

The Impact of Financial Management Practices on Growth of Small and Medium Enterprise in MOGADISHU

Isse Abdikadir Mohamud¹, Abdisalan Mohamed²

¹ *First Author* Faculty of Management Science, SIMAD University, Somalia
E-mail: ciiseiidle10@gmail.com

² *Second Author* Faculty of Management Science, SIMAD University, Somalia

Received: May 20, 2016. Revised: June 26, 2016. Accepted: August 31, 2016.

Abstract

Small and Medium enterprises (SMEs) make important contributions to economic and social development of the country. The aim of this study was to determine the extent of financial management practices employed by the SME's and their effect on growth. This study was conducted quantitatively through descriptive research design; the data was collected from sample size of 120 of some SMEs operate in Mogadishu. Used questionnaire as data collection tool, the data analysis was done by using the statistical package SPSS version16, the data analyzed and presented by calculation, determining frequency, percentages, mean and standard deviation. Therefore the researchers found result revealed that extent of financial management is low among small and medium enterprises and also, that the financial management is significantly influence on the on growth of small and medium enterprises in Mogadishu Somalia. Furthermore the findings revealed that the cash management, accounts receivable and inventory management are low among SME. Also that most of the selected SME don not make financial plan to their business, at the end that most of the selected SME don not have formal accounting information system to their business.

Keywords: Financial Management Practice, Small and Medium Enterprise, Somalia

1. Introduction

Small and medium enterprises have been recognized to play vital roles in a society including contributing to jobs through innovations and creativity as well as aiding human resources development. The immediate and the long run effect is that they affect levels of income and contributing to poverty alleviation (Agyapong, 2010). Small and medium Sector in Somalia is seems the major income and employment creator for numerous people. According to report published by Puntland Centre for training and development in 2015, Somalia is one of the highest per-capita start up in east Africa, although the failure and luck of growth caused these business to undergo an average of less than a year (Yusuf, 2015).

These businesses support families who may find difficult to get alternative sources income, every period some businesses are entering the market of Somalia and some are dropping from the market, SME may face difficulties to grow and sustain in the long-run and the actual cause of these problems are not clear. So this study is intended to investigate whether the actual toot of SMEs' difficulties to grow are associated with their financial management system.

The term small and medium enterprises (SMEs) cover measures, varying from country to country and between the sources reporting SME statistics. Some of the commonly used criterions are the number of employees, total net

assets, sales and investment level. However, the most common definition used is based on employment, but, there is a variation in defining the upper and lower size limit of an SME (Ayyagari, Beck & Demirguc-Kuntl. 2007). However, the most common basis of defining Small and medium enterprises is number of employees in this study the operational definition of SMEs is used number of employee and classification as the follow Micro firms: 1-9 employees, Small firms: 10-50 employees, Medium firms: 50-250 employees.

Financial management is one of numerous functional areas of management however it is essential to the success of any small business (Mereditth, 1986). Financial management used in this study composes of three components and these include; working capital management which is also subdivided into cash management, receivables management and inventory management. Other components under financial management include; financial planning and accounting information system. The main purpose of this study was to exam the impact of financial management practices on growth of small and medium Enterprise in Mogadishu.

The specific objective of the research as the follow

1. To find out working capital management practices effect on growth SMEs in Mogadishu.
2. To investigate the effect of financial planning on growth of SMEs in Mogadishu.
3. To assert the impact of accounting information system on growth of SMEs in Mogadishu.

2. Research Methodology

This study used a descriptive research design; A survey was conducted using questionnaire. The survey of this study was conducted to owners and managers of the Small and Medium enterprises that operate more than one year in Mogadishu Somalia. In order to exam the impact of financial management practices on growth of small and medium enterprises; samples of 120 questionnaires were distributed.

The statistical Package for Social Science (SPSS Version16.0) was used to process and compute the collected data. The descriptive statistics such as frequency mean and standard deviation was used for analyzing data.

