extensively employed in tandem with the advent of new management systems, such as supply chain management (SCM), Justin- time delivery (JIT), and total quality management (TQM). Intangible
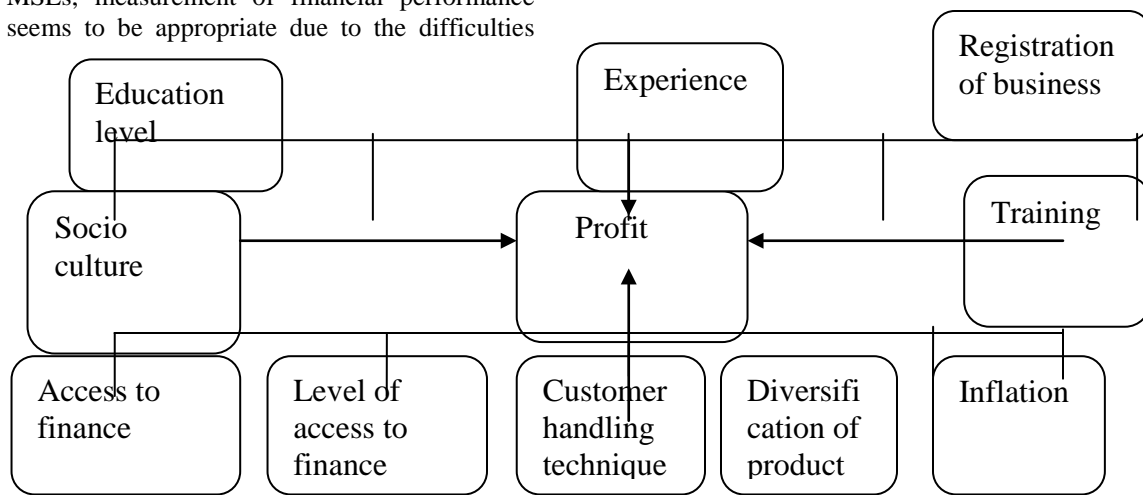
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measures include communication, learning, trust (Saad and Patel, 2006), stakeholder satisfaction, competitive position (Garrigos-Simon, Marques, Narangajavana, 2005), quality of product, and throughput rate (Abu Kasim, Minai , Loo, 1989).

2.4. Conceptual Framework

Firm financial performance can be measured in many different ways. According to Dixon, Nanni, Vollman (1990), performance measurements in the literature until the 1980s largely concentrated on financial indicators, such as profit, return on investment, sales per employee, and productivity but profit is the most appropriate measure of financial performance. Commencing from the late 1980s onwards, less tangible and non-financial measures have been extensively employed in tandem with the advent of new management systems, such as supply chain management (SCM), Justin- time delivery (JIT), and total quality management (TQM). Intangible measures include communication, learning, trust (Saad and Patel, 2006), stakeholder satisfaction, competitive position (Garrigos-Simon, Marques, Narangajavana 2005), quality of product, and throughput rate (Abu Kasim, Minai, Loo, 1989).Considering MSEs, measurement of financial performance seems to be appropriate due to the difficulties

associated with measuring the other performance dimensions. Global Entrepreneurship Monitor (2004) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualized, operationalised and measured in different ways thus making cross-comparison difficult. Cooper (1998) examined various factors, which influence business financial performance such as experience, education, access to finance, market share, training, inflation, occupation of parents, gender, race, age, and entrepreneurial goals. Lerner and Hisrich (1997) conducted a study on Israeli women entrepreneurs and categorized the factors that affect their performance into five perspectives, that is, motivations and goals, social learning theory (entrepreneurial socialization), network affiliation (contacts and membership in organizations), human capital (level of education, skills) and environmental influences (location, sectoral participation, and socio political variables). Therefore, this paper proposes a conceptual framework to show the impact of independent variables on profit of MSEs.

2.4.1. Research hypotheses

After reviewing related empirical studies on how education level, experience, registration of business, satisfaction, market share, access to finance, level of access to finance, customer

handling techniques, inflation, socio–culture and training impact profit, This study has developed twelve directional hypotheses as follows:

H 1: Education level has positive and significant associated with profit.

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Marten (2005) in a study on the success of small businesses in Canada, found that the education of the owner is positively related to the profit of the business. Robinson and Sexton (1994) argue that literature is full of folklore focusing on high school drop- outs that have made it big in the business world armed with education from the school of hard knocks. Robinson and sexton (1994) argue further that through cunning means and hard work an entrepreneur can succeeded without proper educational background. Robinson postulates that there is negative stereotyping of entrepreneurs as being relatively uneducated. On the other hand Gompers, Kovner, Lerner and Scharfstein (2006) attribute small business success of the above mentioned category of entrepreneurs to luck. Cowling (2009) indicates that there has been an increase in entrepreneurship courses taught in schools, further education colleges and universities and government support programmes to help entrepreneurs gain the necessary skills and knowledge.

