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The Role of Financial Management Strategies on SMEs; A Case Study of Ma'lin Harun District, Hargeisa, Somaliland

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Abstract: The purpose of this research was focused on the role of financial management in small and medium enterprises in Ibrahim Ma'lin Harun District in Hargeisa, Somaliland. It was determining the role of financial management in small business and medium enterprises, and capital acquisition, and financial management decision, and effect of financial management on profitability.

This study adopted a descriptive survey design with a population study of 65 companies out of which a sample size of 49 was chosen. The study used simple random sampling design to choose a sample and questionnaires were distributed to the selected respondents from the companies. The analytical process entailed using the Statistical Package for the Social Sciences (SPSS). The study indicates that financial management strategies are very critical in all business enterprises irrespective of the size and location. Finally, according to the data, the study concluded that financial management increases the overall value of the firms and organization by providing economic stability.

Keywords: Financial Management, Small And Medium-Sized Enterprises, Profitability, Financial Literacy, Financial Management Skills

1.INTRODUCTION

Financial management is one of the most important success factors in SMEs, effective financial management practices enable SMEs to optimize resource allocation, manage cash flows, make informed investment decisions, and mitigate financial risks (Beck & et al, 2011). Financial management involves various aspects (Faye & Triki, 2013); (Mensah S. , 2004). But literatures emphasis on fixed assets management, accounting and financial reporting, working capital management, capital structure management, accounting information system and other as an important component of financial management (Paramasivan & et al, 2009) SMEs are considered the backbone of many economies, contributing significantly to employment generation, innovation, and economic growth (Ayaggari, Beck, & Demirguc-Kunt, 2015). Having said that, SMEs often face challenges in accessing finance, managing working capital, and implementing robust financial management systems (Ayaggari, Beck, & Demirguc-Kunt, 2015). Numerous studies have identified SMEs as vital for the income, prosperity and economic well-being of individuals, community and the economy. Effective financial management is regarded as both an indicator and a predictor for the performance, vitality and future prospects of SMEs globally. According to the University of Wolverhampton (University of Wolverhampton, 2007) an organizations chance of survival and growth is largely dependent on good financial management and is one of the most important aspects of business weather that's in a startup, small or medium business, or even a large enterprise (Nketsiah, 2015). Having said that, in this introduction, we provide an overview of the global importance of SMEs, as well as their importance and the effect of financial management on the performance and success of SMEs at a local context in Hargeisa, Somaliland.

2. GLOBAL SIGNIFICANCE OF SMES

The European Commission (EC, 2005) describes SMEs as any enterprise hiring less than 250 persons, that has an aftermarket of below 50 million Euros or a balance sheet less than 43 million Euros.

SMEs are recognized to play a crucial role in modern economies, according to (Avasilicai, 2009) the economic and social roles of SMEs lead to consideration of SMEs as a benchmark for the strategic targets of the economy. SMEs account for 95% of business globally and contribute top more than 50% of employment (BIAC, B20 China, World SME Forum, & SME Finance Forum, 2016). SMEs are usually characterized by high profit margins, a US study showed that SMEs make four times more profit for a dollar than large companies (Neagu, 2016) they are also characterized by being largely affected by the weaknesses and strengths of their leaders (Vadurva, 2004). A survey from the Asian Development Bank (Asia SME Finance Monitor, 2014) carried out in 20 countries indicated that SMEs are responsible for 96% of total enterprise, 62% of the national work force of Central, East, South and Southeast Asia as well as the Pacific area. SMEs in China and India were responsible for 40% of exports in total, 26% in Thailand and 16% in Indonesia (ADB, 2015). For rapidly developing economies, SMEs are responsible for 45% of the employment and contribute 33% of their whole GDP (IFC, 2010). SMEs are also very useful in managing the UN sustainable development goals (SDGS) by 'promoting economic and sustainable development growth, employment and decent work for all' because SMEs provide opportunities for women, minorities and other underrepresented groups to generate income and participate in the economy (Druker, 2009). The European Union Entrepreneurship Action Plan (EUEA, 2020) states that almost 450,000 SMEs change ownership each year, affecting over 2 million workers. However, up to one third of these transfers may fail, putting some 150,000 businesses and 60,000 jobs at risk (Natarajan & Wyrick, 2011).

