Effects of working capital management on the financial performance of remittance companies in Mogadishu-Somalia

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ABSTRACT

Working capital management is considered to be a crucial element in determining the financial performance of an organization. In this study, the purpose was to investigate working capital management and their effect on financial performance of the remittance companies in Mogadishu Somalia. Using descriptive research design, a total of 81 managerial and staff members from the two out-grower companies were targeted by way of completing a standardized and semi-structured questionnaire. The study adopted a regression and descriptive research design which attempted to explore the relationship between working capital management and financial performance. The performance was measured in terms of profitability by return on total assets, and return on investment capital as dependent financial performance (profitability) variables. The working capital is used three objectives which account receivable management second objective were cash flow management and last account payable management on the financial. In order to plane research finding the researcher used descriptive design and the data instrument used the study was questionnaire. The data analyze was SPSS (version 16).data was presented using by both descriptive and regression with anova and lastly the finding as the following.WCM practices were comparatively more effect on the financial performance. Specifically, it was observed that the companies’ receivables were mostly effect on the financial performance. Second cash flow management have passively effect on the financial performance and account payable like so finding to study became a number increased to account receivable in greases financial performance and also a number increased to cash flow management also to account payable add value or positively effect on the financial performance of the remittance companies in Mogadishu Somalia. Finally, there was need for the remittance companies to allow and increase their working capital management.

1. Introduction

Business firms have purpose to increase of shareholders wealth maximization. Realization of this objective requires managing financial factors and entrenchment of responsive adoption systems which will be the outcome of a firm to maintain a balance between liquidity and performance while conducting its day to day operations because liquidity is a precondition to ensure that a firm is able to meet its short-term obligations and its continued cash flow can be guaranteed from a profitable firm (Gitman, 2005).

The term working capital has several meanings in business and economic development in finance. In accounting and financial statement analysis, working capital is defined as the firm’s short-term or current assets and current liabilities. Net working capital represents the excess of current assets over current liabilities and is an indicator of the firm’s ability to meet its short term financial obligations (Brealey & Myers, 2002).

Effective working capital management consists of applying the methods which remove the risk and lack of ability in paying short term commitments in one side and prevent over investment in these assets in the other side by planning and controlling current assets and liabilities (Lazaridis & Tryfonidis, 2006).

Working Capital Management is a very sensitive area in the field of financial management (Joshi, 1994). It involves the decision of the amount and composition of current assets and the financing of these assets. Current assets include all those assets that in the normal course of business return to the form of cash within a short period of time, ordinarily within a year and such temporary investment as may be readily converted into cash upon need.

In managing such liquidity it’s important that financial management have to identify the framework of the relationship between the working capital and the financial performance. Working capital management, however, holds a great share of the organizational capital in all organizations and specifically in remittance firms. Increasing sales usually leads to increasing investments in the inventories, accounts receivables and cash. All these requirements should be financed in the working capital management Mohammadi, (2007).

Working capital of a firm is the amounts invested in the current assets of the organization means that working capital represents the investments in the cur-rent assets and liabilities, cash, short term securities, accounts receivable and inventories Skilling (1996).
Working capital management is the ability to control effectively and efficiently the current assets and current liabilities in a manner that provides the firm with maximum return on its assets and minimizes payments for its liabilities. The short-term capital refers to the capital that companies use in their daily operations and it consists of companies’ current assets and current liabilities and well managed working capital promotes a company’s well being on the market in terms of liquidity and it also acts in favor for the growth of shareholders value (Jeng-Ren, Li & Han-Wen, 2006).

The way of managing working capital can have a significant impact on both the liquidity and profitability of the company (Shin & Soenen, 1998). The main purpose of this research to enable firm to maximize profit. But, maintaining liquidity of the firm also is an important objective of this study. The problem is that increasing profits at the cost of liquidity can bring serious problems to the firm and that is way looking how working capital management affects the financial performance.

Working capital management is particular importance to the business organizations. Some business organizations have limited access to the long-term capital markets; these organizations tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their needed investment in cash, accounts receivable and inventory (Chittenden et al., 1998; Saccurato, 1994).

Some research studies have been undertaken on the working capital management practices of both large and small organizations in India, UK, US and Belgium identify the push factors for organizations to adopt good working capital practices or econometric analysis to investigate the association between working capital management and organization’s performance (Shin and Soenen, 1998; Anand, 2001; Deloof, 2003).

