

DETERMINANTS OF SMALL SCALE ENTERPRISE PROFITABILITY: A LOOK AT FINANCIAL ASPECTS IN MIZAN AMAN TOWN

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ABSTRACT

This investigation investigates the determinants of small scale enterprise gainfulness concentrating on the money related factors in Mizan Aman town over the period 2016 - 2018. 51 small scale enterprises are chosen, and both salary articulation and explanation of money related position are likewise analyzed by utilizing different relapse model. The investigation utilized profit for resource (ROA) as a ward, and company's liquidity proportion, working productivity, leverage, fixed resource turnover proportion, and absolute resource turnover proportion as autonomous factors. Moreover, the discoveries of the different relapses uncovered that company's liquidity proportion, working productivity, and leverage had a negative huge impact whereas absolute resource turnover proportion had a positive huge impact. Then again, fixed resource turnover proportion had unimportant impact on the productivity of small scale enterprise. The investigation inferred that little scope ventures are feeble in liquidity the executives, working effectiveness and obligation financing component. At long last, the examination suggested that little scope venture directors, proprietors, and government bodies ought to be focused for little scope undertakings asset use, for example, money and obligation the board arrangement, and inside control framework which improves their economies of scale.

Keywords: *Small-scale enterprise, Profitability, Financial factors.*

Introduction

The independent venture area is the main impetuses for improving national salary, work creation, and destitution decrease in creating nations through quickening monetary development and fast industrialization (Wolfenson J.D, 2001). A small scale enterprise is a business that isn't huge, regarding its size, extent of activity, budgetary, and the workforce contribution. In accordance with this, Nicholas S.S (1997) contended that a business is a little scope it must have scarcely any representatives, constrained capital speculation and little scope activity. Be that as it may, there is no shared view on the meaning of small scale industry all through the globe, and it shifts as far as method of arrangement, sizes, hierarchical arrangement and action, the degree of financial advancement of the nations also (Sivanantha Raja, 2013).

The small scale enterprise assumes a critical job in both the improvement of nearby economy and national economies in Ethiopia through progressing mechanical developments and creating work open doors for young people. Thus, the administration of Ethiopia has been given more worry for small scale enterprise through its spending allotments, strategies and declarations, financial impetuses,

and awards. Besides, reciprocal and multilateral organizations equipped their improvement bolsters towards making this division energetic. Then again, the segment faces one of kind issues, which influence its development and gainfulness which decrease their capacity to contribute successfully for maintainable improvement of the economy. Be that as it may, this segment exceptionally faces remarkable issues, which influence their development and productivity, for example, firm-explicit difficulties (resource size, the executives proficiency, and firms liquidity), industry-explicit undertakings (loan cost spread), and macroeconomic variables (expansion, political and great administration issues) are essential.

Small scale enterprise that fixated on Mizan Aman town has confronted money related issues that bottleneck their productivity. In accordance with this, Gemechu and Teklemariam (2016) found that monetary factor is one of the main considerations that influence the exhibition of miniaturized scale and small scale enterprise in the investigation zone. Notwithstanding, this examination profoundly totaled and consequently neglects to address explicit budgetary components which influence the benefit of small scale enterprise. Also, their investigation profoundly

focused on exchange, assembling, and administration division related undertakings. Be that as it may, overlooked those endeavors which occupied with the development segment while this segment is overwhelming in the examination territory. In this manner, this examination adds to filling the above-expressed gaps concentrating on the determinants of small scale enterprise benefit by giving exceptional accentuation on money related angles in Mizan Aman town.

