

## **EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN BOSASO CITY PUNTLAND, SOMALIA**

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**Abstract:** *Manufacturing companies are seen as a driving force for promoting an economy and contribute enormously to every country's economy. The lack of financial management knowledge combined with the market climate's volatility frequently leads manufacturing companies to financial severe performance issues. The study was to determine the effect of financial management practices on manufacturing firms' financial performance in Bosaso. The specific objectives were to identify the effect of the management of working capital on financial performance, examine the effect of investment decisions on manufacturing firms' financial performance, and ascertain the effect of financing decisions on manufacturing firms' financial performance. This study's target population was 64 registered Manufacturing firms operating in Bosaso. The study's primary data collection instrument was a structured questionnaire through the four-point Likert scale, showing the extent to which, each factor affects financial performance. Data analysis was done using SPSS and presentations made in pie charts, distribution graphs, diagrams and figures to clearly show the respondents' responses according to the different variables in tables. The study showed that the management of working capital did not impact the financial output of manufacturing companies. Besides, investment decisions have been found to have a partial effect on manufacturing firms' economic work. Financing decisions have also been found to affect the capital-output of manufacturing companies significantly. It was recommended that the business owners should collect enough information before deciding on the financial source to use. The study also suggests that proper evaluation of risks before making investment decisions is necessary. The firm owners are also advised to improve manufacturing firms' financial efficacy and profitability to increase their financial performance. Finally, a conclusion was made that financial management practices affect manufacturing firms' financial performance in Bosaso.*

**Keywords:** *Working Capital Management, Investment Decisions, Financing Decisions*

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### **1. Background of the Study**

Financial management is an area that deals with the financial decisions taken and the decision-making instruments and analysis used. It is possible to split the sector as a whole between long-term and short-term decisions and techniques. Both share the same objective of raising a company's value by ensuring that capital returns surpass the cost of capital without undue financial risks. (Pandey, 2010). A business might not see its long term if it cannot carefully plan and layout a policy to effectively manage its finances. As a result, ineffective financial management is the leading cause of the underlying problems facing Manufacturing firms' financial management (Jindrichovska, 2003).

The procedures relating to how the department handles its sales, expenditures, assets, liabilities, and contingencies are part of the financial management system. It also includes its risk management strategies and control of its financial and operational performance, including budget performance and internal and external reporting on these functions. Ideally, by moving from one stage to the next, from small businesses to the organization with several workers, business companies are supposed to grow and develop. Regardless of the high number of companies born, their mortality rate remains very high, even in developed countries. To help service companies obtain access to capital, which is essential for business growth and profitability, appropriate financial management practices often play a vital role. A sound financial management practice system should ensure the succeeding quantitative characteristics are met: understandability, significance, materiality, reliability, and substance over form, carefulness, completeness, comparability, suitability, and equilibrium between benefit and cost, yet they continue to lack in most private service companies (Baker and Martin, 2011).

Regardless of the high number of evolving companies, their diminishing rate remains very high, even in developed countries. To help service companies obtain access to capital, which is essential for business growth and profitability, appropriate financial management practices often play a vital role. A sound financial management practice system should meet the good quantitative characteristics: comprehensibility, relevance, materiality, reliability, and substance over form, carefulness, completeness, comparability, suitability, and balance between profit and expense, but they continue to lack in most private service companies (Korankye & Adarquah, 2013)

In this study, financial management is looked at in working capital management (WCM), investment decisions, and financing decisions. An investment decision is about firms deciding how to invest their capital in available projects. These decisions include which new projects to consider, how much to be invested in chosen tasks, and whether or not to acquire other firms. The eventuality of the investment decision process is the definition of a firm's tangible assets' set and size. This composition and size of the firm's assets are used to generate the cash flows that determine its profitability, value, and viability (Graham and Harvey, 2001).

Financing decisions is about deciding on the capital structure of a firm. To satisfy investment needs, the owner of a company must determine when, where, and how to procure funds. Determining the proportion of equity and debt is the main problem. The debt and equity ratio are known as the capital structure of the company. The financial manager must achieve the best funding mix for the business, i.e., the combination of maximized the company's market value. Once the financial planner has decided on the optimal mix of debt and equity, sufficient sums should be raised using the best available sources. (Baker and Martin, 2011).

The capital structure is a blend of both long-term and short-term funding. It involves debentures, commercial papers, equity, and share capital. (Wessels & Roberto, 1988). The success of any organization depends on sound financial management. Important financial management activities that decide an organization's success or failure include the level of investment in working capital that focuses on maintaining an appropriate level of current assets and liabilities, investment decisions that direct the amount of capital required, and the project in which to invest, and financing decisions that determine the capital structure

## **2. Statement of the problem**

The manufacturing firms in Bosaso have been showing a decline in growth rate from 4.3% in 2013 to 3.4% in 2015, as cited by PCC (2015). Hawo (2014) also mentioned that despite the enormous exertions made by manufacturing firms in Bosaso to improve their performance as indicated in the past statistics established in the last five years, the subsector continues to performing drearily.

One of the problems that quickly lead to manufacturing companies' failure amid improved access to financing is inadequate financial management (Longenecker, et al., 2006). Poor financial performance in the manufacturing companies' sector has long remained unexplained, especially in the perspective of third world countries where manufacturing companies occupy a large part of the economy (Brigham, 2002). Nevertheless, research from developing countries finds financial management activities to contribute significantly to manufacturing firms' weak financial performance.

