WORKING CAPITAL MANAGEMENT AND BUSINESS PERFORMANCE IN SELECTED SMALL AND MEDIUM ENTERPRISES IN MOGADISHU-SOMALIA

BY:

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A THESIS REPORT PRESENTED TO THE COLLEGE OF HIGHER DEGREES AND RESEARCH CENTER IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE MASTER OF BUSINESS ADMINISTRATION BANKING AND FINANCE KAMPALA INTERNATIONAL UNIVERSITY
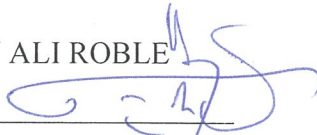
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NOVEMBER, 2014

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DECLARATION A

I declare that this research project is my original work, and it has never been presented to any academic institution before for any award.

Name of the Candidate: HASSAN ALI ROBLE

Signature:

Date: 08 / 11 / 2014

DECLARATION B

"I confirm that the work reported in this dissertation was carried out by the candidate under my supervision".

Name of the supervisor: Dr. Ssendagi Mohamed

Signature   : _____

Date   :

DEDICATION

This work is dedicated to the memory of my beloved mother Khalifa Abdulle Barre and to all my siblings, without whose moral and financial support I would not have been able to succeed.

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I am giving my best gratitude to ALLAH (S.W.T) who enabled me to do this research.

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Abstract

This study was intended to determine the relationship between Working Capital Management and Business performance in selected Small and Medium enterprises in Mogadishu-Somalia. The specific objectives of the study were; to determine the level of working capital management, level of business performance and to establish relationship between working capital management and business performance in selected businesses under study.

The descriptive survey and descriptive correlational designs were employed and questionnaires as a research instrument. A sample of 110 was drawn from the target population of the study. Statistical packages for social science (SPSS) were used to analyze variables and constructs of the research.

Findings of the study with reference to research objectives indicate that the level of Working Capital Management and the level of business performance having a mean of the means (2.84 and 2.73) respectively were high. Results of the study further shows that there is significant relationship (R= 0.733) between working capital management and business performance of selected Small and Medium enterprise in Mogadishu-Somalia. Result from the regression model also reveals that business performance was influenced by some factors out of which 53.8% was from working capital management. It is concluded that managing components of working capital management as cash, inventory and receivables effectively can improve business performance.

Finally the study recommends owners/managers of small and medium enterprises to invest in short term assets wisely in order to avoid over-capitalized and under-capitalized in components of working capital.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter contains the background, problem statement, objectives of the study, research questions, hypotheses, scope and significance of the study.

1.2 Background of the study

1.2.1 Historical perspective

The term working capital originated from an old North American man, who would load up his wagon with goods and then go off on his route to sell the goods. The merchandise was his working capital; it was what he actually sold to produce his profits. The wagon and horse were his fixed assets (Brigham, 1998). The man originally owned the horse and wagon, so they were financed with equity capital, but he had borrowed the funds to buy the merchandise. These loans were called working capital loans, and they had to be paid after each trip to demonstrate to the bank that the credit was sound.

Based on an overview on corporate finance literature, few studies have been performed to explore working capital management compared to long term corporate finance, which includes long term investment and financing decisions. Additionally, the majority of the empirical studies that explore working capital management have the aim to understand its relationship with the company's profitability and not a comprehension of its key drivers (PaLlombini & Nakamura 2008).

In the past, financial managers were striving to focus on long-term financial decisions. But managing working capital which is important for business operations became paramount because of its effects on the firm's profitability and risk, and consequently its value (Smith, 1980).

Many studies showing the significance of working capital management in business have been conducted in many countries including united-states, and Belgium (eg Deloof 2003 and Shin and Soenen 1998). Studies in UK and the US have also shown that weak financial management particularly poor working capital is a primary cause of failure among many small businesses (Berryman, 1983).

In Africa a study conducted by Sunday et all (2010) showing the significance of working capital management in small and medium enterprises, revealed that several SMEs in Nigeria fail in a little time after they are started; most fail due to poor financial management especially the working capital management.

In Somalia, there are no enough available studies showing the significance of working capital management in business performance.

1.2.2 Theoretical perspective

This study is based on configurational theory. Theory was initially developed by Shortell (1977), who introduced an approach that lists different context variables and internal design forms. Based on the variables defined, he named four model relationships and predicted either high or low efficiency or effectiveness. With regard to working capital management, the Configurational Theory claims that available internal resources have to be set according to the contextual variables of the firm, such as the economic situation, industry structure, supplier variables, and demand behavior. So, requirements of working capital components should be aligned with other aspects of an organization.

1.2.3 Conceptual perspective

Working capital management has been conceptualized as managing current assets (cash, marketable securities, inventories, receivables and short term liabilities (Petty, 1997). Eljelly, (2004) argues that efficient working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet due short term obligations on the one hand and avoid excessive investment in these assets on the other hand.

In this study working capital management refers to managing operating capital of a firm or current assets such as cash, inventories and receivables. It involves the decision of the amount and composition of current assets and the financing of these assets. Current assets include all those assets that in normal course of business return to the form of cash within a short period of time, ordinarily within a year and such temporary investment as may be readily converted into cash upon need. Since working capital is the most crucial factor for maintaining liquidity,

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survival, solvency and profitability of business as Mukhopadhyay (2004) argues, managing components of operating capital is paramount for small and medium enterprises. Managing working capital effectively helps a firm to have self-liquidating assets; this means that the firm matches its sales and cash cycle with its obligations. Rao (1989) emphasized that current assets are short-lived investments that are continually being converted into other asset types. Investing components of working capital is crucial for the success and survival of the business. The ultimate objective of any firm is to maximize the profit and preserve liquidity of the firm is also an important objective. The problem is that increasing profits at the cost of liquidity can invite serious problems to the firm. Therefore, there must be a trade-off between these two objectives of the firms. Firms may have an optimal level of working capital that maximizes their value (Kakuru, 2000). Cash management is meant in managing cash in and out flows and at the same time avoiding idle cash which is not generating profit. For liquidity, cash is the most important component of current assets. It is used to pay for suppliers, labor, purchasing, raw materials, and fixed assets among others. Inventory management can be conceptualized as managing levels of inventory such as row material, work in process and finished goods. Managing inventories effectively will pave away minimizing spoilages, inventory holding costs, over-stock and under-stock of inventories. On the other hand managing receivables refers to managing accounts effectively in order to please customers and at the same time to avoid bad debtors. As Kakuru (2000) argues, competitive pressures forces businesses to give credits otherwise they lose customers.

Business performance was conceptualized as a comprehensive set which is based on four different perspectives; financial, customer, internal, learning and growth (Kaplan & Norton 1996). Neely et al (2005) defined performance measurement as the process of quantifying the efficiency and effectiveness of action. Performance measurement can also be defined quantifying In this study three dimensions were examined to measure business performance such as; profitability, market share and sales growth. Profitability is the net earnings or gross profit generated within a given accounting period. Market share was conceptualized as the percentage of customers that a firm has in the market compared to other similar firms. Sales growth refers to incremental change in sales.

1.2.4 Contextual perspective

In Mogadishu-Somalia where this study has taken place, there are many Small and medium-sized enterprises that constitute the large part of the private sector with specific reference to their numbers and employment figures. SMEs are central to poverty reduction, because they are owned and employ relatively poor persons. They are therefore important instruments for both income distribution and equitable participation in the process of economic development. SMEs are often considered to be a key source of productivity, growth, and job creation and hence, their performance is important for economic development of the country. Many small and medium enterprises in Mogadishu are facing challenges due to lack of access to finance, Low entrepreneur and business skills, Weak market linkages and unfavorable business environment (ILMC 2010).

