Assessment of Financial Management Practices: A Case Study on Small Businesses in Sokoru District, Ethiopia

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Abstract
The study aims to explore the financial management practices of small businesses in Sokoru District, Ethiopia to those components namely, working capital management, financing, investment, financial reporting, financial planning, analysis, and control, and accounting information systems. To achieve the stated objectives of the study the primary data were obtained from owners' of small businesses and trade and industry office of Sokoru District. Both stratified and simple random sampling methods were used to select sample for the study. The study found that the financial management practices of small businesses are very weak – especially in the areas of financial planning, analysis, and control working capital management, and investment decision. The study also recommended that it is advisable that the owners of small businesses avail themselves with various training programs; better to engaged in financial planning, analysis, and control in order to compare their financial plan with performances; and also maintain professional accountants so as keep complete accounting records.
Keywords: Financial Management Practices, Small Businesses

1. Introduction

Small business literature supports the argument that the small business sector contributes significantly to economic growth, job creation, fair distribution of income, and to the alleviation of poverty (Broembsen, 2003). For instance, in Europe, 99.8% of private businesses are small businesses and they generate half of Europe's turnover and employ about 53% of the workforce (Reijonen and Komppula, 2007). According to Cook and Nixson, (2000), Hashim, (2005), and Fetene, (2010) small business development has become increasingly important in recent years in both developed and developing countries like Ethiopia. In Ethiopia, the small business sectors have been neglected for a long. However, following the country's shift to a market economy, the government and other stakeholders have shown interest in the area. This shift to a market led private sector, which would then foster the development of small businesses in Ethiopia as they constitute the majority of the sector (Wolday Amha, 1997, Fetene, 2010).

Financial management is an integral part of overall management. It is concerned with the duties of the financial managers in the business firm. As Meredith, (1986) suggested that, financial management is one of the several functional areas of management but, it is the central to the success of any business enterprises. This definition emphasizes the central role and position of financial management in relation to the other specific areas of business management. Basically, there are many factors contributed to the failure of small businesses. These factors can also be recognized as internal and external factors. Though, the external factors are not the concern of this study, while the internal factors that affect the small businesses are managerial skills, work force, accounting systems, and financial management practices. Nevertheless, given this fact, 'poor' financial management practices are one basic internal factor that affects the performances of small businesses among others (Agyei-Mensah, 2011).

Financial management is also critical, especially in relation to working capital and over-trading, due to lack of medium and long-term finance available to small businesses and the reliance on short term debt funding (McMahon and Holmes, 1991, Dodge et al., 1994). So, without addressing the problems concerning with financial management practices of small firms, their business performance cannot be literary achieved. Given that, financial management is one of the key aspects for the well being and survival of a business. Although, small business sector contributes considerably to economic growth, job creation, and to the alleviation of poverty still they fail. In fact, there appears to be a number of enabling conditions that must be present before the small business sector can contribute to the economic development of a country. For instance, (Chittenden et al., 1999, and Broembsen, 2003) revealed that, small scale enterprises frequently fail mainly because of 'poor' financial management practices. Gaskill and Van Auken, (1993) argued that, the most internal problems known by small firms in US relate to insufficient capital, cash flow management and inventory control. Hashim and Wafa, (2002) suggested that while the role of small businesses contributing to the economy is considerable, many small businesses are faced with various management problems. For instance, financial management is one among the others such as human resource management, marketing management, operations management, and strategic management.

Agyei-Mensah, (2011) also adds that, careless financial management practices are the major cause of collapse for business enterprises. Studies done in the UK and the US have shown that weak financial management particularly, poor working capital management and inadequate long-term financing were primary cause of failure among small business (Atrill, 2001). Further, the findings of the studies by Broom and Lengenecker, (1975), Haswell and Holmes, (1989), Bates and Nucci, (1989), and Watson and Everett, (1996) have shown that business failures were more prevalent among small businesses than the larger one. Given that, the possibility of business failure due to lack of sound financial management practices became a serious issues that seeks special considerations. According to IFC, (2006) in Sub-Saharan Africa, 80% of businesses are small. Hence, it is clearly not simply the proliferation of small businesses that makes economic growth. In this regards, Spencer and Gomez, (2004) confirmed a negative relationship between per capita GDP and the percentage of small firms in a country. It would appear that the proliferation of small business is a characteristic of less developed countries that lack the economies of scale provided by a considerable large firm sector. In case of Ethiopia, the issues of small businesses are serious. For instance, according to MoFED, as cited by Fetene, (2010), the contribution of the small businesses sectors to the country's GDP is on average 1.7% during the past decade. This implies that, the contribution of small business sectors contributing to the Ethiopian economy is relatively insignificant.