Prior studies have analysed manufacturing companies, including Puntland chamber of commerce (2015) and Hawo (2014), find that manufacturing firms are not meeting the necessary expectations. If this condition is not resolved, then it is likely that manufacturing firms' contribution to the economy will be impacted. Besides, these studies did not discover how manufacturing firms' financial management practices influence their financial performance, calling for new research to be carried out in Bosaso and ascertaining the impact of financial management practices on the financial performance of manufacturing firms. Therefore, the study aimed at examining how manufacturing companies conduct their financial management and how the procedures influence their financial performance. This will require recommendations on remedial steps to be made available. To accomplish this, the author performed a study focusing on manufacturing companies based in Bosaso.

### **3. Research Objectives**

#### **3.1 General objective**

This study's general objective was to determine the effect of financial management practices on manufacturing firms' financial performance in Bosaso city, Puntland.

#### **3.2 Specific objectives**

This study intended to achieve the following objectives to:

1. To examine the effect of working capital management on the financial performance of manufacturing firms in Bosaso
2. To ascertain the effect of investment decisions on the financial performance of manufacturing firms in Bosaso.
3. To elucidate the effect of financing decisions on the financial performance of manufacturing firms in Bosaso.

### **4. Literature Review**

#### **4.1 Theoretical Framework**

##### **Financial Theory of Investment**

The theory is based on investment decisions. The financial theory of investment was suggested by Minsky (1986). In shortened terms, this theory links financial market fragility, in the everyday living cycle of an economy, with speculative investment in financial markets. According to this theory, during prosperous times, corporate cash flow rises beyond what is needed to pay off debt, and a speculative euphoria develops. Soon after, debts exceed what borrowers can pay off from their incoming revenues. This then turns into a financial crisis. As a result of such speculative borrowing risk, banks and lenders tighten credit availability. This theory

proposes that there is a relationship or link between debt financing and market cycles. When the market is performing well, there is excess cash flow, which makes credit readily available.

The notion of imperfections in the credit markets was extended to the shares market by Greenwald et al. (1984). Asymmetry of the information makes the shares of a company negotiated in the secondary market to be at levels below the expected value, in case the fundamental expectations of future return were of general knowledge. This under-pricing process in the secondary markets causes pressure over raising funds in the primary market, allowing underwriting to appear. The lack of information about the stakeholders facing the projects' perspectives makes them demand a more significant return over their shares, lowering the share price. Other imperfections in the financial market, such as information asymmetry, agency problems, and financial distress, were linked to corporate finance. The economic variables of a company now need to be better explained. Taking this into account, Myers and Majluf (1984) proposed a pecking order hypothesis. According to the authors, the companies would have a preference for internal funds to finance the investment.

### **Pecking order theory**

The Pecking Order Theory, also known as the Pecking Order Model, relates to its capital structure. Made famous by Stewart Myers and Nicolas Majluf in 1984, the theory states that managers follow a hierarchy when considering financing sources. The pecking order theory states that managers display the following preference of sources to fund investment opportunities: first, through the company's retained earnings, followed by debt, and choosing equity financing as a last resort. The pecking order theory was first suggested by Donaldson (1961). It was modified by Myers and Majluf (1984). It states that companies prioritize their financing sources according to the cost of financing, preferring to raise equity as a financing means of last resort. Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issues any more debt, equity is issued.

The static trade-off theory's basic concept is to use adequate debt and equity financing to minimize capital costs. Companies are partly financed by debt and equity. The primary benefit of debt financing is the tax advantage of the debt. In contrast, the downside of debt financing, on the other hand, is the expense of the debt, i.e., the interest or repayment of the debt of the company, known as the cost of bankruptcy. The static trade-off theory of capital structure notes that to preserve the balance between the pros and cons of debt and equity funding, the business must select a mixed form of financing to maintain the balance.

A combination of both long-term and short-term financing is the capital structure. It includes debentures, records of a company, equity & share capital, etc. The capital structure is a mixture of debt and equity capital combined to achieve its goals effectively. (Wessels & Roberto, 1988). One of those resources that can be used to safeguard corporate governance's effectiveness and protect its capacity to build value is the capital structure (Rocca, 2007). The stochastic scenery of equity precariousness is endogenous and comes from the collision of revolutionization in the firm's assets' value on the monetary Leverage (Bensoussan & Crouhy, 2008). The study of 226 Australian firms was carried out by Chiarella & Phan (1991). After applying the regression analysis, they concluded that the profitability, the tangibility of assets, and the non-debt tax shield on Leverage Live negatively impacted. With size, growth opportunities, and cash holdings, the debt ratio has a positive relationship.

This theory would be used in the context of the current study to explain how Manufacturing firms in Bosaso decide to choose where to get funds from. According to the pecking order, they are likely to start with the cheaper financing sources before going to the more expensive ones. This is in the desire to minimize capital cost, which can become a high cost that will reduce profitability and general financial performance.

### **Behavioural finance theory**

This theory is based on financial decisions. Behavioural finance emerged in the 1980s due to emerged failures of the core economic models that explain anomalies in financial markets. This approach is based on the concept of explaining behavior through biases of belief information and non-standard preferences to make an argument for irrational behavior among agents that can explain persistent mispricing of assets and other anomalies (Baker 2010).