Hadi (2012) enlightened that some SMEs in Mogadishu are not functioning smoothly due to inadequate funds from financial institutions, because credits in Somalia have been largely pre-dominated by informal trust-based lending practices, where determination of credit-worthiness and mitigation of counterpart risk were both addressed through familial and clan relationships (Alax 2006). Since there is no empirical studies conducted in Mogadishu-Somalia showing whether working capital management has an influence on business performance of SMEs. This need has triggered the researcher to make study on Working capital management and business performance of SMEs in Mogadishu-Somalia.

1.3 Statement of the problem

For every business it is necessary to utilize and effectively use available resources. Managing those resources specially working assets or operating assets is vital for smooth going of businesses, profitability and overall business performance. Many small businesses and medium enterprises became failure after they are started; most fail due to poor financial management especially the working capital management (Sunday, 2010).

Many SMEs that operate in Mogadishu are poorly performing in terms of profitability, and sales growth (Hadi 2012). However, many factors can contribute to this problem such as; in effective management of operating capital, lack of accessibility to financial institutions, lack of entrepreneurial and managerial skills, but the current study is going to examine whether working capital management has relationship with business performance of selected small and medium

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enterprises in Mogadishu-Somalia, because there is no evidence showing whether such like this study has been conducted in that area.

1.4 Objectives of the study

General

This study determined the correlation between Working capital management and Performance of Small and Medium enterprises in Mogadishu-Somalia.

Specific

The specific objectives of this study are the following;

1. To find out the level of working capital management in Small & Medium-sized enterprises in Mogadishu-Somalia.
2. To determine the performance level of small and medium enterprises in Mogadishu-Somalia
3. To establish the relationship between working capital management and business performance of selected Small and Medium enterprises in Mogadishu-Somalia.

1.5 Research questions

1. What is the level of working capital management of Small and Medium enterprises in Mogadishu-Somalia?
2. What is the level of Business performance in Small and Medium enterprises in Mogadishu-Somalia in terms of profitability, market share and sales growth?
3. Is there significant relationship between the working capital management and Business performance?

1.6 Hypothesis

1. H_o: There is no significant relationship between Working capital management and business performance of selected Small and Medium enterprises in Mogadishu-Somalia.

1.7 The scope of the study

1.7.1 Geographical scope

This study focused on one of main districts of Mogadishu called howlwadag. This was selected because it hosts the biggest market in Mogadishu named Bakara market, and many small and

medium enterprises are concentrated in that area. In addition to that the required respondents of the study are easily accessible in that place in order to get the needed information.

1.7.2 Content Scope

According to contents, some variables are examined in the study including; working capital management which is predictor or cause variable and it was broken down into sub-components of "cash management, inventory management and managing receivables. The other variable examined in the study was business performance having its indicators as; profitability, market share and sales growth

1.7.3 Theoretical scope

This study is based on configurational theory. Theory was initially developed by Shortell (1977).

1.8 Significance of the study

Findings of this study are useful to the following groups of people;

1) Results of the study will give owners/managers of SMEs in Mogadishu insight information related to the need for effective working capital by considering it as a life-blood of the business which becomes source of internal financing.

2) Findings of the study also may contribute to available literature by helping future researchers and students get references for further studies on related areas.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

This chapter contains theoretical review, conceptual frame work and other empirical studies that are related to this study. The focus is to discuss the concepts, ideas and opinions from authors or other expertise, and to identify the existing gaps from the related literature.

2.2 Theoretical Review

Configurational theory underpins this study. According to this theory, organizational performance depends primarily on the interplay between the different parameters. This being the case, relevant internal drivers of working capital performance must be identified and optimized with an integrated approach to match the requirements of the contextual variables. Only if these conditions are fulfilled overall firm performance will reach its maximum. This theory did not specifically underlined managing the components of working capital management, but it addressed that, managing working capital variables that are conceptualized in this study as; cash management, managing inventories and receivables will pave a wary for business specially small and medium enterprises to perform well. High performing companies understand the company and industry specific drivers behind each component of operative working capital and focus on optimizing the most promising ones. During this process, they consider the entire value chain to reveal the root causes of tied up cash and take into account all interdependencies between the respective components. They apply a holistic approach in which they do not randomly reduce costs but consider all trade-offs with costs and capital employed to optimize the company value. By applying the appropriate levels of each component, obstacles that slow cash flow can be removed and overall business performance can be improved (Buchman and Udo, 2011).

2.3 CONCEPTUAL FRAME WORK

2.3.1 Working capital management

Working capital management refers to a firm's investment in short term assets; cash, marketable securities, inventory and accounts receivable, (Brigham 1998). According to (Pandey, 2007),

Working capital management refers to the administration of all components of working capital such as cash, marketable securities inventories and debtors/receivables. Gitman (1988) defined working capital management as the firm's management of current accounts which include current assets and current liabilities. Petty (1997), defined working capital management as managing short term assets (current assets) and short term sources of financing (current liabilities). Petty further noted that the ability of a firm to capture good business opportunities can be destroyed by ineffective management of a firm's short term assets and liabilities.

According to Kakuru (2007), Working capital refers to the short term capacity that enables the business to operate the long term assets on a daily basis in order to produce the desired goods and services. Short term assets like cash, balances expected from debtors, short term commercial paper and inventories constitute the gross working capital of a firm. Working capital management is an important factor of financial management (Deloof, 2003). Large inventory and free trade credit policy make it possible to increase sales volume. Moreover large inventory stock reduces the risk of a stock out.

According to Odi & Solomon, (2010) decisions relating to working capital and short term financing are referred to as working capital management. These involve managing the relationship between a firm's short term assets and its short term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short term debt and forthcoming operational expenses. To be effective, working capital management requires a clear specification of the objectives to be achieved. The two main objectives of working capital management are to increase the profitability of a company and to ensure that it has sufficient liquidity to meet short-term obligations as they fall due and so continue in business (Pass and Pike 1984).

However current study of working capital management and business performance of selected small and medium enterprises in Mogadishu-Somalia used the definitions of Pand (2007), and Brigham, (1998). According to them working capital management refers to administration of short term assets such as; cash, marketable securities inventories and receivables.
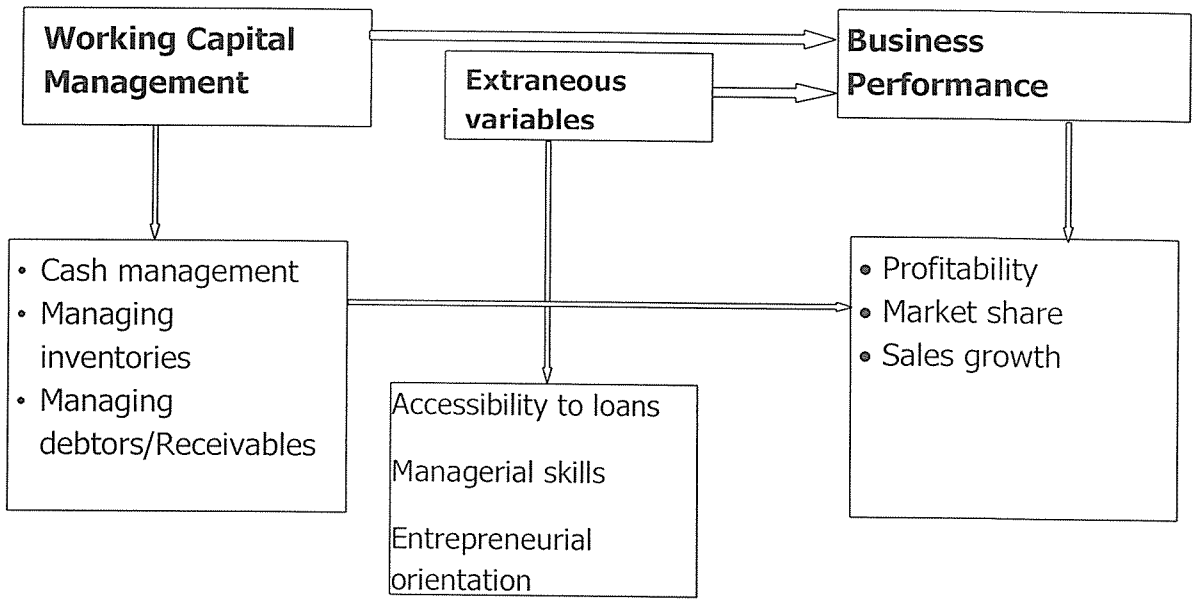
Source: Researcher 2014

Components of working capital management

The components that are important to be considered under working capital management are managing cash, inventory management and accounts receivables(Brigham & Huston 2002).

