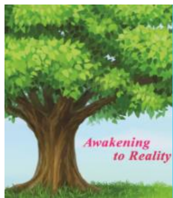

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Effects of Financial Management Practices on Profitability of Small Businesses in Mogadishu, Somalia

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ABSTRACT

This part of the book is the summary that highlightsin briefly the overall five chapters of the book. Most previous researchers have concentrated on examining, investigating and describing the behavior of Business Enterprises in practicing financial management.Although they provided much descriptive and empirical evidence on financial management practices, it appears that there are still some gaps in the literature which need to be addressed.Previous researchers focus on investigating and describing financial management practices, but there has been little research examining the effect of financial management practices on business profitability. to achieve this objective this book focused on four variablesby targeting selected SMEs in Mogadishu. These four variablesare; to investigate the effects of working capital management on profitability, to investigate the effects of financial planning management on profitability, to investigate the effects of financial literacy on profitability and to investigate the effects of resource allocation on profitability of small businesses in Mogadishu Somalia. The target population of this study was150 SMEs operating in Mogadishu, howlwdag district in bakaro market. Stratified random sampling technique was used since the population consists of managers, owners and employees. The sample size of this study contained 109 of the owners, managers and employees of SMEs. This study used a questionnaire to collect data.Data was analyzed using Statistical Package for Social Sciences (SPSS) version 22.0, which is a software tool for data analysis.Data collected was purely quantitative and it was analyzed using descriptive analysis. Regression analysis was used to come up with the model. The study used a multiple regression equation. Implementing efficiently and effectively financial management practices through employing financial manager practitioners or training and developing the old ones bring SMEs to be profitable.Most problem faced SMEs was they lack enough financial management practices that could made possible all the financial transactions, investments and financing decisions to line in order to reach financial objectives of the business. The finding of the study reveals that only few owners and managers have proper financial management practices and able their business to be profitable. The study findings established that there was a positive relationship (R= 0.991) between the variables. The study also revealed that 98.2% of profitability in the SMEs could be explained by the variables under study. The recommending SMEs' owners/managers should employ financial management practices to increase profitability of their business.

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1.Introduction

Observing global perspective financial management is one of the several functional areas of management but it is the center to the success of any business. Inefficient financial management, combined with the uncertainty of the business environment often led Business Enterprises to serious problems.

According to Kawame (2010), careless financial management practices are the main cause of failure for business enterprises in Ghana, regardless of whether an owner-manager or hired-manager, if the financial decisions are wrong, profitability of the company will be adversely affected. Consequently, a business organization's profitability could be damaged because of inefficient financial management. Business Enterprises have often failed due to lack of knowledge of efficient financial management. Moreover, the uncertainty of the businesses Small and medium enterprises (SMEs) are considered backbone of economic growth in all countries (Rajesh et al. 2008).Environment causes Business Enterprises to rely excessively on equity and maintain high liquidity and these financial characteristics affect profitability.

Impact of financial management practices on the profitability was pointed out in previous studies. Profitability of the concern purely depends on the effectiveness and proper utilization of funds by the business concern. Financial management helps to improve the profitability position of the concern with the help of strongly financial control devices such as budgetary control, ratio analysis and cost volume profit analysis (Paramasivan et al, 2009).(Gabrielsson et al. 2004) revealed that the finance strategy selections and finance management capabilities are shown to influence the

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advancement of rapidly growing SMEs along the globalization process. As studying on small business financial management practices,

Mcmahon and Holmes (1991) point out that financial management is crucial to the profitability, survival and well-being of small enterprises. Additionally, in the study about the financial management practices and profitability in SMEs, Kieu (2004) indicates that SME profitability is positively related to the efficiency of principal components of financial management practices. The more efficient financial management practices, the higher profitability. By raising the efficiency of financial management practices, SMEs can improve their profitability.

As In Mogadishu-Somalia where this study will take place, there are many Small and medium-sized enterprises that constitute the large part of the private sector with specific reference to their numbers and employment figures. SMEs are central to poverty reduction, because they are owned and employ relatively poor persons. They are therefore important instruments for both income distribution and equitable participation in the process of economic development. SMEs are often considered to be a key source of productivity, growth, and job creation and hence, their performance is important for economic development of the country. According to International leadership and management center (ILMC 2010)many small and medium enterprises in Mogadishu are facing challenges due to poor financial management practices, Low entrepreneur and business skills, Weak market linkages and unfavorable business environment. Hadi (2012) enlightened that some SMEs in Mogadishu are not functioning smoothly due to inadequate funds from financial institutions, because credits in Somalia have been largely pre-dominated by informal trust-based lending practices, where determination of credit-worthiness and mitigation of counterpart risk were both addressed through familial and clan relationships (Alax 2006). Since there are no empirical studies conducted in Mogadishu-Somalia showing whether financial management practices has an influence on business profitability of SMEs. This need has triggered the researcher to make study on financial management practices and business profitability of SMEs in Mogadishu-Somalia.