Like corporate finance, household finance explains how to manage financial decisions to ensure financial security and the growth of a household's wealth. The complexity of financial products has prompted the growing interest of Lithuanian households in personal finance management. Behavioural finance admits that psychological characteristics (such as risk aversion, regret, overconfidence) play an essential role in the financial management of a household; consequently, financial weaknesses could be ascertained, leading to improvements in financial decision-making growth of wealth of a household. Behavioural Finance Theory's fundamental assumption is that activities of an economic human being are rational, and his/her main target is profit maximization (Baker 2010). Markowitz (1952) stated that an investor has to decide to be ignorant of which alternative investment portfolios would give more income. The basic idea of Modigliani and Brumberg (1954) states that a person tries to lower his/her consumption to ensure approximately the same level of consumption throughout his/her entire life.

This theory suggests that a manufacturing firm should produce only what customers need, in amounts they need, and when they need it. For manufacturing firms in trade, they only need to stock what customers need when required and, in the quantities, required. If this happens, then the losses that occur due to inaccurate working capital and other current assets will be eliminated, leading to improved financial performance. In this study, this theory will examine the first research question: How does working capital management affect manufacturing firms' performance in Bosaso?

### **5. Methodology**

A descriptive research design was employed. This study's target population comprised 76 registered Manufacturing firms operating in Bosaso town (as per Bosaso town registration, 2015). The unit of analysis for this study is an individual organization. The study only focused on the proprietors or managers of the manufacturing firms which are likely to give the most accurate information concerning their businesses. A sample of 64 respondents was employed in this study. A self-administered questionnaire was used to collect data from the owners or managers of the identified manufacturing firms in Bosaso town. Both descriptive statistics and inferential statistics were used in the analysis of the data. The inferential statistics were based on the t-statistic and the p-value. Descriptive statistics related to the mean, standard deviation, and coefficient of variation of the dependent and independent variables' statistical data. The study used regression analysis to analyze the relationship between the independent and dependent variables as follows.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_3X_4 + e$$

Where:

**Y** is Financial Performance

$\beta_0$  = is the intercept term

**X<sub>1</sub>** is Working Capital Management

$X_2$  is Investment Decisions

$X_3$  is Financing Decisions

$e$  is Error term

## 6. Research Findings and Discussion

### 6.1 Working Capital Management

Table 1 below shows the findings on the effect of working capital management on manufacturing firms' financial performance in Bosaso.

*Table 1: Effect of working capital management*

Statement	Valid	Mean	Mode	Std. Deviation
The business I work for has a working capital management system in place	64	2.4531	1.00	1.57288
Receivables management system is fully automated at the business I work for.	64	1.9688	1.00	1.15427
The business maintains optimal cash balances I work for at all times	64	2.0156	1.00	1.25347
The business I work for ensures there is sufficient cash flow to meet daily needs	64	2.3281	2.00	1.32203
The business I work for Prepares cash flow forecasts to identify future surpluses and deficits	64	2.9688	2.00	1.43614
The business I work at has bank accounts	64	2.2813	1.00	1.18815
The business I work for uses cash budgets to make decisions	64	2.7188	2.00	1.17472
The business I work for has internal control on Cash	64	3.2500	4.00	1.41421
There is the separation of cashier duties from accounting duties in the business I work for.	64	2.2031	1.00	1.18428
The business I work for applies the set credit policy while extending Credit	64	3.2344	4.00	1.10901
The business I work at invest temporally cash surplus in marketable Securities	64	3.0469	4.00	1.26528

The study found out that most of the firms have a working capital management system in place. This is because a mean of 2.4531, which was close to the number that agreed. The mode was 1.00, and the standard deviation of 1.57288 was also obtained. Concerning whether receivables management structure is entirely automated at work, mean of 1.9688, mode of 1.0 and standard deviation of 1.15427 were obtained. The mean was close to the code for the respondents who agreed that the organizations they work for receivables management structure are not entirely automatic. This implies that most of the manufacturing firms have their receivables management structure automated.

The respondents were asked to state if the enterprises maintain optimum cash balances they work for and the findings were as follows: standard deviation was 1.25347 computed; mean of 2.0156 was calculated and a mode of 2.0 was obtained as well. This signifies that most manufacturing firms in Bosaso have their optimum cash balances maintained by the enterprises they work for. An inquiry was made to investigate whether there is sufficient cash flow to meet daily needs in the organizations. Most of the respondents supported the opinion

that they have the adequate cash flow to sustain daily expenditure, as shown by a mean of 2.3281 and a mode of 2.0. A standard deviation of 1.32203 also supported the outcome.

According to this study's findings, few of the respondents (mean = 2.9688) had a strong feeling that the firms where they work prepare a cash flow forecast to identify future deficits and surpluses. Mode of 2.0 and a standard deviation of 1.43614 was obtained. The findings indicate that most respondents do not know whether the organizations they work for have bank accounts (mean = 2.2813, mode = 1.00 and standard deviation = 1.1747). A very small number of the managers (mean = 2.7188) strongly agreed that where they work there is the use of cash budgets for making the organization's decisions. Mode of 2.0 and a standard deviation of 1.17472. This indicates that some manufacturing firms still don't use cash flow budgets for making decisions.

