

AN ASSESSMENT OF FACTORS AFFECTING THE PROFITABILITY OF FIRMS IN CASE OF CHIRO TOWN TRADERS

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ABSTRACT

Trade is recognized as an important vehicle of economic growth, employment creation, income generation, and poverty reduction. As a result, trade occupies a prominent position in the development agenda of Ethiopia. The main objective of this study is to assess factors affecting firms of profitability in the case of Chiro town traders. From a total population, 93 sample respondents were identified using a simple random sampling technique. The findings from the study conducted revealed that most trader's businesses lack finance. Credit constraints operate in a variety of ways in Chiro town where undeveloped capital forces the trader to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit forces traders in the town to rely on high-cost, short-term finance. Poor housing poses a major challenge to the business growth of traders in Chiro town. By encouraging the development of the construction sector oriented towards low-income groups, the government would address the housing problems affecting the business growth of traders. Finally, based on findings the researcher recommends Trader's support program should have to be based on the identified critical factors. Major problems like lack of education, lack of working capital, and others that traders in the town face need to be addressed by prioritizing them following their severity as well as the availability of resources to run the operation. The loan repayment period for most traders was 1-2 years. The government should therefore establish friendly small loaning systems which would include low-interest rates to ensure continuity of these trader businesses.

Keywords: Trade, Economic Growth, Employment Creation, Long Term Credit and Poor Infrastructure.

INTRODUCTION

Businesses are the engine of growth and development of any economy, generating jobs and income, stimulating composition, sources of innovation, creating possibilities for business venture, etc. (de Kok, 2011). Growth is considered as a phenomenon that is determined by various factors, in and out of control by the owner or the management of the business. One of the main problems is that most of the research considers the extent of growth, while usually not perceiving the existence of substantial qualitative differences in how businesses achieve growth (McKelvie and Wiklund, 2010).

Growth is the result of the good administration of resources and capacities which companies use to promote growth and comprise capacities, acquired, information, financial counseling, and resources (Coad et.al, 2013). Successful businesses come in various ages, income levels, gender, and race. They differ in education and experience. But research indicates that most successful businesses share certain personal attributes, including creativity, dedication, determination, flexibility, leadership, passion, and self-confidence (Humble, 1968).

Creativity is the spark that drives the development of new products or services or ways to do business. It is the push for innovation and improvement. It is continuous learning, questioning, and thinking outside of prescribed formulas. Dedication is what motivates the businessman to work hard more than 12 hours a day or more even seven days a week, especially in the beginning, to get the endeavor off the ground. Planning and ideas must be joined by hard work to succeed. Dedication makes it happen.

Determination is the extremely strong desire to achieve success. It includes persistence and the ability to bounce back after rough times. For true businessmen, money is not the motivation. Success is the motivator and money is the reward. Flexibility is the ability to move quickly in response to changing market needs. It is being true to a dream while also being mindful of market realities. Leadership is the ability to create rules and to set goals. It is the capacity to follow through to see that rules are followed, and goals are accomplished. Passion is what gets businessmen started and keeps them there. It gives

businessmen the ability to convince others to believe in their vision. It can't substitute for planning, but it will help them to stay focused and to get others to look at their plans. Self-confidence comes from thorough planning, which reduces uncertainty and the level of risk. It also comes from expertise. It gives the businessman the ability to listen without being easily intimidated. (Wiklund, 2009).

Starting a new business is a big challenge in any environment but sustaining and growing the business is more so. This is a fact even in industrialized nations where systems are in place to facilitate the launching of new businesses. The failure rates in these countries are very high. There is a great challenge in launching, sustaining, and growing business in third world countries especially in African countries (Kiggundu, 2002).

