

Financial Performance of Agricultural Enterprises and Their Determinant Factors in Hadiya Zone, Ethiopia

Abraham Ababiya
Haramaya University, Haramaya

Abstract

This study seeks to examine and generate findings on financial performance of agricultural enterprises and their determinant factors in Hadiya zone, Ethiopia. The study was performed the financial performance of agricultural enterprises and the determinant factors of 212 MSAEs selected by multi-stage sampling techniques. In addition to these 18 focus group participants and 5 key informants stakeholders were used to sharpen and summarize the data collected from sample to fill the identified research gaps and to address the research objectives of the study. The data were analyzed using descriptive statistics and econometric models including profitability ratio analysis and multiple liner regression analysis techniques. According to the result obtained from profitability ratio analysis 42(67%) of MSAEs found in the study area profitable whereas 70(33%) were incurred loss. The result of multiple liner regression analysis showed that From the independent variables included in the model age of MSAEs, amount of initial capital and access to training were statistically significant at less than 1% significance level; number of employee, experience of manager, access to market, access to premises and access to credit were statistically significant at less than 5% significance level as hypothesized and educational level and entrepreneurial skill were also statistically significant at less than 10% significance level. All statistically significant explanatory variables found in the model had positive relationship with the financial performance of the MSAEs. Recommendations emanating from the study are very important to build up the financial performance of MSAEs to become profitable in the business and also to transform them into higher level of enterprises. To improve the financial performance of enterprises beyond the impact of challengeable constraints, all concerned bodies should give high attention to update and initiate entrepreneurial skill by applying innovative training, ensure experience and best practice sharing system, allocate proper capital and employee, upgrade education level attained and create alternative market access, facilitating sufficient premises and credit access, monitoring and evaluation of all benefit generated and costs incurred as well as effective utilization of employees to ensure successful financial performance of the MSAEs.

Keywords: MSAEs, profitability ratio analysis, multiple liner regression

1. Introduction

The government of Ethiopia implements multi-dimensional policies and strategies to ensure rapid and sustainable growth and development. To land different achievable plans of growth and development issues there are sectors which contribute the lion share to sustain the target point of the plans. From those main concrete pillars of economic sectors, enterprises are one of the most important economic sector which plays great role with diversified economic activities and build economic bridge to transform economic development strategy of the country from agriculture to industrialization. Ethiopia has scored double-digit growth in the past 10 consecutive years (FeMSEDA, 2014). Recognizing the role of enterprises in the socio-economic development of the country government gave special attention to the sector. However, it is hardly possible to think that all enterprises are successful in serving the purpose they are intended for. This is largely true that their financial performance is dependent on a number of factors like, age of enterprise, educational level of manager, number of employs, amount of initial capital, entrepreneurial skill, access to training, access to market, gender of manager, consultancy service, access to premises, access to infrastructures, customer networks, access to credit, and high cost of input (Benjamin and Bonno, 2007; Wanjohi and Mugure, 2008; Bonte *et al.* 2009; Timo and Minna, 2009; Cetin, 2010; Islam and Siengthai, 2010; Mahmoud, 2011; Admasu, 2012; James *et al.*, 2013; Hailay *et al.*, 2014; Fikire; Endrias, 2015).

The updated information is likely to be very useful in the formulation of policies by Government, NGOs, donor agencies and other bodies interested in helping to shape and improve the financial performance and determinant factors of MSAEs. Hence, this study was deemed to measure financial performance of MSAEs and determinant factors affecting the financial performance of MSAEs which have not been adequately studied in Hadiya Zone. Even though some studies on enterprises were done in different areas of the country which were specifically concern on the causes of MSAEs failure and financial accesses for the growth of MSAEs. In this study, the effort was made to measure the financial performance of MSAEs and identify the determinant factors affecting the financial performance of MSAEs in Hadiya Zone.

2. Objectives of the Study

The general objective of this study was to evaluate the financial performance of agricultural enterprises and their

determinant factors in Hadiya zone, Ethiopia.

The specific objectives of the study were:

- i. To measure the financial performance of micro and small agricultural enterprises in the study area;
- ii. To identify factors affecting the financial performance of micro and small agricultural enterprises in the study area.

3. Research Methodology

Descriptions of Study Area: Hadiya zone is found in the SNNPRS of Ethiopia. This study was undertaken in Hadiya zone. Hadiya zone is located at a distance of 232 kilo meters away from the Addis Ababa, capital city of the country, to south and 180 kilo meters away from regional site of Hawassa Town to North West. The estimated total area of the zone is 346,958.5 hectares. It is characterized by temperate type of climate with daily temperature ranging from 18^oc to 27^oc, and is located 1900 meters above sea level. It have low to high rainy season for 7 months from February to August and for the remaining 5 months from September to January have bright and conducive air condition throughout the year. The total population of the zone as per the national census of 2007 was estimated to be male 769,584 (49.7%) and female 778,262 (50.3%) the total of 1,547,846 hard-working, peace-full, multi-ethnic and religious people are found. It is divided into 10 Woreda administrations and 2 town administration. Hosanna town is a capital of the zone Administration.