Mean of 3.2500, mode of 4.00 and standard deviation of 1.41421 were noted. This implies that most manufacturing firms in Bosaso don't have an internal control of cash. The findings indicate that most managers (mean = 2.2031) strongly agreed that the cashier's duties are separated from accounting roles in the firms where they work. A standard deviation of 1.18428 and mode of 1.00 was calculated. This means that we still have some firms in Bosaso combining the cashier's roles with those of accountants. A reasonable proportion of the respondents (mean = 3.2344) disagreed that their businesses implement the set credit rule when extending credit to their creditors. 4.00 mode, which was on the side of those opposed was noted and standard deviation of 1.10901. This indicates that most Mogadishu firms implement the set credit rule when extending credit to their creditors.

## 6.2 Investment Decisions

### 6.2.1 Availability of Cash for Investment in Long-Term Projects

The variable was coded as 1- strongly agree, 2-agree, 3- neutral and 4-disagree. Most of the respondents (34) disagreed that the companies where they work have cash for investment in long-term projects. This was followed by 10 respondents who were neutral with the statement. Some of the managers (5) agreed strongly, while (6) of them agreed.

### 6.2.2 Investing in non-current assets

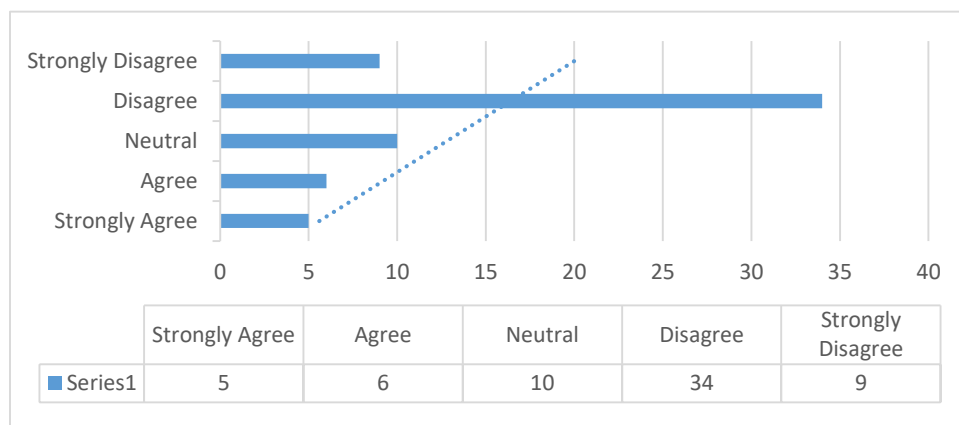


Figure 1: Investing in long term projects

As shown in figure 1, many of the respondents (34) indicated that the companies they work for don't invest in non-current assets. Five of them strongly agreed that the companies do invest non-current assets. Few of them (6) agree that the companies invest in non-current assets, while (10) of them were neutral.

### 6.2.3 Full utilization of non-current assets

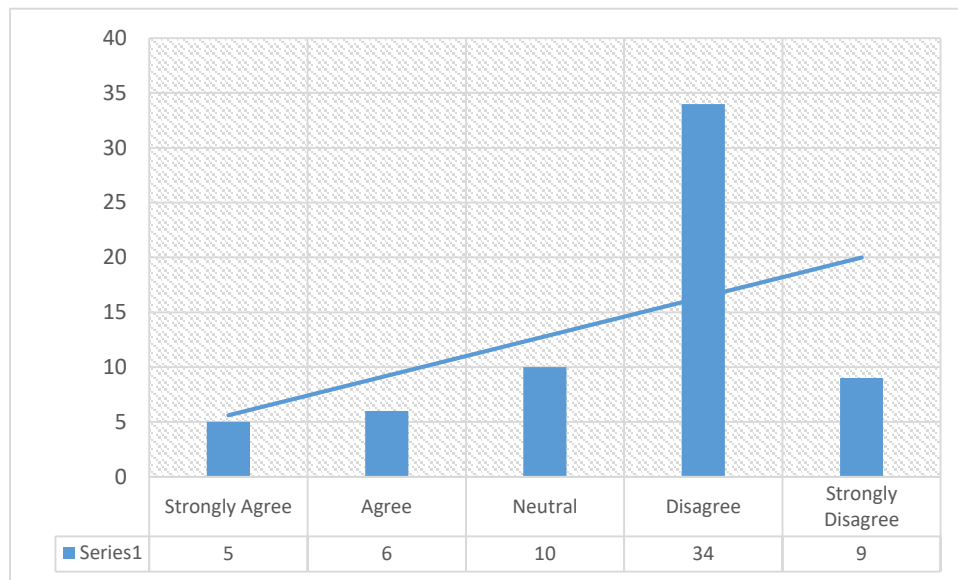


Figure 2: Full utilization of non-current assets

The respondents were asked to indicate whether the companies they work fully utilize non-current assets. Majority of the respondents (34+9) disagreed that their companies entirely use non-current assets. 10 of them were neutral, 6 agreed, and 5 strongly disagreed with the statement. The trend line also indicates that the number of respondents who disagreed was on the increase.

### 6.2.4 Use of payback period

Table 2: Assess Investment Using Payback Period

	N	Minimum	Maximum	Mean	Std. Deviation
VAR00004	64	1.00	4.00	2.5156	.92569
Valid N (listwise)	64				

From table 2 above, the mean for the variables was 2.5156, which is close to neutral. This means that many respondents do not know whether the firms they work for typically use payback period method to assess an investment.