Most of the time participating in business activity is complex for individual participants and also the phrase 'business growth and development' itself is not understandable by individuals. Economic growth is often contrasted with economic development, it is defined as an increase in the economic wealth of a country or area, while economic development involves a rise in the level of production in an economy (Martin, 2007). Most of the Chiro town firms are illiterate part of society those participate in the traditional way of the trading system i.e., only buying something rather than analyzing their costs, expenses gains, and losses of their firm's activities rather than to be an entrepreneur. Small and medium businesses are affected by characteristics, management and know-how, products, and services, customer and market, the way of doing business and cooperation, resources and finance, and external environment (Dayang, 2011). The phenomena this study is: First, the study drew policy makers' attention to the urgent need for specific management practices to enhance the effectiveness and sustainability of the firm's growth of traders in Ethiopia. Secondly, the economy of Ethiopia is growing, and Ethiopia has opened its borders to international firms therefore the government should understand the level of trader's development which plays a significant role in providing raw materials to multinational corporations. It is hoped that the findings of this study were assessed by the government and other stakeholders to make informed decisions through appropriate policies to assist the small-scale traders because of their contribution to economic growth. Finally, the study sought to contribute to future developments in the research area of firms' growth practices of traders.

Chiro town group A-C traders are firm's coffee, few of them are participating in shopping activities and the left are participating in hotel and restaurant or grocery firms. The notion of independent submarkets to provide a simple candidate explanation for the shape of the business growth distribution is based on the model of proportional Growth (journal of the European eco. ass. April-May 2007). Moreover, no further studies were conducted by the research to evaluate the factor affecting the firm's growth of firms of profitability to improve the gap is another important issue to assess by the researcher can improve their major problem. Therefore, we identify the factor affecting the firm's growth practice of traders of A-C firms in Chiro town. The research was designed to answer the flowing basic questions are: First, do financial factors affect the firm's growth of traders. Second, identification the housing factors influence the firm's growth of traders. Third, do marketing influences affect a firm's growth of traders. The last are what ways do legal factors influence the growth of firms (businesses).

LITERATURE REVIEW

Profitability

A corporation must be profitable to maintain a specific level of revenue, assets, and share capital for an extended period (Shanthana & Basana, 2020). Depending on how a company's income, assets, and capital are compared to one another, the profitability of the business can be evaluated in a variety of ways. The capacity of a business to generate profits relative to sales, total assets, and own capital is known as profitability. Making a profit from the company's operational activities is crucial to ensuring its long-term survival. The ability of the business to compete in the market demonstrates the company's success (Heryanto & Leng, 2022). Every business hopes to make the most money. The primary indicator of a company's success is profit. Profitability is the final consequence of a variety of decisions and policies that the company has taken.

The capacity of a business to make a profit with all the capital invested in it is known as profitability (Nusaputra & Basana, 2021). The most important and goal for a business is to make the most profit possible. Profitability ratios were used to gauge a company's level of profitability. The capacity to gauge management success based on the returns from sales and investment is known as the profitability ratio.

Economic Growth

Growth can be characterized as the process of long-term increases in output per capita (Shanthana & Basana, 2020). In that regard, the process, output per person, and long-term are the three factors that need to be emphasized. Economic growth is a process, not an instantaneous picture of the economy. Because production per capita is equal to total output (GDP) divided by total population, economic growth is correlated with output per capita, necessitating attention to two factors: total output (GDP) and population. According to the long-term aspect, the improvement in output per capita must be noticeable over a considerable amount of time (Heryanto & Leng, 2022). The primary requirement or requirement for the continuation of economic development (Nusaputra & Basana, 2021) and welfare enhancement is high and sustainable economic growth. Every year, because of the population growth and the corresponding rise in daily consumption needs, more money is required. From the supply side, population growth necessitates increased employment possibilities in addition to demand (consumption) (sources of income). Without more employment opportunities, economic growth will lead to income distribution inequality (caters paribus), which will in turn result in a situation where poverty is increasing while the economy is growing. The only way to meet consumer wants and employment possibilities is to raise aggregate output (goods and services).

METHODOLOGY

Description Of the Study Area

Chiro Town is East part of Ethiopia, located in the West Hararge Zone Oromia region, and found at 326 km from Addis Ababa. Chiro (also called Carcar ciroo in Oromo) is a town and separate district in eastern Ethiopia. Located in the Ahmar Mountains, it has a latitude and longitude of 9°05'N 40°52'E and an altitude of 1826 meters above sea level. It is the administrative center of the West Hararghe Zone. The 2007 national census reported a total population for this town of 33,670, of whom 18,118 were men and 15,552 was women (national census reported, 2007).