Most previous researchers have concentrated on examining, investigating and describing the behavior of Business Enterprises in practicing financial management (Hassan Ali 2012). Their findings are mainly related to exploring and describing the behavior of business enterprises towards financial management practices. Although they provided much descriptive and empirical evidence on financial management practices, it appears that there are still some gaps in the literature which need to be addressed. First, most empirical evidences came from the developed economies such as the United States of America. There seems to be a lack of evidence from less developed countries like Somalia. Second, most previous researchers focus on investigating and describing financial management practices.

There has been little research examining the effect of financial management practices on business profitability (McMahon, et al. 1993). This lack of empirical evidence from less developed economies and the lack of examination of the effect of financial management practices on business profitability are major gaps in the knowledge of financial management. Therefore, it is difficult to convince business practitioners of the need for changes in practices until evidence of the effects of financial management practices on business profitability are provided and the relationship between the two variables is proved. Based on previous research findings and recognition of these gaps, a study of the effect of financial management practices on profitability is justified and the effect of financial management practices should be developed and tested by using empirical data from less developed economies (kieu, 2004).

Research Objectives

1. To investigate the effects of working capital management on profitability of small businesses in Mogadishu Somalia
2. To investigate the effects of financial planning management on profitability of small businesses in Mogadishu Somalia
3. To investigate the effects of financial literacy on profitability of small businesses in Mogadishu Somalia
4. To investigate the effects of resource allocation on profitability of small businesses in Mogadishu Somalia

2. Related Literature

2.1. Theoretical review

2.1.1.Configurational theory

Configurational theory underpins this study. According to this theory, organizational performance depends primarily on the interplay between the different parameters. This being the case, relevant internal drivers of working capital performance must be identified and optimized with an integrated approach to match the requirements of the contextual variables. Only if these conditions are fulfilled overall firm performance will reach its maximum. This theory did not specifically underlined managing the components of working capital management, but it addressed that, managing working capital variables that are conceptualized in this study as; cash management, managing inventories and receivables will pave a wary for business specially small and medium enterprises to perform well. High performing companies understand the company and industry specific drivers behind each component of operative working capital and focus on optimizing the most promising ones. During this process, they consider the entire value chain to reveal the root causes of tied up cash and take into account all interdependencies between the respective components. They apply a holistic approach in which they do not randomly reduce costs but consider all trade-offs with costs and capital employed to optimize the company value. By applying the appropriate levels of each component, obstacles that slow cash flow can be removed and overall business performance can be improved (Buchman & Udo, 2011).

Economic growth and development, an increase in the number of corporations and the separation of management and ownership have turned agency problems into one of the most significant challenges of investors. Agency problems arise from the fact that investors are usually either not inclined or incapable of managing the company and thus delegate the responsibility to managers. If both the managers and investors aim to increase personal benefits, and performance control would require certain expenses, then the message conveyed would be that the agent may not be striving to provide returns to investors and to increase his/her wealth (Amir &Aslani, 2005). Thus the recognition and utilization of factors influencing the company's performance may be the most important obligation of the investors for evaluating the agent (management) and accordingly the going concern of the economic entity.

The going concern of economic entities depends to a large extent on short term resource management; since operational

activities within normal annual periods rely on working capital and its optimal management directed towards meeting expected results and providing the possibility of long term going concern. Thus working capital is considered as one of the most important financial items in an institution or economic entity with a significant role in financial decisions. The ever increasing importance of working capital in going concern of economic entities has led to the consideration of various strategies for working capital management. Profit making entities can apply various working capital strategies to influence the liquidity level of the company. Each strategy contains its own level of risk and return. Profit making entity managers select a strategy based on prevailing conditions in the company and according to their own personality and characteristics from among aggressive (risky) or conservative (risk averse) strategies in order to increase return, liquidity, debt settlement ability and ultimately to promote performance and going concern of the entity (RahnamayeRoodposhti and Kiyayi, 2009).