2. Literature review

2.1. Theoretical literature

2.1.1. Concept of Small scale Enterprise

A small scale enterprise can be characterized from numerous points of view. The parameters for the definition incorporate the estimation of advantages, number of representatives, deals income, size of capital, and turnover rate. The American private company Act of 1953 propelled this definition as a small scale enterprise is a business, which is autonomously claimed and worked and isn't prevailing in its field of activity. The demonstration likewise further expressed that, number of workers and deals volume as a rule in characterizing private ventures (Major L. C. and Radwan 2010). As indicated by Kayanula D and P Quartey (2000) the official meaning of big business sizes depends on three criteria specifically the degree of capital speculation, number of representatives and turnover. A venture is characterized as little scope on the off chance that it fulfills any two of the three criteria, that is, it has a capital speculation of USD 2,000 – USD 55,000, utilizing 5-20 individuals and with a turnover of up to USD 110,000. In Ethiopia, there is no uniform definition at the national level to have a typical comprehension of the SSE area. In like manner, Ministry of Trade and Industry (MoTI), and the Ethiopian Central Statistics Authority (CSA) have characterized SSE independently. As per the official meanings of MoTI, small scale endeavors are business ventures found in all areas of the Ethiopian economy with a settled up capital (fixed resources) of not more than Birr 20,000 but rather barring high innovation consultancy firms and other high innovation foundations. Little ventures are business undertakings with a settled up capital of more

than Birr 20,000 however not surpassing Birr 50,000 and barring high innovation consultancy firms and other high innovation foundations (MoTI, 1997). "little venture" characterized as an endeavor having an absolute capital, barring working, from Birr 50,001 to 500,000 on account of administration part or Birr 100,001 to Birr 1,500,000 right now modern division and connects with 6 to 30 laborers including the proprietor his relatives and different representatives. Though Central Statistical Authority (CSA) utilizes work and favors capital-escalated innovations as a measuring stick

2.1.2. Small Scale Enterprise Profitability Determining Financial Factors and Hypothesis Formulation

2.1.3. Liquidity Proportion

Liquidity alludes to the speed in the exchange of benefits into money, liquidity proportions basically center on the incomes; it is a pointer to quantify an organization's capacity to meet its transient liabilities. Liquidity the executives are accomplished through the compelling utilization of benefits Robinson W (2015). A liquidity proportion quantifies the organization's capacity to pay momentary liabilities, for example, payable records and transient advances, which speak to the proportion of current resources for current liabilities. The greatness of this proportion communicates high liquidity of the organization, accordingly a more prominent ability to meet the momentary liabilities. Interestingly, a diminishing in the proportion under (1) communicates the shortfall of liquidity and the piece of the fixed resources financed by momentary obligation.

Despite the fact that liquidity shortfall could prompt a decrease in the organization's vitality, along these lines can influence gainfulness Robinson W (2015). Precious stone and Raja (2013) express that an organization may decline to loan, even to a potential business person, on the off chance that it feels that its liquidity need is very high. Thus, the study formulates:

H1: Liquidity proportion has a critical beneficial outcome on the productivity of small scale enterprise.

2.1.4. Operational Efficiency

Operational Efficiencies alludes to a cost by the board as an expense to pay proportion. The higher the proportion, the less the productive and the firm could be an unfavorably influenced return on resources. Meaza Melese (2014) Managerial productivity of working costs to pay has an extraordinary commitment to improving gainfulness. Almajali'sb Alamro and Al Soub (2012) study results demonstrated that the Management skill file has a positive measurable impact on money related execution. Amarjit et.al (2014), found a positive effect of operational proficiency on the future execution of Indian assembling firms. Thus, the hypothesis concerning operational efficiency is:

H2: Operational proficiency has a huge constructive outcome on the benefit of small scale enterprise.

2.1.5. Leverage (Debt Ratio)

The obligation to-add up to resources proportion is determined by separating an association's absolute obligation by its all-out resources; it features the general significance of obligation financing to the firm by demonstrating the level of the company's advantages that are upheld by obligation financing (Van Horne C and Wachowicz, M 2008). The higher the measure of obligation utilized by a firm the higher its money related influence. A higher level of budgetary influence implies high-premium installments which contrarily influence the organization's main concern income per share. High money related influence likewise increments monetary hazard to investors undermining the profits they anticipate from their speculations (Akinyi Olang, 2015).