Specific research studies exclusively on the impact of working capital management on corporate organization’s performance of the small manufacturing companies are scanty, especially for the case of Nigeria. Keeping this in view and the wider recognition of the potential contribution of the business organization as a key player in the real sector of the economy of developing countries, the performance of these organizations is key to a country’s economic growth and working capital management is very germane to accelerating their performance.

The Working Capital Management of a firm in part affects its profitability. The ultimate objective of any firm is to maximize the profit and wealth of shareholders. But, preserving liquidity of the firm is an important objective too. The problem is that increasing profits at the cost of liquidity can bring serious problems to the firm (Shin and Soenen, 1998). Therefore, there must be a trade-off between these two objectives of the firms. One objective should not be at cost of the other because both have their importance. If we do not care about profit, we cannot survive for a longer period. On the other hand, if we do not care about liquidity, we may face the problem of insolvency or bankruptcy. For these reasons working capital management should be given proper consideration and will ultimately affect the profitability and financial performance of the firm. Firms may have an optimal level of working capital that maximizes their value (Afza and Nazir, 2009).

1.1 Remittance companies in Somalia

Somalia is the one of the East African countries that is growing in the financial aspects because of the increase in banks and remittances companies in Mogadishu. In the past the responsibility of dealing with the working capital management had been designated to those Managers in accounting and finance departments and still on their job. Firms in Somalia still are not well conversant working capital management with its important compared to others regional states of east African and difficult to relate the financial performance.

However, corporate profitability might decrease with the cash conversion cycle, if the costs of higher investment in working capital rise faster than the benefits of holding more inventories or granting more trade credit to customers. And the main cause of the failure of a business enterprise has been found to be the shortage of working capital, their mishandling, and mismanagement of working capital and under utilization of capacity (Dr. K.S. Vataliya, 2009). So the purpose of this study is to identify whether the performance of financial are affected by working capital management in some selected remittances companies and to establish the relationship between liquidity and financial performance considering cash flows; receivables and also payables as objectives of the study. Working capital management is significant parts in the capital structure in any business that operates in maximize the wealth of share in order to achieve the objective of companies. According to Padachi (2006), a well designed and implemented working capital management contributes positively to the creation of a firm’s value. This is supported by Peel and Wilson (2006) who assert that management of working capital is important to the financial health of businesses of all sizes. Since the amounts invested in working capital are often high in proportion to the total assets employed, it is vital that these amounts are used in an efficient and effective way. This, however, managers effectively manage the various mix of working capital component which is available to them, and the financial performance which may either be overcapitalized or undercapitalized or worst still, liquidate in the over view in the liquidity management.

Working capital management or liquidity is the ability to control effectively and efficiently the current assets and current liabilities in a manner that provides the financial performance with maximum return on its assets and minimizes payments for its liabilities the short-term capital refers to the capital that companies use in their daily operations and it consists of companies’ current assets and current liabilities and well managed working capital promotes a company’s well being on the market in terms of liquidity and it also acts in favor for the growth of shareholders value (Jeng-Ren, Li & Han-Wen, 2006).

In Somalia every company is not able to find external financing easily where it is available the cost of borrowing may be expensive, the remittance companies in Mogadishu are different to cost of funding but same in performing poorly. Lack of adequate working capital also means that a firm is unable to undertake expansion projects and increase its sales, therefore limiting the growth and profitability of the business. Majority of stated companies have exhibited dwindling returns as well as poor performance in however, the extent to which working capital management affects profitability of these firms is not well known. It is on this premise that this study
analyzed the relationship between working capital management and the firm’s performance.

1.3 Research Objectives
1. To determine the effects of accounts receivables management on the financial performance of the remittance companies in Mogadishu, Somalia.
2. To examine the effects of cash flow management on the financial performance of the remittance companies in Mogadishu, Somalia.
3. To establish the effects of accounts payables management on the financial performance of the remittance companies in Mogadishu, Somalia.

2. Related Literature

2.2 Conservative Plan theory
This theory explains that the cost of financing working capital is equal to the cost of long term fund that is annual average loan multiplied by long term rate of interest. Fixed and part of current assets are financed by long term funds as permanent and long term sources are more expensive leading to lower risk return. (Horne and Wachowitz, 1998); Efficiency in working capital is vital especially for production of firms whose assets are current as it directly affects liquidity and profitability of any firm. This theory very much uses the ‘plays it safe’ philosophy. It attempts to provide sufficient long term financing to cover all anticipated eventualities. The conservative theory implies relatively high investment in current assets in relation to sales, the current assets to sales ratio will be comparatively high and assets and turnover ratio will be low.