SMEs play a crucial role in poverty reduction, social growth and economic development. By creating successful economic businesses, economic development will be attained and jobs will be produced for the community and society at large (Ahmed B. , 2020). Opportunities for employment would increase people's disposable money, which would in turn lead to demand for economic goods and services and, eventually the purchase of goods on demand. Additionally, this revenue would reduce poverty and enhance the living conditions of the people (Elawa & El-Haddad, 2019). Between 2002 and 2012, the average annual rise in SMEs' share of the EU's total employment growth was 1.1 million workers, or 0.9% annually. SMEs produced 0.9 million jobs every year in total (De Kok & et al, 2012).

3. SME CONTRIBUTION TO ECONOMIC DEVELOPMENT

One of the most important factors influencing the strength of the local economy is entrepreneurship. Both developed and developing nations' economies have benefited greatly from the contribution of SMEs. Particularly, SMEs are the catalyst for economic expansion. In both developed and emerging economies, business make up over 90% of all companies through the creation of jobs, taxes and contributions to the Gross Domestic Product (GDP) (Muriithi, 2017). The strength of new and small businesses is a crucial part of the local competitiveness, which impacts the country's economic performance even while the local output is low. SMEs are one of the main drivers of economic growth in the industrialized world; they account for 25% of the GDP in the UK and 51% of the GDP in the US (Ahmed B. , 2020). Similar to the US and the UK, SMEs account for 60% of the GDP in and 80% of the job in urban areas. Research conducted in Africa demonstrates that SMEs reflect almost 50% of the GDP (Kamunge, Njeru, & Tirimba, 2021). For instance, SMEs account for 40% of the GDP in Kenya, 70% of industrial jobs in Nigeria, and 70% of all workers in Ghana (Muriithi, 2017); (Mwarari & Ngugi, 2013). As (Kauffmann, 2005) noted, SMEs' straightforwardness in response to the majority of African demands by offering reasonably priced goods and services on fair terms and prices has given the sector in Sub-Saharan Africa a source of revenues and jobs.

4. THE DIFFICULTIES FACED BY SMES

Without a question, small and medium-sized businesses contribute significantly to the expansion of the economy. However, the failure rate of small and medium sized businesses is concerning for both industrialized and developing nations. Approximately 80% to 90% of SMEs fail within the

first 5 to 10 years, according to several studies (Ahmed, Abdul Rani, & Mohd Kassim, 2010); (Kuratko & Hodgetts, 2004).
Owners of small and medium-sized business discussed changing economic conditions, a wide range of technologies, specialized knowledge, and a lack of resources (Gummesson, 1994). In addition to creating jobs, small and medium-sized businesses are crucial to the expansion and development of the economy. Accurate management is necessary for small and medium-sized business to expand in the global market. Success stories in entrepreneurship will show how to reduce poverty and enhance people's lives in the developing economies of the world. Small and medium-sized businesses require management talent to get over their depressive state and attain a more competent level in order to compete worldwide and for their rapid expansion (Elawa & El-Haddad, 2019). Additionally, research indicates that political ambiguity, a dearth of infrastructure and intellectual resources, a mistrust of authority, and inadequacy of the government law enforcement agencies are other issues facing small and medium-sized businesses (Khalique, Shaari, & Isa, 2011). The importance that small and medium-sized businesses play in Somaliland's employment and economic development is the main topic of this study. All stakeholders will benefit from this research since it will aid in the formulation of plans for small and medium-sized businesses to create jobs and chances for economic development.