(Ana S and Machado S, 2012) presumed that there is a negative connection between the leverage and SMEs' profitability. Thus, the hypothesis concerning leverage is:

H3: Leverage has a critical negative impact on the benefit of small scale enterprise.

2.1.6. Resource Management (Fixed Asset Turnover Ratio)

The fixed resources turnover proportion gauges how successfully the firm uses its plant to

create benefit. In the event that an organization has over the top interests in resources, at that point its working capital will be unduly high, this will decrease its free income and at last it's stock cost. Then again, on the off chances that an organization needs more resources, at that point it will lose deals, which will hurt productivity (Bringham F and Ehrhardt C, 2011). The idea of an organization's items and its serious methodology unequivocally impact by fixed resource turnover that quantifies the deals produced per dollar of fixed resources. The hypothesis concerning resource management is:

H4: The fixed resource turnover proportion has a critical beneficial outcome on the gainfulness of small scale enterprise.

2.1.7. Total Asset Turnover Ratio

Complete resource turn over proportion alludes to an estimation that shows the proficiency where the firm uses its advantages for create deals (Gitman L, 2015). The all out resource turnover proportion is an estimation of the general proficiency of a firm utilizing its complete advantage for acquire seals (Van Horn C and Wachowicz M 1992), and as per Wiston and Copeland (1992) all out resource turnover proportion is computation of the effectiveness of the executives of interest in every one of individual resource things. Higher of this proportion implies that organizations can deal with their advantages for create income so higher benefit can be earned by the firm. Thus, the hypothesis concerning total asset turnover ratio is:

H5: The absolute resource turnover proportion has a huge beneficial outcome on the gainfulness of the small scale enterprise.

2.2. Empirical Literature review

An investigation was embraced by Chuthamas et al., (2011) analyzed money related and vital variables related with the productivity and development of SMEs working in various areas all through the principle locale of Portugal by utilizing LISREL (Linear Structural Relations). Their finding uncovered that low obligation, powerful liquidity the executives, activity in a gainful part, the evasion of a minimal effort approach, the utilization of separation and the shirking of a client center are related with

SME's benefit. Another investigation made by Farah M and Nina S (2016) additionally broke down variables influencing gainfulness firm size, firm age, development, slacked benefit, efficiency, and industry association of SMEs firm recorded in Indonesia Stock Exchange. Right now were assembled from the asset report, pay articulation, and other money related information during the time of 2007-2012 The consequence of the various relapse demonstrated that firm size, development, slacked gainfulness, efficiency, and industry association essentially impact on benefit. While the variable that firm age doesn't fundamentally impact, benefit.

An investigation made by Admasu Abera (2012) inspected factors influencing the presentation of miniaturized scale and little ventures in Arada and Lideta sub-urban communities by utilizing different relapse model. The discoveries of this examination uncovered that deficient account, absence of working premises, promoting issues, insufficient frameworks, and poor administration rehearses, innovative, enterprising and politico-legitimate issues including bureaucratic bottlenecks framework obstructs the exhibition of SME. Besides, this examination demonstrated that SMEs explicit factors, for example, poor money related records of SMEs, absence of sufficient security, SMEs poor administration of dangers, and informalities of SMEs are the significant snags underlined by banks and MFIs to their commitment with SMEs.

Gemechu and Teklemariam (2016) examined factors that influence the exhibition of SMEs in Bench Maji, Sheka, and Kefa zones particularly to assembling, exchange and administration segment. Right now smaller scale and little estimated endeavors proprietors and directors are taken part through stratified basic arbitrary examining. The investigation uncovered that all the logical factors, for example, political, social, land accessibility, mechanical, infrastructural, showcasing, money related, the board and business person factors have huge constructive relationship with the benefit of miniaturized scale and little scope endeavor. Notwithstanding, this investigation bombs address specific factors which decides