Mixed farming, business activities public and private sectors employments are the dominant economic activities in the zone. It is suitable for living and highly productive in nature. Farmers in the study area practice mixed farming system, which is mainly concerned on the rearing of different types of livestock like cattle, sheep, and goat and production of multiple agricultural products such as cereals (wheat, teff, maize, barley and bean), fruits and vegetables. The area is specialized in wheat production and its productivity is about 60 quintals per hectare. The area is known as “the basket of wheat /smaller Canada” Great Leader Late Prime Minister Meles Zenawi speech (Hadiya Zone Administration). In addition some cash crops like khat and coffee are also produced.

Description of Population and Sampling Methods: To measure financial performance of the MSAEs and the determinant factors, the study was used stratified and simple random sampling techniques in order to select the required sample. Stratified random sampling is used when the population is divided into two or more relevant strata based on one or more attributes. The advantage of stratified sampling is said to be its ability to ensure inclusion of subgroups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population. It is appropriate for any social science research when a sample size of more than 30 and less than 500 (Ruth, 2015). Accordingly, to select the representative sample from the population, this study was employed multi-stage and combination of different sampling procedures. In the first step, three woredas was selected by simple random sampling method from the study area. The three sample woredas were Lemmo, Analememo and Misha from ten woredas in the zone. The three sample woredas was representative of the ten woredas of Hadiya zone. In the second stage, identification of kebeles where MSAEs exist with two stages (micro and small) and which are engaged in dairy production business activity within the respective woredas. Following this, six kebeles was selected by simple random sampling method. In the third step, the existing MSAEs which are found in the six kebeles of the study area were classified into major development stages. In the study area, there are two establishment stages in which MSAEs are engaged as shown below in Table 3. To select representative sample MSAEs from each stratum simple random sampling method was used.

Table 1: Sampling distribution of MSAEs

| Enterprises level | Number of MSAEs | Proportion (percentage) | Sample size |
|-------------------|-----------------|-------------------------|-------------|
| Micro | 285 | 54 | 114 |
| Small | 243 | 46 | 98 |
| Total | 528 | 100 | 212 |

Source: Own design based on Hadiya zone enterprises development office (2016/17)

There are several ways to determine the sample size. These include using a census for small populations, imitating a sample size of similar studies, using published tables and applying formulas to calculate a sample size. To determine the sample size of MSAEs for financial performance measure and its determinant factors, this study was used simplified formula provided by Watson (2001) to determine the required sample size at 95% confidence level, estimated variance in the population 50% and margin of error 5%.

$$n = \left[\frac{P[1-P]}{\frac{A^2 + \frac{P[1-P]}{N}}{Z^2 R}} \right] \quad (1)$$

Where n is the sample size required (212), N is the population size (528), P is estimated variance (50%), A is margin of error (5%), Z is confidence level (95%) and R is estimated response rate (96%). So according to the above formula the sample size n was 212 MSAEs and this study was carried out on 212 MSAEs. A total of 212

MSAEs (114 from micro level and 98 from small level) was randomly selected based on probability proportional to size of the MSAEs. To capture the representative sample of MSAEs from each stratum, simple random sampling method was used. The qualitative data was collected by using 5 key informant interviews and 18 focus group discussions. Such an approach was helpful to build a comprehensive understanding as well as identification and ranking of some of the proxy indicators as well as to quantify and analyze the relationships among significant variables.

Types of Data and Data Collection Methods: The study was used both primary and secondary data collected from various sources. The primary data was collected from the sample MSAEs through observation and structured questions and interview which are the main instruments of data collection, supported by key informants interview and focus groups discussion and observation checklists which are pre-tested prior to its use to answer the research questions and to attain the research objectives of the study in the field. Moreover, key informants' interview was carried out using checklists prepared for the purpose of obtaining the qualitative information in order to supplement the primary data. Finally, the respondents were asked whether in their opinion their MSAEs are successful or not, their recommendations to government and NGOs to help in the development of MSAEs sector to have feasible impacts on employment creation and income generation. The secondary data was obtained from published books and journal articles, as well as unpublished annual reports and records from government offices and other relevant organizations. All data collection process was completed under close supervision of the researcher.