This approach does not use short term borrowing and may in the long run be more expensive as the available funds may turn out not to be fully utilized in certain periods but interest on those funds not needed still accrue and are paid. Raheman and Blumenthal (1994) firms are required to use accurate measures on working capital even though their profitability may be positive.

2.3 Hedging plan theory
This theory indicates that no long term funds are used to finance short term seasonal needs; that is current assets are equal to current liabilities. It is a moderate policy that matches assets and liabilities to maturities. Finnerty (1993); Joe et al., (1996) Current acid test and cash ratios are balance sheet measures that cannot provide detailed and accurate working capital and effectiveness. Hedging theory is a risk as it almost full utilization of the firm’s capacity to use short term funds and in emergency situations it may be difficult to satisfy short term needs. Firm uses long term sources to finance fixed assets and permanent current assets and short term funds to finance temporary current assets. Richards and Laughlin (1989), Gentry Et al. (1990), Schilling (1996) and Boer (1999) have insisted on using ongoing liquidity management. Ongoing liquidity management refers to the inflows and outflows of cash through the firm as the payment and collection takes place over time. In hedging approach, a firm needing to have additional inventories for two months will seek short term funds two months to match the inventory purchase. Limited access to short term working capital sources which include bank financing and suppliers’ financings provides a hindrance to the hedging approach. Ross et al., (2003) advises that most of the time it is reasonable to study the working capital management approach in relation to application of funds.

2.4 Conceptual framework
Generally the financial management decision divides into management of assets (investment) and liabilities (source of financing) in the short term and long term. Working capital management is mostly focus on the management of current assets and current liabilities of companies. This study adopts the following conceptual framework to show the relationship between the dependent variable (Financial performance) and the independent variables (Working capital management).

![Figure 1. Conceptual Framework.](image)

2.4.1 Effect of Accounts receivable management on financial performance
Receivables management has become one of the most important issues in the organizations where many financial executives strive to identify the basic receivables drivers and the appropriate level of accounts receivables (Lamberson, 1995). Jose et al. (1996) examined the relationship between aggressive receivables management and performance of US firms using Cash Conversion Cycle (CCC) as a measure of receivables management where a shorter CCC represents the aggressiveness of receivables management. The results indicated a significant negative relationship between the cash conversion cycle and profitability indicating that more aggressive receivables management is associated with higher profitability. Firms in an industry that has less competition would focus on minimizing the receivable to increase the cash flow. For firms in industry where there are large numbers of suppliers of materials, the focus would be on maximizing the payable.

Finally, Waweru (2011) carried out a study on the relationship between receivables management and the value of companies quoted at the NSE. The study used secondary data obtained from annual reports and audited financial statements of companies listed on the NSE. A sample of 22 companies listed on the NSE for a period of seven years from 2003 to 2009 was studied. The 27 average stock price was used to measure the value of the firm. The regression models indicated that there was some relationship between receivables management and the firm’s value while the result of the Pearson correlation indicated a negative relationship between average cash collection period, inventory turnover in days, cash conversion cycle and the value of the firm. Raheman and Nasr (2007) also investigated relationship between cash conversion cycle and its components by taking a sample of 94 firms listed on Karachi Stock Exchange for a period of six

Years from 1999-2004. He investigated that cash conversion cycle is negatively related to net operating profit
which is a measure of profitability. Similar relationship was observed for average collection period, inventory turnover in days, and average payment period. At company level it was observed that cash gap (cash conversion cycle) is more important as measure of liquidity than the current ratio as measure of liquidity that affects profitability. At industry level it was observed that size has significant effect on profitability.

Afza and Nazir (2009) made an attempt to investigate the traditional relationship between receivables management policies and a firm’s profitability for a sample of 204 non-financial firms listed on Karachi Stock Exchange (KSE) for the period 1998-2005. The study found significant difference among their receivables requirements and financing policies across different industries. Moreover, regression results found a negative relationship between the profitability of firms and the degree of aggressiveness of receivables investment and financing policies.

2.4.2 Effect of cash flow management on the financial performance

Negarbo (2006) selected 250 firms as the sample to test the working capital management in them. The conclusions showed that predicting cash flows and growth rate of the firms are the major indicators of working capital management. They also found that changing the size and compound of the assets are not significantly affected by the cash flows prediction and sales growth. They are highly influenced by some factors such as the business nature of the firms, sales, firm size and profitability. The impact of working capital management on the value of 150 firms during 1990 to 2004 was examined by Laplent (2005). It was found that the trends of the firms, size and future sales growth affect the efficiency of the working capital management. The positive relationship between working capital management and financial performance was confirmed by the authors.