2.1.2.Life Cycle Theory

In economy and management theories, life cycles are divided into several stages. According to the life cycle theory, companies display various behavioral patterns throughout different stages of their life cycle; In other words, financial and economic characteristics of a company are influenced by the stage at which the company is going through. Results of past researches indicate that the reaction and response of capital markets to accounting information in various stages of life cycle display significant differences (Anthony, J.H &Ramesh, 1992). Overall, companies follow specific strategies and procedures based on the stage they are in. These are reflected within the financial information of a company and may have significant relationships with selecting the appropriate strategy. In other words, specific economic conditions in each stage of the life cycle may enable managers to select a working capital strategy that is a function of that same condition. Thus, in financial literature, the life cycle is expected to influence the level and type of relationship between working capital strategies and performance.

An entity's working capital is the total amount invested in current assets. Current assets include cash, tradable securities, receivable accounts and notes, inventory, pre-payments and other items of current assets. If current liabilities such as payable accounts and notes, short term loans and payments received in advance are deducted from current assets, the resulting amount is net working capital. Most current asset items are provided for settling short term liabilities. However, certain companies tend to settle them from either long term liabilities or equity. Various strategies exist for working capital, from which managers must select the most appropriate in order to efficiently manage current assets of the entity. Working capital strategies are categorized into two classes (JanahKhani&Parsayian, 2001); Conservative Strategy ad Aggressive Strategy. In the conservative strategy, working capital is high and liquidity reflects higher than normal amounts. The risk in this strategy is quite low, as high liquidity levels enable the company to repay debts at maturity. Moreover, high inventory levels lead to lower the risk of losing customers, and companies face lower bankruptcy risks; however, company's return and productivity is low. In the aggressive strategy approach, working capital managers tend to minimize cash and tradable securities and to decrease investments in inventory. The risk in this strategy is quite high and there is high possibilities of not being ableto repay debt to lose one's customers; however company's productivity increases due to the existence of fixed assets and the high turnover rate of current assets in operation (Al-Shubiri, 2011).

The life cycle theory of companies assumes that just like all living creatures that are born, grow and eventually die, every company goes through a life cycle or life curve (Javad Mohamad&NimaAfsari2014). The life cycle, describes each entity based on its controllability and flexibility. Companies are quite flexible, yet uncontrollable in their youth (development period). Relationships change as the company ages; control increases and flexibility is lessened. Ultimately, controllability minimizes when the entity becomes senile (decline period). The controllability and flexibility of an entity indicates the simultaneous characteristics of youth and senility. This condition is identified as the maturity (puberty) stage. The life cycle of companies and organizations are divided into various stages in economy and management. The literature of these sciences offers models with various stages within their life cycle. Companies follow specific strategies and procedures according to the stage they are in and within the framework of these models. The strategies are somehow reflected in accounting information. Researchers in accounting fields have studied the influence of a company's life cycle on accounting information (Aharony et al, 2006). They have determined the following four stages for describing a company's life cycle: Entry, Growth, Maturity and Decline. At the entry stage, assets (company size) are usually at a reduced level and cash flows from operations and profitability are quite low; Companies require high liquidity for financing or realizing growth opportunities. The dividend ratio in these companies is usually zero or maximum 10% and the return or adjusted return from investments is occasionally insignificant compared to the weighted average cost of capital. At the growth stage, company size is larger and sales levels and revenues rise as compared to the entry stage. Financial resources are mostly invested in productive assets and the company displays higher flexibility in liquidity indices. The dividend ratio fluctuates from 10% to 50%. Return from investments or the adjusted return is usually above the weighted average cost of capital. In the maturity stage, companies experience a constant and balanced level of sales and cash is usually provided by internal resources. Asset levels in these companies are relatively higher than in companies in the growth stage and the dividend ratio in these companies usually fluctuates from 50% to 100%. Due to high levels of liquidity and a decrease in dependency on outstanding policies, returns from investments or adjusted returns are usually equal to or higher than weighted average cost of capital. In the decline stage, there are very few if any growth opportunities in which case the possibilities are null MohammadHassani, &Javad Mohammad Bagherian (2014).

2.1.3.Agency Cost Theory

This is a theory concerning the relationship between the principal (shareholders) and the agent of the principal (company's managers). This suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individual, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision- making authority to the agents (LawalBabatunde, A. etal 2014).The agency theory concept was initially developed by (Berleand Means 1932, cited in

LawalBabatunde, A. etal 2014), who argued that due to a continuous dilution of equity ownership of large corporations, ownership and control become more separated.

This situation gives professional managers an opportunity to pursue their interest instead of that of shareholders.