Methods of Data Analysis: The study was employed both descriptive statistics and econometric model. The descriptive statistics was run in SPSS while the empirical models were run in STATA computer soft-wares. Specifically, descriptive statistics was used to describe sample household head demographic and socio-economic characteristic in the study area. Since descriptive statistics was important tools to present research results clearly and concisely. In case of that to compare and contrast different categories of sampled units with respect to the desired characteristics, so as to draw some important conclusions. The econometric models was employed to measure the performance and identify the determinant factors affecting their financial performance was carried out using econometric methods like, profitability ratio analysis and multiple liner regression model used.

To measure of financial performance of MSAEs use to know the success status of the MSAEs in terms of profitability ratio of the MSAEs as equated in economic variables as follows.

$$\pi = \frac{\text{Total revenue}}{\text{Total cost}} \quad (1)$$

Total revenue: Total revenue was the sum of the returns earned from performing different activities to sustain in the business. If the total revenue of the MSAEs increases more than the total cost, then value of profitability ratio also increases and greater than one in the short run, then the performance of MSAEs is acceptable (in the survived manner).

Total cost: Total cost was derived from the summation of fixed costs and variable costs. Total cost of production is an important parameter in estimating the profitability ratio associated with a given MSAEs. If the total cost of the MSAEs increases more than the total revenue, then value of profitability ratio also decreases and less than one in the short run, then the financial performance of MSAEs is in rejected (in the failed manner).

To identify the factors that affect the financial performance of MSAEs, multiple linear regression was employed. Multiple linear regression analysis takes into account the inter-correlations among all variables involved. The model test was performed to identify the existence of causality degree of association between response and explanatory variables. Following the scholars suggestions, this study was used the multiple linear regression model to identify factors affecting the financial performance of enterprises as follows:

$$Y_i = B_0 + B_1X_i + B_2D_i + \epsilon_i \quad (2)$$

Y_i is response variable (profitability ratio)

B_0 is intercept constant

B_1 is slope coefficient

X_i is continuous explanatory variables representing age of the enterprises, educational level, experience of manager, number of employees and amount of initial capital of the enterprises.

D_i is dummy explanatory variables representing entrepreneurial skill of operator, access to training, access to market, gender of manager, consultancy service, access to premises, access to services, customer networks and access to credit for the enterprises.

ϵ_i is error term

4. Results and Discussion

4.1. Descriptive Statistics

Characteristics of sample MSAEs: The age of MSAEs imply that duration of time the MSAEs stay in the business. In the study area, MSAEs were established and started operating following national enterprise development strategy of 1997. About 4% the MSAEs were established before ten years ago, 21% were organized

since 7-9 years, 26% joined the sector before 4-6 years and 49% were organized during the past 1-3 years (Table 2). Thus almost half of the MSAEs had age one to three years were passed since their establishment.

Table 2: Age of MSAEs stay in the business

| Age of MSAEs | Frequency | Percentage |
|--------------------|-----------|------------|
| 1-3 years | 104 | 49 |
| 4-6 years | 55 | 26 |
| 7-9 years | 45 | 21 |
| 10 years and above | 8 | 4 |
| Total | 212 | 100 |

Source: Author's survey data (2016/17)

Number of employees in the MSAEs: According to national enterprise development strategy of 1997 micro level of enterprise set the number of employee up to 10 employees in the enterprise but in the study area 62% of micro level MSAEs accommodates less than 4 employees in each MSAE to run their business. This indicates that 62% of micro level enterprises were less than the necessary number of employees and do not practically occupy and create job opportunity in line with the standard of the strategy. On the other hand 53% of small level enterprises actually handle not more than 9 employees even if the strategy put the number of employee could be from 10-50 in small level enterprises. It is clear that in small level 53% enterprises do not fit the minimum requirement to accommodate and create job opportunity as stated in the strategy as shown in Table 3 below.

Table 3: Number of employees in the enterprises

| Enterprises level | Number of Employees | Frequency | Percentage |
|-------------------|---------------------|-----------|------------|
| Micro | 1-4 | 71 | 62 |
| | 5-8 | 43 | 38 |
| Total | | 114 | 100 |
| Small | 1-9 | 52 | 53 |
| | 10-14 | 46 | 47 |
| Total | | 98 | 100 |
| Grand total | | 212 | 100 |

Source: Author's survey data (2016/17)

Amount of initial capital: As stated in 1997 national enterprise development strategy the amount of initial capital for micro level MSAEs is up to Birr 20,000, but the amount of initial capital of 67% of the enterprises in the study area was started their business not more than half of the stated amount of initial capital that is Birr 10,000 and even if the strategy clearly showed that the amount of initial capital for small level of enterprises from Birr 20,000-50,000, by fact 56% of small level of MSAEs in the study included in the study started their business below the given range of initial capital. This indicates that the majority of MSAEs in the study area started their business with insufficient amount of initial capital as summarized in Table 4 below.