H 2: Experience of MSEs Owners is a positive significant relation with profit.

Chrisman, McMullan and Hal (2005) reported that the knowledge gained from previous experience is essential for small firm profitability. For example, Ensley, Pearson and Sardeshmukh (2007) found, perhaps unsurprisingly, that, to achieve high growth, a technology based start-up firm must possess both technical and business knowledge. An interesting point was that the absence of this knowledge does not imply the firm cannot be successful it just means that the firm should follow a more moderate growth strategy that would enable the founder to learn the necessary skills and abilities required to increase future growth rates (Ensley and pearson 2007).

H 3: Registration of MSE enterprise has positive and significant impact on profit.

Micro and small enterprises are consisted of formal and informal. Informal micro and small enterprises are unregistered, have very low level productivity and income, they tend to have little or no access to organized markets, to credit institutions, they are not recognized, supported or regulated by the government, They are beyond social protection, labor legislation and protective measures at the workplace (central statistics authority, 2003)

H 4: satisfaction of MSE owners has positive and significant impact on profit.

Job satisfaction has significant influence on profit of small and medium enterprises (Mathieu and Zajac, 1990)

H 5: Market share is positively and significantly association with profit

O'Regan (2002) defines market share as a company's sales in relation to total industry sales for a certain period. According to Buzzell, Gale and Sultan (1975) market share has a positive relationship with profit. They found that higher market share leads to greater profit, because of market power and lower cost resulting to economies of scale effect and the learning effect.

H 6: Access to finance has positive and significant impact on profit.

Access to finance is among the aspects of the business environment most frequently cited by surveyed enterprises, in the developing world as an important obstacle to their profit. Moreover, investigations of the impact of financing obstacles on firm profit growth reveal that firms' complaints are valid - their growth is significantly constrained by lack of access (Laeven and Woodruff, 2007).

.H 7: level of access to finance is positively and significantly associated with profit.

Level of access to finance is the degree of access to finance, which is measured by the amount of money provided by financial institution. Small amount of loan due to high administrative costs discourage the growth and profitability of micro and small enterprises (Ministry of Trade and Industry, 1997). According, to Thibault Wilcock, and Kanetkar (2002) who found that amount of finance are important factor in examining the financial performance of small-scale business operators.

H 8: Customer handling and keeping technique has positive significant impact on profit.

Customer handling technique is the technique in which the enterprises used to handle their Customers. Customer handling techniques has impact on Customer satisfaction, has a potential impact on profit of an organization through repeat of purchase and as a source of new

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business through word of mouth. Satisfying customers requires effective delivery of quality services. Service quality is the ability of the organization to meet or exceed customer expectations. The benefits of quality service include customer retention and loyalty, positive word-of-mouth to attract new customers, cost savings and increased revenues and profit (Doyle, 2007).

H 9: Diversification of product or services has positive and significant influence on profit.

Diversification is defined as the entry of a firm into new lines of activities either by the process of internal expansion or by acquisition (Ramanujan and Varadarajan, 1989). The theoretical and empirical evidence regarding the diversification-performance relationship are also somewhat mixed. Ofori and Chan (2000) found that Singaporean construction firms have grown by focusing their operations at home and into contracting, despite the perceived risks and uncertainties due to inherent fluctuations in constructions. According to, Kang, Lee and Yang (2010) product diversification and small firm financial performance has positive relationship.

H10: Inflation has negative and significant influence on profit.

By definition inflation is a fall in the purchasing power of money, reflected in a persistent increase in the general level of prices. According to Tommasi (1999), financial performance of SMEs is affected by a high rate of inflation.

H11: socio - culture has negative and significant impact on profit.

According to Brown (1973), socio culture has impact on performance. Organizations operating in different cultural contexts have become increasingly sensitive to the potential impact of the culture of the society on organizational performance (financial and none financial).

H12: Training has positive and significant impact on profit.

Studies have shown training to be important in enhancing competitive advantage (Fairfield-Sonn, 1987), facilitating firm growth, and improving profit (Bartel, 1994; Knoke and Kalleberg, 1994). In addition, training is seen as a useful means of coping with changes fostered by technological innovation, market competition, organizational structuring, and demographic shifts (Knoke and Kalleberg, 1994).