3. Results and Discussion

Table 1 depicts demographic data of the respondents, that Majority of the respondents were (64.2%) male while the remaining (35.8%) were female. since the sample distribute random, in conclusion this indicate male of SMEs owners are more compared to the female. Majority of respondents at (40.8%) were between (18-28) age group, followed the respondents at (34.2%) were aged between in (29-38), and then (20 %) of the respondents were between ages (39-48), the remaining 5% of the respondent's age were above 49 years. This shows owners of SMEs are youthful.

In the education level that (42.5%) of the respondents were Secondary certificate, then 38.3% of the respondents were Diploma, while 13.3% of the respondents were bachelors and the remaining 5.8% were informal; the result clearly indicate that most of SMEs are being run by less educated people, That is why extent of financial management is low among SMEs which may be contributing to the general failure of SMEs.

The study findings in table 2 shows that majority of business were sole proprietorship (34.2.2%), while (33.3%) were partnership and the (32.5%) remain were business family. this indicate the most of SMEs are personally owned business. The age of the business operate show that 40% of the respondents were between (1-3 years), while 32.5% of the respondents were between (3-5 years) and 27.5% remain were more than (5 years). The respondents were requested to provide information on the number of employees to get company size, that majority of business were micro enterprise (1-9 Employees) which represent 60.8%, then second was small enterprise (10-49 employees) which represent 26.7% at last was medium enterprise (+50 employees) which represent 12.5%.

The results show that financial management practices are low amongst small and medium enterprises. The first objective of this study was to find out working capital management practices effect on growth SMEs in Mogadishu scored overall mean 3.18 while standard deviation was scored 1.15 as show in table 3. this indicates that most of the selected SME are poor for working capital management practices which hinders business growth. The cash management, account receivable and inventory management are low among SME. This result consistent with

findings of Abanis et al. indicate that cash management, accounts receivables and inventory management practices are very low among SMEs.

The second objective of this study was to investigate the effect of financial planning on growth of SMEs in Mogadishu. The overall mean score was 1.74 while the standard deviation was 0.77 as shown in table 4. This indicates that most of the selected SMEs do not make financial plans for their businesses, which will cause business failure. The results are confirmed by the findings of Fatoki (2012) that show 55 out of the 57 respondents do not set any short-term financial objectives. In addition, 56 out of the 57 respondents do not compare objectives with performance.

The third objective of this study was to investigate the impact of accounting information systems on growth of SMEs in Mogadishu. The overall mean score was 2.25 while the standard deviation was 0.89 as shown in table 5. This indicates that most of the selected SMEs do not have formal accounting information systems for their businesses. The results support the findings of Jennifer and Dennis (2015), that most of SMEs do not have formal accounting systems. They also support the findings of Maseko and Manyani (2011) that the majority of small firms do not keep complete accounting records because of lack of accounting knowledge. As a result, there is inefficient use of accounting information in financial performance measurement. This can negatively impact on the survival and growth of micro-enterprises.

4. Conclusion

This study examined the impact of financial management practices on growth of small and medium enterprises in Mogadishu. The study focused on three financial management practices: working capital management, financial planning, and accounting information systems. Results reveal that financial management significantly influences the growth of small and medium enterprises in Mogadishu, Somalia. Cash management, accounts receivable, and inventory management are very low among SMEs. Moreover, most of the selected SMEs do not make financial plans for their businesses, and most do not have formal accounting information systems for their businesses.