The Research Design

A descriptive research design conducts the study- a descriptive study is helpful when a researcher wants to look into a phenomenon in its natural contexts to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated setting. Thus, a descriptive study was favored to understand the sources of startup and working capital of traders in Chiro town. Moreover, to achieve the intended objectives of both quantitative and qualitative approaches were employed.

Quantitative Method

A quantitative research approach was carried out for this study. The reason for the adoption of this approach it is includes; there is the cause and effect relationship in the study, to generalize from a sample to a population, it is an efficient way of collecting information from a large number of respondents, Statistical techniques used to determine validity, reliability, and statistical significance because they are standardized they are relatively free from several types of errors, they are relatively easy to administer, there is an economy in data collection due to the focus provided by standardized questions (Creswell,2002).

Qualitative Method

The qualitative research approach is the one in which the investigator often makes knowledge claims based on the multiple meanings of individual experiences, socially and historically constructed meanings, participation in issues, collaboration, or change-oriented with an intent of developing a

theory or pattern. In contrast to quantitative research design, the qualitative approach is rooted in the philosophy constructivist. To sum up, quantitative and qualitative research methods investigated and explored the different claims to knowledge and both methods were designed to address a specific type of research question. While the quantitative method provides an objective measure of reality, the qualitative method allows the researcher to explore and better understand the complexity of a phenomenon.

Type and Data Collection

In this study, the researcher was employed both primary and secondary data. Primary data is collected through the distribution of questionnaires' to sampled traders in the town. Secondary data s also collected from published and unpublished sources like Chiro Wereda trade authority office reports, journals, well-known websites, books, and thesis. The Primary data was collected through the semi-structured interview which may include closed and open-ended questions for the taxpayers. The questions that were prepared was included close-ended; that may have greater than four alternatives, three alternatives, and with two alternatives. On the other hand, some questions were designed to open, and this type of question may prepare to gather information freely which is not covered by the close-ended questions.

Population And Sampling Techniques

The determination of sample size was resolved using solving the sampling formula with a 90 percent confidence level. Populations for a quantitative data collection for this study are traders of Chiro town. The total population of this study is 1229 small business taxpayers representing 93 from Chiro City Administration. The sample size for collecting quantitative data for this research will be determined using Cochran's (1977) formula as indicated on Bartlett Kotalik and Higgins (Bartlett and Higgins, 2001). This study was used the following formula to calculate sample size:

$$n = \frac{N}{1 + N(e)^2}$$

n= sample size for the research use

N= total number of SMEs "s in the study area

e = margin of errors at 10%

$$n = \frac{1229}{1 + 1229 (0.1)^2}$$

n = 92.5~93 respondents

ANALYSIS AND DISCUSSION

Following the data types, quantitative and qualitative data analysis was employed. The quantitative data were analyzed by Statistical tools in excel. The quantitative data is analyzed using descriptive statistics (frequency, percentage, and means). Data was present using tables, charts, and graphs. Qualitative data was also analyzed through transcription and organization of the themes and was used to supplement the quantitative information.

This chapter presents analysis, findings, and discussions of the study in line with the research objective and the research methodology. The study aims to assess the analysis of factors affecting the firms of profitability in the case of Chiro town traders.