the exhibition of SMEs in the examination region. So also, Mirie M and Edwin B (2015) researched the impact of capital structure on the money related Performance of little and medium ventures in Thika sub-area, Kenya by utilizing different straight relapse results the examination demonstrated that fixed resource turnover and resource substance influence the monetary exhibition of SMEs. In addition, (Pouraghajan and Esfandiar M, 2012) considered the connection between capital structure and SMEs money related execution estimated in kind on resources (ROA) utilizing numerous direct relapse. The after effect of their investigation censured that there is a noteworthy negative connection between obligation proportion and money related execution of SMEs, and a huge positive connection between fixed resource turnover, firm size, resource substance proportion, and development openings with monetary execution measures.

3. Materials and Method

3.1. Source of Data, Sampling Technique and Sample Size Determination

So as to analyze the connection between the profitability and profitability of SSE, this examination utilized board information for the period 2016 to 2018. The monetary year is chosen based on accessibility of every single significant variable information. The factors viable are liquidity proportion, operational efficiency, leverage, fixed resource turn over proportion and all out resources turn over proportion. Inspected fiscal summaries, particularly monetary records and salary proclamations are reviewed to gather information. The all out objective populace for this investigation was 59 small scale enterprise operated in Mizan Aman town. Be that as it may, for this investigation, 51 undertakings were resolved utilizing Yamane's (1967) equation, taking 95% certainty level. The example ventures were chosen utilizing a stratified arbitrary inspecting method. This technique empowers every endeavor to be spoken to inside the example and this additionally empowers the example to speak to the populace.

Table I - Sample selection of Small-scale enterprise

Enterprise Type	Number of Enterprises	Percentage	Sample Enterprises
Construction	40	67%	34
Manufacturing	11	18.6%	10
Services	8	13.4%	7
Total	59		51

Source: Researchers own computation (2019)

3.2. Empirical Model and variable definition

The examination tried to research the causal connection between money related components and

small scale undertaking benefit. The different relapse condition that was utilized to test the connection between the factors is demonstrated as follows;

$$ROAi, t = \alpha + \beta_1 L Ri, t + \beta_2 OEi, t + \beta_3 LEVi, t + \beta_4 FATRi, t + \beta_5 TATRi, t + \epsilon, it$$

Where:

- ROAi, t, is the return on asset of ith undertaking at year t
- L Ri, t, Liquidity proportion of ith undertaking at year t
- OEi, t, operational Efficiency of ith undertaking at year t
- LEVi,t Leverage of ith undertaking at year t
- AMRi,t Asset Management Ratio of ith undertaking at year t
- TATR i,t Total Asset Turnover Ratio of ith undertaking at year t

4. Empirical Results

4.1. Descriptive statistics

Table II below indicates that the mean value of return on assets was 0.8831 percent. Additionally, the table shows that the average liquidity ratio is 7.598 percent and the mean

value of operating efficiency of the enterprise is 0.379 percent. Moreover, the mean value of leverage, fixed asset turn over and total asset turnover ratio is 0.4524, 7.8602 and 9.394 percent respectively.

Table II Descriptive Statistics of the Variables

Variable	Obs	Mean	Std.Dev.	Min	Max
ROA	153	.8831739	.6179715	.038	2.775
LR	153	7.598275	4.265995	.812	17.02
OE	153	.3790882	.3039185	.004	.92
LEV	153	.4524902	.2541843	.035	.9
FATR	153	7.860248	5.563257	1.35	21.9
TATR	153	9.394425	7.139781	.687	29.05

Source: Stata14 Summary of Statistics Results

4.2. Regression result and its descriptions

To check which of the two (FEM or REM) models give reliable assessments to this

examination; the study used Housman test and fixed impact model was utilized since the p-esteem is 0.0628 which is less than 5 percent