Appendices

Table 1: Demographic Characteristics of the Respondents

Variable	Values	Frequency	Percentage
Gender	Male	77	64.2
	Female	43	35.8
Age of respondent	18-28 years	49	40.8
	29-38 years	41	34.2
	39-48 years	24	20.0
	Above 49 years	6	5.0
Education level of respondent	Secondary	51	42.5
	Diploma	46	38.3
	Bachelor	16	13.3
	Informal	7	5.8

Table 2: Business Profile

Variable	Values	Frequency	Percentage
Business ownership	Sole proprietorship	41	34.2
	Partnership	40	33.3
	Business family	39	32.5
Duration of business operation	1-3 years	48	40.0
	3-5 years	39	32.5
	more than 5 years	33	27.5
Size of the company	Micro enterprise (1-9 employees)	73	60.8
	Small enterprise (10-49 employees)	32	26.7
	Medium enterprise (50-249 employees)	15	12.5

Table 3: Working Capital Management

	Mean	Std. Deviation	Explanation
1.The business give cash receipts to customers	3.9250	.98016	Agee
2.The business have bank account	3.7583	1.25689	Agree
3.The business carries out daily cash reconciliation	2.4333	1.35183	Disagree
4.The business have a full time cashier	3.7500	1.36123	Agree
5.The business sell services/goods by credit	4.0167	.78840	Agree
6.The business have a credit policy	2.2750	1.01222	Disagree
7.The business use computer assisted software in managing receivables	2.1833	1.15215	Disagree
8.The business have an inventory registers	3.5833	1.17812	Agree
9.The business evaluates its inventory after a certain period	3.6167	1.21740	Agree
10.The business use computer assisted software in managing inventory	2.2583	1.22643	Disagree
Overall mean	3.18	1.15	Normal

Table 4: Financial Planning

	Mean	Std. Deviation	Explanation
1.The business Setting profit target periodically	1.6750	.68798	Strongly Disagree
2.The businesses make Periodical Budget estimations	1.7583	.76692	Strongly Disagree
3.The business Compare Budget estimations with actual performance	1.7833	.86173	Strongly Disagree
Overall mean	1.74	.77	Strongly Disagree

Table 5: Accounting Information System

	Mean	Std. Deviation	Explanation
The businesses have a formal accounting system	1.6250	.71081	Strongly Disagree
The business prepares financial statements	3.5333	1.22257	Agree
The business engage the services of external auditors	1.5917	.75030	Strongly Disagree
Over all mean	2.25	.89	Disagree

Reference

- Abanis, T., Sunday, A., Burani, A., & Eliabu, B. (2013). Financial Management Practices In Small And Medium Enterprises in Selected Districts In Western Uganda. *Research Journal of Finance and Accounting* , 4 (2): 29-24.
- Agyapong, D. (2010). Micro, small and medium enterprises' activities, income level and poverty reduction in ghana- A synthesis of related literature. *International Journal of Business and Management*, 5(12): 196.
- Ayyagari, M., Beck, T. & Demircuc-Kunt, Al. (2007). Small and medium enterprises across the globe. *Small Business Economics*, 29(4): 415-434.
- Donkor, J. (2015). Working Capital Management of SMEs: Ghana's Version of the Story. *British Journal of Economics, Management & Trade* , 10 (3), 1-12.
- Fatoki, O. (2012). An Investigation into the Financial Management Practices. *J Soc Sci* , 33 (2): 179-188.
- Jennifer, K., & Dennis, O. (2015). Financial Management Practices on growth of Small and Medium Enterprises: A case of Manufacturing Enterprises in Nairobi County, Kenya. *Journal of Business and Management* , 17 (8), 65-

77.

Maseko, N. & O. Manyani (2011). Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement (A case study of Bindura). *Journal of Accounting and Taxation*, 3(8): 158-161.

Meredith, G.G. (1986). *Financial Management of the Smaller Enterprise* Sydney: McGraw-Hill Australia.

Smirat, B. Y. A. (2013). The Use of Accounting Information by Small and Medium Enterprises in South District of Jordan,(An empirical study). *Research Journal in Finance Accounting*, 4(6).

Yusuf I .M (2015). Why there is high Rate of Youth Unemployment in Puntland, Somalia? Puntland Centre for training and development Retrieved May 25, 2015, from <https://horseedmedia.net/2015>.