Table 4: Amount of initial capital

| Enterprises level | Amount of initial capital | Frequency | Percentage |
|-------------------|---------------------------|-----------|------------|
| Micro | Less than 10,000 Birr | 76 | 67 |
| | 10,000-20,000 Birr | 38 | 33 |
| Total | | 114 | 100 |
| Small | Less than 20,000 Birr | 48 | 56 |
| | 20,000-50,000 Birr | 50 | 44 |
| Total | | 98 | 100 |
| Grand total | | 212 | 100 |

Source: Author's survey data (2016/17)

Characteristics of sampled managers/operators of MSAEs: About 71% and 29% of managers were male and female respectively as indicated in table 5 below. This indicates that there was not proportional participation of men and women in managing position of MSAEs in the study area. This may be encountered due to various reasons, which could be the problem of economic position of female managed MSAEs, including shortage of labor, limited access to information and required inputs due to social attitude.

Table 5: Gender of MSAEs managers

| Gender of managers | Frequency | Percentage |
|--------------------|-----------|------------|
| Male | 151 | 71 |
| Female | 61 | 29 |
| Total | 212 | 100 |

Source: Author's survey data (2016/17)

Regarding the experience of the managers of MSAEs included in the sample most of them (52%) were under the year group of 1-3, 24% were in between 4-6, 19% were in between 7-9 age group and 5% were in age

group 10 years and above. This shows that almost half of the MSAEs in the study area were managed by managers who do not have sufficient experience to lead, inspire and champion the followers to be successful in the sector (Table 6).

Table 6: Experience of managers

| Experience of managers | Frequency | Percentage |
|------------------------|-----------|------------|
| 1-3 years | 110 | 52 |
| 4-6 years | 51 | 24 |
| 7-9 years | 40 | 19 |
| 10 years and above | 11 | 5 |
| Total | 212 | 100 |

Source: Author's survey data (2016/17)

About 43% of the MSAEs managers attained from grade 1-8 (elementary level of education), 32% of the MSAEs managers attained from grade 9-12 (high school level), 18% had certificate level of educational background and 7% of the MSAEs managers have upgraded their academic status up to diploma and above level of education (Table 7). This shows that the majority of MSAEs managers have attained elementary level of education.

Table 7: Educational level of managers

| Educational level | Frequency | Percentage |
|-------------------|-----------|------------|
| Elementary | 91 | 43 |
| High school | 68 | 32 |
| Certificate | 38 | 18 |
| Diploma and above | 15 | 7 |
| Total | 212 | 100 |

Source: Author's survey data (2016/17)

Entrepreneurial skill of the operators in the MSAEs: In the study area about 69% of the total MSAEs included in the study had organized by operators who have entrepreneurial skill or have ability to do something well which leads the MSAEs to achieve their intended goals of establishment. On the other hand, the study ensures that 31% of the MSAEs did not have operators who have adequate entrepreneurial skill in doing their tax in the MSAEs. Many of the managers of MSAEs indicated that most of the problems they faced could be solved if they have entrepreneurial skill to run their obligations in the MSAEs as indicated in the following Table 8.

Table 8: Entrepreneurial skill of the operator's

| Entrepreneurial skill | Frequency | Percentage |
|-----------------------|-----------|------------|
| Yes | 146 | 69 |
| No | 66 | 31 |
| Total | 212 | 100 |

Source: Author's survey data (2016/17)

4.2. Econometric Model Analysis

Profitability Ratio Analysis of MSAEs: The profitability ratio analysis of 212 MSAEs showed that 67% of MSAEs had profitability ratio greater than one, this implies that 67% MSAEs were perform in a good/profitable manner and survived. Whereas, 33% of MSAEs had profitability ratio less than one, which indicates that 33% MSAEs were perform in a bad/loss manner during in 2016/17 physical year as indicated in Table 9 below. In a similar way key informants interview and focus group discussion agreed with the financial performance status of the MSAEs. As the key informants and focus group participants states that the poor financial performance of MSAEs was result of MSAEs related problems and stockholders problems includes; insufficient amount of initial capital, managerial incompetence, inadequate consultancy service, lack of premises and shortage of market access and customer networks for their products. As they discussed the profitability of MSAEs is not by chance, but by improving their performance through participating in different training to upgrade their skill, resolved disputes by discussion, kept records of every transaction, did not withdraw investment capital rather convert part of profit to investment capital and sharing and implementation of best practices which fastens their vision of success.