Demographic Characteristics of The Respondents

Gender Categories of The Respondents

Table 1. Gender categories of respondents

Sex Group	Frequency	Percent
Male	59	63.4
Female	34	36.6
Total	93	100.0

Source: survey 2021

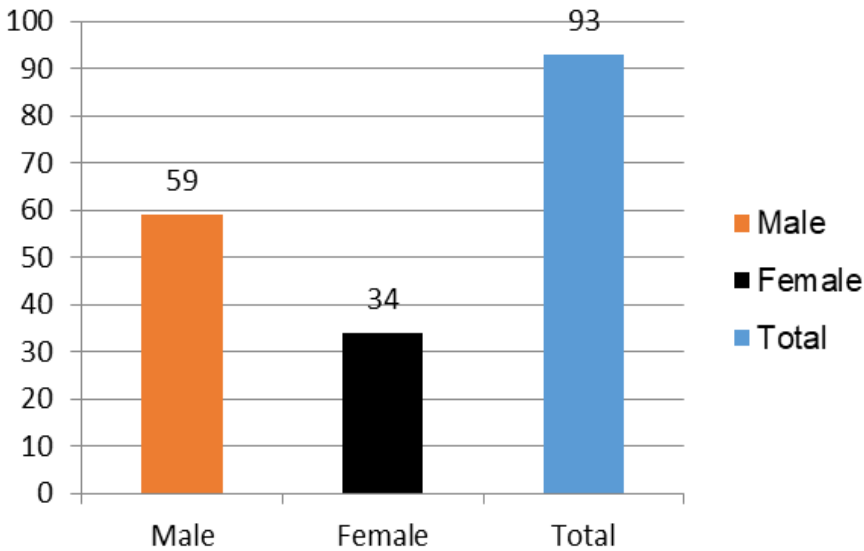


Figure 1. Gender categories of respondents

As indicated in the table above, from 93 samples taken 59 (63.4%) are male and the rest 34 (36.6%) are female. From this, we can understand that the numbers of male traders are more than female traders in the Chiro town.

Age Categories

Table 2. Age categories of respondents

Age Categories	Number of respondents	Present
Blow 25	3	3.2
25-35	24	25.8
36-45	40	43.0
46-55	20	21.5
Above 56	6	6.5
Total	93	100.0

Source: survey 2021

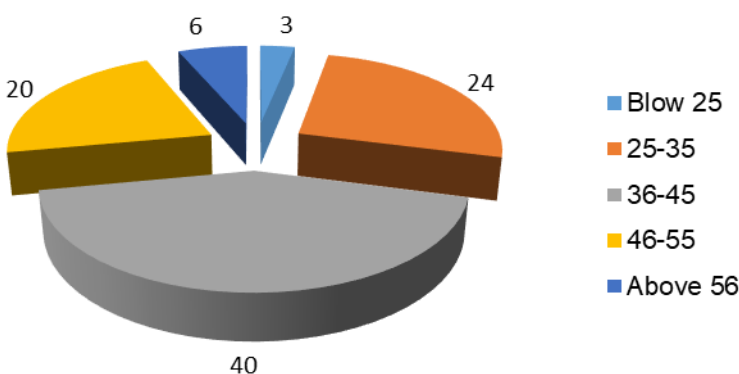


Figure 2. Age categories of respondents

As indicated in table 2 regarding categories, from total respondents 3(3.2%) are blow 25 age categories, 24 (25.8%) of respondents their age categories is between 25 to 35, also 40 (43.0%) respondents are between 36 to 35 age categories, 20 (21.5%) are between 46 to 55 and the rest 6(6.5%) are above 56 years old. From this, we can conclude that more percent of traders in Chiro town are between age categories of 36 to 45 years old followed by 25 to 35 age categories. Generally, these two age categories are productive, and they can play a great role in minimizing unemployment and increasing the economy of the country.

Marital Status of Respondents

Table 3. Marital status of respondents

Marital status	Frequency	Percent
Single	24	25.8
Married	62	66.7
Widowed	2	2.2
Divorced	5	5.4
Total	93	100.0