1.2 Research Problem and Objectives

Although, small business literature supports the argument that the small business sector contributes substantially to economic growth, job creation, and to the alleviation of poverty still they fail. In fact, there appears to be a number of enabling conditions that must be present before the small business sector can contribute to the economic development of a country. For instance, (Chittenden et al., 1999, and Broembsen, 2003) revealed that, small businesses frequently fail mainly because of 'poor' financial management practices. Gaskill and Van Auken, (1993) argued that, the most internal problems known by small businesses in US relate to insufficient capital, cash flow management and inventory control. Hashim and Wafa, (2002) suggested that while the role of small businesses contributing to the economy is considerable, many of them are faced with various management problems. For instance, financial management is one among the others such as human resource management, marketing management, operations management, and strategic management. Agyei-Mensah, (2011) also adds that, careless financial management practices are the major cause of collapse for business enterprises. Studies done in the UK and the US have shown that weak financial management particularly, poor working capital management and inadequate long-term financing were primary cause of failure among small businesses (Atrill, 2001). Further, the findings of the studies by Broom and Lengenecker, (1975), Haswell and Holmes, (1989), Bates and Nucci, (1989), and Watson and Everett, (1996) have shown that business failures were more prevalent among small businesses than larger firms. Given these, the possibility of business failure due to lack of sound financial management practices became a serious issues that seeks special attentions.

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Evidences shown that, the issues of financial management were recognized in Ethiopia since the beginning of 1960s, when Imperial Haile Selassie introduced commercial code. So, these issues became the pressing problems of small businesses. The fact that, most small businesses do not appointed professional accountants; cope up with technological knowhow; have financial planning, and have proper working capital management their growth and survival is significantly affected (Derese and Prabhakara, 2012). This implies that, in Ethiopia the issues of financial management in small businesses are the key areas that seek special attentions. Therefore, the main objectives of the study is to assess the financial management practices of small businesses in Sokoru District, Ethiopia to those specific areas such as, working capital management, financing, investment, financial reporting, financial planning, analysis, and control, and accounting information systems.

2. Literature Review

2.1 Financial Management

Financial management is defined with different authors in different ways. However, those definitions are not different in meanings in the sense that all of them rotate around the effective funds management in the businesses. Financial management is an integral part of overall management. It is concerned with the duties of the financial managers in the business firm. As Meredith, (1986) suggested that, financial management is one of several functional areas of management but, it is the central to the success of any business enterprises. This definition emphasizes the central role and position of financial management in relation to the other specific areas of business management.

2.2 Specific Areas of Financial Management

Most authors and researchers approach to specific areas of financial management in different ways depending upon their views. Barrow, (1988) emphasizes a practical rather than theoretical outlook of specific areas of financial management. That is, instead of identifying specific areas of financial management, he listed the tools of financial analysis, including business controls; measure of profitability; control of working capital; control of fixed assets, cost; volume; pricing and profit decisions, and business plans and budgets. McMahon (1995) examines specific areas of financial management including all areas that relate to items on the balance sheet of the business. Meredith (1986) emphasizes information systems as a base for financial management including financial management records and reports. The following are the six specific areas of financial management included in the study.

- Financial planning, analysis, and control – deals with financial objectives and targets, financial budgeting and control, and analysis and interpretation of financial performances.
- Financial reporting – concerning with the nature, frequency and purpose of financial reporting.
- Working capital management – regarding with a firm's investment in short-term assets, cash, accounts receivables and inventories.
- Accounting information Systems – concerning with systems that collects, records, stores and processes data to produce information for decision makers. It uses advances technology or a simple paper and pencil system or it can be something in between.
- Capital Budgeting (Investing) – concerned with the allocation of the firm's source financial resources among the available opportunities.
- Financing (Capital Structure) – refers to the relative amount of long-term debt and equity.

3. Research Design and Methodology

This study is designed to describe the financial management practices of small businesses found in Sokoru District, Ethiopia. For the purpose of the study sample of 70 owners of small businesses were taken from the total population of 115 small businesses. The sampling technique employed for the purpose of this study was both stratified and simple random sampling. The researcher employed both Quantitative and Qualitative research approaches. A combination of dichotomous and Likert scale questions were used for the survey. Statistical analysis was based on descriptive statistic. Primary data were obtained from the sampled owners of small businesses and management of trade and industry bureau of Sokoru District through self-administered semi-structured questionnaires and Structured Interviews respectively.

4. Results and Discussions

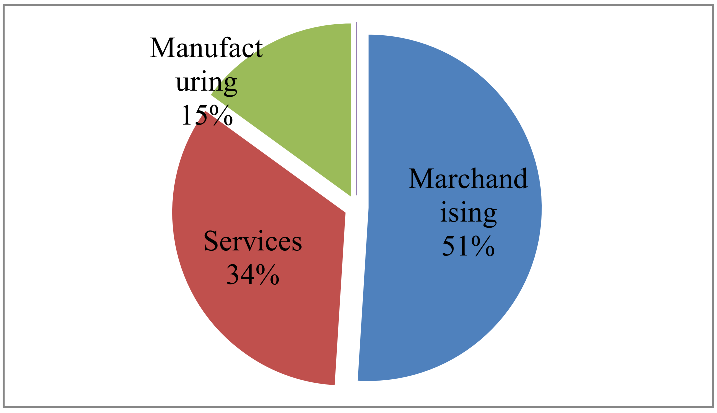


Fig.4.1 Distribution of the type of business

Source: Small business survey, Feb., 2014

For the purpose of this study the survey of three types of businesses engaged in merchandizing, services, and manufacturing enterprises were used. Accordingly, figure 4.1 above depicts 51% and 34% of the small businesses are engaged in merchandizing and service business sectors and the remaining 15% of them are engaged in manufacturing sector. This implies that, merchandise businesses constitute a sizeable number of small business enterprises in Sokoru Distirct as compared to service and manufacturing sector.