Finally, key informants and focus group participants interested on good/profitable financial performance of MSAEs hopefully and put forward their suggestions for MSAEs and any concerned bodies interested to improve the financial performance of MSAEs. Generally to improve the financial performance of MSAEs; different government stockholders, NGOs, members of MSAEs and relevant individuals who feel the responsibility of straggling the constraints to strengthen the financial performance of MSAEs gives high attention to facilitate different trainings to initiate entrepreneurial skill, locate enterprises at the right place, there is need for discipline and the right focuses in the business, market the business well and offer quality products for customer

satisfaction, market the business through advertising and issuing of pamphlets to potential customers, just take good care of the business, save money in the business to invest in the future, provide business advice and financial support to MSAEs, allocate land and premises for MSAEs, provide sufficient consultancy, monitoring and evaluation system for the MSAEs.

Table 9: The profitability ratio analysis of MSAEs

| Entrepreneurial skill | Frequency | Percentage |
|-----------------------|-----------|------------|
| Greater than one | 142 | 67 |
| Less than one | 70 | 33 |
| Total | 212 | 100 |

Source: Author's survey data (2016/17)

Factors Affecting the Financial Performance of MSAEs: A multiple linear regression analysis was employed by using the profitability ratio as the dependent variable and age of MSAEs, educational level, number of employee, amount of initial capital, entrepreneurial skill, experience of manager, access to training, access to market, gender of manager, consultancy service, access to premises, access to services, customer networks and access to credit as the independent variables. The result showed that about 73% the variation in profitability ratio was due to independent variables included in the model. Therefore, the model was the best fit model for the data (Table 10). From the independent variables included in the model age of MSAEs, amount of initial capital and access to training were statistically significant at less than 1% significance level; number of employee, experience of manager, access to market, access to premises and access to credit were statistically significant at less than 5% significance level as hypothesized and educational level and entrepreneurial skill were also statistically significant at less than 10% significance level. All statistically significant explanatory variables found in the model had positive relationship with the financial performance of the MSAEs.

Table 10: Result of multiple linear regression analysis

| Variable | Coefficients | St. Error | t-statistics | P-value |
|----------|--------------|-----------|--------------|----------|
| Constant | 63.693 | | 2.927 | 0.012 |
| Age | 53.819 | 0.146 | 3.736 | 0.000*** |
| Edu | 112.669 | 0.273 | 5.721 | 0.060* |
| Empl | 21.033 | 0.029 | 2.523 | 0.043** |
| Capt | 162.531 | 0.415 | 13.635 | 0.000*** |
| Skill | 270.785 | 0.501 | 18.359 | 0.090* |
| Exp | 148.264 | 0.280 | 7.618 | 0.027** |
| Train | 87.251 | 0.204 | 4.914 | 0.000*** |
| Mkt | 82.608 | 0.173 | 3.016 | 0.031** |
| Cons | 23.068 | 0.378 | 1.09 | 0.410 |
| Sex | 64.032 | 0.025 | 1.30 | 0.197 |
| Infra | 74.188 | 0.386 | 3.14 | 0.521 |
| Prem | 31.370 | 0.103 | 2.61 | 0.040** |
| Netw | 50.015 | 0.056 | 0.36 | 0.643 |
| Credit | 35.029 | 0.013 | 2.16 | 0.032** |

Adjusted R² = 0.732 P-value = 000 F-statistic = 28.346

Multicollinearity test, VIF = 1.76

Heteroskedasticity test, P>F = 0.0512

Omitted variable test, P>χ² = 0.0012

*, **, ***significant at 10%, 5% and 1% levels respectively

Source: Author's survey data (2016/17)

The variables which were statistically significant in the model to predict the financial performance of MSAEs are discussed as follows.

Age of the MSAEs (Age): The age of the MSAEs statistically significant at less than 1% significance level and had positive relationship with the financial performance of the MSAEs. A unit increase in the age of the MSAEs would cause an increase in the profitability ratio (financial performance) of the MSAEs by 14.6 percent. Thus, long period existence of the MSAEs in the business improves the financial performances of MSAEs. This is in line with Amyx (2005) who found that new MSAEs face great risk of survival in the business than older MSAEs.

Educational level of manger (Edu): The educational level attained by the MSAEs managers was statistically significant at less than 10% significance level had strong positive relationship with the financial performance of the MSAEs. The possible reason could be higher educational level enhance the managers capacity to easily understand the value and advantage get from MSAEs while lower educational level of the managers inhabit understanding about MSAEs. A unit increase in the education level of managers increases the profitability ratio

(financial performance) of the MSAEs by 27.3 percent. King and McGrath (2002) in their study suggested that these managers with more education were more likely to be successful in the MSAEs sector. They also summarized that the managers with higher education level have greater chances of succeeding than those without education.