5. SMES AND FINANCIAL MANAGEMENT SKILLS AND PRACTICES

Financial management entails the planning, organizing, directing and controlling of financial activities such as the procurement and utilization of funds of enterprises (Ross, Westerfield, & Jaffe, 2009). The financial management functions of a business include investment decisions, financial decisions and dividend decisions (Marx & Deswardt, 1999). Unfortunately, a number of issues, such as incompetent entrepreneurs, insufficient financial knowledge and subpar management, hinder SMEs' ability to engage in the business sector (Akande, 2011); (Adomake, Danso, & Afori Damoah, 2016); (Nkosi, Bounds, & Goldman, 2013); (Anokye & Samuel, 2019); (Ansong, 2012).
For many entrepreneurs, mismanaging fund, enforcing tight cost controls, and managing cash flow poorly are among the major obstacles (Cornwall, 2005). Businesses cannot thrive in the medium to long term if they are not properly managed financially (Mensah A. , 2011); (Anokye A. , 2011) ; (Nunoo & Andoh, 2012). According to a Kwazulu-Natal study by Rajaram and O'Neill in (2009), the majority of SMEs lacked the financial management competencies required to operate at peak efficiency and realize their full potential in terms of profitability and expansion. Additional research in Ghana and Nigeria (Mensah, Azinga, & Sodji, 2015); (Attom & Mbroh, 2011); (Charmler, Musah, & Akomeah, 2018); (Prempeh, 2015), found that the majority of SMEs' owners and managers had a little formal education and inadequate management abilities, and that these short comings impede the development and growth of their enterprises.

For instance, a research by Africa (2013) on the influence of education and work experience on SME financial management found that managers with higher levels of education and experience were better suited for financial management. Similarly, a study by (Nketsiah, 2015) found that 80% of SMEs had inadequate financing management skills and as a result, kept manual records rather than computerized records, similarly, (Attom & Mbroh, 2011) found that a lack of education and insufficient familiarity with accounting practices cause the majority of SMEs to neglect to maintain accurate books of accounts.

6. METHODOLOGY

The analysis involved 65 small and medium enterprises in Ma'lin Harun District in Hargeisa, Somaliland. The study adopted a descriptive research design which involved administering questionnaires to selected respondents from a sample size of 49 companies out of the total sample of 65. The minimal required information included the patient's age, diagnosis, and pathology. The patients included in the study were between eighteen and eighty years old. SPSS is a comprehensive system that uses the provided data to generate plots of trends and distribution, charts and tabulated reports, complex statistical analyses, and descriptive statistics. SPSS has a wide range of applicability, minimal to no coding requirements, a user-friendly interface, and is easy to comprehend hence is popular among researchers. In this study, SPSS will allow the researchers to analyze the impact of financial management on SMEs in Ma'lin Harun District.

7. STUDY ANALYSIS

Within the framework of this extensive study project, a sample dataset of medical records from 49 participants were selected to help in making sense of the case in study. Owing to the complex structure of the data and the considerable size of the dataset, using the SPSS made possible the carrying out of a detailed and perceptive analysis.

This part presents the background information of the respondents who participated in the study. The purpose of presenting the background information was to find out the demographic characteristics of the respondents. This section analyses four main characteristics of the respondents which are gender, work experience, educational level and type of business enterprise.

Table 1: Demographic Profile of the Respondents

		Frequency	Percentage %	Total
Gender	Male	41	83.7	41
	Female	8	16.3	8
Education	Primary	18	36.7	18
	Secondary	25	51.0	25
	Tertiary	6	12.2	6
Type of Business	Shop	23	46.9	23
	Store	18	36.7	18
	Supermarket	8	16.3	8
Experience	1-4 years	23	46.9	23
	5-9 years	22	44.9	22
	10+ years	4	8.2	4

Table 1 shows the gender of the respondents, it shows that out of the 49 selected respondents, 41 of them were male and 8 of them were female. This shows that the majority, 83.7% of the respondents were male while 16.3% of the respondents to the questionnaire were female. The table also describes the qualification of the respondents from whom the researchers gathered the information, 18 of them, which represents 36.7 % of the total sample reached only primary level of education, while 25 of them, representing 51% of the sample reached the secondary level of education, and finally only 6 of the respondents, representing 12.2% of the total sample reached the tertiary level of education. This implies that most of the respondents, 51% have reached a secondary level in education.

