

# Effect Working Capitalmanagementpractices On Financial Performance in Manufucure Companies in Mogadishu Somalia

Ali Abdulkadir Osman Jama

Exam Officer at UNISO

**Abstract:** *The aim of this survey was to discover the result of the working capital management practice on the financial performance manufactured companies in Mogadishu, Somalia This study considered the issue of working capital management practice of all the mechanisms of financial management those were specifically; liability management, receivable management and stock management of the manufactured companies in the Mogadishu area. The work considered a descriptive research design. The study population contained 240manufactured companies in Mogadishu, Somalia A sample size of the 150 population in thirteen manufactured companies, which of the target population, was selected through random sampling in a motley population. The data piled up were analyzed through correlation and regression methods using SPSS version 20. The findings discovered that Liability Management , Receivables Management, are significant determinants of financial performance of the services companies in Mogadishu, Somalia and demonstrated knowledge of the effect of working capital management practice in the top manufactured companies Mogadishu While they rejected to use inventory management or debt financing in manufactured companies in Mogadishu Somalia The findings also indicated that the most important variable in the model was Liability Management  $(\beta = -.084)$ . This was followed by Receivables Management  $(\beta = .311)$ . while inventory Management were  $(\beta = .14)$  these showed rejected The study, therefore, recommends that services companies in Mogadishu needed to have Working capital management policy and inventory management policy which were impacted positively on the overall financial performance.*

**Keywords:** liability management, Receivable Management and Inventory and financial performance

## 1. Introduction

Management of account receivable is critical to a well-founded since asset in accounting Receivables has both costs and earnings. A firms must, therefore, attempt to keep such an equal of the collections Receivable that determination accomplish the matching objectives of the usefulness and liquidness Payables management entails the decision to evaluate that welfares of trade credit against the cost Related with the acclaim Well-organized of payable was improve the cash outflow and inflow that determination guarantee the companies is not harmfully precious and eventually the success of the corporation's motivation not be affected in the long run WCM encompasses together background waged principal strategy and ringing out that procedure of the day and day actions. It also takes in making suitable reserves in the cash, scalable security, the Item receivables, and list of the inventories by way of well as the close and combination of immediate supporting The administration of cash (CCC) was be the balance of increased revenue and hence profit on the capital. Currency controlling categorizes the Coins stability which permits for the business to meet day to day expenses but diminishes currencies Hold costs. Little period finance recognizes the suitable basis of bankrolling, assumed The CCC, and the account is preferably financed by credit arranged by the Dealer, however, this one can be required to apply for a banking loan or to change Borrowers to currency finished factor In heart, WCM seeks to continue an optimal balance of each WC element, thereby certifying that companies operated with enough account (cash in and cash outflow) that will facility their protracted term obligation and fulfill both growing little time duty and future operational expenditures. This, hence, makes it more glaring that WCM takes a critical character near performance in a

firm's drive to achieve Extraordinary success. Also delivers Elasticity for development, venture and collective owner the prosperity finished payments. Management employed money successfully and reliably makes organizations for the any decline Without being required into a crippling climb for wateriness. (Makori, D. M. & Jagongo, A. , 2013)

Global perspective of effectiveness, the trade that establish the minimum Working Capital Management per dollar of sales can be considered as managing their working capital efficiently Generally, the higher the risk the higher the return was be demanded by management and shareholders in order to finance any investment in working capital Reducing the amount of working capital or fixed assets required by reducing the amount of cash tied up in accounts receivable and inventory while running the business contributes to improving the business's internal performance encapsulated in increases in and thus shareholder wealth maximization (Makori, D. M. & Jagongo, A. , 2013) .

The maximum central components of Working capital management practices in a firm are inventory, accounts payables and accounts receivables Inventory consists of between 20% and 30% of the total investment in a manufacturing firm (Garcia, 30th April 2017).