Cash management

Cash is the most liquid component of working capital. It flows in as customers pay for products or services, and it flows out as payment made to suppliers (Pety 1997). Cash is an earning asset. It is needed to pay for labor and row materials, to buy fixed assets, to pay dividends. The goal of a cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities (Brigham & Huston, 2002).

According to kakuru(2007), Cash can be hold in a firm for three motives; 1) for transaction motive: cash balances are necessary in business operations because payments are paid in cash. 2) Precautionary motive, cash is kept to protect business against unforeseen circumstances, like machine breakdowns, strikes and other emergencies. 3) Speculative motive, the business maintains cash balances in order to utilize business opportunities like a sudden fall in price of row materials.Brigham& Huston (2002) added that cash balances can be maintained in a firm for compensation purpose: cash is also used to compensate banks for providing loans

and services. A bank makes money by lending out funds that have been deposited with it. So if a bank providing service to a customer, it may require the customer to leave a minimum balance of deposit to help offset the costs of providing the services. Brigham& Huston (2002) further argued that in order to manage cash effectively, a firm should prepare cash budget in order to control cash inflow and outflows. In addition to that a firm should have also a target cash balance in order to conduct a health business. But target cash balances can be adjusted overtime, raising and falling with seasonal patterns. On the other hand a cash conversion cycle should be adequately managed. This conversion cycle measures the period of time in days between the payment of raw materials and the receivables of finished products. The cash conversion cycle combines the working capital components more related to the operational processes, reflecting purchasing, production and sales processes. (Hawawini, Viallet and Vora, 1986).

Management of inventories

Inventories are those stocks of current resources. These include stocks of raw materials, work in process, and finished products (Kakuru, 2007). Inventories are essential in overall business operations. Proper inventory management requires close coordination among the sales, purchasing, production and finance department (Brigham, 1998). On the one hand, maintaining high inventory levels reduces the cost of possible interruptions in the production process or of loss of business due to the scarcity of products, reduces supply costs, and protects against price fluctuations, among other advantages (Blinder and Manccini, 1991). Sales or marketing department is generally the first to spot changes in demand. These changes must be worked in to the company's purchasing and manufactured schedules. Lack of coordination among departments and poor sales forecast may lead to disaster. The goal is to maintain adequate inventories in daily operations of a firm, and avoid holding excess inventories which may increase holding costs.

Managing debtors/receivables

Firms would in general, rather sale for cash than on credit. But competitive pressures force most firms to offer credit. Thus when goods are shipped to customers, inventories is reduced and accounts receivable is created (Brigham & Huston, 2002). The total amount of receivables

outstanding is determined by 1) the volume of credit sales and 2) the average length of time between sales and collections.

Kakuru (2000) argued that whenever there is competition between the market players in a given industry, selling on credit is inevitable, because the business will lose its customers to the competitors, if it doesn't offer credit to its customers. Basing on that assumption, investment in debtors is not a matter of choice, but a matter of survival.

On the other hand, granting trade credit favors the firm's sales in various ways. Trade credit can act as an effective price cut (Brennan, Maksimovic and Zechner, 1988; Petersen and Rajan, 1997), incentivizes customers to acquire merchandise at times of low demand (Emery, 1987), allows customers to check that the merchandise they receive is as agreed (quantity and quality) and to ensure that the services contracted are carried out (Smith, 1987), and helps firms to strengthen long-term relationships with their customers (Ng, Smith and Smith, 1999). However, firms that invest heavily in inventory and trade credit can suffer reduced profitability

Therefore a firm should mange investment in debtors in order to minimize the risks and costs associated with sale on credit and reap the benefits of credit. A firm may follow rigid credit policy, where credits are granted on a highly selective basis only to those customers who have outstanding credit worthiness and who are financially strong. On the other hand a firm may employ a relaxed method of granting credits to customers. In this case a firm extends credit for longer periods and grantees credit even to those customers whose credit worthiness is not fully known or whose financial position is doubtful (Kakuru, 2007).

Van Horne, (1989) narrates that sellers should looks at consumer credit as an opportunity for gaining a competitive marketing advantage over others (Competitors) through expanding the market share and general appeal of the people they serve. In order to manage investment in debtors the firm should use establish credit standards, credit terms, and collection procedures (Kakuru, 2007).

Credit standards

Kakuru (2007) defined credit standards as the criteria which the firm follows in selecting customers for credit extension. Pondey and Van-horne, (1995) defined credit standards as criteria to decide on the type and who qualifies for the credit to be extended. Ganafa, (2004) also noted

that credit standards influences the quality of the firm's customers in terms of time taken to repay credit obligation and the default rate in terms of bad debts and losses. To estimate the probability of default the credit officer should consider the various characteristics of the clients, these may include; character, capacity, conditions, capital, and collateral (Babbgambah, 1995).

Credit terms: These are stipulations or conditions under which a firm decides to offer credit to a customer (Pandey, 2000). Kakuru (2007) further asserts that a firm should try as much as possible to make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts. Ringtho (1998) further explained that credit terms are normally looked at as the credit periods, terms of discount and the amount of credit and choice of instrument used to evidence credit. Credit terms may include; Length of time the firm is going to wait the payment.

Collection procedures: These are the procedures the firm follows to obtain payment based on the stated credit terms and how the company deals with overdue accounts Pandey, (1995). Mc Laney, (1991), goes on to say that at some stage it often becomes more costly to pursue reluctant payers than their debt worth, the firm should therefore decide what its procedures on write offs and bad debt should be and ones established should be followed except in the unusual circumstances.

2.3.2 Business performance

In a literature review, there is no consensus among researchers on the indicators of business performance. That is why it is multidimensional based on subjective and objectives measures (Chakravarthy, 1986; Venkataraman and Ramanujam, 1986).

Kaplan & Norton (1996), defined business performance as a comprehensive set which is based on four different perspectives; financial, customer, internal, learning and growth. Neely et al (2005) defined performance measurement as the process of quantifying the efficiency and effectiveness of action. Performance measurement can also be defined quantifying the input, output, or level of activity of an event or process (Radnor & Barnes, 2007).

Steven (2004), states that financial performance indicators are in the form of ratios which cover a number of concepts and are grouped as profitability, liquidity, utilization and investment. In this

study three dimensions were examined to measure business performance such as; profitability, market share and sales growth.

Profitability was defined as the excess of income which can be expressed by ratios of Gross profit margin, net profit and return on equity (David, 2010). Fabbri and Klapper (2008) added that profitability is the excess revenue over expenses, which can be seen by the ratios like gross profit margin and pre-tax profit margin. It is expressed in terms of firm's financial position (Abor, 2005).

Market share is a key indicator of a firm's competitiveness in the market in terms of profit and sales growth. Losses in market share can signal serious long-term problems that require strategic adjustments. Firms with market shares below certain level may not be viable, Reibstein (2010).

2.3.3 Relationship between working capital management and business performance

Many studies have been conducted to examine relationship between working capital management and business profitability show similar as well as different empirical findings. Azam (2011) concluded that there is significant relationship between working capital management and firm performance. Padachi (2006) asserted that high investment in inventories and receivables is associated with lower profitability. Niresh (2012) found that there is negative relationship between cash conversion cycle and firm performance.