Source: survey 2021

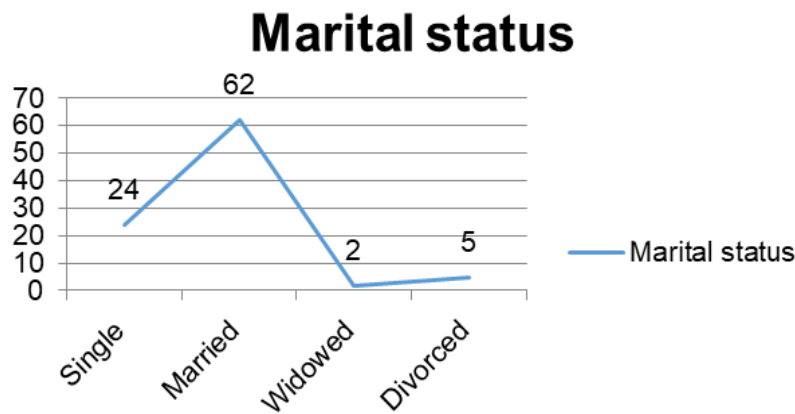


Figure 3. Marital Status of Respondents

Concerning the marital status of respondents table 3 shows that most of the respondents, 62 (66.7%) of sample respondents are Married followed by 24(25.8%) are single, 5(5.4%) are divorced and the remaining (2.2%) is widowed. The survey result indicated that more than half of the respondents are married.

Educational Status of the Respondents

Table 4. Educational Status of the Respondents

Education Status	Frequency	Percent
Can read and write	7	27.8
Grade 9-12 completed	50	47.8
College Certificate/Diploma	25	15.6
Degree and above	11	8.9
Total	93	100.0

Source: survey 2021

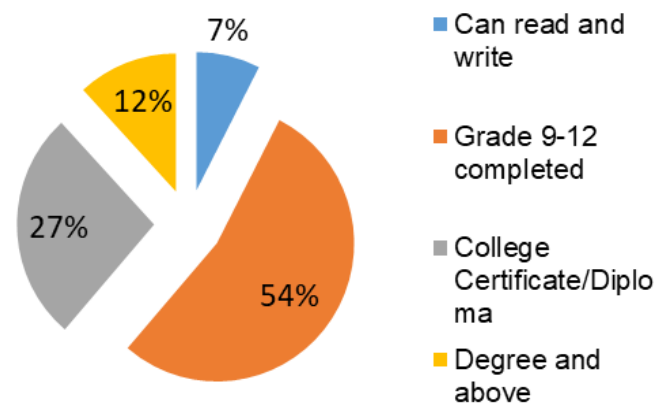


Figure 4. Educational Status of the Respondents

From table 6, educational status of respondents from total sampled respondents, 7 (27.8%) can read and write, 50 (47.8%) are Grade 9-12 (high school) completed, 25 (15.6%) of respondents have a diploma and the rest 11 (8.9%) are degree and above holders. Most of the respondents are from 9-12 completed and the least are 7 can only read and write. From this, the education level of Chiro town traders is at a low level, and they need to improve their education level to increase their participation in the trade.

Kind of Business

The study sought to establish the kinds of business are involved in. The findings were shown in Table 5, the table shows that 19(20.4%) of the respondents are participating in the Hotel business, 15(16.1%) are participating in the clothing and shoe business, 7 (7.5%) are in the Pharmacy business while 55(55.9%) are participating in small scale shops business. This shows that the respondents were drawn from various business types. The various business types included in the study make the study more exhaustive in establishing the factors affecting the business growth practices of traders in Chiro town. However, most of the traders in the Chiro town are participating in the small-scale Shops business type.

Table 5. Respondents’ responses on the Kind of businesses

Kind of businesses	Frequency	Percentage
Hotel	19	20.4
Clothing and shoes	15	16.1
Pharmacy	7	7.5
Small scale Shops	52	55.9
Total	93	100.0