Table 4.2 Financial Planning, Analysis, and Control

Particulars	Never		Sometimes		Always		
	Fre.	%	Fre.	%	Fre.	%	Toal
Do you:							
Set short-term financial objectives?	52	98	1	2	0	0	100
Set long-term financial objectives?	52	99	1	1	0	0	100
Compare Financial plan with performance?	52	98	1	2	0	0	100
Analyze the trend of your sales?	50	95	3	5	0	0	100
Analyze the trend of your cost?	52	98	1	2	0	0	100
Analyze the trend of your profit?	51	96	1	4	0	0	100

Source: Small business survey, Feb., 2014

With regards to financial planning, analysis and control, the result of the study found that 98% and 99% of the respondents never set short and long-term financial objectives; while 2% and 1% of the them sometimes set short and long-term financial objectives respectively. Again, 98% of the small businesses never compare their financial plan with their performances. In addition, 95%, 98%, and 96% of the respondents do not undertake financial analysis to determine the trends in sales, costs, and profit. Furthermore, 5%, 2%, and 4% of the small businesses do financial analysis sometimes to see the changes in sales, costs, and profit. Lastly, the study points out that none of the respondents always undertake financial planning, analysis, and control. As per the results of the findings, the majorities of small businesses do not engaged in financial planning, analysis and control – especially due to lack of adequate financial management skills. This implies that, small business have no further financial plan and unable to compare their financial objectives with actual performances – in the same fashion, they do not made the analysis of their sales, costs, and profit in order to minimized costs and increasing profit.

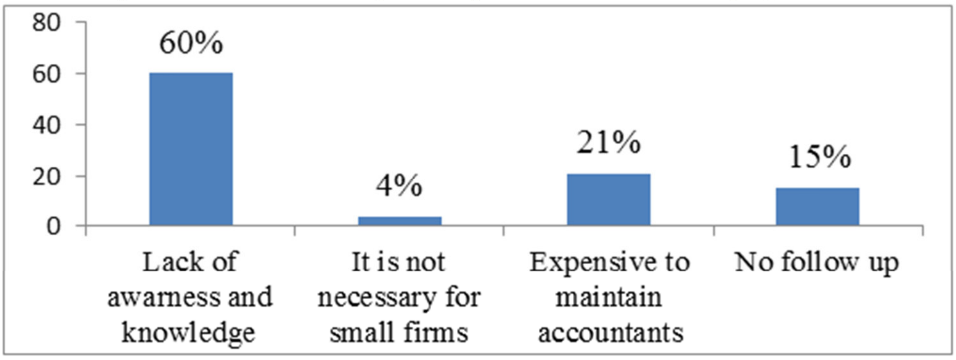
Table 4.3 Do you prepare monthly Financial Statements

Response	Frequency	Percentage (%)
Yes	2	4
No	51	96
Total	53	100

Source: Small business survey, Feb., 2014

As shown in Table 4.3 above, 96% of the small businesses do not prepare monthly financial statements; whereas only 4% of them prepare monthly financial statements. This indicates that, monthly financial statement reports are not adequately maintained in small businesses.

Fig. 4.4 Factors hindering monthly financial statements preparation



Source: Small business survey, Feb., 2014

Figure 4.4 above presented factors that hinder owners of small businesses from preparing monthly financial statements. Accordingly, 60% of them do not prepare monthly financial statement because of lack of awareness about financial statements and basic knowledge to those areas; while 21% of the small businesses fail to do so – because it is costly to maintain professional accountants. In addition, 4% of the small businesses pursuing monthly financial statements are not necessary for small businesses. Lastly, 15% of them do not prepare monthly financial statement due lack of follow up and strong external control – especially internal revenue authorities and trade and industry bureau. This implies that, lack of knowledge and experts are the major barriers to prepare monthly financial statements for small businesses.

Table 4.5 Accounting Information Systems

Accounting Information practices	Yes		No		
	Fre.	%	Fre.	%	Total
Do you:					
Maintain sales books?	14	26	39	74	100
Have purchase books?	39	73	14	27	100
Maintain expenses books?	8	15	45	85	100
Have a stock book?	23	43	30	57	100
Have a computer for records keeping?	0	0	53	100	100
Maintain a record for fixed asset?	3	6	50	94	100
Conduct depreciation for your plant assets?	0	0	53	100	100
Make drawings from your business?	53	100	0	0	100
Record your drawings?	15	28	38	72	100

Source: Small business survey, Feb., 2014

As indicated in Table 4.5 above, 74% of the small businesses do not maintained sales books – mainly those in service sector; however, only 26% of them maintain the same. In addition, 73% of the respondents have purchase books; while the remaining 23% have not – especially those in service sector. In the same way, around 85% of the respondents do not maintain expenses books; but, only 15% of them maintain expense books. Furthermore, around 57% of the respondents do not have stock books; while 43% have stock books. Additionally, none of the respondents have computer to keep their accounting records. Similarly, 94% of the respondents do not maintain records for their fixed assets but, only 6% of the respondents maintain records for their fixed assets. Also, none of the respondents have any provision for depreciation of long-lived assets. Lastly, all (100%) of the respondents made drawings from their businesses; but, 72% of the respondents do not record for their drawings and the remaining 28% record their drawings. This shows that, the majority of small businesses do not effectively use accounting information system in order to determine their financial performance. Further, it implies that, the computerized accounting system practices of small businesses are also insignificant.