3.   Research Methodology

3.1. Area of the study

Hawassa is the capital city of S/N/N/P regional state. According to the 1999 population census, the resident of the city is about 350,000. The study area is Hawassa city administration, particularly Addis Ketema sub city. Addis Ketema sub city is chosen for the reasons that Micro and Small enterprises are densely populated and a large number of entrepreneurs are engaged in different sectors of MSEs.

3.2. Population and sample

The target population consisted of micro and small enterprises operating in Addis Ketema sub city. According to the February 2012 count of enterprises, there are 149 MSEs operating in Addis Ketema sub city. For the purpose of the study, stratified random sampling methods were used. In this regard, the strata's are the sectors (i.e. Construction, Industry, Urban Agriculture, Service and Trade). The sample size is determined by using mathematical formula (Yamane, Taro, 1967). Each micro and small enterprises (within a particular strata or sector) has an equal chance of being selected. However, a sample size from each MSE sector was determined proportionally.

$$n = \frac{N}{1+N (e) 2} = \frac{149}{1+149(0.1)2} = 60$$

Where

n: is sample size
N: is total population
e: is sampling error

Therefore the Sample size in different sectors is as follows;

Sector	Population	Sample proportion	Sample size
Construction	55	55*60/149	22
Industry	39	39*60/149	16
Urban agriculture	8	8*60/149	3
Service	24	24*60/149	10

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Trade	23	23*60/149	9
Total	149		60

Source: Addis Ketema sub city MSEs

3.3. Source of data
To achieve the objectives, the study used both secondary and primary sources of data. The secondary data includes MSE agency report, which shows initial and current capital. The primary data was obtained using questionnaire from five (construction, manufacturing, service, urban agriculture and trade) sectors of MSEs operating in Addis Ketema sub city, Hawassa.

3.4. Method of Data Collection
Primary data was used to assess the factors influencing the financial performance of MSEs. To collect the data, the researcher distributed the questionnaire to manager, bookkeeper and treasurer because; they are assumed to have more knowledge on the factors as well as financial performance of the enterprises. Therefore, the manager, bookkeeper and treasurer are the respondents to the questionnaire. For the purpose of this study, 60 MSEs were selected. For those selected micro and small enterprises, 180 questionnaires were distributed, that is 3 questionnaires for each of the 60 enterprises. The respondents were given seven workdays so that they could provide their responses in un hurry time, which minimizes response biasness. The analysis part of the study was depend on the answers taking them as representatives of MSEs operating in Addis Ketema sub city.

3.5. Data Analysis
Data collected from the survey were analyzed using the Statistical Package for the Social Sciences (SPSS) version 15. The study use both descriptive and inferential statistics. Descriptive statistics used to identify whether there is a large variance in data. The study also used correlation analysis to see the degree and direction of relationship among variables. Inferential statistics is used to test hypotheses.

3.6. Model Specification and Definition of Variables
Under this subsection, the researcher attempts to clearly show specific model and define variables. This study employed one regression model. The Model includes twelve independent variables (Education level, Experience, Registration of Business, Satisfaction of owner, market share, Access to finance, Level of access to finance, Customer handling techniques, Diversification of product, Inflation, Socio – culture, and training) and profit as dependent variable. To estimate the impact of independent variables on profit, the researcher runs the following regression model:

$$PROFIT_i = \alpha_i + \beta 1 EDL_i + \beta 2 EOR_i + \beta 3 REG_i + \beta 4 SOW_i + \beta 5 MKS_i + \beta 6 ATF_i + \beta 7 LATF_i + \beta 8 CSH_i + \beta 9 DIV_i + \beta 10 INF_i + \beta 11 SCF_i + \beta 12 TRA_i + \varepsilon_i$$

Where:
Profit = The dependent variable of the model, which is measured as less than birr 25,000 (1), birr 25,000 – 49,000 (2), 50,000 – 99,000 (3) and greater than birr 100,000 (4)
α = Alpha (constant);
β= Beta;
$_i$ = Firm index;
EDL = Educational level, independent variable of the model, which is measured as primary School completed (1), secondary school completed (2), certificate graduate (3), college Diploma (4) and B.sc/BA degree and above.
EOR = Experience of respondents, which is measured as no (0) and yes (1).
REG = Registered of business, which is measured as no (0) and yes (1).
SOW = Satisfaction of owner, which is measured as unsatisfied (1), somewhat satisfied (2) and satisfied (3).
MKS = Market share, which is measured as low (1), moderate (2), high (3) and very high (4).
ATF = Access to finance, which is measured as no (0) and yes (1).
LATF = Level of access to finance which is measured as poor (1), fair (2), good (3), very good (4) and excellent (5).
CSH = Customer handling; which is measured as no (0) and yes (1).
DIV = Diversification of product or services, which is measured as no (0) and yes (1).
INF = Inflation and, which is measured as no (0) and yes (1).