Source: Survey result, 2021

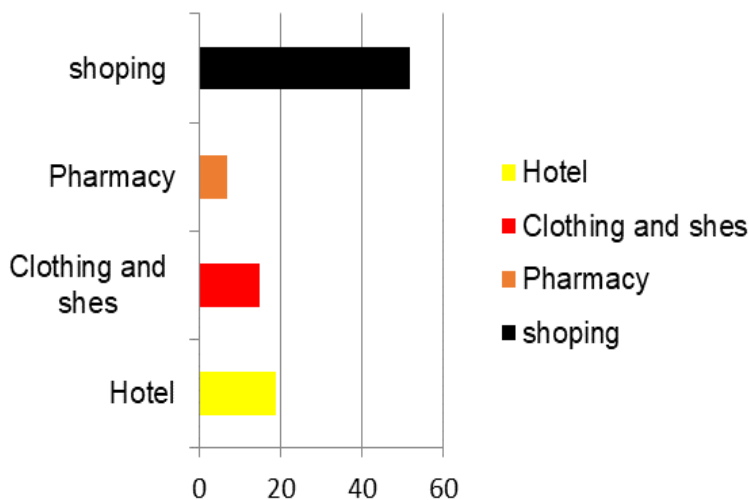


Figure 5. Respondents’ response on the Kind of businesses

House of Traders

Table 6. Respondent’s response on their house

In which type of house (shop) you are working your business?	Frequency	Percentage
Rented	69	74.2
Your own	24	25.8
Total	93	100

Source: survey 2021

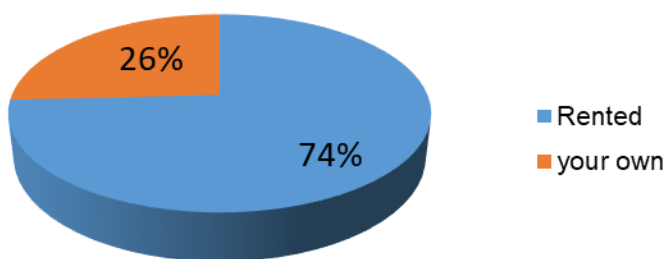


Figure 6. Respondent’s response on their house

As shown in table 6, most of the traders in the chiro town 69 (74.2%) are working their business in a rented house while only 24(25.8%) are working in their own house or shop. From this, the researcher concluded that Chiro town traders are most affected by this rented house.

Financial Source

Table 7. The respondent’s response to their financial source

What is the financial source of your business?	Frequency	Percentage
Bank loan	26	27.96
Microfinance institutions	34	36.56
Family or relatives	18	19.35
Individual savings	15	16.13
Total	93	100.00

Source: survey 2021

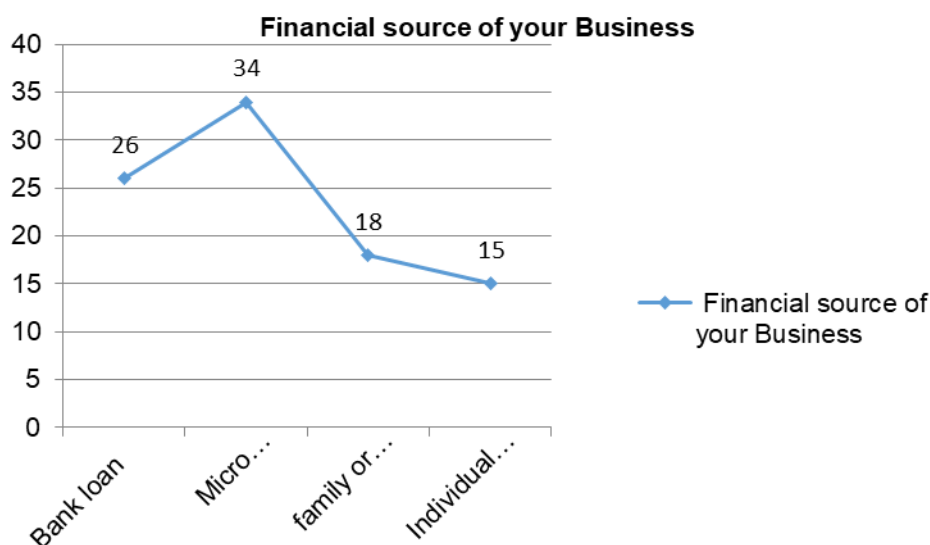


Figure 7. Financial Source of Business

As shown in the table above from the total number of respondents most of them, 34 (36%) of respondent’s financial sources are from Microfinance institutions. 26 (27.9%), 18 (19.3%) and 15 (16.1%) their source of finance for the business are from the bank loan, family or relatives and the rest 15(16.1%) are from individual saving respectively.