### 6.2.5 Use of Net Present Value in Assessing Investment

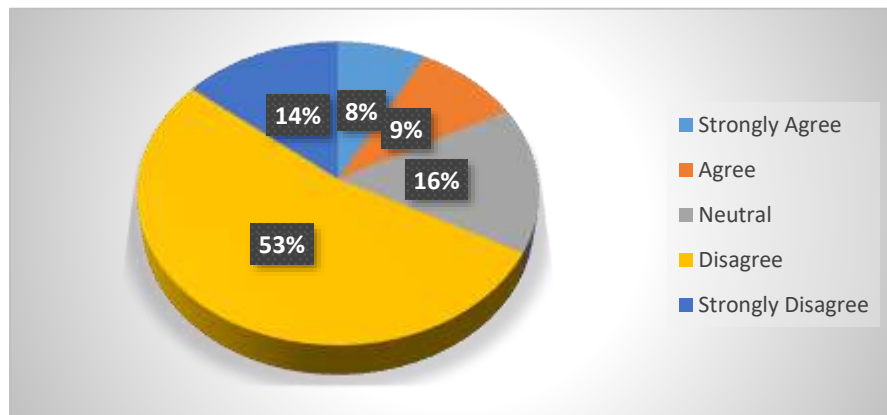


Figure 3: Net Present Value in Assessing Investment

53% of the managers strongly disagreed that their companies didn't use Net Present Value to assess the enterprises' investment, while 16% were neutral. 14% and 8% strongly agreed and agreed respectively. This implies that most of the firms do not use NPV to assess their investment.

### 6.2.6 Investing Without Evaluating Investment

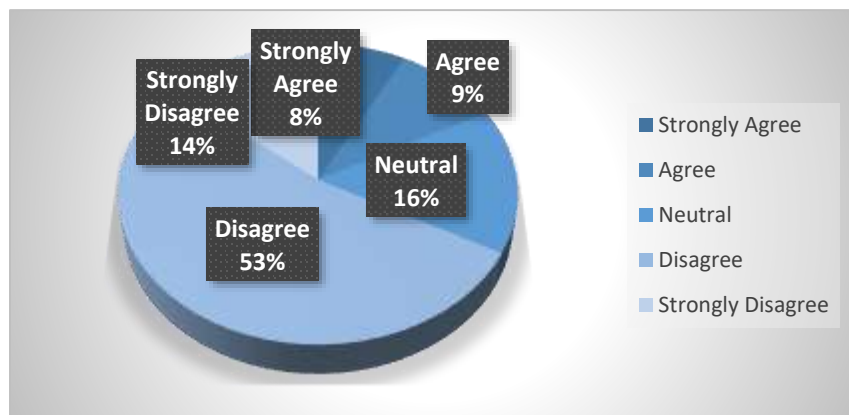


Figure 4: Investing Without Evaluating Investment

They sought to find out if the companies in Basaso do invest without evaluating an investment. 53% of managers disagreed with the fact the companies they work in invest without considering the investment. 14% strongly disagreed, and 9% agreed. 16% of them were neutral. A few of them (8%) strongly agreed. This suggests that a good number of firms rarely invest after critically evaluating an investment.

### 6.2.7 Investing in Real Estate

78.5% of the respondents said that the firms they work for never invest in real estate while 10.7% strongly agreed that they invest in real estate. 7.7% of them agreed with the fact that their organizations invest in real estate, whereas 2% were neutral. A small number of them (1.1%) strongly disagreed. This is an indication that few of the firms in Bosaso do invest in real estate.

### 6.2.8 Review of Investment Projects after a Certain Period

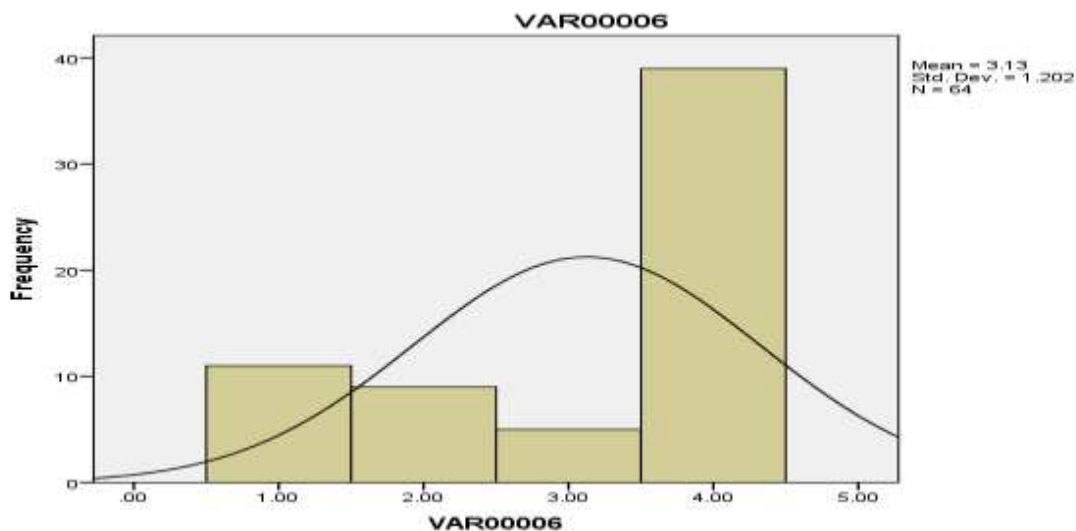


Figure 5: Investing in Real Estate

The number that disagreed was above the standard curve. The curve was also negatively skewed, meaning that most of the respondents said that the investment projects of the companies they work for do not review investment projects after a certain period.