Well-organized management of inventory is so important in order to simplify the company's procedures. Enhancing the inventory administration enables a firm to sidestep tying excess capital in idle typical at the expense of other viable ventures working capital, which purposes of continuing best equilibrium stuck among every of the working capital workings, that is, money, receivable, account and payables are an important part of the business. Fluctuating market

situations have guided to costly and deficient credits from lending institutions which have exposed organizations to high business risks. On the opposite hand, the potentials of a popular of investors are that finance managers are theoretical to raise the value of the deal. Two overawed these tests, firms have to adopt strategies which include enhancing inner actions such as management working capital (Burt, June 17, 2009).

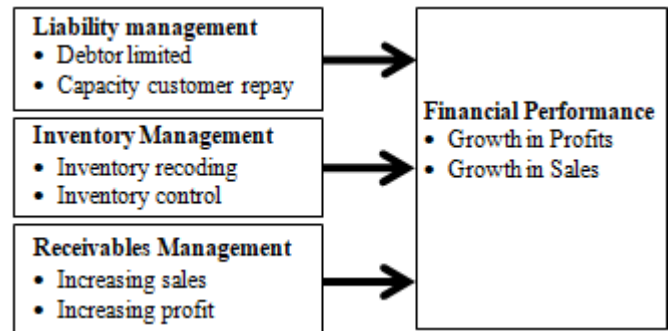
WCM short-range funding the private which is a thoroughly connected to vocation sandwiched between profitability and fluidity. Effectual salaried capital management search for to Recover the working act of a business anxiety and it assistances to happen the short term Liquidity. Therefore, the reading of working capital management is not only an important part of financial management but also a general organization of a business intelligence (Paramasivan, 2009).

According to (Brigham, 2004).the key attention on of a firm is to regulate where the mid minced must be in reports of the success, solving liquescency and effectiveness in order to exploit saver's capital. A well realized WCM strategy adds knowingly to the cost of a firm and hints to bigger returns. High liquidity heights leader to firms being impotent to meet their debts and profitability, builds depositor self-assurance

In Africa, contemporary works on WCM focus arranged West in East African nations through revealing learning on Southern Africa South Africa individual of the developing economic on the landform and assertions an in height development tendency amongst intermediate to insignificant commercial initiatives. So far, maximum of its researcher on Working Capital Management Practices raking look to be also available out-of-date or attentive on a feature of WCM does not straight relate to financial performance. Notable the whole thing in this respect comprise studies by contributions made by these authors cannot be ignored, an investigation into the current working capital management (WCM) practices is necessary to capture the latest developments in this vital aspect of private processes. Such information determination helps to enlighten existing strategies, performs and the upcoming and future collected works or literature on Working Capital Management Practices within the context of South AfricaLiable on the industry and the nature of a firm, different factors influence the working capital of a firm. The central concern of financial managers in contemporary business performs is trying to identify the drivers of working capital management (Ayako, (2015))

In Somalia None of the reviewed evidence studies that have wanted to explain how Working Capital Management practices on financial performance. But some manufactured companies in Somalia used accounting as they to manage the daily activities of their businesses, but it is irrelevant to maintain financial management practices and financial achievement in the 21frst centurythis study search aimed at to link the gap byresponsibility a study on the same(MOHAMED & OMAR, 2016).

## 2. Conceptual Framework



## 3. Literature Review

Hypothetically the glassy of investment in current assets has a bearing on the performance of the firm. Excess funding in working capital casts a terrible impact on the profitability of a company and positive impact on the liquidity. Studies on the association of degree of funding in present day property and the performance have always claimed inverse relationship of the degree of association each at micro and macro levels. Working capital administration entails managing the relationship between a firm's momentary belongings and its non-permanent liabilities. The intention of working capital administration is to make certain that the association is in a position to proceed its operations and that it has sufficient cash flow to satisfy both maturing non-permanent debt and upcoming operational expenses. A corporation can be endowed with assets and profitability, however short of liquidity if its belongings can't without problems be converted into cash. Positive working capital is required to make certain that a firm is able to continue its operations and that it has ample money to satisfy both maturing temporary debt and upcoming operational prices Working capital administration is viewed a very necessary thing in analyzing an organization's performance. Working capital management, a managerial accounting strategy, Efficient receivables management entails a shortened creditor's collection period, low Levels of terrible debts and a sound deposit coverage which frequently improves the businesses' ability To entice new clients and consequently extend financial performance This was in addition affirmed by a learn about by way of which referred to that placing in place a sound credit score coverage ensures perfect debt series methods and is pivotal in improving affectivity in receivables management therefore the overall performance of firms. The preferred measure of receivables administration is the Average Collection Period (ACP) which is the time taken to gather cash from customers(Mathuva, 2010).