According to Jensen and Meckling (1976) suggested that, for an optimal debt level in capital structure by minimizing the agency costs arising from the divergent interest of managers with shareholders and debt holders. They suggest that either ownership of the managers in the firm should be increased in order to align the interest of managers with that of the owners or use of debt should be motivated to control managers' tendency for excessive extra consumptions. Jensen (1986) presents agency problem associated with free-cash flow.He suggested that free cash flow problem can be somehow controlled by increasing the stake of managers in the business or by increasing debt in the capital structure, thereby reducing the amount of "free" cash available to managers. Therefore, firms which are mostly financed by debt given managers less decision power of those financed mostly by equity, and thus debt can be used as a control mechanism, in which lenders and shareholders becomes the principal parties in the corporate governance structure.

2.2. Conceptual framework

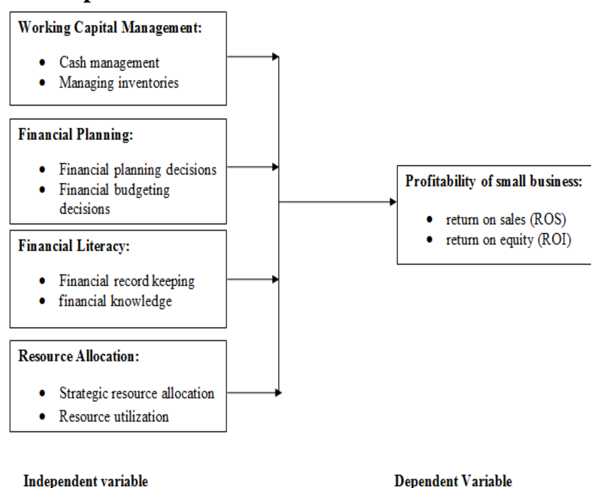

Figure 2.1. conceptual frame works.

2.2.1. Working capital management

Modern theories offer two alternative strategies of working capital management, that is, conservative working capital management policy and aggressive working capital management policy. The literature contains an extensive debate on the risk/return trade-off among different working capital policies (Gitman, 2005; Moyer etal, 2005; Brigham &Ehrhardt, 2004). While more aggressive working capital policies are associated with higher returns and risk, Conservative working capital policies offer both lower risk and returns (Gardner et al., 1986; Weinraub&Visscher, 1998).

(Nyamaoetal, 2012) conducted a study to investigate the effects of working capital management practices on the financial performance of small-scale enterprises (SSEs) in KisiiSouth District, Kenya. The study, which adopted a cross-sectional survey research design, found that working capital management practices were low amongst SSEs as majority of them had not adopted formal working capital management routines. Similarly, their financial performance was on a low average. The study concluded that working capital management practices influence the financial performance of small scale enterprise. The study relied on primary qualitative data to measure the working capital management practices, but the present study measured working capital management in terms of aggressiveness/conservatism using secondary quantitative data. The findings of the study also required validation in other areas of the country and among companies listed in the NSE.

In another study, (Vahidetal, 2012) investigated the impact of working capital management policies (aggressive and conservative policies) on the firms' profitability and value of listed companies in the Tehran Stock Exchange. The study used panel data and operational zed working capital management policy as conservative/aggressive. The results of the study show that application of a conservative investment policy and aggressive financing policy has a negative impact on a firm's profitability and value. The study adopted the model used by Nazir&Afza (2009) to investigate the relationship between the working capital management policies and profitability of firms listed in the Karachi Stock Exchange (KSE).

In their study, Nazir&Afza (2009) found a negative relationship between a firm's profitability and its financing policies. Thus, firms that adopt an aggressive working capital policy generate a lower rate of return than those adopting a conservative working capital policy. The present thesis borrowed the operationalization of working capital management as applied in the two studies since Kenya has a different economic setting from Iran and India where the two studies were carried out.

2.2.2. Financial planning

Financial planning is a process of setting objectives, assessing assets and resources, estimating future financial needs, and making plans to achieve monetary goals, smith, (2010) Financial planning, like accounting, medicine and law, is an applied profession (Houterman2009), that is, a profession that applies business theories to real world situations (Investopedia, 2012). It requires the possession of an ability to apply a wide array of skills ranging from psychology, communication counseling, leadership, motivation and marketing (Goetz et al., 2005). It also involves skills involving negotiation, analysis and synthesis of information (Financial Planning Standards board, 2007). Being able to apply learned skills in the workplace is ability that employers are seeking (DEST, 2004). Therefore, the skills that the students have gained during their tertiary education must be transferable to the workplace.

Financial planning is a very important component of corporate finance because it directly affects the liquidity, profitability and growth of a business and is important to the financial health of businesses of all sizes as the amounts invested in working capital are often high in proportion to the total assets employed. This all depends on proper financial planning, receivable management and inventory management, Atrill, (2006). It involves the planning and controlling of current assets and liabilities in a manner that eliminates the risk of inability to meet short-term obligations and avoid excessive investments in these assets (Lamberson, 1995). This management of short-term assets is as important as the management of long-term financial assets, since it directly contributes to the maximization of a business's profitability, liquidity and total performance.