Lazaridis and Tryfonidis (2006) investigated the relationship of financial performance and working capital management for firms listed at Athens Stock Exchange. They reported that there is statistically significant relationship between performance measured by gross operating profit and the Cash Conversion Cycle. Furthermore, Managers can create profit by correctly handling the individual components of working capital to an optimal level.

Shah and Sana (2006) used Avery small sample of 7 oil and gas sector firms to investigate this relationship for period 2001-2005. The results suggested that managers can generate positive return for the shareholders by effectively managing working capital.

2.4.3 Effect of Accounts payable management on financial performance

Anand and Prakash Guptha (2002) considered the performance of the firms over the years from 1991 to 2001 in terms of their performance in working capital management. The results showed that the selected measures for performance evaluation of working capital management are useful in evaluating the performance of the working capital and they contribute to analyzing the risk and return of the firms.

In another study, V. Ganesan, (2007) analyzed impact of working capital management upon the performance of firms in Telecom industry. The variables used were, days sales outstanding, number of days for payment to vendors, average days inventory held, cash conversion efficiency, revenue to total assets, revenue to total sales, etc. Findings revealed negative & insignificant relationship between profitability and daily working capital requirement in the said (Telecom industry) industry. The term profitability is measured in different ways by the researchers. It was measured as Gross Operating Profit (GOP), Net Operating Profit (NOP), Return on Investment, (ROI), and Return on Asset (ROA) while Working Capital Management was measured as cash conversion cycle (CCC).

2.4.4 Financial Performance

Company’s financial performance is an essential measure to management as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility, not against the law, and conforming to the morale and ethic. Such performance is the function of the ability of an organization to gain and manage the economic resources in several different ways to develop competitive advantage (Hansen and Mowen, 2005). Naser and Mokhtar (2004) contend that high financial performance reflects management effectiveness and efficiency in making use of company’s resources, and is often expressed in terms of growth of sales, turnover, employment, or stock prices.

According to Dong (2010), the firms’ financial performance is affected by working capital management practices. Based on empirical findings, Chatterjee (2010) defends the importance of fixed and current assets in the successful running of any organization. He recognizes a common phenomenon observed in the business cycle that most of the business entities increase their margin for the profits and losses because of shrinking of the size of working capital relative to sales. Effectively, if the entity wants to increase or improve its liquidity, then it has to increase its working capital. In response of this policy, the organization has to lower down its sales and hence the profitability will be affected due to this action (Chatterjee, 2010).

2.5 Empirical review

Gul, Khan, Rehman, Khan, Khan and Khan (2013) investigated the influence of working capital management (WCM) on performance of small medium enterprises (SMEs) in Pakistan. The duration of the study was seven years from 2006 to 2012. The data used in this study was taken from SMEDA, Karachi Stock Exchange, tax offices, company itself and Bloom burgee business week. The dependent variable of the study was Return on Assets (ROA) which was used as a proxy for profitability. Independent variables were Number of Days Account Receivable (ACP), Number of Day’s Inventory (INV), Cash Conversion Cycle (CCC) and Number of Days Account Payable (APP). In addition to these variables some other variables were used which included Firm Size (SIZE), Debit Ratio (DR) and Growth (growth). Regression analysis was used to determine the relationship between WCM and performance of SMEs in Pakistan. Results suggested that APP, growth and size have positive association with Profitability whereas ACP, INV, CCC and DR have inverse relation with profitability. Oladipupo and Okafor (2013) examined the implications of a firm’s working capital management practice on its profitability and dividend payout ratio. The study focused on the extent of the effects of working capital management on the Profitability and Dividend Payout Ratio. Financial data were obtained from 12 manufacturing companies quoted on the Nigeria Stock Exchange over 5 years period (2002 to 2006). Using both the Pearson product moment correlation technique and ordinary least square (OLS) regression technique, they observed that
shorter net trade cycle and debt ratio promote high corporate profitability. While the level of leverage has negative significant impact on corporate profitability, the impacts of working capital management on corporate profitability appeared to be statistically insignificant at 5% confidence level. 