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SCF = Socio - cultural, which is measured as no (0) and yes (1).

TRA = Training, which is measured as no (0) and yes (1).

ε_i = residual

4.   Data Presentation, Analysis and Interpretation

As presented in chapter one, the research focuses on the factors influencing the financial performance of micro and small enterprises. This chapter provides results and discussion of the data, specifically descriptive statistics, correlation among variables, regression result and hypotheses test. In itially the researcher distributed questionnaires to sixty (60) enterprises however, the data used for analysis were obtained from fifty (50) micro and small enterprises operating in Addis Ketema sub city, Hawassa. Ten micro enterprises did not return the questionnaire, therefore the response rate is 50/60 = 83 percent and the none response rate is 17 percent. Out of these fifty (50), twenty one (21) are construction sector, fourteen (14) are manufacturing sector, five (5) are service sector, three (3) are urban agriculture and six (6) are trade sector.

Table 1: Distribution of returned questionnaires per sector

Sector	Responses	Population	Response rate
Construction	21	22	95%
Manufacturing	14	16	88%
Service	5	10	50%
Urban agriculture	3	3	100%
Trade	6	9	67%
Total	**50**	**60**	**83%**

Source: survey result

4.3. Descriptive statistics

Descriptive statistics provides guarantee whether or not variation in data is large. Table 4 shows descriptive statistics (mean, standard deviation, minimum and maximum) for the dependent and independent variables of this study. **Note:** MSEs did not prepare financial statements, do not have account book so, it is difficult to determine the exact amount of profit of the enterprises. However, the Hawassa city Micro and Small enterprise agency provide beginning capital and the current capital balance of each micro and small enterprises. In line with this, the researcher employed the following two assumptions in determining the profit of MSEs; (1) no additional investment, and (2) no withdrawal by owner. Therefore, the different between beginning capital and current capital can be assumed as a profit. Based on this assumption the researcher put the profit level in different ranges for the purpose of study (< 25,000 low; 25,000 – 49,000 moderate; 50, 0000 – 99,000 high; > 100,000 very high.)

Table 4: Descriptive Statistics

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Variable	Mean	St. deviation	Minimum	Maximum
Profit	1.78	.679	1	3
Education level	2.96	1.324	1	5
Satisfaction of owner	1.76	.894	1	3
Market share	1.90	.735	1	3
Level of access to finance	2.42	1.386	1	5
N = 50				

Source: survey result

The mean value of profit of the selected MSEs is 1.78, which are approximately 2. This shows that on average, the profit of MSEs lies in between birr 25,000 up to 49,000 per annum. The minimum value is 1, which stands for MSEs that generate profit of less than birr 25,000 per annum and the maximum value is 3, which stands for MSEs that generate profit of birr 50,000 up to 99,000 per annum, while the standard deviation is .679. The mean of educational level is 2.96 ≈ 3 which stand for respondents who is certificate graduate, the minimum educational level of respondents are 1 which stands for respondents who are primary school completed, the maximum educational level of respondents are 5 which stands respondents who are first degree graduate, while the standard deviation is 1.32. This means that on average, the

respondents are certificate graduate (those who engage in different MSE sector). The mean of satisfaction of owner is 1.76 ≈ 2 which stands for whose employee who is somewhat satisfied by his/her job, the minimum value of satisfaction of owner is 1 which stands for unsatisfied, the maximum value of satisfaction of owner is 3 which stands for satisfied, the standard deviation is 0.894. From this on average satisfaction of owner of MSEs operating in the sub city is satisfying. The mean of the market share is 1.9 ≈ 2, which means the market share of enterprises

are moderate, the minimum value is 1 which stands for low market share, the maximum value is 3 which stands high market share, and the standard deviation is 0.735. This is to mean that on average the market share of micro and small enterprises are moderate. The mean of the level of access to finance is 2.42 ≈ 2 which means the level of access to finance are fair, the minimum value is 1 which stands for poor, the maximum value is 5 which stands excellent rate of loan, and the standard deviation is 1.386. This shows that on average the level of access to finance of MSEs are fair.

4.4. Correlation Coefficients

The correlations obviously provide direction and strength of association among variables and it is a precondition to decide the likelihood of linearity among variables, although correlations do not highly support whether there is a causal effect between variables because variables that are not theoretically related and have no causal effect may reveal significant association. The correlations support several predictions; however, the formal tests are based on a random effect level regression analysis. Accordingly, this study has one-regression models. The model is utilized to determine the correlation between profits (PRO) with twelve independent variables. Table 5 reports Pearson correlation coefficients for profit (PRO) with twelve independent variables.