Kakuru, (2010) argues that every organization must establish funds management policies or guidelines to ensure that it has optimal funds balance at any time when it requires

it. This can be achieved by implementing the following funds management policies. The organization must ensure that it speeds up funds inflows through efficient credit policy.

For example timely preparation and delivering of customer invoices, making customers to pay their outstanding by allowing funds discounts. This will enable the firm to keep in a liquid position and carry on its operations efficiently, World Bank Report (2011).Financial planning is important because it's difficult to predict cash flows accurately, particularly the inflow, and there is no perfect coincidence between inflow and outflows of cash. During some periods, cash outs will exceed cash inflows, because payment of taxes, dividends, or seasonal inventory build-up. At other times, cash inflow will be more than cash payments, because there may be large sales and debtors may be realized in large sums promptly Pandey, (2008).

2.2.3. Financial literacy

The importance of financial literacy to the well-being of the financial sector and the economy has been noted by several government agencies including The Federal Reserve (see Hilgert, Hogarth, and Beverly, 2003; Greenspan, 2005; Morton, 2005; Cole, Paulson, and Shastry, 2012). Citing the U.S. House of Representatives, Financial Services Committee 2009, Huston (2010) notes that increasing consumer financial literacy is a public policy objective to improve welfare through better decision making. Several authors believe that the late 2000s financial crisis was triggered, in part, by erroneous financial decisions made at the household level. For instance, Anthes (2004) predicted that the United States would fall into a financial crisis because of Americans' lack of financial literacy. Gerardi, Goette, & Meier (2010) find that limitation in certain aspects of financial literacy played a nontrivial role in the subprime mortgage crisis. Recently, several states mandated high school courses in personal finance in an attempt to promote financial literacy (Mandell & Klein, 2007), It is not surprising, therefore, that academic interest in the topic of financial literacy has increased (see Huston, 2010; Remund, 2010).

Given the importance of financial literacy and its impact on economic activity, it is natural to ask the following: What are the factors that shape households' financially literacy recently, the U.S. government adopted a definition of financial literacy introduced by theJump$tartCoalition for Personal Financial Literacy (2011; see Remund, 2010), the definition, states that: "Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being." In that sense, financial literacy encompasses not only adequate understanding of financial concepts, but also the ability to make sound financial decisions. According to Cude (2010), Remund (2010), Huston (2010), and Knoll and Houts (2012), however, the definition of financial literacy is still debatable and there is a general disagreement on how financial literacy is measured, A distinctive attempt to define financial literacy is that of Remund (2010) who screens the literature' on financial literacy and compares alternative definitions used by researchers. He synthesizes the following conceptual definition of Financial Literacy: Financial literacy is a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions (Remund, 2010).Therefore, financial knowledge, while necessary, may not be sufficient to assure financial well-being.

The definition asserts that adequate financial knowledge coupled with careful financial planning are the main driving forces behind long-term financial well-being of households.

In this article, investigate whether households are financially apt in the spirit of Remund (2010) definition. In other words, it examines the long-term financial planning behavior of American households and assesses the linkage between planning and financial knowledge. Specifically, we attempt to identify what type of knowledge, if any, is useful in formulating adequate long-term financial plans. Previous studies have examined the relationship between knowledge and financial practice in general. However, to the best of our knowledge, the literature on financial literacy did not investigate what type of financial knowledge is more critical in establishing better financial practices. We attempt to fill this gap by examining the characteristics of the "better" financial planners in terms of the type of knowledge acquired, that is, through college, following financial news overtime, work experience and so forth. Other financial and nonfinancial factors (e.g., socio-economic factors) that may influence one's ability to make sound financial decisions are also addressed.

2.2.4. Resource allocation

Resource allocation is the process of determining the best way to utilize the available assets in an organization in the accomplishment of organizational goals (Derek, 2003).