Table III Regression results of FEM

ROA	Coef.	Std.Err.	T	P> t	[95%Conf.Interval
L	-.035724	.0109287	-3.27	0.001***	-.057415-.0140343
OE	-1.09826	.3033264	-3.62	0.000***	-1.700279-.496241
LEV	-.475089	.2676043	1.78	0.079*	-.05603141.0062
FATR	.0108147	.0080528	1.34	0.182	-.0051679.0267973
TATR	.050884	.0101821	5.00	0.000**	.0306754 .0710926
Constan	.7929522	.1515822	5.23	0.000	.49210351.093801

Source: Computed from Stata 14. ***, * indicates that significant at 1 and 10 Percent

The liquidity proportion: is seen as factually critical and contrarily related with profitability with a p estimation of 0.001 and a coefficient of - 0.0357 individually. This implies holding different elements steady a one percent expansion in current proportion will result diminished 0.0357% in ROA and inconsistency with working speculation in regards to on anticipated sign yet affirm with huge impact. The finding of this examination is predictable with Dedunu and Kawshala D (2017) that they propose the higher the liquidity the lower will be the gainfulness this is because of the inaction of beneficial current resources, abundance money or attractive protections and enormous stock property, which may all around become out of date before they can be sold. Be that as it may, the consequence of this examination is in opposition to, Ombworo E (2014), Sumaira T and Javaria K (2013) and Gitman L (2015) that they recommend the higher the liquidity proportion the more prominent the productivity.

Operating Efficiency: Expense the executives or operational proficiency of the small scale enterprise, estimated by the proportion of working cost to working salary is measurably huge at 1 percent noteworthy level with a p estimation of 0.000 and a coefficient of 1.098, which is contrarily related with gainfulness, estimated in kind on resource. This implies holding different variables steady a one percent expansion in operational productivity will bring about diminished 1.098% in ROA. The aftereffect of the investigation suggests that all the more operationally productive small scale enterprise announced higher benefits than those little scope endeavors that have poor cost the board over the examination time frame. The consequence of the investigation

is steady with (Almazari, Alamro and Al Soub, 2012) and Tekeste Berhanu (2012) (that absence of working effectiveness will influence association's gainfulness. Be that as it may, the finding of this examination is in opposite with Radhe P and Pratikshya P, 2017), Shobor G, and G.S Batra(2016).

Leverage: Leverage has measurably huge at 10 percent huge level with a p estimation of 0.079 and a coefficient of 0.475 which is contrarily related with profitability estimated in kind on resource. This implies holding different variables stay steady a one percent expansion in influence proportion will bring about a 0.475 % decline on ROA and the relationship is factually huge and consistency with working theory. The finding of study is comparable with (Fatoki et al, 2010), (Kebewar, 2013), (Pouraghajan and Esfandiar M, 2012) and (Alexandru P and Radu C, 2014) however inverse with the aftereffect of and Ombworo E (2014).

Fixed Asset Turnover Ratio: From the above table 2, a fixed resource turnover proportion that is utilized as the estimation of advantage the executives has a positive and unimportant relationship with association's profitability estimated in (ROA) and inconsistency with working speculation. The consequence of this examination is like the aftereffect of Mirie M and Edwin B, (2015) that they discovered there was no huge impact of fixed resource turnover on the budgetary presentation of SMEs in Thika sub-province, Kenya. Be that as it may, the aftereffect of this examination is in opposition to (Pouraghajan and Esfandiar M, 2012).

All out Asset Turnover proportion: Table III likewise shows that the all-out resource

turnover proportion has a positive and huge relationship with company's profitability ROA at 1 percent (0.000) importance level having a coefficient of 0.0508. This implies holding different components stay steady a one percent expansion in absolute resource turnover proportion will bring about 0.0508 percent expansion on ROA and consistency with working theory. The finding of study is in accordance with Gitman L (2015), and in opposite with Sunjoko and Jimena(2016).

4.3. Classical Linear Regression Model Assumption (CLRMA) Test

All tests in this study such as error have zero mean; heteroscedasticity test, autocorrelation test, normality test, and test for multicollinearity were tributes with regards to the utilized model were not touchy to the issues of infringement of the CLRMA suspicion. Hence, all factors (liquidity proportion, operational proficiency, leverage, fixed resource turnover proportion and complete resource turnover proportion) can be held in the model. The results of the tests were summarized in the table V below.