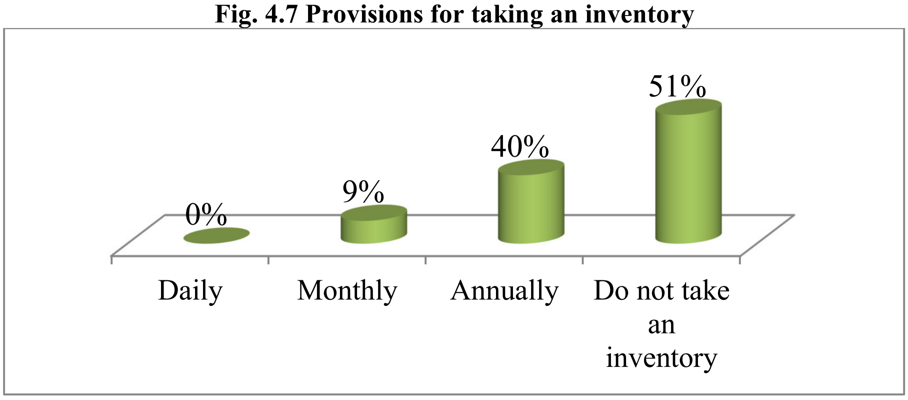
Table 4.6 Working Capital Management

Working capital management practices	Yes		No		
	Fre.	%	Fre.	%	Total
Do you:					
Prepare a cash budget?	2	4	51	96	100
Sell on account?	39	74	14	26	100
Purchase on account?	42	79	11	21	100
Made daily deposit in a bank?	5	9	48	91	100
Determine an average days between the collections and repayments?	0	0	53	100	100

Source: Small business survey, Feb., 2014

With reference to working capital management practices of small businesses the study showed that, around 96% of the respondents do not prepare a cash budget or a statement of planned inflows and outflows. Additionally, 74% of the respondents sell their product on account; nevertheless, 26% of the respondents do not sell their product on account – mainly those who are in service business. Again, 79% of the respondents purchases on account; likewise 21% do not. The study result also revealed that 91% of the respondents do not keep their money in a bank on a daily basis. Moreover, none of the respondents undertake cash conversion cycle. This implies that, small businesse are weak in working capital management practices – especially in areas of maintaining cash budget and in the provision of Cash Conversion Cycle.

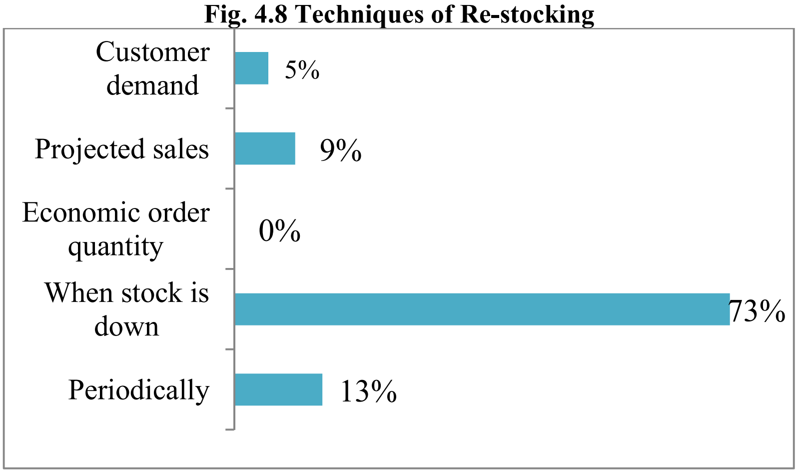
Fig. 4.7 Provisions for taking an inventory



Source: Small business survey, Feb., 2014

Refers to mechanisms for taking an inventory, the findings revealed that more than half (51%) of small businesses do not take for specified periods. However, 9% and 40% of the respondent take an inventory on the monthly and yearly basis respectively. Likewise, none of the respondent daily made an inventory. The implication of this finding is that the inventory management practices of small businesses are inadequate.

Fig. 4.8 Techniques of Re-stocking



Source: Small business survey, Feb., 2014

As to how the small business owners decided for re-stocking the survey results indicated that most of the respondents (73%) made restocking when stock is down – especially those in merchandize businesses; whereas, 12% and 15% of the respondents made restocking periodically and based on the projected sales respectively. In addition, 5% of the small businesses undertake re-stocking using customer demand. Lastly, none of the respondents make use Economic Order Quantity Model for replacing their stock. This evidence indicates that, the majority of small business owners undertake re-stocking when the level of the stock diminishes.

Table 4.9 Did you evaluate the validity of your business before starting? (Capital budgeting)

Response	Frequency	Percentage (%)
Yes	16	32
No	37	68
Total	53	100

Source: Small business survey, Feb., 2014

As it can be seen from the table 4.9 above, the majority of the respondents (68%) of the respondents did not evaluate the feasibility of their investment before starting operations. However, only (32%) of the respondents evaluate the feasibility of their investment before starting businesses. The implication to these findings is that, most small businesses did not assess the viability of their investment projects before starting the business so as to maximizing the long-term profitability.