Decision makers in all organizations continually face the difficult task of balancing benefits against costs and the risks of realizing the benefits. Our experience with both for-profit and not- for-profit organizations shows that managers who must allocate resources are typically confronted with five problems. First, benefits are typically characterized by multiple objectives, which often conflict (Phillips, 1992). This is nearly universal for organizations in the voluntary (Quaddus, Atkinson & Levy, 1992) and public sectors (Banae Costa, 2001), and typical for those in the private sector (Collins and Porras, 1996). Second, when decision makers are presented with a large number of opportunities they cannot know the details of each one sufficiently well to make informed decisions. Third, if resources are allocated to each of several organizational units considered individually, the collective result appears not to make the best use of the total resource (Phillips, 1990). That is, individually optimal decisions are rarely collectively optimal, giving rise to inefficient use of the available total resource, a situation that illustrates the 'Commons Dilemma' (Hardin, 1968). Fourth, many people are usually involved. Some provide expert judgement and advice to the decision maker, but that assistance inevitably reveals fundamental conflicts, which possibly creates competition (Bana e Costa et al., 2002). Others, with power to interfere or influence decision making, are often difficult to identify. Resolving those conflicts, and finding win-win solutions, often accompanies the process of resource allocation (Bana e Costa, 2001). Finally, implementation by those who disagree with the resource allocation can easily lead to the formation of small teams of people surreptitiously working on non-approved projects in which they are heavily invested personally.

These five characteristics of real-world resource allocation highlight the need for an approach that will enable decision makers to balance costs, risk and multiple benefits; to construct portfolios of investments across different areas such

that the collective best use is made of the limited total resource; to consult the right people in a structured, coherent way, so that their multiple perspectives can be brought to bear on the issues; and to engage the key players to ensure their alignment to the way forward, while preserving their individual differences of approach. This can only be accomplished by blending a technical solution that captures the different perspectives with a social process that engages those concerned.

2.3. Profitability

Zikmund (1997) defines a dependent variable as a criterion or a variable that is to be expected or explained. This study examines the effect of financial management practices and business profitability. Generally, profitability is viewed as the dependent variable. However, profitability is an abstract concept and a latent variable, it cannot be measured directly. To overcome this obstacle, researchers often use indicated variables to indirectly measure profitability. As cited Kieu Minh Nguyen (2001) his thesis of financial management and profitability of small and medium enterprises for example, Burns (1985) measuredprofitability using three indicated variables: return on total assets, return on net assets and return on equity. Hutchinson,Meric and Meric (1988) used two indicated variables: return on sales and return on equity to measure profitability, while Cohen (1989) suggested four variables: asset earning power, return on equity, net profit on sales and return on investment.

Generally, depending upon their own purpose, researchers in the literature review used different indicated variables to measure profitability. However, three variables: return on sales (ROS), return on assets (ROA) and return on equity (ROE) were the most popularly used by the researchers and authors such as Ross, Westerfield, and Jaffe (1999), Meric et al. (1997), and Burns (1985) to measure profitability. Profitability is one of the most important objectives of financial management because one goal of financial management is to maximize the owner's wealth (McMahon, 1995).Thus, profitability is very important in determining the success or failure of a business. At the establishment stage, a business may not be profitable because of investment and expenses for establishing the business. When the business becomes mature, profits have to be produced.

Due to the importance of profitability, Edmister (1970) among other researchers have suggested that small firms need to concentrate on profitability. Jen (1963) found profitability to be a significant determinant of a small firm's credit risk. Thomas and Evanson (1987) stress the aim of a business is not only the generation of sales, but also generation of profits. Profit is especially important because it is necessary for the survival of a business. Low profitability contributes to under-capitalization problems because it leads to fewer dollars as retained earnings and therefore to a reliance on external capital (Davidson &Dutia, 1991).

2.4. Empirical review

Impact of financial management practices on the profitability was pointed out in previous studies. Profitability of the concern purely depends on the effectiveness and proper utilization of funds by the business concern. Financial management helps to improve the profitability position of the concern with the help of strongly financial control devices such as budgetary control, ratio analysis and cost volume profit analysis (Paramasivan et al, 2009). Gabrielsson, Sasi and Darling (2004) revealed that the finance strategy selections and finance management capabilities are shown to influence the advancement of rapidly growing SMEs along the globalization process. As studying on small business financial management practices, Mcmahon and Holmes (1991) point out that financial management is crucial to the profitability, survival and well-being of small enterprises. Additionally, in the study about the financial management practices and profitability in SMEs, Kieu (2004) indicates that SME profitability is positively related to the efficiency of principal components of financial management practices. The more efficient financial management practices, the higher profitability. By raising the efficiency of financial management practices, SMEs can improve their profitability.

Other empirical reviews have said about the relationships between financial management and SME profitability based on the literature by reviewing findings that were investigated by previous researchers. Unfortunately, these findings are not clear because most previous researchers only focus on examining and describing financial management practices and financial characteristics but do not focus on examining the impact of financial management practices on SME profitability. Concerned with the relationships between working capital management practices and SME profitability, only Burns and Walker (1991) provide some relevant findings as follows: Profitable firms reviewed their working capital policies on monthly and quarterly bases; Profitable firms used an ROI (return on investment) criterion in looking at changes in the management of certain working capital components; Profitable firms always or sometimes take discounts on payables whereas aggressive firms and those with written working capital policies were net users of trade credit.