The charges involved in stock management are these of preserving to a good deal stock and those of Holding too little. Therefore they want to put in place a high-quality stock management A gadget to make certain reliable income forecasts to be used in inventory, ordering functions Maintaining finest inventory levels reduces the price of feasible interruptions or Of loss, of business due to the scarcity of products, reduces grant expenses and protects Against rate fluctuations The time taken to convert stock

held into sales is acknowledged as ICP and is used as a proxy for stock management coverage (Deloof, 2003).

According to (Horne, 2014) financial overall performance is the technique of Measuring the outcomes of a firm's insurance policy and operations in financial terms. Financial Performance of an association can be measured the usage of variables such as profitability and liquidity. Profitability measures the extent to which an enterprise generates an income from the factors of Production. Four beneficial measures of firms' profitability are Return on Assets (ROA), Return on Equity (ROE), Operating earnings Margin and Net Income. Liquidity on the supplementary Indicator, measures the capability of the firm to meet monetary responsibilities as they fall due, without disrupting the owner equity, using the market value of assets. Liquidity can be Measured the use of the current ratio which is the ratio of modern-day belongings to current liabilities ICP is calculated as inventory divided by price of sales extended via 365 Days. According to lenders are a necessary part of the fine money administration and have to be managed cautiously to beautify cash function of a business. Management of Creditors and suppliers are very essential as slow charge by a firm may create ill-feeling and can signal that the commercial enterprise is not doing well. This was in addition verify by using pondering, who indicated the delaying price of debts payable to suppliers Allows corporations to get entry to the strange of obtaining merchandise and can be an inexpensive and flexible, source of financing. On the other hand, delaying of such payables can be Expensive if a company presents a cut price for the early payment. By the identical token Uncollected money owed receivables can lead to cash influx problems for the firm. According to the time taken to pay suppliers is the APP which is used as a Proxy for money owed payable management policy. APP is calculated as average bills Payable divided with the aid of investments purchases increased 365 days. Cash management is the technique of planning and controlling money flows into and out of the business, money flows within the business, and money balances held by an enterprise at a thirteen factor in time (Pandey I. M., 2004).

Efficient money management entails the dedication of the most excellent cash to maintain by means of thinking about the trade-off between the possible value of keeping too lots cash and the trading cost of preserving too little and as harassed through there is a need for careful planning and monitoring of money flows over time so as to decide the ultimate cash to hold. One of the standard measures of money management is the CCC that was be added by It refers to time-period for buying raw material, converting to completed goods, income products, and gathering bills receivables, CCC is calculated as  $ACP + ICP - APP$ . ( Mansoor, E, & Muhannad,J, 2012)

**Research Mehodology**

The research plan is the layout and shape of the investigation so conceived as to obtain reactions to research questions. Therefore a descriptive research sketch was used to study whetherrelationship exists between working capital management and financial performance of manufacture firms in Mogadishu Somalia.(Nyabuti, 2014) .