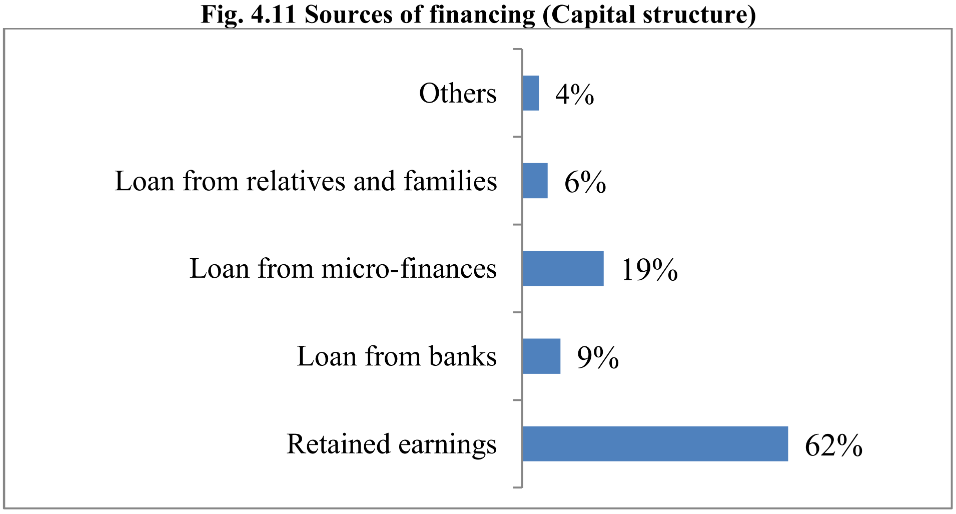
Table 4.10 Techniques for evaluating feasibility of investment

Response	Frequency	Percentage (%)
Payback	16	32
Accounting rate of return	0	0
Net present value	0	0
Post Pay-back Profitability	0	0
Total	16	100

Source: Small business survey, Feb., 2014

Table 4.10 further presents the capital budgeting techniques in use. Accordingly, from these respondents that evaluating the feasibility of their investment before starting operations 16(100%) use the payback methods; while, the remaining capital budgeting techniques –like accounting rate of return, net present value, post pay-back profitability are not in use. This implies that, payback period is more convenient dominant method in small businesses as compared to other methods such as, accounting rate of return, net present value, and discounted cash flows.

Fig. 4.11 Sources of financing (Capital structure)



Source: Small business survey, Feb., 2014

Concerning with source of financing the study showed that 62% of respondents financed their capital investment projects using retained earnings; where as 19% and 9% of the respondents were raised their funds through loan from micro finance and from banks respectively. In addition, 6% of the respondents raise their funds through loan from their relatives and families. Likewise, 4% of the respondents obtained funds from other sources such as traditional financial institution like ‘Iqub’. This explains that, most small businesses finance their operations for first stance using their own earnings and next looking for additional external sources.

Fig. 4.12 Factors affecting Investing / Financing decisions

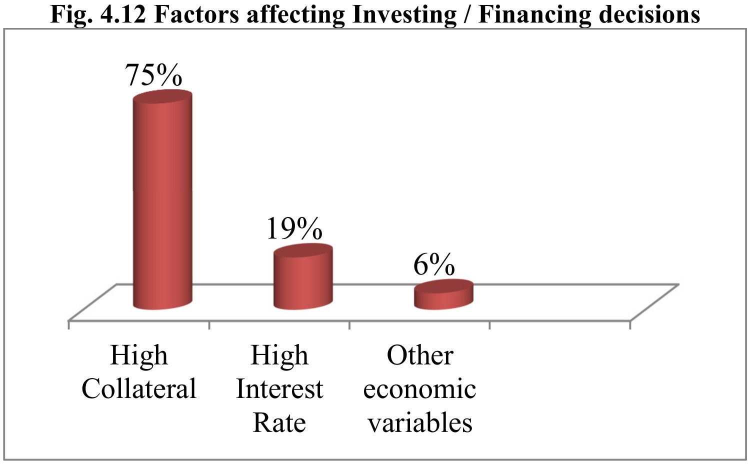
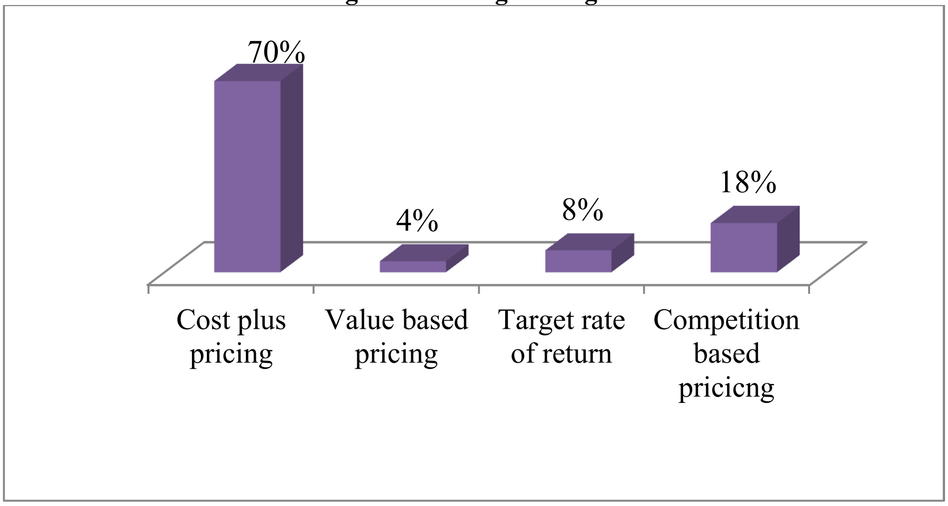


Fig.4.12 above presented factors that influencing the financing decision of owners of small businesses. So, 75% of the respondents do not have access to financing because of higher collateral required. Similarly, around 25% of the respondents have no access to financing due to higher interest rates and other economic variables such inflation and government policies. This indicates that, the most pressing problems that facing with small businesses are the fact that higher collaterals are imposed by banks.