### 6.2.9 Training of Managers on Investment Decision Making

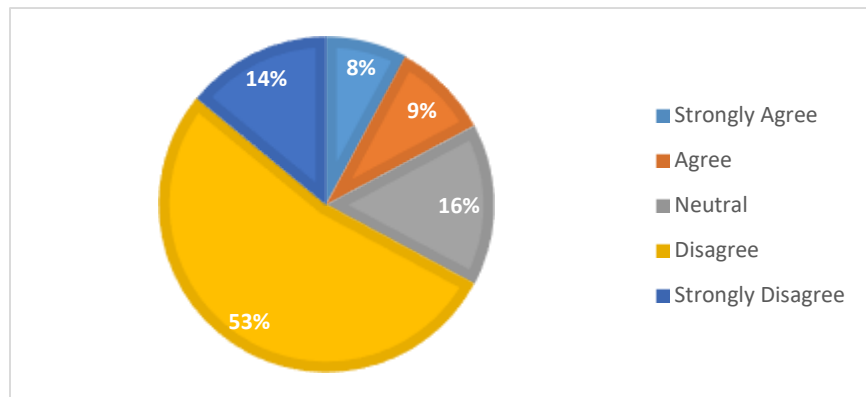


Figure 6: Training of Managers for Investment Decision Making

Majority of the managers (53%) disagreed that they have been trained on investment decision making. 16% of them were neutral, while 9% agreed. 14% of them strongly disagreed. 8% strongly agreed. This indicates that a few of the companies in Bosaso have invested in managers' training in investment decision making.

### 6.3 Financial decisions

Table 3: Financial Decisions

Statement	Valid	Mean	Mode	Std Deviation
The business I work for uses internally generated cash sources and borrowed funds	64	1.9844	1.00	1.10543
The financial analysis of the business I work for is done using ratios	64	1.9219	1.00	1.17250
The business I work for uses liquidity ratios	64	2.2969	3.00	1.10812
The business I work for uses efficiency ratios	64	2.2188	2.00	1.10509
The business I work for uses leverage ratios	64	3.3750	4.00	1.17514
The business I work for has easy access to bank loans	64	3.4844	4.00	1.19512
The business I work for uses borrowed funds Only	64	3.2344	4.00	1.44466

Table 3 shows that a significant number of respondents (mode = 1) strongly agreed that the companies they work for typically use internally generated cash sources and borrowed funds. The mean was 1.9844, while the standard deviation was 1.10543. This clearly shows that most firms in Mogadishu use internally generated cash sources and borrowed money. Whether the business's financial analysis is done using ratio, a mean of 1.9219 and a mode of 1.0 was recorded. Standard deviation was 1.17250. This proves that companies in Bosaso use ratios in financial analysis. A mean of 2.2969, mode of 3.00 and a standard deviation of 1.10812 were recorded. Mean of 2.2969 is close to 2, which is for those who agreed with the statement. This designates that many firms widely use liquidity ratios in Bosaso. Most of the respondents (mean = 2.2188) supported the idea that the companies they work for usually use efficiency ratios. The mode was 2.0 while the standard deviation was 1.10509.

Concerning leverage ratios, most managers (mean 3.3750) disagreed that the companies where they work do not use leverage ratios. The mode was 4, and the standard deviation was 1.17514, which were all supporting the disagreement. This demonstrates that most of the firms do not use leverage ratios. A good number of the respondents (mean 3.4844) said that their business doesn't have access to bank loans. Standard deviation was 1.19512, and the mode was 4.0. This implies that most of the manufacturing companies in Bosaso don't have access to bank loans. A significant disagreement (mean = 3.2344) was noted concerning the idea that they work for using borrowed money. The mode was 4.0 while the standard deviation was 1.44466. This shows that most of the manufacturing firms in Bosaso use internal sources of finance instead of external sources.

### 6.4 Financial Performance

#### 6.4.1 Rewards for your employees keep getting better

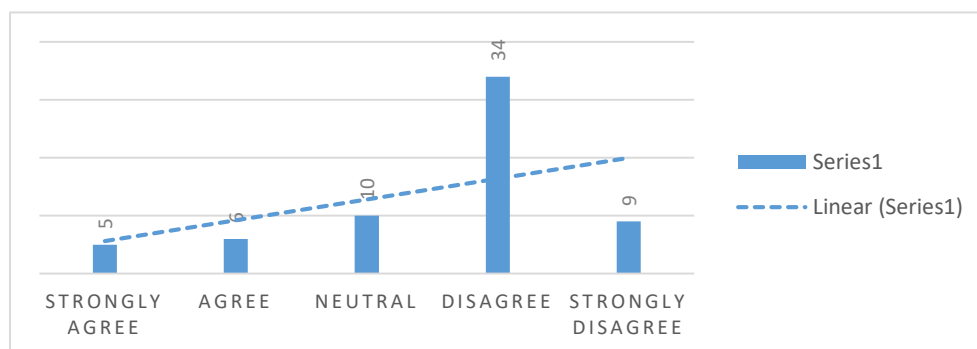


Figure 7: Rewards getting better

Majority of the administrators (34) disagreed that the reward for their employees keeps getting better. This was followed by 10 of them with a neutral view. 5 strongly agreed, and 6 agreed, 9 strongly disagreed. The bar for those who opposed was strongly agreed was higher than the rest. Similarly, the trend line increased towards those who disagreed and strongly disagreed, indicating a decline in reward.