Table 5: Pearson Correlation

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		1 PRO	2 EDL	3 EXP	4 REG	5 SOW	6 MKS	7 ATF	8 LATF	9 CHT	10 DIV	11 INF	12 SCF	13 TRA
1	PRO	1												
2	EDL	.28	1											
3	EXP	.11	.19	1										
4	REG	.04	.25	.16	1									
5	SOW	**.58**	.25	.08	.23	1								
6	MKS	**.61**	.10	.03	-.26	.52	1							
7	ATF	.28	.01	-.11	.01	.29	.20	1						
8	LATF	.12	.05	-.01	.02	.26	.22	.58	1					
9	CHT	**.33**	.31	.13	.08	.27	.25	.17	.07	1				
10	DIV	-.02	-.07	-.01	.18	.24	-.02	.22	.15	.38	1			
11	INF	**-.39**	-.09	-.18	.27	-.19	-.34	.05	-.15	-.14	.18	1		
12	SCF	-.01	.12	.12	.05	.01	.01	.09	.02	.24	.13	-.02	1	
13	TRA	.08	-.06	-.08	.10	-.05	-.15	-.01	.05	-.05	.10	.12	.32	1

Note: **Bolds** indicate significance level at the 1% and *italics* indicate significant at the 5% (one - tailed is used because directional prediction is made)

Source: survey result

Table 5 shows that educational level (EDL) is positively related to profit, with a coefficient of r = .28 which is significant at (p < .01). It indicates that an increase in education level may increase profit of the enterprise. Experience (EXP) is positively associated with profit but statistically insignificant (p > .1). Registration of business enterprises (REG) has positive correlation ship with profit, with a coefficient of r = .04 which is statistically insignificant at (p > .1). Satisfaction of owner (SOW) and profit has significant relationship (r = .58, p < .01). Market share (MKS) has a positive relationship with profit, with a coefficient of r =.61 which is significant at (p < .01). Access to finance has a positive correlation ship with profit, with coefficient of r = .28 which is significant at (p < .05). There is relationship between level of access to finance with a coefficient of r =.12 but it is insignificant (p > .1). The relationship between customer handling (CSH) and profit is positive and statistically significant with a coefficient of (r = .33, p < 0.01). The correlation between diversification of products/services and profit is negative (r = -.02, p > .1) but statistically insignificant. The coefficient of inflation (r = -.39, p <. 01) shows there is significant and negative relationship with profit. The socio culture coefficient is (r = -.01, p > .1) which shows there is weak and negative insignificant relationship with profit. Training has relationship with profit with a coefficient of (r = .08, p > .1), which is insignificant. The association among

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independent variables incorporated the model is less than 0.50, therefore multicollinearity is not a serious problem in the model (Field, 2009).

4.5. Checking Ordinary Least Square (OLS) Assumption
There are several classical linear regression model (CLRM) assumptions, which are subject to test in data, especially, multicollinearity, normality, linearity and autocorretion. Accordingly, the researcher tests these four assumptions whether they are met in the model.

Multicollinearity
This assumption is tested by variance inflation factor (VIF) as per this method, if the variance inflation factor on each variable is less than ten and 1 / VIF exceed 0.1, multicollinearity is not a serious concern in the model. The present findings indicate that the tolerance values for the independent variables are quite respectable and the VIF values range from 1.147 to 2.047, which are well below the threshold of 10.

Table 6: the degree of multicollinearity in the model

| Variables	Tolerance	VIF
EDL	.724	1.381
EXP	.872	1.147
REG	.572	1.747
SOW	.489	2.047
MKS	.523	1.912
ATF	.563	1.775
LATF	.593	1.688
CSH	.597	1.675
DIV	.649	1.540
INF	.703	1.423
SCF	.781	1.281
TRA	.773	1.294

Source: survey result

As shown in Table 6, the variance inflation factor for all variables is significantly less than the cut–off point or rule – of thumb that is ten (10). Therefore, the researcher concluded that multicollinearity is not a serious problem in the model (Field, 2009).

Normality

The researcher assesses the normality of the data using graphic test (histogram).
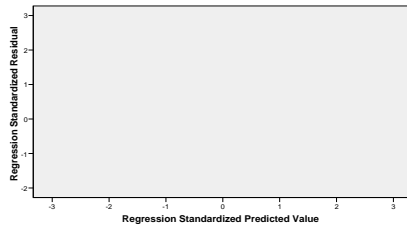
Figure 4: Histogram
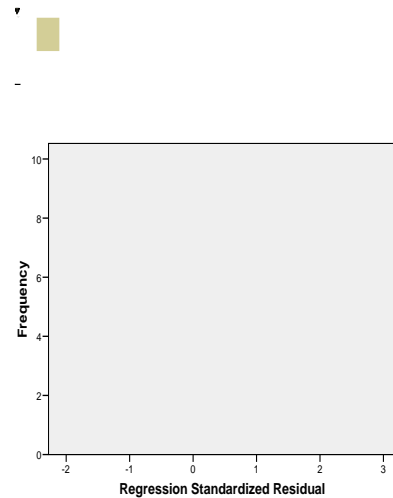
Source: survey result

As can be observed from the graph, the data has normal distribution pattern, therefore the assumption of normality of data is met in the model (Field, 2009).