2.3.4 The term SMEs

According to Blackburn & Jarvis (2010), there is no consensus meaning of word SME among academicians. For example, the European Union defines a SME as those entities which employ fewer than 250 persons (micro 1–9; small 10–49, medium 50–249) and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro (EU, 2005). In the USA, the employment size threshold is 500 people, with small firms employing 100 people (SBA, 2009). IFAC has chosen to define small and medium-sized entities (SMEs) as entities considered to be of a small and medium size by reference to quantitative (for example assets, turnover/employees) and/or qualitative characteristics (for example, concentration of ownership and management). What constitutes an SME differs depending on the country (IFAC 2010).

In Somalia, Small and Medium Enterprises (MSEs) constitute the large part of the private sector with specific reference to their numbers and employment figures. Most of these enterprises are indigenously owned and family run, less than five years old and rarely grow beyond medium scale level due to lack of access to markets and finance, limited skills and enterprise -to-enterprise linkages that would provide opportunities for growth.

SMEs are central to poverty reduction, because they are owned and employ relatively poor persons. They are therefore important instruments for both income distribution and equitable participation in the process of economic development. SMEs are often considered to be a key source of productivity, growth, and job creation and, hence, their performance and the environment, in which they perform, are seen as an important factor for economic growth. However, SMEs could effectively play their roles in the communities we live in if major challenges they face, administrative or otherwise, are alleviated. In case of Somalia, the growth of the sector is hindered by many challenges. The main challenges are: Lack of access to finance, Low entrepreneur and business skills, Weak market linkages and unfavorable business environment (ILMC 2010)

2.4 Related Studies

AZAM (2011) conducted a study intended to investigate the impact of working Capital Management on firms' performance for non-financial institutions listed in Karachi Stock Exchange in Pakistan. A panel data has been used in this study for 21 Kse-30 Index listed firms over a period for the year 2001 to 2010. The results are obtained by using Canonical Correlation Analysis for identifying the relationship between working capital management and firms' performance. The findings show that working capital management has significant impact on firms' performance and it is concluded that managers can increase value of share-holder and return on asset by reducing their inventory size, cash conversion cycle and net trading cycle. Increase in liquidity and time period to supplier will also lead firms' overall performances.

Afza and Nazir (2007) through cross-sectional models on working capital policies and profitability and risk of the firms, found a negative relationship between the profitability measures of firms and degree of aggressiveness on working capital investment and financing policies. Their result indicates that, the firms yield negative returns if they follow an aggressive working capital policy by investigating the relative relationship between the aggressive or

conservative working capital policies for 208 public limited companies listed at Karachi Stock Exchange (KSE) for a period of 1998 to 2005.

Samiloglu and Demirgunes (2008) analyzed the effect of working capital management on firm profitability in Turkey for a period of 1998-2007. Empirical results showed that, accounts receivables period, inventory turnover period and leverage significantly and negatively affect profitability. They also proved that cash conversion cycle, size and fixed financial assets had no statistically significant effect on profitability.

Deloof (2003) investigated the relationship between working capital management and firm profitability by using Cash Conversion Cycle (CCC) as a measure of working capital management. He found a negative relation between gross operating income and receivables collection period, inventory turnover period and creditors' payment period by using a sample of 1009 large Belgian non-financial firms for the period of 1992 to 1996.

Chiou, Cheng and Wu (2006) explored the factors that impact working capital management, using data extracted from Taiwan Stock Exchange, for the period 1996- 2004. The study indicated that the debt ratio and operating cash flow affected the company's working capital. On the other hand, the results did not provide evidences for the influence of the business cycle, industry effect, growth of the company, performance of the company and firm size on working capital management.

A study conducted by Abdul Raheman and Mohamed Nasr (2007), in Pakistan whose purpose was to find out the impact of Working Capital Management on business Profitability case study pakisatan firms: the major findings of this study revealed that there is a significant negative relationship between liquidity and profitability. It is also found that there is a positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and its profitability.

Padachi (2006) conducted study on Trends in Working Capital Management and its Impact on Firms' Performance: An Analysis of Mauritian Small Manufacturing Firms, by analyzing a sample of 58 small manufacturing firms from period 1998-2003. Findings of this study addresses that high investment in inventories and receivables is associated with lower profitability. This signals that the more a firm invests receivables the more it meets bad debtors or doubtful accounts which may ultimately cause to be written off. On the other hand inventories are associated with costs which can deteriorate the overall profitability of the firm if it is not

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managed properly. Therefore shortage of inventories violates daily operations of the business and disappoints key customers while over-stock of inventors drags additional costs.

Shin and Soenen (1998) made study on the relationship between the cash conversion cycle and profitability for a sample of firms listed on the US stock exchange during the period 1974-1994. The findings of their study showed that reducing the cash conversion cycle to a reasonable extent increases firms' profitability. More recently, Deloof (2003) analyzed a sample of large Belgian firms during the period 1992-1996. His results confirm that Belgian firms can improve their profitability by reducing the number of days accounts receivable are outstanding and reducing inventories. Moreover, he finds that less profitable firms wait longer to pay their bills.

Niresh (2012) conducted study on working capital management and financial performance of manufacturing sector in Srilanka taking 30 manufacturing firms listed on the Colombo Stock Exchange (CSE) from 2008 to 2011 as a case study. Results of this study reveal that, there is a negative relationship between cash conversion cycle and performance measures. The study suggests that it is necessary for manufacturing firms to manage their working assets efficiently as improving the inventory control process; collecting receivables in line with appropriate credit terms and delaying payments to suppliers if it is not violating the image of the firm.

A study conducted by Abdul-Raheman, Afza, Abdul-Qayyum and Bodla (2010) which is meant to analyze the impact of working capital management on firm's performance in Pakistan for the period 1998 to 2007. Findings of their study postulates that the cash conversion cycle, net trade cycle and inventory turnover in days are significantly affecting the performance of the firms. The manufacturing firms are in general facing problems with their collection and payment policies. So the findings also indicate that, companies should manage their cash in and outflows in order to achieve firm performance.

Mathuva (2009) studied the impact of working capital management on the performance. He took almost 30 listed firms as a sample and all these companies were listed in Nairobi stock exchange and the data was taken from 1993 to 2008. There were certain findings of his research by analyzing the fixed effects regression models. Firstly, there is a negative relationship between the time when the cash is collected from the customers and the firm's productivity. This depicts firms that are more profitable enjoys less time period for the collection of cash from the

customers as compare to ones which are less profitable. Secondly, there is a positive relationship between the inventories when they were brought in and the period to which they are sold and the firm's profitability. The interpretation comes out as that the firms or the organizations which take more time to keep the inventories it reduces the costs of the disruption in the process of production and usually the business losses as there is insufficiency in the goods. This situation decreases the operating cost of the firm. The third assumption of the research was the association between the average payment period and profitability and found out that the more the time taken to disburse the creditors, the profitability will increase.

Sunday (2010) examined effective working capital management in small and medium scale enterprises in Nigeria. His study emphasized to figure out how these enterprises do manage their working assets to survive and ultimately achieve profitability.

Appuhami (2008) investigated the impact of firms' capital expenditure on working capital management, using data collected from listed companies in the Thailand Stock Exchange, from 2000 to 2005. The research found a negative relationship with capital expenditure, indicating that companies tend to manage working capital efficiently when find opportunities to growth by investing in fixed assets. Also, the study found positive and significant relationships between working capital requirement and operating and finance expenditure, suggesting that companies tend to increase working capital level as debt and interest expenditures increase. Also, the study suggested that companies tend to manage working capital efficiently, since it increases operating cash flows.