Almazari (2013) investigated the relationship between the working capital management (WCM) and the firms’ profitability for the Saudi cement manufacturing companies. The sample included 8 Saudi cement manufacturing companies listed in the Saudi Stock Exchange for the period of 5 years from 2008-2012. Pearson Bivariate correlation and regression analysis were used. The study results showed that Saudi cement industry’s current ratio was the most important liquidity measure which effected profitability, therefore, the cement firms must set a trade-off between these two objectives so that, neither the liquidity nor profitability suffers. It was also found, as the size of a firm increases, profitability increased. Besides, when the debt financing increased, profitability declined. Linear regression tests confirmed a high degree of association between the working capital management and profitability. 

Gakure, Cheluget, Onyango and Keraro (2012) analyzed the relationship between working capital management and performance of 15 manufacturing firms listed at the Nairobi NSE from 2006 to 2010 and for a total 75 firms year observations. They used secondary data from a sample of 18 companies at the NSE. A regression model was used to establish the relationship between the dependent variable and the independent variables. Pearson’s correlation and regression analysis were used for the analysis. The results indicated that there is a strong negative relationship between firm’s performance and liquidity of the firm. The study found that there is a negative coefficient relationship between accounts collection period, average payment period, inventory holding period and profitability while the cash conversion cycle was found to be positively correlated with profitability. However, the effects of the independent variables except the average payment period were no statistically significant though the overall model was statistically significant. 

Mathuva (2010) in his study on the influence of working capital management on corporate profitability found that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers and profitability. He explained that the more profitable firms take the shortest time to collect cash from the customers. The study further revealed that there exist a highly significant positive relationship between the inventory conversion period and profitability. It was explained that firms, which maintain sufficiently high inventory levels reduce costs of possible interruptions in the production process and loss of business due to scarcity and products. Finally, the study established that there exists a highly significant positive significant positive relationship between the average payment period and profitability. He held that the longer a firm takes to pay its creditors, the more profitable it is. In this study, a sample of 30 firms listed on Nairobi Stock Exchange for the periods 1993 to 2008 was used. Both the ported OLS and the fixed effects regression models were used.

3. Methodology
A descriptive survey was used in this study. (John & et al, 2002). The research population was 102 individuals recently working for the remittance companies in Mogadishu. The researcher selected a sample size of 81 for the study.

4. Research Findings
4.1 Descriptive Analysis
After completion data gathering process, the researchers were recorded, stored and analyzed the responses of the respondents of the questions by using SPSS version16.0 specially data was analyzed descriptive statistics and regression analyses. Hence the below tables presented the analysis of the questions asked to the respondents.

4.1.1 Account receivable management

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship between account receivable and financial performance</td>
<td>3.94</td>
<td>992</td>
<td>Very good</td>
</tr>
<tr>
<td>The company has formal policy of working capital management such as account receivables.</td>
<td>3.89</td>
<td>894</td>
<td>Very good</td>
</tr>
<tr>
<td>To what extent does working capital management use specially the receivable in the performance</td>
<td>4.2</td>
<td>.781</td>
<td>Very good</td>
</tr>
<tr>
<td>Account receivable management is viable strategy for the financial performance.</td>
<td>3.98</td>
<td>.836</td>
<td>Very good</td>
</tr>
<tr>
<td>There are regular account receivable projections having strong effectual liquidity management</td>
<td>4.37</td>
<td>.887</td>
<td>Excellent</td>
</tr>
<tr>
<td>Mean Index</td>
<td>4.07</td>
<td>.879</td>
<td>Very good</td>
</tr>
</tbody>
</table>

Descriptive statistics was conduct in order to find out the mean and standard deviation. According to the table above concerned the relationship between account receivable management and financial performance and the result showed a mean 3.94 and standard deviation is .992 that mean indicates it is a very good agree in the first standard deviation is small one.

Question two asked respondents were “formal policy in managing of working capital management which includes account receivables” So that the mean is 3.89 and standard deviation is .894, that means that the companies have strong management of receivable and the standard deviation indicates that the variance among respondents was small.

Question three of this study was extent of receivable these companies uses for financial performance. The mean of this question is 4.2 and standard deviation is .783. This means that these companies mostly extendedly use account receivables. Question four was “account receivable management is viable strategy” the mean is 3.98 and standard deviation is .836 which means that account receivable management is viable strategy to the company.

Question five of account receivable management was “account receivable projection having strong effects the liquidity of the firm.” The responses of respondents mean are 4.37 and standard deviation is .887 which indicates having companies their projections. The overall mean of the respondents was 4.02 and standard deviation is .879, which means that the account receivable management of the remittances is very good. Similarly account receivable management have been carried out by various scholars such as (Gul, Khan, Rehman, Khan, Khan and Khan (2013) there differtionality the observed study by these variables.
4.1.2 Cash Flow Management

Descriptive statistics was conducted in order to find out the mean and standard deviation of the second questioner of cash flow management.