Linearity
The linearity assumption is measured by scatter plot of ZRESID (the standardized residuals, or errors) and ZPRED (the standardized predicted value of the dependent variable). The scatter plot shows existence of linearity between the dependent and independent variables, and then the researcher decided that this assumption is satisfied in the data (Field, 2009).

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Figure 5: scatter plot

Source: survey result

Autocorrelation

Autocorrelation of residuals is tested by Durbin-Watson statistics. As per this method if the value of Durbin – Watson is 2, there is no autocorrelation problem in the model. Accordingly, the Durbin-Watson value computed in the model is 2.009, which is approximately 2, therefore, the researcher concluded that there is no autocorrelation in the data means that residuals are independent (Field, 2009).

4.6. Regression Result

As can be seen in Table 7, the model has a high goodness of fit as evidenced by the R-square 68.4 percent. This shows that the model explains that 68.4 percent (R.sq) variance in profit (PRO). The model is significant at (F = 6.665, p < 0.01). Profit is the dependent variable in the model. As shown in the Table 7 education level (EDL), experience of owner (EXP), registration of business (REG), satisfaction of owner (SOW), market share (MKS), access to finance (ATF), level of access to finance (LATF), costumer handling technique (CSH), diversification of product (DIV), inflation (INF), socio- culture (SCF), and training (TRA) are independent variables. The result in table 7, demonstrates that educational level of the employee does not affect the financial per of MSE that mean that to run MSE requires minimum knowledge relative to medium and large enterprises. The study shows that experience (EXP) influences the profit positively and significantly (β =0.349, t = 2.402, p < 0.05). In fact, a long period experience of owner is important to increase the profit, so the experience of employees has a significant influence on profit. Registration of business (REG) affect the profit positively and significantly (β =0.816, t = 2.359, p < 0.05), market share (MKS) influence the profit positively and significantly (β =.405, t = 3.428, p < 0.05). Access to finance (ATF) has positive significant impact on profit (β =.408, t = 2.299 p < 0.05), level of access to finance (LATF) has significant impact on profit (β =.123, p < 0.05) and inflation (INF) influence the profit negatively and significantly at (β =-.537, p < 0.05).

Table 7: Results of Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	p-value
Dependent Variable : Profit						
		B	Std. Error	Beta		
1	Constant	.347	.404		.858	.397
	EDL	.048	.056	.095	.870	.390
	EXP	.349	.145	.238	2.402	.021**
	REG	.816	.346	.288	2.359	.024**
	SOW	.146	.100	.192	1.450	.156
	MKS	.405	.118	.438	3.428	.002***
	ATF	.408	.177	.283	2.299	.027**
	LATF	.123	.059	.251	2.093	.043**
	CSH	.275	.161	.204	1.709	.096*
	DIV	-.207	.163	-.146	-1.269	.212
	INF	-.537	.179	-.331	-3.000	.005***
	SCF	-.151	.142	-.112	-1.066	.293
	TRA	.227	.184	.130	1.236	.224
R.square = 0.684 F = 6.665 P < 0.01 N= 50						
Note: ***, **, * represent significant level at 1%, 5% and 10% respectively. PRO = EDL + EXP + REG + SOW + MKS + ATF + LATF + CSH + DIV + INF + SCF + TRA, significant at P < 0.01						

Source: survey result

Where: *PRO* – profit, the dependent variable of the model; *EDL* - Educational level; *EXP*- Experience of respondents; *REG* - Registered of business; *SOW* - Satisfaction of owner; *MKS* - Market share; *ATF* - Access to finance; *LATF* - Level of access to finance; *CSH* - Customer handling; *DIV* - Diversification of product or services; *INF* - Inflation; *SCF* - Socio - cultural; *TRA* - Training

4.7. Test of hypotheses
The study has developed twelve directional hypotheses. To test these hypotheses, the researcher restates them in null form. Accordingly, the researcher begins with the hypothesis related to education level as follow:
H0 (1): Education level is not positively and significantly associated with profit.
As can be observed in table 7 the coefficient on education level (EDL) (β = .048, t = .878, p > .1) is statistically insignificant. This means that education level of MSEs owner has no significant influence on MSEs profit. The result

is consistent with the finding of Robinson (1994) argue that through hard work an entrepreneur can succeeded without proper educational background. One of the possible reasons for insignificant coefficient on education level may be due to minimum knowledge requirement to run the micro and small enterprises, unrelated discipline, which is less important for running business. Therefore, the researcher accepted the null hypothesis.