Number of employees (Emplo): The number of employees was statistically significant at less than 5% significance level as hypothesized and positively related with the financial performance of MSAEs. A unit increase in the number of employees in the MSAEs increases the profitability ratio (financial performance) of the MSAEs by 2.9 percent. This indicates that proper number of employees in the MSAEs with the work load and efficient use of working capacity of the operators in the MSAEs improves the financial performance of MSAEs. Similar results were found by Islam and Siengthai (2010) reported that proper number and match of employees in the MSAEs had a momentous and positive impact on the financial performance of MSAEs.

Amount of initial capital (Capt) The amount of initial capital of MSAEs during start-up of the business was statistically significant at less than 1% significance level and positively related with the financial performance of MSAEs. The coefficient of variable indicates that a unit increase in the amount of initial capital of the MSAEs increases the profitability ratio (financial performance) of the MSAEs by 41.5 percent. Thus, sufficient amount of initial capital capacitates MSAEs to operate with full potential to run their business and hence facilitates good performing environment for the MSAEs to survive and continue in the business. Similarly, Mosalakae (2007) found that amount of initial capital of the MSAEs to start the business was highly related with the financial performance of the MSAEs and they were challenged to have sufficient amount of initial capital to run their business could not succeed and exist in the business. In the same manner, Kidist (2012) found that inadequacy and costly of credit facilities and sources, shortage of working capital and high investment in fixed assets during start-up period have higher influence on MSAEs financial performance.

Entrepreneurial skill (Skill): The entrepreneurial skill of the operators in the MSAEs was statistically significant at less than 10% significance level and had positive relationship with the financial performance of the MSAEs. Thus, MSAEs associated with effective and efficient entrepreneurs in performing successful skill have higher probability of having a good financial performance. Skilled operator is also one of the important determinants of a MSAEs financial performance, since of availability highly skilled employees is associated with higher employees' productivity which was improve financial performance of MSAEs (Duenas-Caparas, 2006). The appreciation and initiation of entrepreneurial skills of the operators by different trainings and best practice sharing is advantageous to promote the financial performance of the MSAEs. On the same way, Fairoz *et al.* (2010) found that there were positive correlations among reactivity and MSAEs operation with business financial performance. Effective entrepreneurship with skills and experiences was lead to a higher skill as well as competitiveness in the business financial performance of MSAEs.

Experience of the manager (Exp): The experience of the manager of the MSAEs was statistically significant at less than 5% significance level as hypothesized and had positive relationship with the financial performance of the MSAEs. This shows that MSAEs managed by experienced managers have higher probability of having good financial performance. This is in agreement with the finding of George (2005) who stated that when the managers have experience of being able to lead, inspire and champion the followers, the MSAEs have good financial performance and become successful in the business.

Access to training (Train): Access to training for the MSAEs in different aspects was statistically significant at less than 1% significance level and had positive relationship with the financial performance of the MSAEs. That is the availability of access to training on different issues of the MSAEs increases the chance of MSAEs to have good financial performance in their business. Similarly, UNECE (2004) found that the existence of sufficient training access in building the capacity of MSAEs provides them with high opportunity to have good financial performance.

Access to market (Mkt): Access to market for the products of the MSAEs was statistically significant at less than 5% significance level as hypothesized and had positive relationship with the financial performance of the MSAEs. This indicates that MSAEs which have higher market access for their products have higher probability of having good financial performance in the business. In the same manner the finding of UNECE (2004) states that the decisive decision making of MSAEs good or bad financial performance is in the hand of market. So the existence of market access for the MSAEs products can improve the financial performance of MSAEs to exist in the business.

Consultancy service (Cons): The consultancy service was statistically significant at less than 1% significance level and had positive relationship with the financial performance of the MSAEs. As indicated, MSAEs that have chance to get stakeholders' consultancy service have stand in better position in their financial performance. This could be due the fact that the consultancy service increment of the stockholders associated with experience, skill and knowledge development the MSAEs managers to manage the MSAEs activities successfully that leads them to achieve the extended goals of establishment. According to the finding of Bonte *et al.* (2005) there is feasible existence of relationship between the consultancy service and the financial performance of MSAEs.

Access to premises (Prem): The access to premises was associated positively and significantly with the financial performance of MSAEs at less than 5% significance level as hypothesized. Thus, MSAEs associated with sufficient premises in proper location have higher probability of having a good financial performance than who did not get the access to premises. That is, MSAEs with sufficient premises tend to have good financial performance than the one who have no access to premises, and vice versa. The possible reason is, premises are proxy factor for wealth, access to credit, income generation, and capacity to bear risk.

Access to credit (Credit): This variable was associated positively and significantly with the financial performance of MSAEs at less than 5% significance level as hypothesized. This shows that MSAEs which have the access to credit have higher probability of having good financial performance rather than those who did not have credit access. As MSAEs managers proves that, even if the credit access have significant impact on financial performance getting the access to credit was very difficult. The possible reason is that different financial institution that facilitates credit access needs collateral and asks past trend of using credit access from different financial institutions. Because of these cases number MSAEs does not get the way to obtain financial credit access from different financial institutions that may improve their performance.