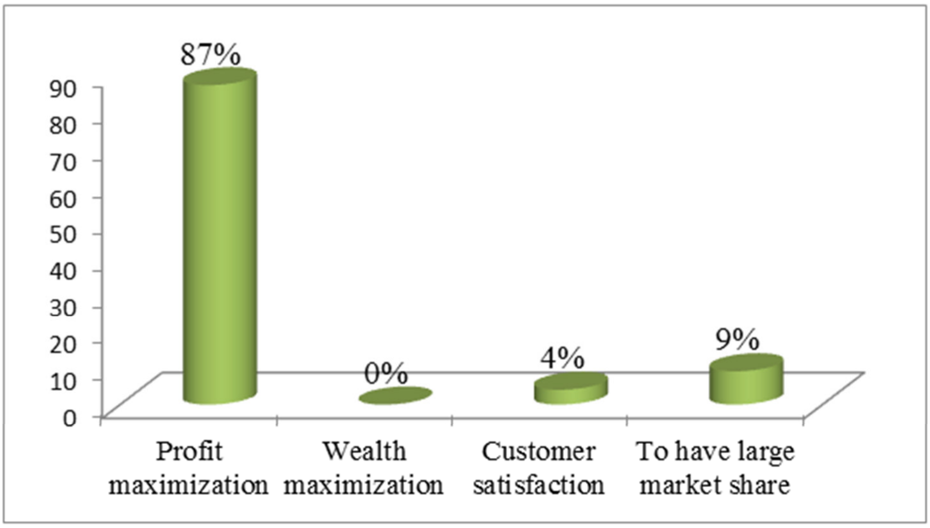
Fig. 4.13 Pricing Strategies



Source: Small business survey, Feb., 2014

On the issues of pricing strategies the study showed that, the majority (70%) of the respondents use cost-plus pricing method – especially those who are in merchandize business firms. Moreover, the survey also reveals that some of the respondents (18%) – especially those involve in service sector exercise competition based pricing strategies and 4% and 8% of them use value based and target rate of return methods respectively. It implies that, Cost-plus pricing strategy is the most dominant and convenience pricing strategy for those small firms.

Fig. 4.14 Goal of the Firm



Source: Small business survey, Feb., 2014

With reference to goal of the firms, most of the respondents (87%) revealed that the goal of their firm is profit maximization. In addition, few (9%) of the respondents –particularly those who are in the manufacturing were pursuing to have large market share; likewise very few (4%) of the respondent were pursuing to provided customer satisfaction and lastly none of the respondent were pursuing to wealth maximization. So, this implies that in a small business environment, the financial goal is to attempt for profit maximization at large as compared to other objectives.

Findings

The findings revealed that merchandize firms constitute a sizeable number of small businesses, most small businesses (more than 95%) do not engage in financial planning, analysis, and control. Most small businesses do not set short and long term financial objectives; do not analyze the trend in sales, cost and profit. Basically, a plan allows a business to set certain goals for the business and to measure expectations against actual performances. So, as far as small businesses have no plan most of them do not compare their goals with performance. Similarly, the fact that small businesses do not engaged in the analysis of their sales, costs, and profit as a result they unable to maximizing profit by minimizing costs. The study also indicated that, small businesses are poorly practicing financial planning, analysis and control – mainly small businesses have no awareness and experience on those areas. These findings agree with the study by Amin, (2004).

Although, the profits made by entities are well measured by maintain basic accounting records and preparation of financial statements; moreover, the 1960 commercial code of Ethiopia (Art 63-73) states that any person or business organization carrying on trade shall keep books and accounts, the study revealed that, 96% of small businesses do not maintain accounting records – especially due to lack of sufficient knowledge, lack professional accountants, and no follow up with the government bodies – particularly trade and industry bureau and internal revenue authorities. This confirms the findings of a study done by John, (2008) that found small business owners were good in selling their products and services but disliked numbers. They did not compile the financial statements because, they could not read it and were too busy to do it. Further, John (2008) observed that few small business owners compile financial statements because government compels them to do so in order to report their income every year. This study also collaborated with the study by Agyei-Mensah, (2011) that point out 60% of small businesses in Ghana do not engaged in the preparation of basic financial statements.

The study showed that accounting information system practices of small businesses were mixed in the sense that, most of the small businesses maintained purchases books and make drawings from their business. However, most of the respondents do not maintain expenses books, stock book, drawings books and, fixed assets record. The finding also indicated that, almost all of the small businesses do not have computer to maintain records for their transactions. As Amidu et al., (2011) indicated that, the use of computers for record keeping with small businesses' results in time and cost effective – this implies that still small businesses are un able to cope up with the existing technology rather they engaged in traditional accounting practices in which records are kept manually. Likewise, small businesses entirely do not undertake any provision for depreciation of their plant assets so that they do not maintain proper records for the depreciation of their plant assets.