The first question concerned significant of cash flow on the performance to this business the mean of this question is 4.33 and standard deviation is .894. The mean indicates that the companies feel a strong sense of the excellent. Second question of kind of attribution of cash flow to financial performance of these this question means indicates 4.11 and standard deviation is .880 that there is management contributing to the company performance are very satisfied.

Table 4.2. Cash flow management.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow management is important for the business performance to go smoothly such business</td>
<td>4.33</td>
<td>.894</td>
<td>Excellent</td>
</tr>
<tr>
<td>From your experience, do you believe that managing of working capital management such cash flow can be attributed to the financial performance</td>
<td>4.11</td>
<td>.880</td>
<td>Very good</td>
</tr>
<tr>
<td>There are good concept and insistence on cash Repayment</td>
<td>3.78</td>
<td>.975</td>
<td>Very good</td>
</tr>
<tr>
<td>Your company willing to put great deal of efforts about cash flow management normally expected to achieve financial performance successfully</td>
<td>3.95</td>
<td>1.083</td>
<td>Very good</td>
</tr>
<tr>
<td>Regular reviews have been done to collection policies for purpose of performance</td>
<td>3.80</td>
<td>1.209</td>
<td>Very good</td>
</tr>
<tr>
<td>Mean</td>
<td>3.994</td>
<td>1.0082</td>
<td>Very good</td>
</tr>
</tbody>
</table>

Table 4.3. Account payable management.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
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<tbody>
<tr>
<td>Your company has formal policy in managing of working capital management which includes account payable</td>
<td>4.30</td>
<td>.813</td>
<td>Excellent</td>
</tr>
<tr>
<td>Debt repayment to vendors may lead poor performance and not acceptable to all such business</td>
<td>3.73</td>
<td>1.107</td>
<td>Very good</td>
</tr>
<tr>
<td>There are positive relationship between account payable management and financial performance</td>
<td>3.78</td>
<td>1.107</td>
<td>Very good</td>
</tr>
<tr>
<td>Do you recommend that Low credit of consume leads the firms poor performance</td>
<td>3.6</td>
<td>1.103</td>
<td>Very good</td>
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<td>The use of credit checks of business on regular basis enhances payable management and performance</td>
<td>3.3</td>
<td>1.249</td>
<td>Very good</td>
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Similarly Gill, Biger and Mathur (2010) analyzed the relationship between working capital management and profitability of 88 American firms listed on New York Stock Exchange for a period of 3 years from 2005 to 2007 was selected. The data was analyzed using Pearson Bivariate Correlation Analysis and Weighted Least Squares (WLS) Regression techniques. They found statistically significant relationship between the cash conversion cycle and profitability, measured through gross operating profit.

4.1.3 Account Payable management

Descriptive statistics was conducted in order to find out the mean and standard deviation.

The first question concerned the policy of payable management to these organizations the mean of this question is 4.30 and standard deviation is .813. The mean indicates that the policy of this business have a excellent of belonging to the company. Second question of this account payable management talks about "Dept repayment to the vendors leads poor performance" the mean is 3.73 and standard deviation is 1.107. While question three concerned "Kind of relation between payable and financial" the mean is 3.78 and standard deviation is 1.107. Which indicates that the organization has good relation. Question four is concern "recommendation of low credit of the firm," mean is 3.6 and standard deviation is 1.103 the mean indicates the good credit has no great satisfied. Also question five talks about “Regular checks management and their business” the mean is 3.3 and standard deviation is 1.249.

The Overall Mean of account payable management is 3.682 and standard deviation is 1.0758 this indicates that the account payable management of the remittances companies can be agod acceptable. Similarly Mathuva (2010) in his study on the influence of working capital management on corporate profitability found that there exists a highly significant negative relationship between the average payment period and profitability. He held that the longer a firm takes to pay its creditors, the more profitable it is. In this study, a sample of 30 firms listed on Nairobi Stock Exchange for the periods 1993 to 2008 was used. Both the ported OLS and the fixed effects regression models were used.

4.1.4 Financial Performance

The first question concerned feeling of employees’ perception of their company’s performance and changing of changing company current assets so the mean of this question is 4.4 and standard deviation is .626.