Table V Classical linear regression model assumptions and decision

No	Assumptions	Test result	Decision
1	The Errors have Zero Mean	The regression model used a constant term	The assumption was not violated. (Brooks, 2008)
2	Homoscedasticity (Variance of the Errors is Constant)	Breusch Pagan Prob>chi2 =0.5980	Since prob>5% the assumption was not violated. (Gujarati, 2004)
3	Covariance between the Error Terms over time is zero	Durbin-Watson-d-statistic (6, 153)= 1.717687	Since DW test is in the non-rejection region the assumption was not violated. (Gujarati, 2004)
4	Normality (Errors are Normally Distributed)	Shapiro-Wilk W test Prob>z = 0.120	Since the prob>5% the assumption was not violated. (Brooks, 2008)
5	Multicollinearity	VIF < 10 and 1/VIF > 0.1	Since VIF < 10 and 1/VIF > 0.1 the assumption was not violated. (Gujarati, 2004)

Source: Stata 14 test statistics result

5. Conclusion and implications

This investigation intends to distinguish the determinants of small scale enterprise undertaking benefit a glance at budgetary angle in Mizan Aman town. For achieving what is pointed auxiliary information was gathered from reviewed fiscal summaries, and examined utilizing enlightening factual instruments, for example, mean, standard deviation, most extreme and least and econometric model especially various relapse model. Right now potential budgetary determinants of small scale enterprise benefit where considered namely liquidity proportion, operational efficiency, leverage, fixed resource turn over proportion and all out resource turn over proportion. The discoveries of the relapse, and distributive examination indicated that profitability was adversely influenced by liquidity proportion, operational effectiveness and leverage.

Whereas, small scale enterprise gainfulness was emphatically affected by all out resource turn over proportion. Conversely, fixed resource turn over proportion has inconsequential impact for small scale enterprise undertaking gainfulness. In light of the discoveries of the investigation, the accompanying potential recommendations and arrangement suggestions could be sent. (1) Chiefs and proprietors better to apply solid money (liquidity) the board approach and make their inactive resources in to creation through taking part in to various speculation exercises. (2) SSEs likewise need to needs persistent technical support on successful interior controlling system to direct their cost. (3) Proprietors and directors of SSEs will not utilize exorbitant measure of influence in their capital structure, they should attempt to fund their business withheld profit and use influence

as a last alternative. Moreover, the proprietors and chiefs of SSEs in Mizan Aman town must work to accomplish the ideal capital structure level to amplify the company's profitability.

Declaration of competing interest

The authors declare that they have no competing interest that could have appeared to influence the work reported in this paper.

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Appendix

1. Test for Heteroscedasticity

Hetest
 Breusch-Pagan/Cook-Weisbergtestforheteroscedasticity
 Ho:Constantvariance
 Variables:fittedvaluesofroa
 chi2(1) = 0.28
 Prob>chi2 = 0.5980

2. Husman Test

Test: Ho: differenceincoefficientsnotsystematic

$$\text{chi2}(5) = (b-B)'[(V_b - V_B)^{-1}](b-B)$$
 = 18.35
 Prob>chi2 = 0.0025

3. Test for Multi Collernerity

Variable	VIF	1/VIF
Lr	1.51	0.663001
oe	1.38	0.723809
lev	1.14	0.873887
fatr	1.11	0.897832
tatr	1.02	0.983336
Mean VIF	1.23	

4. Normality Test

Shapiro-WilkWtestfornormaldata

Variable	Obs	W	V	z	Prob>z
Residual	153	0.95978	4.760	3.541	0.120

5. Auto correlation Test

```
.gentime=_n
.tssettime
    timevariable:
        time,1to153 delta:
            1unit
.dwstat
Durbin-Watson d-statistic( 6, 153)= 1.717687
```