Garcia-Teruel and Martinez-Solano (2007) studied the effects of working capital management on the profitability of a sample of 88 small and medium-sized enterprises (SMEs) from Spain covering the period 1996 - 2002. They found that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firm's profitability.

In Mogadishu-Somalia there is no enough available literature supporting the current study. But researchers have studied some factors that affect business performance other than working capital management. For example Hadi (2012) conducted study on The Accessibility of Microfinance for Small Businesses in Mogadishu, Somalia. Findings of this study reveal that many small businesses in Mogadishu are facing challenges of not getting credit from financial institutions as a form of capital to function. There are no evidences showing empirical studies

examined relationship between working capital management and business performance of SMEs in Mogadishu, so this need has triggered to carry out this study to fill the gap.

2.5 Summary of the gaps

The above mentioned studies are empirical researches conducted in different places around the world. There are some gaps between these studies and the current study of "working capital management and Performance of Small & Medium-sized enterprises in Mogadishu-Somalia. The following are the gaps identified;

- All the above mentioned studies were conducted outside Somalia. So there is Contextual gap need to be fulfilled.
- Most of those related studies used secondary data in their researches. They have analyzed already existed data. But current study used primary data.
- There is content gap, most of these studies emphasized only Profitability as indicator of Business Performance, but this study examined other variables under business performance such as; profitability, market share and sales growth.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

In this chapter, the researcher enlightened the research design, population of the study, sampling procedures, research instrument, data collection procedures, its reliability and analysis.

3.2 Research Design

This study used a cross sectional survey, descriptive correlational and retrospective research designs. It is cross-sectional survey because questionnaires were distributed to the target respondents at one time. Descriptive-correlational was used to describe variables to be measured and determine the relationship between working capital management and business performance of small and medium enterprises in Mogadishu-Somalia. Retrospective design was used because, Respondents were required to show their attitude toward research questions by reflecting back how the situation of their organizations was and how it is now.

3.3 Research Population

The population of this study was Owners/managers of selected small and medium enterprises in Mogadishu-Somalia. There are many sectors of small and medium enterprises as manufacturing sector, service sector, agricultural sector, trade sector, but this study has focused trade sector and some manufacturing firms. These businesses were categorized as; Electronics, General trading, Food stores, Shopping, Clothing, Book shops, Manufacturing and furniture. According to local government officials of howlwadag district Mogadishu, there are more than 150 registered small and medium enterprises. The exact number of current SMEs in that area could not be mentioned due to political instability in the city and inadequate registration of SMEs because business laws was not officially enacted by Somali parliament. However, owners/managers of 150 small and medium enterprises were targeted to represent the population of the study.

3.4 Sample size

According to the nature of the target population where numbers of the target population are many, a sample was taken from each category. Table 1 shows the respondents of the study with the following categories: SMEs, target population and sample size. The Slovene's formula was used to determine the sample size.

Slovene's formula $\quad n = \dfrac{N}{1+N(e)2}$

Where $\quad$ n = sample size

$\qquad$ N = population size

$\qquad$ a= level of significance at 0.05

$$n = \frac{150}{1+150(0.05)2} = \frac{150}{1.375} = 110$$

Table 3.1 Respondents of the study

[Es	Target Population	Sample size
ctronics	30	23
ieral Trading	25	18
id stores	25	20
smetics	20	17
thing	20	16
ik Shops	10	5
nufacturing	10	5
niture	10	6
:al	**150**	**110**

According to the table 3.1 the target population of this study was 150 owners/Managers of SMEs, while the sample picked from it was 110.

3.5 Sampling procedure

This study used Stratified and purposive sampling methods. Based on stratified sampling procedure, the respondents were categorized into different strata where each group had homogenous characteristics such as; owners/managers and employees. Since in most SMEs owners and managers can't be separated, one was selected from each business. Employees have not given a chance to participate in this study. Sample size was disproportionately drawn from the target population based on convenience or researcher's judgment. Purposive sampling method was also used in selecting specific SMEs and specific respondents as owners/managers of these Businesses because, it is expected that these people have needed information in the study. Therefore, SMEs that have been functioning at least one year were selected to be part of the study.

3.6 Research Instrument

This study used three sets of questionnaires to collect data. Face sheet was the first section, to collect data on profile of the respondents. The second questionnaire involved working capital management which is predictor variable. The last part of the questionnaire involved performance of SMEs. All the questions on working capital management and business performance of SMES were attitude or opinion-based and Likert scaled having four points ranging from 1=strongly disagree (SD), 2=disagree (DA), 3=agree (A), 4=strongly agree (SA).

In addition to that 12 managers of SMEs under this study were interviewed to figure out the real situation of these businesses in Mogadishu.

3.7 Validity and Reliability of the Instruments

Validity is the accuracy and meaningfulness of inferences, which are based on the research results. According to Mugenda and Mugenda (2003) valididy is the degree to which an instrument measures what it is supposed to measure for a particular group. The instrument for this study that is the questionnaire guide was validated by the supervisor. Also a content validity index formula was used to calculate the validity of the instrument.

$CVI = \dfrac{number\ of\ items\ declared\ to\ be\ valid}{total\ number\ of\ items}$ $\dfrac{27}{28}$ = 0.96. Since the result of the validity test is above

0.70 the research instrument was considered valid (Kibuka, 2012)

For validity test the researcher was able to measure the extent to which the results of the study were generalized (Campbell and Stanley, 1966).

To measure reliability of the research instrument, crombach alpha co-efficient was used to test the constructs used to measure variables under study.

Table 3.2 Reliability Statistics

Reliability Statistics	
Cronbach's Alpha	N of Items
.74	28

The table 3.2 shows the result of the reliability test using Cronbach's Alpha test. Result of the analysis shows good reliability measure having computed value of 0.74 which is above 0.7 acceptable reliability levels for acceptable research instrument as recommended by Nunnally, (1978).

3.8 Data gathering procedures

Before the administration of the questionnaires

Before getting to the field of the study the researcher ensured the following steps;

1) An introduction letter obtained from college of higher degrees and research to solicit approval to conduct the study from Selected Small and Medium enterprises in Mogadishu- Somalia.

2) When approved, the researcher divided small and medium enterprises in strata using Purposive sampling in arriving a sample size.

3) The respondents were given information about the study and its objectives, and requested to sign the Informed Consent Form.

4) The researcher reproduced more than enough questionnaires for distribution.

5) Research assistants were selected to assist the researcher in the data collection; they are briefed and oriented in order to be consistent in administering the questionnaires

During the administration of the questionnaires

1) The respondents were requested to answer the questions completely and not to leave any part of the questionnaires unanswered.

2) The researcher and assistants emphasized retrieval of the questionnaires within five days from the date of distribution.

3) On retrieval, all returned questionnaires were checked if all are answered.

After the administration of the questionnaires

The data gathered were coded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS).

3.9 Data Analysis

The frequency distributions and percentages were used to determine the demographic characteristics of the respondents. The mean and standard deviations were applied for the levels of working Capital Management and Performance of the SMEs studied. Constructs of the main variables with their items were analyzed separately to illustrate the strengths and weaknesses in terms of mean and standard deviation.

The following mean ranges were used to arrive at the mean of the individual indicators and interpretation:

A. Working capital management

Mean Range	Response Mode	Interpretation
3.26-4.00	strongly agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly disagree	Very low

B. Business performance

Mean Range	Response Mode	Interpretation
3.26-4.00	strongly agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly disagree	Very low

Pearson's linear correlation coefficient was used to test the null hypothesis (Ho) of no significant relationship between working capital management and performance of small and medium enterprises in Mogadishu-Somalia at (0.05) level of significance. The regression analysis R^2 (coefficient of determination) was computed to determine the extent that each variable of working capital management influenced on the dependent variable (business performance of SMEs).