Accounting information systems provide a source of information to owners of small businesses operating in any business. In addition, accounting information system helped owners of small businesses to design and implement a strategic plan so as to make positive profit in long run. Therefore, it is necessary that, the accounting practices of small firms provided complete and relevant financial information necessary to get better economic decisions made by the owner's. Nevertheless, the fact that small businesses do not maintain proper records and key books they unable to determine easily their financial performances; at the same time these literary affect their growth and survival. The result also found that most small businesses do not maintain complete accounting records mainly due to lack of accounting knowledge of the owners. These findings supported the study by Maseko and Manyani, Agyei-Mensah, (2011).

Regarding with working capital management, the majority (96%) of the small businesses do not prepare a cash budget; whereas none of them conduct cash conversion cycle. The primary tool for cash flow management is the preparation of a cash budget and management of the cash conversion cycle – because of these facts small businesses cannot estimate their business' short-term cash requirements with particular attention to a plan for surplus or cash shortage. The results also revealed that, majority of the small businesses sell and purchase their goods on account. But, service businesses do not offer their product to sell on account. The majority (91%) of small businesses' also do not deposit their daily sales in a bank. This can also be literary affect their deposit trends and determine their credit worthiness's. As Padachi (2006) suggested that as efficient management of working capital is vital to businesses of all sizes, it is the small businesses that should address this issue more seriously. However, this finding shown that, small business appears poor at managing the working capital – mainly because of lack of awareness and enough knowledge to those components of working capital. These results are consistent with the findings by Padachi, (2006) and Moore et al., (2008). Further, the results are supported the study by the University of Cape Town's Graduate School of Business, (2004) that 50% of small businesses have cash flow problems and almost 60% of them have exhausted their bank overdraft and failed to pay wages.

The results under provisions for taking an inventory shown that, more than half (52%) of the small businesses do not make an inventory for identified period of time such as daily, monthly, and annually so, this shows that the inventory management practices of small businesses inadequate. Nevertheless, as Clodfelter, (2003) point out that, without inventory control procedures in place, the stores department can become overstocked or under stocked and also inventory control systems provide a business with information needed to take markdowns by identifying slow selling merchandise. Determining such items on time would allow a business to reduce prices or make a change in marketing strategy before shift in consumer demand. In fact, in the absence of these realities, the relationship between sales and inventory of the small businesses do not maintain properly. The finding also sought out that, the majority (73%) of small businesses made the provision of re–stoking when their stock is down as compared to 27% of them those who made re–stocking regularly based on projected sales, and customer demands. Nevertheless, the fact that none of the small businesses use Economic Order Quantity – it became irrelevant to small firms. This result supports the findings by Agyei-Mensah, (2011).

With reference to the investment feasibility evaluation of small businesses the results investigate that the majority (68%) did not evaluate the feasibility of their investment before starting the business. This is mainly due to lack of knowledge and experience in the line; that is the owner has entered a business field in which he or she has very little knowledge. Brigham, (1995) suggested that, capital budgeting might be more important to a smaller businesses than its larger counterparts because of the lack of access to the public markets for funding. So, the viability of the business has to be determined whether or not the investment project should be accepted or not. In addition, Peel and Bridge, (1998) point out that capital budgeting and planning positively impact on the performance of small businesses. Thus, in the absence of these practices small businesses could not assess their long term risks and returns. The survey results shown that, those small businesses evaluate the viability of their investment before starting businesses (32%) have used the payback period. In this case, other capital budgeting techniques such as accounting rate of return, net present value, and post pay-back profitability became difficult for small businesses. These findings supported study by Louma, (1967), Block, (1997), Agyei-Mensah, (2011).

Under capital structure decisions the result shown that the majority (62%) of small businesses use retained earnings as a major source to finance their investments; whereas, 38% of them have used other alternatives from external sources such as loan from banks, micro finances, and relatives. These findings support the Peaking Order Theory of Myers, (1984) that suggests there is no well-defined optimal capital structure; instead the debt ratio is the result of hierarchical financing over time. The foundation of Peaking order theory is that firms have no defined debt-to-value ratio so; owner- managers have a preference to choose internal financing before external financing. When a firm is forced to use external financing sources, owner-managers select the least risky and demanding source first. These results are consistence with the study by Norton, (1991), and Abanis et.al, (2013).

The study points out that, around 75% of the small businesses have no access to financing due to the fact that higher collateral requirements by formal financial institutions; whereas, around 25% of small businesses do not have access to finance because of high interest rate and other economic variables such as inflation and government policies. Year after year, different empirical evidences shown that small scale enterprises frequently suffer from a particular financial problem of lack of a capital base. In fact, this appears true, because, high collateral requirement by lending institutions and high interest rates charges are some obstacles that some of small businesses do not have or cannot pay. As a result, formal financial institutions structure their products to serve the needs of large businesses (Mutezo, 2005). This argument is similar to the previous studies by Fetene, (2010) that found 46% of the small firms in Ethiopia facing with financing problems because of insufficient collateral requirements.