DISCUSSION

Legal Challenges Experienced by Traders

The fourth objective of the study was to examine the extent to which legal factors influence the business growth of traders. 71 (76.3%) of the traders cited unpredictable government policies and high

taxation rates as issues that posed a great threat to the sustainability of their enterprises. The traders felt that the chiro town employees were corrupt and subjected them to unnecessary harassment while providing trade licenses.

Table 8. Respondents' response to legal challenges experienced by traders

Legal Challenges	Frequency	Percentage
Poor services	5	5.38
Taxes	71	76.34
Licenses	17	18.28
Total	93	100.00

Source: Survey result, 2021

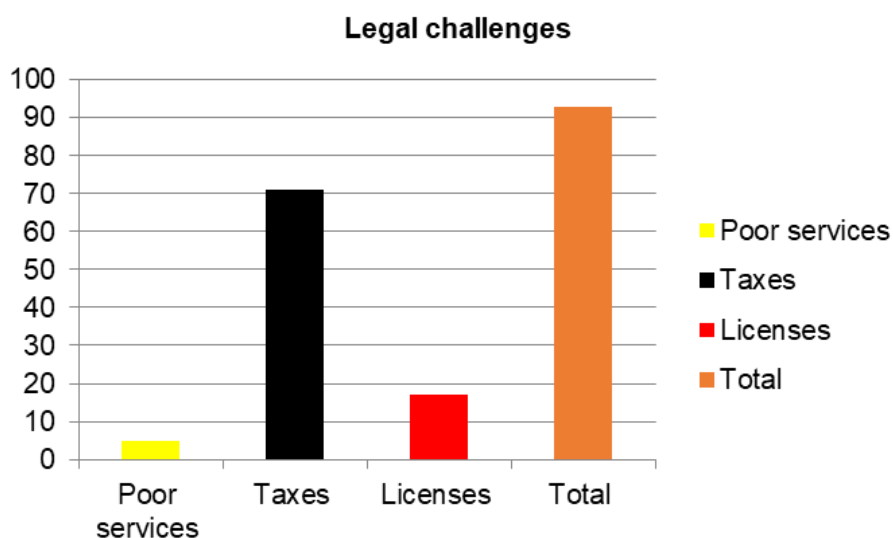


Figure 8. Respondents' response to legal challenges experienced by traders

Influence of Housing Factors on Business Profitability Of Traders

The second objective of the study was to assess the extent to which housing factors influence the business growth of traders. The results revealed that 64% of the traders' owned kiosks as their business sites. These kiosks were strategically located on the main road to attract customers. The remaining 36% percent had permanent physical establishments such as market Shells (containers) and large houses made of either wood or iron sheets depending on the ability of the traders. Most of the traders owned the premises by renting from others. Some of the respondents did not consider space as an issue because of the kind and amount of commodities they were selling.

Table 9. Types of business premises

Types of business premises	Frequency	Percentage
Market shades	39	26
Kiosk	96	64
large houses	15	10
Total	150	100

Source: Survey result, 2021

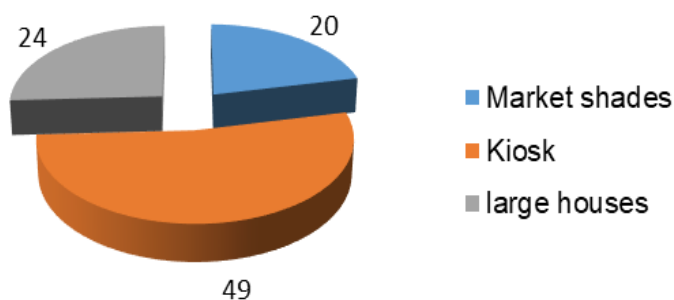


Figure 9. Types of business premises

Influence of Financial Factors on The Business Profitability of Traders

The study was established that the extent to which financial factors influence the business growth of traders. Finance plays a critical role in all stages of the businesses life cycle and limits the ability of existing business growth of traders to expand and create jobs, (Hill 1989).