H0 (2): Experience of MSEs owners is not positively and significantly related to profit.
Experience of MSEs owners (β = .349, t = 0.2402) has a positive significant influence on profit at (p < .05) in the expected direction. This implies that the more the experienced MSEs owner, the more profitable MSEs. Because as owners become experienced, they understand risk related to the business, customers need, competitors, therefore, the more experienced owner can sustain the profit of MSEs than less experienced owner. This suggests that experience plays a significant role in business environment. The result is consistent with the findings of Toohey (2009), and Lumpkin and Marvel (2007) who argue that, experience can appear in many directions for example, industry

experience, start-up experience and breadth of experience is shown to be an important factor driving the financial performance of firms, with the number of previous jobs experience positively related to new firm financial performance. Wanigasekara and Surangi (2011) have found a significant link between business experience and business financial performance. The result strongly supports the alternative hypothesis that postulates experience of owner has positive significant impact on profit. Thus, the null hypothesis is rejected.

H0 (3): Registration of MSE enterprise has negative and insignificant impact on profit.
A significant positive coefficient ($\beta = .816$, t = 2.402, $p < .05$) on registration of business shows MSEs which are registered under the trade and industry bureau, are more profitable than unregistered enterprise. From general prospective, micro and small enterprises are consisted of formal and informal. Informal micro and small enterprises are unregistered, have very low-level productivity and income, they tend to have little or no access to organized markets, to credit institutions. They are not recognized, supported or regulated by the government, they are beyond social protection, labor legislation and protective measures at the workplace (central statistics authority, 2003). Furthermore, registration ensures the following to a business enterprise: the right to operate a business enterprise, legal protection of the business name, a certificate of registration as identification for lenders, legal registration authorities, so this leads the enterprise profitable. Unregistered business enterprises has a limited activities that means they cannot sign contracts legally, cannot participate in bid, so in general this things make them unprofitable. Therefore, the researcher accepts the alternative hypothesis and rejects the null hypothesis.

H0 (4): satisfaction of MSE owners has no positive and significant impact on profit.
Table 7 shows satisfaction of MSE owner ($\beta = .146$, t = 1.450) statistically insignificant influence on profit ($p > .1$). The result implies that the extent to which MSEs owners satisfaction to the business they run has no significant influence on profit. This might be due to, even if they are not satisfied to their job, they may not be negligent to operate the business. This result not supports the alternative hypothesis. Therefore, the researcher fails to reject the null hypothesis.

H0 (5): Market share is not positively and significantly association with profit.
As shown in table 7 market share ($\beta = .405$, t = 3.428) positively and significantly influences profit at ($p < 0.01$). It implies that an enterprise that has high market share is more likely to be profitable. This is to mean that while the enterprise able to sell a product/ services and dominate the market; its profit will significantly rise. Businesses with large market share tend to display higher level of profit. The result supports the findings of Buzzell, Gale and Sultan (1975); and Kowaka, (1979) who found that large market share has significant impact on financial performance. Venkatraman and Prescott (1990) also found that there was a positive and significant relationship between market share and profit. Shankil (1989) who also conclude that there is a strong link between market share and profit. This result support the idea that market share plays a significant role in the profitability of MSEs. Accordingly, the researcher accepted the alternative hypothesis that predicts positive and significant association between market share and profit of MSEs. Therefore, the null hypothesis is rejected.

H0 (6): Access to finance has negative and insignificant impact on profit.
As shown in Table 7 access to finance has a positive significant impact on profit ($\beta = .408$, t = 2.299, $p < .05$). Access to finance is a possibility that enterprises can access financial services. The implication is that an availability of access to finance would result in increase in profit. This result is consistent with the finding of Klapper, Laeven, and Rajan (2006) who found that availability of finance is positively associated with firm growth and profitability. Access to finance is necessary to create an economic environment that enables firms to grow and prosper. In this regard, the formal financial institutions should be reluctant to avail credit facility to the sectors. Their standards of operation, the long waiting time they take to sanction loans affect the profitability of MSEs. This indicates that accessibility of loan for MSE

has significant influence on profit. If the enterprise get loan, they easily operate their business as intended. As a result, the researcher rejects the null hypothesis and accepts the alternative hypothesis.