3.10 Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities were implemented;

1) The respondents under this study were coded instead of reflecting the names.

2) Soliciting permission through a written request to the concerned parts of the SMEs under the study.

3) Acknowledged the authors quoted in this study through citations and referencing.

3.11 Limitations of the Study

In view of the following threats to validity, the researcher can claim an allowable of error 0.05 level of significance. Measures are also indicated in order to minimize if not to eradicate the threats to the validity of the findings of this study. Limitations that are encountered during the research process include:

1) The most difficult obstacle faced by researcher during the study was that some of owners/managers of small and medium enterprises were suspicious to give you information even though it is tried to convince them that this information will be used for

academic purpose only. So it has taken time to persuade the respondents to share the information they have with you.

2) Extraneous variables that are beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.

3) Instrumentation: The research instruments on Working Capital Management and Business Performance of SMEs in Mogadishu-Somalia were not standardized. Therefore a validity and reliability test was done to produce a credible measurement of the research variables.

4) Testing: Research assistants can bring about inconsistency in the administration of the questionnaires in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents. To minimize this threat, the research assistants were oriented and briefed on the procedures to be done in data collection.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter focuses on presentations of data analysis and its interpretation. The interpretation and analysis emphasized here is based on research objectives stated in chapter one. Analysis of the data was made with reference to the research objectives.

Profile of the respondents

This was to gather the background information of the respondents under study. This section is going to determine the demographic characteristics of the respondents in terms of gender, age, education level and years of experience.

Table: 4.1 Profile of the respondents

Category	Frequency	Percentage %
Sex		
Male	87	79.1%
Female	23	20.9%
Total	**110**	**100%**
Age group		
20-30	39	35.5%
30-40	50	45.5%
40 & above	21	19.1%
Total	**110**	100.0%
Education level		
No education	13	11.8%
Primary	41	31.8%
Secondary	35	37.3%
Bachelor degree	17	15.5%

Mater	4	3.6%
Total	**110**	**100%**
Number of years in business		
Less than 5 years	30	27.3%
5-10 years	43	39.1%
10-15 years	28	25.5%
Above 15 years	9	8.2%
Total	**110**	**100.0%**

Demographic characteristics of the respondents

Source: Primary data 2014

Gender: As the data presented in table 4.1 shows 79.1% of the respondents were male, while 20.9% was female. This signals that mostly SMEs sector in Mogadishu was run by male

Age: According to the age, 35.5% of the respondents are within the ranges of age 20-30 years, 45.5% are in the ranges of 30-40 years, while only 19.1% of the respondents were 40 & above years which is the least percentage. Therefore, this indicates that people who own or manage SMEs sector in Mogadishu are the age of 30-40 years.

Education level: In accordance with the data shown in table 4.1, 11.8 of the respondents were not educated, 31.8% % of the respondents have achieved Primary level, 37.3% percentage were secondary level, and 15.5% of them were bachelor holders, while only 3.6% of the respondents have celebrated for their mastery level. This reveals that majority of those running SMEs sector in Mogadishu are Secondary level.

Experience: According to experience, 27.3% of the respondents have been in business less than 5 years, 39.1% was in business 5-10 years, 25.5% were 10-15 years, while only 8.2% of the respondents have been running their businesses more than 15 years. This postulates that mostly SMEs studied were in business 5-10 years.

Level of Working capital management

The first objective of this study was to determine the level of working capital management which is independent variable. The goal was to find out whether firms under study do manage their working capital efficiently. As measurement tools, working capital management has been broken down into components that are indicators or measures of this variable. These components are: cash management, inventories, and managing receivables. All these indicators were separately presented and analyzed to scrutinize each component and then measure the whole working capital management.

Table 4.2 cash management

Items	Mean	Standard deviation	Interpretation	Rank
Our firm balances cash in and outflows	2.41	.721	Low	2
Our firm holds adequate cash balance to capture sudden business opportunities.	2.95	.539	High	6
Our organization avoids cash shortages regularly	3.05	.565	High	7
Cash in and outflow movements are tightly controlled	2.62	.898	High	5
Our company keeps some amount of cash balance to meet bank requirements	2.59	.640	High	4
Our company prepares periodic cash budget in order to control cash in and outflows	2.58	.790	High	3
Our firm sets a target cash balance at the end of each accounting period	2.35	.749	Low	1
Overall mean	**2.65**		**High**	

Source: Primary data 2014

The table 4.2 shows that majority of the respondents agreed that their organizations avoid cash shortages regularly with mean (3.05) and keep adequate cash balances to capture sudden business opportunities having mean of (2.95) they also agreed that their firms prepare periodic

cash budget (3.05) and set a targeted cash balance at the end of each accounting period (2.35). Majority of the respondents also showed their positive attitude toward that their organizations control their cash flow movements tightly having mean (2.62). On the other hand majority of the respondents subjected to the question that their companies balance their cash in and out flows portrayed their negative feelings about this scenario by disagreeing with this statement with mean (2.41). The overage mean (2.65) of the responses shows that the level of cash management in the organizations studied is high. This reveals that SMEs in Mogadishu do manage cash asset which is paramount for businesses to function in acceptable manner.

Table 4.4 managing inventories

	Mean	Standard deviation	Interpretation	Rank
company always holds adequate ntory for daily operations	3.04	.605	High	2
company makes sales forecast in order ecide the level of inventory to be tained	2.83	.403	High	1
Firm avoid under-stock and over-stock ventories	3.11	.668	High	3
all mean	2.99		High	

Source: primary data 2014

As presented in table 4.4, majority of the respondents who are subjected to questions related to inventory management showed positive attitudes, and they agreed with the statements that their companies hold adequate inventory levels for daily business operations with mean (3.04), they also agreed that their companies make sales forecast to determine the level of inventory to be maintained (2.83), majority of the respondents also stood positive side that their firms avoid over-stock and under-stock of inventories with mean (3.11). The average mean (2.99) of responses shows that the level of inventory management in small and medium enterprises under study is high. This means those businesses give effort to wisely manage their inventory levels in order to avoid over-stock and under-stock of inventories

Table 4.5 managing debtors

Items	Mean	Standard deviation	Interpretation	Rank
ur firm makes portion of its sales on edit	2.95	.565	High	5
ur company extends credit to compete iccessfully	2.90	.703	High	4
ur firm always maintains a large ilance of receivables	2.53	.955	High	1
ur firm gives credit after analyzing edit worthiness of its customers	2.63	.522	High	2
ur firm gives credit on a selective isis to a specific customers	2.82	.410	High	3
ur firm lengthens credit period for the istomers	3.05	.565	High	6
ur firm has a good collection policy	3.18	.432	High	7
ur debtors respond positively to their iligations	3.09	.565	High	8
verall mean	**2.89**		High	

Source: primary data 2014

Table 4.5 postulates that majority of the respondents who are subjected to the questions related to inventory management agreed the statements saying that; companies under study make portion of their sales on credit with mean (2.95) and maintains balance of receivables to compete successfully (2.90) , also respondents agreed that their firms maintain a large balance of receivables (2.53). The responses also show that businesses studied give credit to the customers after analyzing their credit worthiness (2.63) and extend credit on a selective basic for specific customers (2.83). Majority of the respondents also took positive attitude that their companies lengthens credit period for customers (3.05) and has a good collection policy (3.18). The responses toward that their debtors respond positively to their obligations as they fall due with mean (3.09) shows good condition. Therefore, the overage responses with a mean (2.89) show that level of management in receivables/debtors is high in small and medium enterprises studied.

Findings: Under research objective one which involved determining the level of working capital management, variables such as; cash management, inventory management and managing debtors were analyzed and interpreted. The goal was to scrutinize whether these components are managed effectively with in SMEs under study. The level of managing those components of working capital management was high in small and medium enterprises studied having a mean of

the means (2.84). This implies that small and medium enterprises studied manage their working assets in an acceptable manner.