Some theoretical researchers do indicate the relationships between financial management and profitability. For example, Van Horne (1986) indicated the relationship between liquidity and profitability; The greater the relative proportion of liquid assets, the less risk of running out of cash profitability unfortunately, also will be less resolution of the trade-off between risk and profitability with respect to these decisions depends upon the risk preferences of management.

According to Van Horne (1986), if the firm maintains a relatively large proportion of liquid assets, its profitability probably will decrease.Regarding the relationship between financial leverage and profitability, Edwards and Cooley (1979) indicated that the effects of financial leverage on returns available to equity holders are typically analyzed in either one of two contexts. In many financial management books, financial leverage is examined in a net-operating-income (NOI) or equivalent context for its effects on rates of return available to stockholders. In the literature of real estate finance, the effects of leverage on equity return are evaluated in a cash flow (CF) context. In both settings, the evaluation of leverage effect reduces to a convenient rule exemplified by the following statement (Edward and Cooley, 1979): In general, whenever the return on assets exceeds the cost of debt, leverage is favorable, and the higher leverage factor, the higher the rate of return on common equity.

3. Methodology

The study adopted a survey research design (1998). Survey research design is used "to answer questions that have been raised, to solve problems that have been posed or observed, to assess needs and set goals, to determine whether or not specific objectives have been met, to establish baselines against which future comparisons can be made, to analyze

trends across time, and generally, to describe what exists, in what amount, and in what context." (Isaac & Michael, 1997, Pinsonneault and Kraemer 1993) .A sample size of 109 SMEs wer used in the study.

The SMEs operate in Mogadishu, Somalia especially Howlwdag district in Bakaro market (since there is no exact statistics to the number of registered businesses operating in Mogadishu. The population of this study focused on owners/managers and employees of selected small and medium enterprises in Mogadishu-Somalia.

4. Research Findings

4.1 Working capital management practices

4.1.1 findings of how working capital short falls finance

Table 4.1 findings of how working capital short falls finance

Responsiveness	Frequency	Percentage
loans	47	43.1%
Reducing trade receivables	31	28.4%
reducing inventory in the warehouse or shelves	12	11.0%
others	19	17.4%
Total	109	100.0%

Table 4.1 indicates that 43.1% of the respondents used loans, 28.4% of the respondents used reducing trade receivables and only 11% of the respondents used to reduce inventory in the ware house or shelves respectively to manage working capital short falls, while almost 17.4% of the respondents were used other techniques to manage working capital short falls.These findings show that these businesses heavily rely on loans as a source of during working capital short falls. This is consistent with the findings of(Rampini, 2009)

4.1.2 Findings of how inventory moves in terms of sales directly for cash or non-credit sales

Table 4.2. shows findings at which the level inventory moves in terms of sales for cash or non-credit cash.

Responsiveness	Frequency	Percentage
Fast	37	33.9%
Very Fast	23	21.1%
Not fast	49	45.0%
Total	109	100.0%

In the case of inventory movement, the table 4.2 illustrates that 33.9% of the respondents were replied to move their inventory fast and 21.1% of the respondents also replied to move their inventory very fast while 45% of the respondents were replied that their inventory were not moving fast. This reveals that almost great numbers of the respondent were agreed that their inventory were not moving fast.

4.1.3 Findings of how to rate the behavior of customers generally towards paying depts.

Table 4.3 shows the rate at which the behavior of customers generally pays depts.

Responsiveness	Frequency	Percentage
loyal(pay right on time)	31	28.4%
Very loyal(pay before the expected time)	29	26.6%
not loyal(pay after expected time)	32	29.4%
not at all loyal(never pay back)	17	15.6%
Total	109	100.0%

Table 4.3 represent that 28.4% of the respondents agreed that their customer were loyal to pay debt on time, 26.6% of the respondent agreed that their customer were very loyal to pay the debts before the expected time and 29.4% of the respondents also agreed that their customer not pay the amount expected according to the due date which means they pay after the expected time and finally15.6% of the respondent agreed that if they pay any debt the customer will never pay back to their debts. This findings indicates that most customers are not loyal to pay debts, this is consistent with Mohamed (2006) in his study that average customers are loyal to pay their debts within due date.