Under the pricing strategies the result found that 70% of small businesses used cost- plus pricing method; while 30% them used other pricing strategies like competition based pricing, target rate of return, and value based pricing strategies. Cost-plus pricing is the simplest pricing method determined by adding standard mark up in the cost of the product. In this case, the fact that cost-plus pricing is the simplest pricing strategy among others it is commonly used by small businesses. The finding investigated that 87% of small businesses were pursuing that profit maximization is the main reason for their existence as compared to those insignificant number (13%) which have other objectives. Although, various objectives are possible in the business, the most commonly accepted objective for the business is to maximize the value of the firm to its owners. In fact, it is unquestionable that, profit is the motivational factor behind to start and keep the business. In these findings, the fact that none of the small businesses did not pursuing to wealth maximization – it implies that wealth maximization is became irrelevant for small businesses. Small businesses often exhibit differences in their objectives for running their businesses well away from the traditional shareholder's wealth maximization concept. Rather, small businesses aimed at having a job, providing income to the owner, and growing the business in terms of income through sales of their products. This result confirms the findings of Avlonitis and Indounas (2005), and Obigbemi (2010). As results of interview made with the management of Trade and Industry Bureau revealed that, lack of formal training, lack of follow ups and supervisions, low level of education, lack of managerial experience, and lack of financial management skill and the like are the most pressing problems of small businesses.

5. Conclusions and Recommendations

5.1 Conclusions

The findings revealed that, the fact that owners of small businesses have no adequate financial management skills and further training, most small businesses do not engage in financial planning, analysis, and control; do not set short and long term financial objectives; do not analyze the trend in sales, cost and profit. So, as far as small businesses have no plan most of them un able to compare their financial plan with their financial performances. In addition, the fact that small businesses don't engaged in the analysis of their sales, costs, and profit small firms do not have an idea of how to increase sale, minimized costs, and maximizing profit. The result under accounting records and financial statement preparation indicated that, a significant majority of owners of small businesses do not maintain book account and financial statements because of lack of awareness and knowledge. Similarly, lack of follow up and inability to maintain qualified accountants also other factors. Given these, small businesses do not easily determine their financial successes and failures periodically. Further, users do not get access to timely and adequate financial information for decision makings. With regard to accounting information systems, due to lack of accounting knowledge of the owners most small businesses do not maintain complete accounting records. So, in the absence of these facts it can conclude that small businesses do not determine fairly their financial successes and failures. Again, the inability of small businesses to make use of computerized accounting systems is also an obstacle to the successful implementation of sound financial management practices. Hence, the fact that small businesses do not have the application of computer soft ware it can be conclude that all most all the accounting practices of small businesses still manual basis.

The results under working capital management are mixed. Most small businesses maintain purchase books and sale on account. However, apart from these small businesses appears poor at managing their working capital – especially as a result of lack of awareness and enough knowledge in working capital management's areas. Even if, small businesses do not maintain strong inventory management they do not keep correctly the relationship between sales and inventories. On the other hand, the majority of small businesses undertake re–stoking when the stock is down and the fact that none of the small businesses make use of economic order quantity it can be concluded that, economic order quantity model became irrelevant for small businesses. While owners of small businesses do not have experiences and owners have entered a business field in which he or she has very little knowledge most of them did not evaluate the validity of their investment before starting up the business. So, they could not decide whether or not the investment project should be accepted or rejected. However, of small businesses who assess the feasibility of their investment ahead of starting were used payback period. The dominance of the payback period method over other methods can be attributed to its simplicity, emphasis on liquidity, and response to external financing pressures. In fact, other methods could be difficult for owners of small businesses because, many them have limited knowledge in financial management and accounting; as a result, these firms may not be able to make use of reliable estimates of future cash flows.

The results under capital structure decision revealed that, small businesses use retained earnings as a major source of financing for their investment and looking for additional alternatives. This makes prove of the Peaking Order Theory of Myers (1984). In addition, small businesses often do not have access to finance mainly because of high collateral requirement by lending institutions and high interest rates charges which some of the small businesses un able to pay. The majority of the small firms have make use of cost-plus pricing strategy to price their products due it simplicity and convenience as compared to other pricing strategy namely, target rate of return, value based, and competition based pricing strategies. In theory, various objectives are possible in business environments; however, for most small businesses the main reason conducting the business is profit motive.

5.2 Recommendations

Since, small businesses are the most dominant businesses in Ethiopia, organizations responsible for small businesses in Ethiopia – especially SEDA (Small Enterprise Development Agency) better to provide various training opportunities for owners with respect to areas of financial management. It is also advisable that, owners of small businesses try to maintain professional accountants in order to maintain complete accounting records and the websites of government agencies such as SEDA better to include information on how small businesses can be engaged in financial management practices. Gradually, the government better create conducive environment for financial system of the country in order to mobilize funds effectively so that, owners of small businesses can get access to finance so as to raise their investment funds. Since significant part of small business investment is in working capital, the owner of the small businesses better to consider how to keep it circulating quickly and make sure that none is lying idle. The concerned bodies – especially Trade and Industry and Internal Revenue Bureaus better to follow the accounting records and the financial statements maintained by small businesses and it is advisable for small businesses to engage in financial planning, analysis, and control so as to easily compare their financial plan and performances, and have an idea of how to maximizing profit by minimizing costs.

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