This study primarily was focus on organizations who provide or not provide working capital management to get the Effect of financial Performance on task performance in Mogadishu, howeverThis education attention to manufacturing companies that battings in Mogadishu researcher was select9 of organizations such as Jema mineral water, Coca-Cola, Cafi mineral water, al naciima mineral water, juba mineral water,Daryeel mineral water ,Saafi mineral water,Dalsan mineral water, Mubarak foam, shakir foam, Dubai foam, canshur foam,Al Jazeera Foam, andSimplistic industry. The sampled population of this study consists of (240) for the 14 organization staff consisting of employees, managers andEmployees of those manufactures specially finance department add other Employees was being select are.our unit

**Correlations**

No	Variable	Liability Management	Receivable Management	Inventory Management	Financial performance
1	Liability	1			
2	Receivable	.206*	1		
3	Inventory	.233*	.341**	1	
4	Financial performance	.013	.331**	.253**	1

**Correlations Analysis**

The Effect of Capital Management Practices On Financial Performance Select Manufacture Companies in Mogadishu Somalia shows the results of a correlation analysis of the relationships among Liability Management, Receivable Management, Inventory Management and Financial performance. Therefore, Liability Management has positive has a significant positive Correlations with financial performance ( $r = .206^*$  and  $p = .016$ ), this shows positive Correlations. While its significant of.016 Those stuffs showed in the improved businesses performances. in LM management in manufacture business present developments and in Liability management in manufacture affected and resolutely encouragesdevelopment of employee's ideas for private improvement then, firms with lower Liability management tend to achieve higher growth rate, Maximizing shareholder wealth, Shareholder return and profits, Return on capital employed, Enough cash flows , changes in manufactured line have been Also, Liability Management with Inventory Management ( $r = .233^*$  and  $P = .006$ ) positive correlation. While a significant 006 of is recovering positive future of the business, and promote higherprofitably business day by yearly. in this relationship between Liability Management and financial performance are ( $r = .013$  and  $p = .878$ ) this is shows) positive correlation, but weak correlation and has there is an insignificant relationship between LMP and FM, while P-Value is greater than standard error of the 5%. Receivable Management and Inventory Management ( $r = .341^{**}$  and  $p = .000$ ) positive correlation and a high significant relationship between variables Manufacture companies in Mogadishu Somalia.in this relationship between Receivable Management and financial performance ( $r = .331^{**}$  and  $p = .000$ ) Those items showed has positive, while high significant of .000. Inventory Management and financial performance ( $r = .253^{**}$  and  $p = .002$ ) has positive Correlations and high significant, performance.

#### 4. Major Findings

Moreover, the purpose of this study was to see the role the effect of Working Capital management practice on the financial performance at Manufacture companies in Mogadishu Somalia. Between relationships except for liability while these variable noted negative associations with financial performance the outcomes suggested that Working Capital Management practice has pronounced effect on financial performance. Therefore, Liability Management has negative correlation and has a significant with financial performance ( $r = -0.084$ ,  $t = -0.963$ ,  $p = 0.007$ ); therefore, H1 was accepted while it has significant with financial performance. in LM management in manufacture business present developments and financial performance of the manufacture affected and resolutely encourages development the individual Authorized to process account payable Transaction payment approval authorities exits ensure proper approval for procurement payment and timely payment processing The other entities follow the network account payable policies and procedure of employee's ideas for private improvement then, firms with lower Liability management tend to achieve .Other side the receivable Management and financial performance has positive and significant with financial performance ( $r = 0.311$ ,  $t = 3.509$ , and  $p = 0.001$ ), therefore H2, was accepted, while high significant of 0.000. Another hand Inventory Management has weak positive and insignificant with financial performance, ( $r = 0.14$ ,  $t = 1.465$  and  $p = 0.145$ ), therefore H3 was rejected

#### 5. Recommendations

the shareholder felt delaying payments may create immoral relations between the companies and their suppliers while un-professional assembly actions can lead to the loss of some customers that hurt the nine sector of Manufactured companies in Mogadishu Somalia.

- 1) The study that insurances other parts of the country with unique business situations would be welcomed and practicing financial management practices on economic performance in Manufacturing companies.
- 2) Based on the findings of the study it shows that the working capital management were needed and hence were performing well which highly makes the companies performed. Since the result suggested that working capital management of some companies in Mogadishu can significant influence the financial performance, the researcher recommending to maintain the and improve the financial managers of the firm in order to retain good financial performance. However, at the end the researcher recommending implementing the management approaches in active manner that would likely forwarded the firm's performance.

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