H0 (7): level of access to finance is negatively and insignificantly affects profit.

As can be observed in table 7 the coefficient on level of access to finance (β = .123, t = 2.093, p < .05) is significant impact on profit. Level of access to finance is measured by the amount of money provided by financial institution. It indicates an increase in the level of loan (in birr) has positive impact on profit, that means an enterprise which can access the amount it required is more likely to be a profitable. Small amount of loan due to high administrative costs discourage the growth and profitability of micro and small enterprises (Ministry of Trade and Industry, 1997). Therefore, the amount of finance has a positive significant impact on profit of the MSEs. Therefore, the researcher fails to accept the null hypothesis and hence, accept the alternative hypothesis.

H0 (8): Customer handling and keeping technique has no positive and significant impact on profit.

The coefficient of customer handling and keeping (β =.275, t = 1.709, p < .1) has significant impact on profit. This implies that the enterprises customer handling technique influence its profit. This is to mean that, while the enterprise is able to handle their customer in the way customers prefer the enterprise would become profitable. Customer handling and keeping techniques includes quality of service or product, charging price, guaranty and warranty and delivery service. If the enterprises handle their customer in a good manner, the customers may become satisfy by their service or products. Customer satisfaction makes the customer loyal to the enterprises (continuing to purchase product or services from the same supplier, increasing the scale and or scope of a relationship, or the act of recommendation Yi (1990). Customer handling and keeping technique influence customer satisfaction, customer satisfaction influences customer loyalty, which in turn affects the profit (Anderson and Fornell, 1994). Therefore, the

researcher accepts the alternative hypothesis and rejects the null hypothesis. **H0 (9): Diversification of product or services has not positive and significant influence on profit.**

As stated in Table 7 diversification of product or service has no a significant impact on profit at (β =-.207, t = -2.269, p > .1). This result is consistent with the finding of Ofori and Chan (2000) found that undiversified firms have performed better by remaining focused despite the perceived risks and uncertainties resulting from inherent fluctuations. When product is diversified the quality of the product reduced, other Researchers also observed that the product diversification to be negatively related to firm value (Berger and Ofek, 1995). According to Hall (1995), an increase in the degree of product diversification has a negative impact on profitability. Product diversification strategy might not be effective in case of MSEs because it requires huge amount of capital. Therefore, the researcher accepts the null hypothesis and rejects the alternative hypothesis.

H0 (10): Inflation has no negative and significant influence on profit.

As indicated in table 7 inflation significantly affects (β = -.537, t = -3.00, p < .01) profit in the expected direction (negatively). The beta coefficient was in the same direction hypothesized and hence, support the alternative hypothesis .This shows that inflation has a negative impact on the profit of MSEs. This means that when the inflation increases, the price of product increase, which leads decrease in demand and hence, profit of the enterprises decrease. The results comply with the findings of Hoggarth, Milne, and Wood (1998) also mention that high and variable inflation has a major impact on earnings. High and variable inflation may lead to market losses or great profitability. It can lead to the misguided allocation of resources resulting from past transactions and it can distort indicators used to direct decisions concerning future transactions at a micro level. For example, inflation can lead to the conclusion that business are running at a profit when they are not and vice versa, or that they are less or more profitable than they really are. It may also increase the tax burden on companies due to over-stated income

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or reduce the expected tax revenue of a country in the case that income is under-stated. As such, its effect can be significant on businesses and consequently on the overall economy, especially in countries with a persistently high and accelerating rate of inflation. Therefore, the researcher fails to reject the alternative hypothesis and reject the null hypothesis.

H0 (11): socio - culture has no negative and significant impact on profit

As show in table 7 socio – culture has no statistically significant impact on profit (β = -.151, t = -1.066, p > .1). This implies that the social culture has no influence on profit in case of micro and small enterprises. The socio - culture consists of the whole range of behaviors and relationships in which individuals engage in their personal and private lives, including: the characteristics of the population (e.g. age, sex, race or ethnicity), values and attitudes, lifestyles and relationships.   Therefore, the alternative hypothesis is rejected and null hypothesis is accepted.

H0 (12): Training has no positive and significant impact on profit.

As stated in table 7 the coefficient of training (β =.227, t = 1.236, p > .1) shows insignificant impact on profit. This implies that the works that are going to be done in MSEs are need less training comparing to large enterprises. Even if, there is relationship between training and profit, training does not have significant impact on profit of micro and small enterprises. There is no huge and complex machine, no difficult works that needs training in MSEs comparing to large enterprises. The operator (employee/owner) of MSEs can easily do the job. Therefore, the researcher rejects the alternative hypothesis and accepts the alternative hypothesis.

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