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</tbody>
</table>
The mean indicates that the employees feel a strong sense of performance to the company. Second question of this Financial performance talks about "Financial ability of effectively manage its performance is related business arrangement of its flow” the mean is 4.05 and standard deviation is .723.

While question three concerned was "possibility of the company performance is attributed healthily managed customer balance" the mean is 3.7 and standard deviation is 1.030 Which indicates that the organization has very good deal of managing its customer balance. Question four is concern "Future feeling of employees to its companies meeting goals” mean is 3.80 and standard deviation is 1.018 the mean indicates the employee's feeling to future company meeting goals are good”. Also question five talks about “Experience of the employees to company performance in relating to the capital management” the mean is 2.81 and standard deviation is 1.397 that means fair. The Overall Mean of financial performance 3.752 and standard deviation is 1.1616; this indicates that the financial performance of remittance companies has good satisfied. Like The study developed by Gul, Khan, Rehman, Khan, Khan and Khan (2013) and mentioned in the chapter two such as investigated the influence of working capital management (WCM) on performance The dependent variable of the study was Return on Assets (ROA).Independent variables were Number of Days Account Receivable (ACP), Cash Conversion Cycle (CCC) and Number of Days Account Payable (APP). Results suggested that APP, GROWTH and SIZE have positive association with Profitability.

### 4.2 Regression Analysis

This research used, a multiple regression analysis are conducted to test the effect of working capital management on the financial performance on remittance companies in Mogadishu, Somalia. The study used statistical package for social sciences (SPSS V. 16) to enter and compute the measurements of the multiple regressions.

#### 4.2.1 Regression Models

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changing current assets over time are seen difficult and not acceptable for such companies performance</td>
<td>4.4</td>
<td>.626</td>
<td>Excellent</td>
</tr>
<tr>
<td>Financial ability of effectively manage its performance is related business arrangements of its flow</td>
<td>4.05</td>
<td>.723</td>
<td>Very good</td>
</tr>
<tr>
<td>The possibility of the company performance are attributed healthily managed its depend on customer balance</td>
<td>3.7</td>
<td>1.030</td>
<td>Very good</td>
</tr>
<tr>
<td>I feel the performance of this organization over the past three years has been excellent in meeting its goals</td>
<td>3.80</td>
<td>1.018</td>
<td>Very good</td>
</tr>
<tr>
<td>Your experience of the company performance is positively related working capital management</td>
<td>2.81</td>
<td>1.381</td>
<td>fair</td>
</tr>
</tbody>
</table>

Adjusted R² squared is coefficient of determination which tells us the variation in the dependent variables due to change in the independent variables. From the findings in the above table the value of Adjusted R squared is 0.344 and indicates that there was variation of 34.4% on financial performance of remittance in Mogadishu due to changes in account receivable management. Cash flow management and account payable at 95% confidence interval. This shows the significant that 34% of the variations in the financial performance of remittance companies Somalia in Mogadishu and attributed for by the variations in the independent variables and the remaining 66% are accounted by other factors contained in the standard error. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strongly positive relationship between the study variables as shown by 0.586.

#### 4.2.2 Analysis of Variations

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>10.667</td>
<td>3</td>
<td>3.556</td>
<td>13.438</td>
<td>.000*</td>
</tr>
<tr>
<td>Residual</td>
<td>20.373</td>
<td>77</td>
<td>0.265</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>31.040</td>
<td>80</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ANOVA statistics shown in table, the processed data, which is the population parameters, had a significance level of 0.05% which shows that the data is ideal for making a conclusion on the population’s parameter as the value of significance (p-value ) is less than 5%. The F critical at 5% level of significance was 0.37. Since F calculated (13.438) is greater than the F critical (0.37), this shows that the overall model was significant and that account receivable, Cash flow management and account payable management are significantly affect on the financial performance of remittances companies in Mogadishu- Somalia.

#### 4.1.3 Multiple Regression Analysis

From the above regression equation it was revealed that holding account receivable, account payable management and cash flow management when to a constant is zero, financial performance of remittances in Mogadishu would be at 0.891.