5. Conclusion and Recommendations

This study was undertaken to measure the financial performance of MSAEs and factors that affect the financial performance of MSAEs in Hadiya Zone. For this end, the study examined relevant literature, the national enterprise development strategy and programs and carried out the study to attain the intended objective. The study was mainly based on the primary and secondary data which were obtained from sampled 212 MSAEs and published and unpublished annual reports and other relevant organization documents. The study measured the financial performance of MSAEs in terms of profitability ratio using which survived and failed MSAEs were identified. A regression analysis was applied with profitability ratio as the dependent variable and age of MSAEs, educational level, number of employee, amount of initial capital, entrepreneurial skill, experience of manager, access to training, access to market, gender of manager, consultancy service, access to premises, access to services, customer networks and access to credit as independent variables. The results showed that most of them were statistically significant at 1%, 5% and 10% probability level and had positive relationship with the financial performance of MSAEs. Generally, the profitability ratio analyses result showed that 142 (67%) of MSAEs had good financial performance and 70 (33%) of MSAEs had bad financial performance to survive in the business in the study area.

Globally, there is an increased recognition of the important role played by MSAEs in the economic development of a country. The role of MSAEs in employment and income generation was increasingly recognized and has become a major playing field for policy makers and donors with dual objective of enhancing growth and development, food security and alleviating poverty. However, their financial performances to realize the intended goals are not as expected due to variety of factors which hinder their activities in the business. The good financial performance of MSAEs in their filled of business was the result of generation of higher profits from their business than costs incurred. As the findings of this study showed, most of the MSAEs found in the study area had bad financial performance when their financial performance were measured based on profitability ratio values of the MSAEs. There are a number of constraints identified by this study which hinder the financial performance of MSAEs. These included: low age of MSAEs stay in the business, small amount of initial capital to run the business, limited access to training to initiate and capture knowledge, improper number of employees', low experience of managers in overall managerial activity, insufficient access of market, premises, credit to build up their financial performance, low education and skill level of which leads them to best succeed in the business. To tackle the challenges of the above mentioned difficulties and to improve the financial performance of MSAEs government, all concerned bodies give crucial attention and financial institutions should provide sufficient loan prepared on the business plan of MSAEs with effective and efficient repayment rate.

Moreover, financial institutions should establish suitable alternative systems of saving with attractive interest rate to invite MSAEs to follow the principle of save to invest in near future. Administrative bodies should give high emphasis to facilitate basic requirement to promote start-up and expansion of MSAEs which brings high job creation and sustainability of MSAEs in the business. MSAEs should take different trainings to initiate and upgrade their capacity and managerial skills. They should arrange the number of employees in the MSAEs according to the size and proper work load in the enterprises. Even if the majority of MSAEs found in the study area currently survived and run their business, the survival status of the MSAEs is the primary and necessary condition to exist in the business, but it is not sufficient and satisfactory condition to transform them into highly industrialized MSAEs. High level of financial performance builds the capacity of MSAEs to attain the intended goals of tangible reduction of unemployment, food insecurity and poverty alleviation. Therefore, concerned government authorities should strengthen their efforts in such a manner that a continuous follow ups and backstopping of MSAEs.