Results from the interview show that mostly SMEs in Mogadishu, prefer extra cash to service obligations since they have relationship with outside suppliers. They also avoid under stock of inventories and try to make bulk purchases because majority of these businesses involve imports and depend on foreign suppliers so they try to minimize transportation cost offsetting inventory holding costs.

Findings from the interview also indicate that that mostly credit giving in those businesses studied is based on familiarity of the person.

Level of business performance

The second objective of the research involved determining the level of business performance in selected SMEs. Constructs such as profitability, market share and sales growth were separately analyzed and interpreted to measure the overall performance of SMEs under study.

Table 4.6 profitability

s	Mean	Standard deviation	Interpretation	Rank
ave been able to generate profits for the wo years	2.94	.579	High	3
profit levels have increased over the last ears	2.44	.516	Low	1
firm uses its profits as internal sources ancing	3.05	.565	High	4
firm has a capacity to service its ations as they fall due	2.83	.403	High	2
all mean	2.81		High	

Source: primary data 2014

Table 4.6 shows that majority of the respondents agreed that their companies have been able to generate profits for the last two years with mean(2.94), and disagreed that those profits were

increasing for these years (2.44). Majority of the respondents also stated their positive attitude toward the statements that their companies use profits as internal sources of financing (3.05), and that these small and medium enterprises studied had abilities to service their obligations as they become due (2.83). However, the overall responses with a mean average (2.81), reveals that the level of profitability is high in those businesses

Table 4.7 Market share

ems	Mean	Standard deviation	Interpretation	Rank
e are at strong position in the market impared to competitors	2.46	1.011	Low	2
ie number of our customers has creased for the last two years	2.38	.824	Low	1
ur firm has an outstanding relationship ith its customers	3.34	.494	Very high	4
ustomers make regular business insactions with our firm	3.05	.565	High	3
verall mean	2.80		High	

Source: primary data 2014

As shown in table 4.7, majority of the respondents disagreed that their businesses are at strong position in the market with mean (2.46), respondents also disagreed that their customers had increased for the last two years with mean (2.38) which is low, majority of the respondents also strongly agreed that their business organizations have an outstanding relationship with their customers (3.34) and their customer make regular business transactions with them (3.05). Therefore the average mean of the responses (2.80) indicate that market shares of these businesses studied are high. It means mostly small and medium enterprises in Mogadishu have enough market shares as shown in the analysis. But there are no incremental changes in the number of customers for the last two years.

Table 4.8 Sales growth

ems	Mean	Standard deviation	Interpretation	Rank
e make adequate sales daily	2.83	.403	High	2
ar sales have increased for the last two ears	2.35	.818	Low	1
verall mean	2.59		High	

Source: primary data 2014

Table 4.8 postulates that majority of the respondents agreed that their businesses make adequate sales daily with mean (2.83), but they disagreed that there is an incremental change in sales for the last two years (2.35). The overall responses with average mean of (2.59) show that sales growth of small and medium enterprises is high

Findings

Findings of research question two shows that performance of selected SMEs in Mogadishu is acceptable, according to the responses given by participants of the study. Under Business performance, variables such as; profitability, market share and sales growth were analyzed using mean average and standard deviation. The average responses toward business performance with mean of the means (2.73) indicates that the performance level of SMEs studied is high. On the other hand results from the interview reveal that SMEs studied made profit for the last two years but less than the previous years because there was no enough incremental changes in sales growth.

Relationship between working capital management and business performance of selected small and medium enterprises in Mogadishu-Somalia

The third objective of this study was meant to establish relationship between working capital management and business performance in selected small and medium enterprises. Pearson's linear correlation coefficient (PLCC) was employed to analyze this objective and it is presented in the table 4.9

Table 4.9 Pearson's correlation coefficient

ariables rrelated	Computed R-value	Sig	Interpretation	Decision on H_o.
'orking capital anagement VS isiness rformance	0.733	0.000	Positive and significant relationship	Reject null hypothesis

Source: primary data 2014

Table 4.9 shows that working capital management and business performance of selected SMEs are positively correlated with (R= 0.733, Sig=0.000). Since Sig 0.000 is <0.05, the null hypothesis of there is no significant relationship between Working Capital Management and business performance is rejected and accepted that the relationship exists.

Regression analysis

Linear Regression analysis is used in this study to figure out the extent that independent variable (working capital management) can influence the dependent variable (business performance), while all other factors are constant. The table below shows regression analysis of variables working capital management and business performance.

Table 4.10 Model Summary

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	0.733	0.538	0.533	1.332

Source: primary data 2014

From the above model R square (R2 = 0.538) reveals that business performance was influenced by some factors or constants out of which 53.8% was from working capital management. Furthermore, the adjusted coefficient of multiple determinations (adj.R2) indicates that about 53.3% of the changes in Business performance are explained by the independent variable (working capital management)

Regression model; $Y = \alpha + \beta X1 + \beta 2 X2 + \beta 3 X3 + \varepsilon$

α = constant

β = coefficient of independent variables

X1 = cash management

X2= inventory management

X3= managing debtors/receivables

E=other factors beyond the determinant variables analyze

Table 4.11 coefficients

Model		Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	8.443	1.954	4.322	.000
	Cash Management	.191	.072	2.673	.009
	Inventory management	.135	.087	1.551	.124
	Managing debtors	.501	.081	6.154	.000

Dependent Variable: business performance
Source: primary data 2014
Business performance = α + $\beta 1$ (Cash management) +$\beta 2$ (Inventory management) + $\beta 3$ (managing debtors) + ε.

Business performance = 8.443 + 0.191(cash management) + 0.135 (inventory management) + 0.501 (managing debtors) + ε.

Results from the regression model 0.191, 0.135, 0.501 having p-values 0.009, 0.124, 0.000 for Cash management, Inventory management and managing debtors respectively indicate that all these components of working capital management have positive and significant effect on business performance at 5% level of confidence, except inventory management which shows

positive and insignificant effect on business performance. Furthermore, managing receivables has more influence than the other variables as shown in the results. This signals that managing these variables have positive effect on business performance.

To further enlighten the relationship and scrutinize whether changes in working capital management (independent variable) has effect on business performance (dependent variable), regression analysis was used in the study which shows that WCM management influences business performance.

The imperial findings of this study are consistent with that of Afza, Qayyum and Bodla (2010), Azam (2011), in that components of working capital management effects firm performance Mr. Azam further explained that effective management in inventory and cash conversion cycle is paramount for businesses to perform well.

Findings of the study also show that, changes in components of working capital management have an influence on business performance of Selected SMEs in Mogadishu-Somalia. Results of the study are also inconsistent with that of Samiloglu and Demirgunes (2008), Deloof (2003), in that some indicators of WCM have negative effect on firm performance.

The findings of the study of Padachi (2006) revealed that high investment in inventories and receivables is associated with lower profitability. This signals that the more a firm invests receivables the more it meets bad debtors or doubtful accounts which may ultimately cause to be written off. On the other hand over-stock and under-stock of inventories are also problematic to overall business performance of a firm. Also cash conversion cycle, net trade cycle and inventory turnover in days are significantly affecting the performance of the firms (Abdul qayum & Bodla 2010). So managing working capital components effectively is important for performance of small and medium enterprises.

5.3 Conclusion

The general objective of study was to figure out the relationship between working capital management and business performance of selected SMEs in Mogadishu-Somalia. Many indicators under WCM and business performance were analyzed to reach the specific objectives of the study.

Results of the study show that level of working capital management is high in the selected SMEs studied. This implies that these businesses do manage their working assets in an acceptable

manner. It was further concluded that participants of the study have taken positive attitude toward business performance of their organizations.