### 6.4.2 Growth of Sales

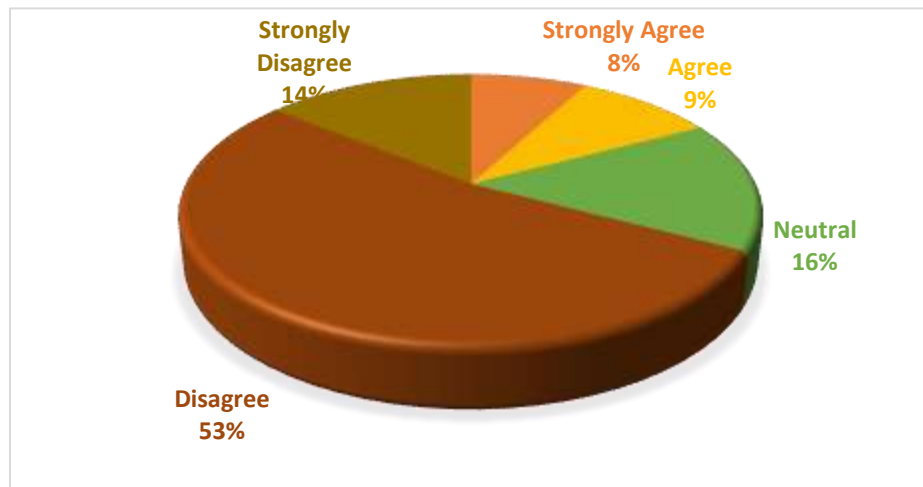


Figure 8: Growth of Sales

53% of the managers disagreed that the companies they work for have been increasing while 8% strongly agreed. The smallest number of them (14%) disagreed, and some of them (16%) had a neutral belief, 9% agreed.

### 6.4.3 Growth in Value of Assets

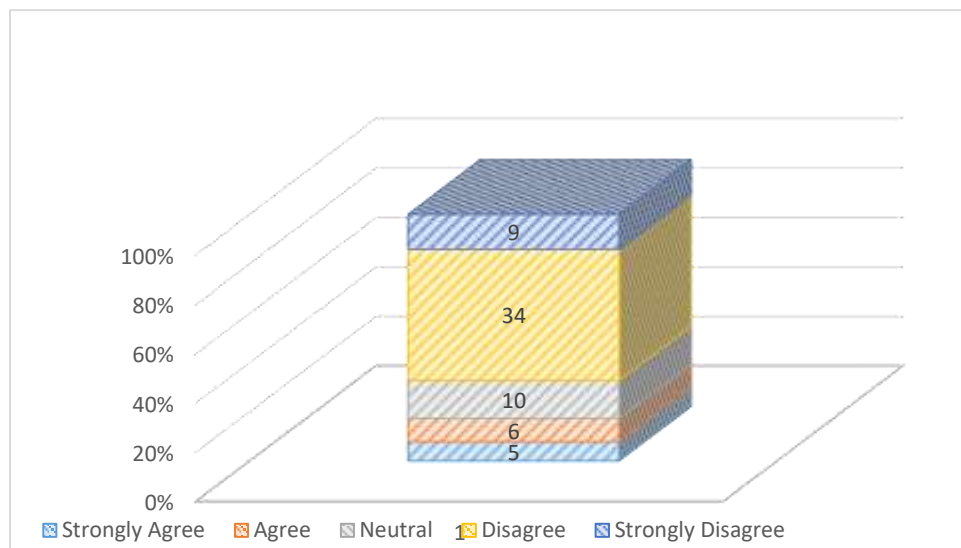


Figure 9: Growth in Value of Assets

Growth in the value of assets is increasing, as suggested by most respondents (34) who agreed with the statement. Small response (5) was noted in those who strongly disagreed, and 10 of them were neutral, 9 of them strongly disagreed, and 6 agreed.

### 6.4.4 Growing Profits

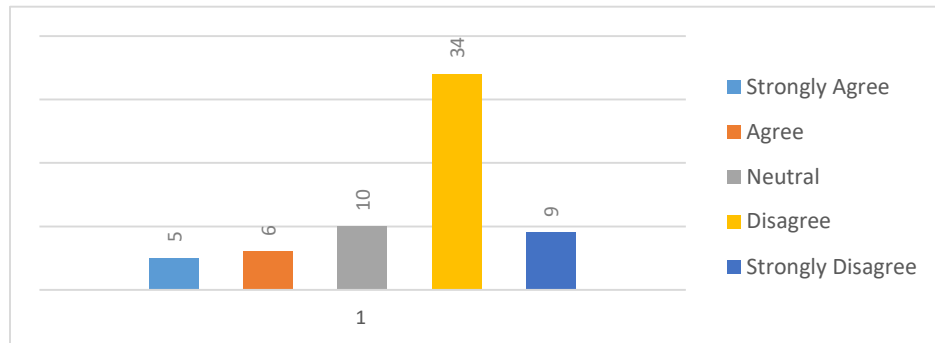


Figure 10: Growing profits

Out of 64 managers interviewed concerning profits, 34 disagreed that their businesses' profit keeps growing, 9 of them strongly disagreed, 10 were neutral, and 6 agreed, and five strongly agreed.