6. References

- Admasu (2012). Factors affecting the performance of micro and small enterprises in Arada and Lideta Sub-Cities, Addis Ababa. Msc Thesis, Addis Abeba University, Addis Abeba, Ethiopia.
- AEMFI (Association of Ethiopian Microfinance Institutions), 2007. Manage the growth of micro finance institutions, balancing sustainability and reaching large number of clients in Ethiopia.
- Amyx (2005). Small business challenges and the perception problem: size doesn't matter. *Journal of Washington Business*, 3(6), 69-92.
- Atieno (2009). Institutional arrangements and the performance of micro and small scale clothing enterprises in Kenya. MA Thesis, University of Nairobi, Nairobi, Kenya.
- Benjamin and Bonno (2007). Factors contributing to the performance of small business enterprises in Botswana: a case study of Gaborone and Environs. *Journal of Business Venturing*, 22, 59-61.
- Bouba (2011). Financial performance measurement of manufacturing small and medium enterprises in Pretoria: a multiple exploratory case study. Submitted in accordance with the requirements for the degree of Magister Technologies in the subject Business Administration at the University of South Africa.
- Cacciolatti (2011), Fearn (2011) and Mcneil (2011). Empirical evidence for a relationship between business growth and the use of structured marketing information amongst food and drink micro and small enterprises. Academy of marketing conference, 5-7 July 2011. University of Kent, United Kingdom.
- Cetin (2010). The effects of human resource, marketing and manufacturing performance on financial performance. *Journal of global management, Institute of technology*, 8(2), 41-57.
- Enock (2010). What are the factors limiting the success and/or growth of small businesses in Tanzania. Msc Thesis, University of Arcada, Arcada, Tanzania.
- Eshetu and Zeleke (2008). Factors that affect the long-term survival of micro, small, and medium enterprises in Ethiopia. *South African Journal of Economics*, 10(2): 76-81.
- FMSEDA (Federal micro and small enterprises development agency). 2007. Draft micro and small enterprises development strategy, Addis Ababa, Ethiopia.
- GEM (Global Entrepreneurship Monitors). 2004. women and entrepreneurship, center for women's leadership, Banson college, USA.
- Getachew and Yishak (2006). Integrate financial services into the poverty reduction strategy: the case of Ethiopia.
- Gichana and Barasa (2013). Effect of credit on micro and small enterprises performance in Kitale Town. *International Journal of Academic Research in Business and Social Sciences*, 3(9): 2222-6990.
- Habtamu (2012). Determinants of micro and small enterprises growth in Tigray regional state. *Journal of Economics and Sustainable Development*, X (X): 2222-XXXX.
- Hove and Tarisai (2013). Internal factors affecting the successful growth and survival of agri-business firms in Alice communal area. *Journal of Economics*, 4(1): 57-67.
- ILO (International labor organization). 2006. Vulnerability and young women entrepreneurs: the case study of Ethiopian informal economy, Geneva, international labor organization.
- Islam and Siengthai (2010). Human resource management practices and firm performance improvement in Dhaka export processing zone. *Journal of Research and Practice in Human Resource Management*, 18(1), 60-77.
- Janda (2013), Strielkowski (2013) and Rausser (2013). Determinants of profitability of Polish rural microenterprises. *Journal of Munich Personal RePEc Archive*, 6(12): 1-37.
- Mead and Liedholm (2008). The dynamics of micro and small enterprises in developing countries. *Journal of Finance*, 26 (1): 50-74.
- MoFED (Ministry of finance and economy development). 2006. The plan for accelerated and sustained development to end poverty, Addis Ababa, Ethiopia.
- MoFED (Ministry of finance and economy development). 2010. Growth and transformation plan of Ethiopia, millennium development goals report: trends and prospects for meeting millennium development goals by 2015. Volume 1 main text, Addis Ababa, Ethiopia.
- Mukras and Seemule (2005). The enterprises and the challenge of employment creation in Botswana. *Journal of Economic Development of Botswana*, 3, 181-182.
- Mukole (2010). Job creation versus job shedding and the role of micro enterprises in economic development. *African Journal of Business Management*, 4(11): 88-95.
- Mulu (2007). Growth of micro-enterprises: Empirical evidence from Ethiopia. Ethiopian Development Research Institute (EDRI)
- Osinde (2013). Effect of managerial skills on growth of hotel based micro and small enterprises in Keroka, Kenya. *Interdisciplinary Journal of Contemporary Research in Business*, 4 (12): 1-5.
- Padachi (2012). Factors affecting the adoption of formal accounting systems by micro and small enterprises. *Business and Economics journal*, 12, 51-67.

- Rami and Ahmed (2007). Critical analysis and modeling of small business performance in Syria. *Journal of Asian Entrepreneurship and Sustainability*, 3(2): 6-13.
- Stephen and Wasiu (2013). The contribution of small scale industries to the national economy. *Standard research journal of business management*, 1(2): 60-71.
- Taye (2008). Digest Ethiopia national policies, strategies and programs. Forum for Social Studies. Addis Ababa, Ethiopia.
- Teshome (2012). Meles's development paradigm and its impacts on economic transformation in Ethiopia. *Global Advanced Research Journal of Management and Business Studies*, 1(11): 384-396.
- Timo and Minna (2009). Many faces of innovation: from literature synthesis to empirical studies. Laurea publications, Laurea University of Applied Sciences, Vantaa.
- Tiruneh (2011). Analysis of the success factors of micro and small business enterprises in Addis Ababa. MA Thesis Addis Ababa University, Addis Ababa, Ethiopia.
- USAID (United States of America Industrial Development). 2006. Micro and small enterprises, dynamic economic growth, and poverty reduction. A review of the conceptual and empirical effects of MSEs on development. Prepared by the University of Maryland.
- Wanjohi, and Mugure (2008). Factors affecting the growth of enterprises in rural areas of Kenya: a case study of Kenyan small and medium sized enterprises. *International Journal of Business and Management*, 6(5), 51-60.