Figure 1: Pie chart showing the percentage gender of respondents

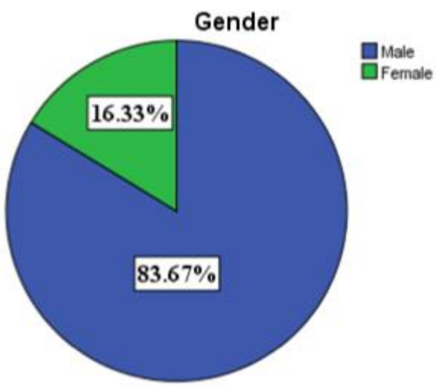
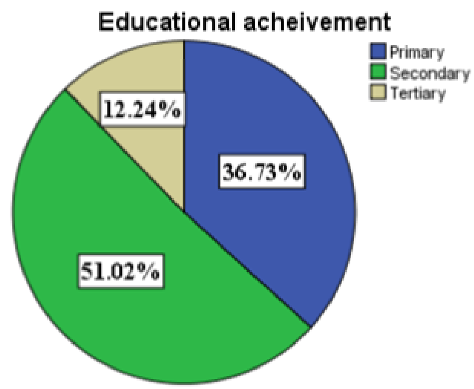


Figure 2: highest educational achievement



As indicated in the table, shops were the most prevalent type of business in the study, 23 of the respondents, representing 46.9% of the total sample indicated that they have a shop, while the second most common type of business in the study were stores which represented 36.7% of the sample with 18 stores. The least common type of business in the study were supermarkets with only 8 respondents indicating they have a supermarket representing 16.3% of the sample .finally the table also indicates that the majority of the respondents, 23 of the total sample which represents 46.9% of the participants showed that they have 1 to 4 years of experience, while a very portion of the sample 44.9% or 22 participants indicated that they have 5 to 9 years of experience and only 4 participants or 8.2% of the total sample indicated that they have more than a decade of experience.

Figure 3: Pie chart showing the percentage work experience of respondents

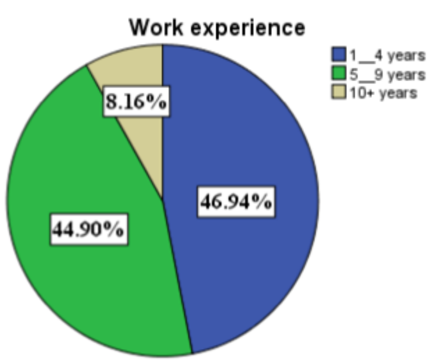
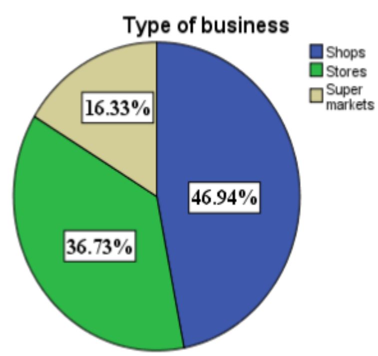


Figure 4: Bar graph represents the type of business of the respondents



DISCUSSION OF FINDINGS

Assessment of the impact of financial management practices on capital acquisition in small and medium enterprises.

The first objective of the study was to assess the impact of financial management practices on capital acquisition in small and medium enterprises. This was important to be analyzed as it represented the independent variable of the study. In its analysis means and standard deviation.

The data indicates that there is variation in respondents' perceptions regarding the effectiveness and alignment of financial management practices with capital needs, willingness to explore new strategies, contribution to securing external funding, importance of the financial manager's signature, contribution to maximum profitability, and effectiveness of the financial management system in ensuring fund availability. The standard deviations suggest that there is some level of disagreement or differing opinions among respondents for each question variable. Further analysis or research may be required to understand the underlying reasons for these variations and to draw more concrete conclusions.

Analyses and measurement of the influence of financial management decisions on investment choices in small and medium enterprises.

This second objective was to analyze and measure the influence of financial management decisions on investment choices in small and medium enterprises. This was important to be analyzed as it represented the independent variable of the study. In its analysis means and standard deviation.

The data suggests that there is variation in respondents' perceptions regarding the influence of financial management decisions on investment choices, the effectiveness of financial management practices in assessing risks and returns, the alignment of financial management practices with long-term business goals, the likelihood of diversifying the investment portfolio based on insights, the impact of financial management practices on seizing opportunities, and the assistance provided by these practices in risk and return assessments. The standard deviations indicate that there is some level of disagreement or differing opinions among respondents for each question variable.