The access to formal financial schemes is very often a constraint to the business growth of traders and thus traders are dependent on informal sources of finance such as their source, family, and friends, or to a small extent on banks and other financial institutions that charge high-interest rates. This is also largely in line with a study conducted by Muteti (2005).

As shown in Table 10, most of the respondents, 43 (46.2%) replied Highly agree on the influence of financial factor cause effect on business growth of traders. 37(39.8%), 11(11.8%) and 2(2.2%) agree, neutral, and disagreed on the influence of financial factor cause effect on business growth of traders.

Table 10. Response of respondents on financial factors on the business growth of traders

Financial factors were made an influence on your trade business growth?	Frequency	Percentage
Highly agree	43	46.2
Agree	37	39.8
Neutral	11	11.8
Disagree	2	2.2
Highly disagree	0	0.0
Total	93	100.0

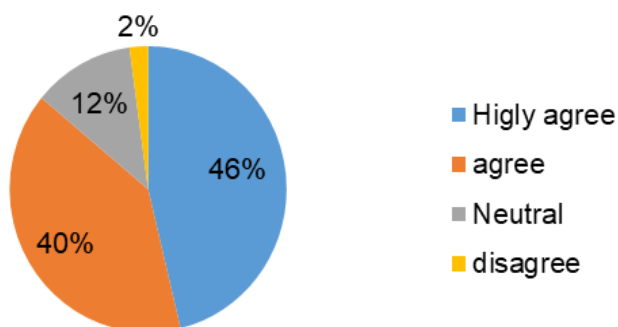


Figure 10. Response of respondents on financial factors on the business growth of traders

Duration Of the Loan Repayment Period

The study revealed that the preferred loan repayment period for most traders 55 (59%) was 1-2years. 22 (23.7%) respondents took loans for between 3 to 4 years and 16 (17.2%) are took loans for 5 to 6 years. from this only few of them are taking alone for repayments period was more than 3years. The respondents appeared to prefer small amounts of loans that were easy to repay although this had an

impact on business growth. There was a direct relationship between the amount of loan taken and the repayment period. Also, those who had taken bigger loans appeared to be doing well financially compared to their counterparts who had gone for smaller loans.

Table 11. Duration of the loan repayment period

Repayment period in terms of year	Frequency	Percentage (%)
1 - 2	55	59.1
3 - 4	22	23.7
5 - 6	16	17.2
Total	93	100.0

Source: Survey result, 2021

CONCLUSION AND RECOMMENDATIONS

The main objective of the study was to assess the factors affecting a firm's profitability in the case of Chiro town. A descriptive research design was employed to make the research clear for everyone; the researcher used 89 sampled traders from Chiro town traders by using a simple random sampling technique. The findings from the study conducted revealed that most trader's businesses lack finance.

Credit constraints operate in a variety of ways in Chiro town where undeveloped capita forces the trader to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit forces traders in the town to rely on high-cost, short-term finance. Poor housing poses a major challenge to the business growth of traders in Chiro town.

By encouraging the development of the construction sector oriented towards low-income groups, the government would address the housing problems affecting the business growth of traders. The legal framework in which traders operate is crucial to their business growth. Since traders are subjected to taxation measures that often make it almost financially impossible for them to start and operate their businesses.

Recommendations

Major recommendations that the researcher suggests minimizing the severity of factors that affects firms of profitability of traders in Chiro town are described as follows:

- ❖ Trader's support program should have to be based on the identified critical factors. Major problems like lack of education, lack of working capital, and others that traders in Chiro town face need to be addressed by prioritizing them by their severity as well as the availability of resources to run the operation.
- ❖ The loan repayment period for most traders is very small. The government should therefore establish friendly small loaning systems which would include low-interest rates to ensure continuity of these trader's business.
- ❖ To overcome legal challenges in the study area the central and local governments need to work together to devise a tax collection system that reduces the level and overall burden of taxation on the businesses community.
- ❖ Other factors affecting the business growth of traders such as technological factors, managerial factors, etc to be considered other than the ones discussed.

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