However, the findings of the study reject the null hypothesis of that there is no relationship between working capital management and business performance and conclude that the relationship exist with (R=0.733) which shows positive and significant relationship. This implies that change in some variables of working capital management can influence business performance in some extent.

5.4 Recommendations

With reference to findings of research objectives, the study suggested the following recommendations:

- Figureheads of those SMEs under study are recommended to insure that effective cash management procedure is in place. It means balancing cash in and out flows, and at the same time avoiding idle cash that need to be used in business opportunities. It is also necessary to shorten cash conversion cycle. This involves the time it takes to convert all near cash assets into form of cash.

- For inventory, those businesses are advised to avoid over-stock of inventory which leads to excessive holding costs and other extra expenses and at the same to minimize under-stock of inventories that can hinder the smooth operations of the business and disappointing some key customers. Forecasts should be made in order to decide the level of inventories to be required based on the expectations of future sales.

- The study also recommends that it is necessary for businesses to establish good criteria of credit worthiness, and insure that credits are given to right customers on selective bases. The study further suggests to layout appropriate credit period because, lengthening credit time will pave the way arising bad debtors which will lead businesses become failure to meet their obligations.

- Lastly, this study suggests that Owners/Managers of small & medium enterprises in Mogadishu are required to manage their working assets effectively. It is paramount for those businesses to consider those components of working capital such as cash, inventories and receivables.

5.5 Areas for further research

Managerial skills and profitability of Small & Medium enterprises

Entrepreneurial orientation and business performance of Small and medium enterprises

Innovation and business growth of small and medium enterprises

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APPENDIX I

QUESTIONNAIRE

Dear respondent,

I am a student of Kampala International University carrying out an academic research on *Working capital management and Business performance of selected small and medium enterprises in Mogadishu-Somalia*, you have been purposively selected to participate in the study and I therefore kindly request you to provide an appropriate answer by filling the questionnaires properly. The answers provided will only be used for academic purpose and will be treated with extreme confidentiality

NB: Do not write your name anywhere on this paper.

Section (A): Profile of the respondents

Dear sir/madam,

Please tick in the blanks in front of your appropriate response

Gender:

a) Male ☐   b) female ☐

Age group

20-30	30-40	40 & above

Level of education:

No education	Primary	Secondary	Bachelor's degree	Master degree

Experience:

How long have you been working in the same business?

Less than 5 years	5-10 years	10-15 years	Above 15 years

Section (B): questions of working capital management

Direction: Please write your rating on the space before each option which corresponds to your best choice. Kindly use the scoring system below:

Response Mode	Rating	Description	Legend
Strongly Agree	(4)	Very high	SA
Agree	(3)	High	A
Disagree	(2)	Low	DA
Strongly Disagree	(1)	Very low	SD

No	ITEMS	SD	DA	A	SA
	Cash management				
1	Our firm balances cash in and cash outflows				
2	Our firm keeps cash balance to capture sudden business opportunities				
3	Our organization avoids cash shortages regularly				
4	Cash in and outflow movements are tightly controlled				
5	Our company keeps some amount of cash balance to meet bank requirements				
6	Our company prepares periodic cash budget in order to control cash in and outflows				
7	Our firm sets a target cash balance at the end of each accounting period				
	Managing inventories				
8	Our company always holds adequate inventory for daily operations				
9	Our company makes sales forecast in order to decide the level of inventory to be maintained				
10	Our firm avoids over-stock and under-stock of inventories				
	Managing receivables				
11	Our firm makes portion of its sales on credit				
12	Our company extends credit to compete successfully				
13	Our firm always maintains a large balance of receivables				
14	Our firm gives credit after analyzing credit worthiness of its customers				
15	Our firm gives credit on a selective basis to a specific customers				
16	Our firm lengthens credit period for the customers				
17	Our firm has a good collection policy				
18	Our debtors respond positively to their obligations				

SECTION (C): Questions to determine Business performance of SMEs

No		SD	D	A	SA
	Profitability				
1	We have been able to generate profits for the last two years				
2	Our profit levels have increased over the last two years				
3	Our firm uses its profits as internal sources of financing				
4	Our firm has a capacity to service its obligations as they fall due				
	Market share				
5	We are at strong position in the market compared to competitors				
5	The number of our customers has increased				
7	Our firm has an outstanding relationship with its customers				
3	Customers make regular business transactions with our firm				
	Sales growth				
)	We make adequate sales daily				
10	Our sales have increased for the last two years				

Interview questions

Q1: how do you manage cash movements in your business?

....
....

Q2: how do you balance between over-stock and under-stock of inventories?

....
....

Q3: which type of customer do you give credit?

....
....
....

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Q4: how was your profitability for the last two years?

Q5: How about your sales growth for the last two years?

APPENDIX 11

CLEARANCE FROM ETHICS COMMITTEE

Candidate's Data

Name_____

Reg.# _____

Course _____

Title of Study _____

Ethical Review Checklist

The study reviewed considered the following:

____ Physical Safety of Human Subjects

____ Psychological Safety

____ Emotional Security

____ Privacy

____ Written Request for Author of Standardized Instrument

____ Coding of Questionnaires/Anonymity/Confidentiality

____ Permission to Conduct the Study

____ Informed Consent

____ Citations/Authors Recognized

Results of Ethical Review

____ Approved

____ Conditional (to provide the Ethics Committee with corrections)

____ Disapproved/ Resubmit Proposal

Ethics Committee (Name and Signature)

Chairperson _____

Members _____

OFFICE OF THE HEAD OF DEPARTMENT, ECONOMICS AND MANAGEMENT SCIENCES
COLLEGE OF HIGHER DEGREES AND RESEARCH (CHDR)

Date: 28th May,2013

RE: REQUEST OF HASSAN ALI ROBLE MBA/37929/123/DF TO CONDUCT RESEARCH IN YOUR ORGANIZATION

The above mentioned is a bonafide student of Kampala International University pursuing Masters in Business Administration (Banking and Finance).

He is currently conducting a research entitled " **Working Capital Management and Business Performance in Selected Small and Medium Sized Enterprises in Mogadishu, Somalia.**"

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

Dr. Malinga Ramadhan
Head of Department,
Economics and Management Sciences, (CHDR)

NOTED BY:

Dr. Sofia-Sol T. Gaite
Principal-CHDR

"Exploring the Heights"

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APPENDIX IV

INFORMED CONSENT

I am giving my consent to be part of the research study of Mr. HASSAN ALI that will focus on Working Capital Management and performance of selected Small & Medium-sized enterprises in Mogadishu-Somalia

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

Initials:_____

Date_____

APPENDIX V
TRANSMITTAL LETTER FOR THE RESPONDENTS

Dear respondent,

I am a student of Kampala International University carrying out an academic research on *Working capital management and Business performance of selected small and medium enterprises in Mogadishu-Somalia*, you have been purposively selected to participate in the study and I therefore kindly request you to provide an appropriate answer by filling the questionnaires properly. The answers provided will only be used for academic purpose and will be treated with extreme confidentiality

NB: Do not write your name anywhere on this paper.

My I retrieve the questionnaire within five days?

Thank you very much

Sincerely Yours,

Mr. Hassan Ali Roble

RESEARCHER'S CURRICULUM VITAE

To document the details of the researcher, his competency in writing a research and to recognize his efforts and qualifications, this part of the research report is thus meant.

Personal Profile

Name: HASSAN ALI ROBLE

Gender: Male

Nationality: Somali

Educational Background

In progress: Master of Business Administration-in banking and finance at (Kampala International University)

Bachelor degree of Business Administration (SIMAD UNIVERSITY)   (2010)

High school Certificate (Almamun secondary School)   (2004)

Work Experiences

Lecturer: University of Somalia (Current work)

2 years Bank teller (Dahabshiil Bank)

1 year Assistant Registrar (SIMAD UNIVERSTITY)