Investigating the Relationship between Financial Management Practices and the Profitability of Small and Medium Enterprises

Correlation Analysis

The correlation analysis measures the strength and direction of the linear relationship between two variables. In this case, we have two variables: Financial management practices and Profitability of SMEs. The correlation coefficient (Pearson correlation) measures the strength and direction of the relationship between two variables. In this case, the two variables are "Financial management practices" and "Profitability of SMEs." The correlation coefficient between these two variables is 0.962, and it is denoted with **. This indicates a very strong positive relationship between financial management practices and the profitability of SMEs. The p-value (Sig. or significance value) associated with the correlation coefficient is 0.000. The p-value indicates the probability of obtaining such a strong correlation by chance alone. In this case, the p-value is less than 0.01 (0.01 level of significance), which means the correlation is statistically significant. Therefore, based on this analysis, we can conclude that there is a highly significant positive relationship between financial management practices and the profitability of small and medium enterprises. This suggests that SMEs that have better financial management practices tend to be more profitable compared to those with weaker financial management practices. However, it is important to note that correlation does not imply causation. While there is a strong relationship between these two variables, the analysis does not establish which variable causes the other. It's possible that better financial management practices lead to higher profitability, or it could be the other way around where higher profitability allows SMEs to invest in better financial management practices. To establish causation, further research and experimentation would be required.

In summary, the results support the idea that financial management practices are associated with SME profitability, and focusing on improving financial management practices may be beneficial for SMEs aiming to enhance their profitability.

Table 4: Correlation Analysis

Correlations		**Financial management practices**	**Profitability of SMEs**
Financial management practices	Pearson Correlation	1	.962**
	Sig. (2-tailed)		.000
	N	49	49

Profitability of SMEs	Pearson Correlation	.962**	1
	Sig. (2-tailed)	.000	
	N	49	49
**. Correlation is significant at the 0.01 level (2-tailed).			

ANOVA ANALYSIS

The ANOVA table shows the results of the regression analysis between financial management practices and the profitability of SMEs.

Table 3: ANOVA Analysis

ANOVAa					
Model	**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Regression	21.146	1	21.146	43.028	.000[b]
Residual	23.099	47	.491		
Total	44.245	48			
a. Dependent Variable: Profitability of SMEs					
b. Predictors: (Constant), Financial management practices					

The regression component of the ANOVA table assesses the overall fit of the regression model. It tests whether the predictor variable (Financial management practices) significantly explains the variation in the dependent variable (Profitability of SMEs). The results indicate that the regression model is statistically significant (Sig. = .000), meaning that the predictor variable has a significant effect on the dependent variable.

The residual component of the ANOVA table represents the unexplained variation in the dependent variable after accounting for the variation explained by the predictor variable. It measures the discrepancy between the actual values of the dependent variable and the values predicted by the regression model.

In summary, the ANOVA results indicate that the regression model, which includes "Financial management practices" as the predictor, is a good fit for explaining the variation in the "Profitability of SMEs." The predictor variable (Financial management practices) is statistically significant in predicting the profitability of SMEs ($p < .001$).

Overall, this analysis suggests that there is a strong relationship between financial management practices and SME profitability, and the regression model based on these variables can be useful for predicting the profitability of SMEs.

CONCLUSION

The implementation of financial management practices for capital acquisition is perceived to be relatively low among the respondents. This indicates the need for more effective financial management strategies to facilitate capital acquisition in small and medium enterprises.

Financial management practices are moderately aligned with the capital needs of the businesses. There is room for improvement in aligning financial decisions with the specific capital requirements of each enterprise. The role of the financial manager's signature in securing capital assets is considered moderately important. Ensuring proper financial oversight and accountability is crucial for investment decisions. The financial management system is seen as moderately effective in ensuring the availability of sufficient funds for the enterprise. More efficient systems may be required to meet the financial needs of the businesses adequately. Financial management decisions are perceived to have a relatively low extent of influence on investment choices. There is potential for greater integration of financial considerations in investment decision-making. Financial management practices are considered somewhat effective in assessing potential risks and returns associated with investment projects. Strengthening risk analysis and strategic financial planning may enhance investment decisions. Respondents exhibit moderate confidence in the alignment of financial management practices with long-term business goals. Aligning financial decisions with broader business objectives is essential for sustainable growth. Financial management practices are considered to provide moderate assistance in assessing potential risks and returns associated with investment projects before making decisions. Enhanced risk assessment processes can inform more informed investment choices. There is a strong and statistically significant positive correlation between financial management practices and the profitability of small and medium enterprises. Effective financial management practices positively influence SME profitability.

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