### Table 4.4. Financial performance.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std</th>
<th>Rank</th>
</tr>
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<td>1.381</td>
<td>fair</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>Un standardized Coefficients.</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. (Constant)</td>
<td>.891</td>
<td>.473</td>
</tr>
<tr>
<td>Account receivable</td>
<td>.308</td>
<td>.133</td>
</tr>
<tr>
<td>Cash flow mgt</td>
<td>.193</td>
<td>.107</td>
</tr>
<tr>
<td>Account payable</td>
<td>.200</td>
<td>.111</td>
</tr>
</tbody>
</table>

The data in the above table are the recognize regression equation and it's

\[ Y = 0.891 + 0.308X_1 + 0.193X_2 + 0.200X_3 \]
When a number increases to account receivable management would lead to increase in the financial performance of remittances in Mogadishu as a factor of 0.308. Also a number increases in account payable management would lead to increase in the financial performance of remittance companies in Mogadishu as a factor of 0.200 and also a number increase in cash flow management would lead to increase in the financial performance of remittance companies in Mogadishu as a factor of 0.193.

You can see that regression results presented table indicate that account receivable management, account payable management and cash flow management were significant at 5 percent level. The coefficient of account receivable showed 0.308 with a p-value 0.023, which is less than 5%, the coefficient of account payable was 0.200 which is less than 0.05, with a p-value of 0.035. And the coefficient of the cash flow was 0.193, with a p-value of 0.044 which is less than 0.05 so that indicates there was statistically and strong positive relationship between account receivable, account management, account payable management and also cash flow management and financial performance of remittance companies in Mogadishu. So that the research can be recognize that the most significant of the study objective variables is account receivable management that effect on the financial performance of remittance companies in Mogadishu and the second account payable management and the last cash flow management though the variables were found to be significantly affect on the financial performance.

Melita, Maria and Petros (2010) empirically investigated the effect of working capital management on firm’s financial performance in an emerging market. Their data set consisted of firms listed on the Cyprus Stock Exchange for the period of 1998 - 2007. Using multivariate regression analysis, their results specifically indicate that the cash conversion cycle and all its major components namely - days in inventory, days’ sales outstanding and creditors’ payment period – are associated with the firm’s profitability.

4.2 Interpretation of the Findings

The Result of the regression analysis, the study found that there was a variation of 31.8 on financial performance of remittance companies in Somalia Mogadishu because of variation of the account receivable management, account payable management and also cash flow management that explore that 31.8% any changes in side financial performance on the remittance companies will consider for study objectives and others are environment surround to the that business. there are some study that are similar the finding such research but differ in the area of the study and also target population such as Gill, Biger and Mathur (2010) analyzed the relationship between working capital management and profitability of 88 American firms listed on New York Stock Exchange for a period of 3 years from 2005 to 2007 was selected. The data was analyzed using Pearson Bivariate Correlation Analysis and Weighted Least Squares (WLS) Regression techniques. They found statistically significant relationship between the cash conversion cycle and profitability, measured through gross operating profit. It followed that managers can create profits for their companies by handling correctly the cash conversion cycle and by keeping accounts receivables at an optimal level.

5. Conclusion

From the findings, the study found that account receivable cash flow, account payable management had effect passively effect on financial performance remittance companies. The study established that there was strong relationship between financial performance of remittance and working capital management as general objective of the study.

The study revealed that a unit increase in account receivable would lead to increase in financial performance of remittance companies in Mogadishu Somalia; and a unit increase in cash flow would lead to increase in financial performance of remittance companies in Mogadishu Somalia; this is an indication that there was positive association between account receivable and cash flow management and financial performance of the these companies, an increase in account payable would lead to increase in firm performance of remittance companies in Mogadishu Somalia, which shows that there was positive relationship between account payable management and financial performance these companies,

6. Recommendations

The following major recommendations are suggested for remittance companies:-

1) The study recommends that remittance companies should enhance their cash flow management by adapting a more and sitting policy their cash flow management.

2) There is also need to enhance their account payable management which will help decrease the company default and also will help in improving their firm performance.

3) The researcher also recommends that there are possible to find out differ from the study finding by extending to the population number of the other research areas or conducting whole services industry which in Mogadishu is highly having more invested current assets which needs more care then manage working capital management in capital structure

7. Suggestions for Further Studies

The study are suggested that a more detailed study targeting all the remittance companies are needed is made to derive a comprehensive models explaining the quantitative relationship between financial performance of out-grower or related companies and their respective of working capital management.

The study or the researcher is advised to adopt other sets of working capital management to explore or find out how respective WCM influence the companies’ financial performance. This will significantly make contributions towards establishing a comprehensive scholarly opinion relating to companies finances and working capital management.

8. Reference


Muhammad, A.& Syed, I. H. (2011). Impact of Working Capital Management on Firms’ performance:


Saswata Chatterjee (2010) focused on the importance of the fixed and current assets in the successful running of any organization.