### 6.4.5 Reducing Operational costs of business

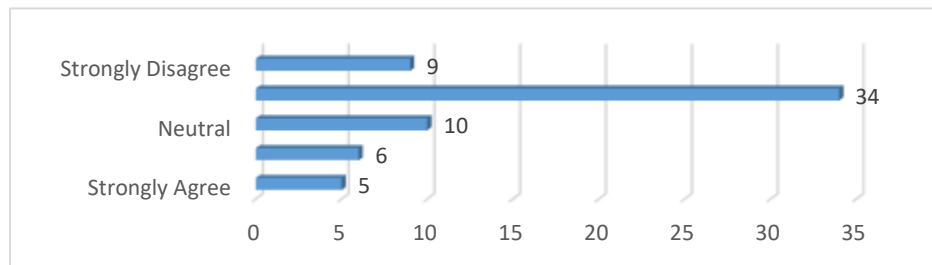


Figure 11: Reducing Operational Costs of Business

The majority of the respondents interviewed (34) disagreed that the business's operational costs where they work have been reducing. An insignificant number of them (5) strongly agreed while 10 were of neutral thinking. 5 of the respondents strongly agreed with the statement while 6 agreed.

## 6.5 Discussion

The study went over the effect of financial management practices on manufacturing firms' financial performance in Bosaso city. The relationship between the firms' different financial management practices and financial performance was analyzed by regression technique, and the results were summarized in table 4 below.

Table 4: Regression Coefficients and Correlations

Model	Unstandardized Coefficients		Standardized Coefficients Beta	Sig.	95.0% Confidence Interval for B		Correlations		
	B	Std. Error			Lower Bound	Upper Bound	Zero-order	Partial	Part
1 (Constant)	.251	.080		.002	.092	.410			
Financial Decisions	.345	.079	.398	.000	.188	.502	.909	.407	.140
Working Capital Management	-.078	.072	-.100	.279	-.221	.064	.871	-.110	-.035
Investment Decisions	.615	.076	.668	.000	.465	.766	.937	.637	.260

a. Dependent Variable: Financial Performance

The table 4 above shows the coefficients for the variables. The Financial decision with a standard coefficient of 0.398, zero-order of 0.909, partial of 0.407 and part of 0.140. The working capital with an unstandardized coefficient of -0.78, standardized coefficient of -0.100, t value of -1.089, sig of 0.615, zero-order of 0.076, partial of -0.110 and part of -0.035. An investment decision with an unstandardized coefficient of 0.615, standardized coefficient of 0.668, t value of 8.100, sig of 0.000, zero-order of 0.937, partial of 0.637 and part of 0.260.

The study reveals that financial decisions are partially related to the financial performance of organizations. Mwangi et al., (2014) supported this, who recommended that adopting either aggressive or conservative financing policy to enhance the listed non-financial companies' performance is necessary.

The research also indicates that working capital does not affect the financial performance of firms. This was contrary to Mwangi et al., (2014), who cited that a conservative financing policy always has a significant positive effect on an organization's financial performance.

The study further found that investing without evaluating investment affects the financial performance of firms. This was supported by Salazar, et al., (2013) who cited that investment decisions and strategies affected the level of competitiveness of the companies. Training managers were also found to be having a positive impact on their action when making financial decisions.

The research also found the following: most of the firms use internally generated cash sources and borrowed funds; firms do financial analysis using ratios; firms don't use liquidity ratios but utilize efficiency ratios; most firms do not use leverage ratios, and most businesses do not have access to bank loans, and companies use borrowed money. This confirms pecking order philosophy, which states that enterprises prioritize financing sources according to the cost of financing, preferring to raise equity as a financing means of last resort (Donaldson, 1961). Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue any more debt, equity is issued. That means Due to adverse selection, the firm prefer internal to external finance.

## **7. Conclusion**

The study shows that male firm managers are more female in Mogadishu firms, and most respondents are aged between 46 and 55 years. This indicates that the firms are run by administrators who have vast experience in financial management. This was supported by the findings that showed that many managers have Bachelor Degrees and work experience of between 5 and 10 years.

The research revealed large firms where most of them have 51 employees and have been in operation for more than ten years. This means that the firms have good financial management that has taken them that far. Their annual turnovers are also huge of more than \$ 10,000 indicating stable firms. The research revealed that the level of debt financing in the business decreases as the percentage of net profit increases. This means that as companies increase in size or become more stable, the need for debt decreases. The working capital was also found to be possessed by the firms.

Moreover, the receivable management structure was also entirely automated at work, and the enterprises maintain optimum cash balances. The research revealed that the companies have adequate cash flow to meet daily expenses and prepare a cash flow forecast to identify future deficits. Additionally, it was found that they have bank accounts; however, they do not have cash flow budgets. Internal control of cash was found to be lacking; nonetheless, bursar's obligations are unglued from accounting responsibilities in the organizations wherever they work.

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