4.1.4 Findings of how to manage slow moving /absolute inventory

Table 4.4. shows how to manage slow moving /absolute inventor

Responsiveness	Frequency	Percentage
dispose them	9	8.3%
sell them at reduced prices	63	57.8%
keep them at the shelves warehouse until they are sold	37	33.9%
Total	109	100.0%

Table 4.4 Portrays that 8.3% of the respondents used to dispose their slow moving/ absolute inventory and 57.8% of the respondents stated used to sell at reduced (discount) price for their absolute inventory, while 33.9% of the respondents agreed that their absolute inventory were used to keep on the shelves of the warehouse until they are sold.

4.2 Financial planning

4.2.1 Findings of how business regard financial planning

Table 4.5. show the level at which the business regards financial planning.

Responsiveness	Frequency	Percentage
low regard	43	39.4%
neutral	26	23.9%
high regard	40	36.7%
Total	109	100.0%

Table 4.5 depicts that 39.4% of the respondents were lowly regarded financial planning and 23.9% of the respondents were almost average means that did not regard financial planning purely and not going everything without planning, they slightly used financial planning without concentrating deeply while 36.7% of the respondents revealed that they are highly regarded financial planning.This finding indicates that most SMEs has low financial regard, this is In line with prior findings of(Nguyen, 2001) in his thesis of financial management practices.

4.2.2 Findings of how regularly business prepare financial budget

Table 4.6 shows the level at which the business prepare financial budgets

Responsiveness	Frequency	Percentage%
regular	40	36.7%
neutral	17	15.6%
not regular	52	47.7%
Total	109	100.0%

Table 4.6 Portrays that 36.7% of the respondents regularly used to prepare financial budgets, 15.6% of the respondents were averagely used to prepare financial budgets while 47.7% of the respondents were not regularly used to prepare financial budgets. This shows that the greatest number of SMEs had no regular budget for their business. This is consistent with the reported situation that SMEs in Vietnam rarely prepare budget, (Nguyen, 2001) stated his study.

4.2.3 Findings how involvement the owner/ manager in preparing financial budgets

Table 4.7. shows the level at which owner/manager involve in preparing financial budgets.

Responsiveness	Frequency	Percentage
High involvement	39	35.8%
neutral	21	19.3%
low involvement	49	45.0%
Total	109	100.0%

The table 4.12 shows that 35.5% of the respondents stated that owners or managers of the organization were highly involved in preparing financial budgets but 19.3% of the respondent agreed that their managers/owners were neither highly nor lowly involved in preparing financial budgets while 45% of the respondents agreed that their managers of the organization had low involvement in their preparing financial budgets. The finding of this study also shows that greatest number of owner/ manager had low involvement in preparing financial budgets. This contradicts (Nguyen, 2001) in his study which indicated that great number of owner/ manager in SMEs had high involvement in preparing financial budgets.

4.2.4 Findings of how owner/manager involve in interpreting and using financial budgets

Table 4.8 shows the level at which owner /manager involve interpreting and using financial budget

Responsiveness	Frequency	Percentage
High involvement	41	37.6%
neutral	16	14.7%
Low involvement	52	47.7%
Total	109	100.0%

Table 4.8 illustrates that 37.6 of the respondents stated that owners or managers of the organization were highly involved in preparing and interpreting financial budgets but 14.7% of the respondent agreed that their managers/owners were neither highly nor lowly involved in preparing and interpreting financial budgets while 47.7% of the respondents agreed that their managers of the organization had low involvement in their preparing and interpreting financial budgets. The finding of this study also shows that owner/ manager had low involvement in preparing and interpreting financial budgets. This contradicts (Nguyen, 2001) in his study which indicated that great number of owner/ manager had involved in preparing and interpreting financial budgets for organizations.

4.2.5 Findings of how the business regularly compare between actual and budgeted results

Table 4.9. shows the level at which the business compare between actual and budgeted results

Responsiveness	Frequency	Percentage
regularly	31	28.4%
neutral	28	25.7%
not regularly	50	45.9%
Total	109	100.0%

Table 4.14 represent that 28.4% of the respondents agreed that they regularly used to compare between actual and the budgeted results but 25.7% of the respondent agreed that they were neither regularly nor un-regularly used to compare between actual and budgeted results while 45.9% of the respondent agreed that they did not regularly used to compare between actual and budgeted results. This finding shows that majority of the SMEs were50(45.9%). This contradict (Nguyen, 2001) which implies that majority of SMEs in the sample (76.6%) “Always or often” prepared financial budgets in the process of business operation.

4.3 Financial literacy

4.3.1 Findings of whether the business used to keep records of income and expenditure

Table 4.10. shows how far the business used to keep records of income and expenditure

Responsiveness	Frequency	Percent
yes, we keep records of all revenues and expenditure	60	55.0
Yes, we keep records of everything, but not all revenues and expenditures are entered	36	33.0
no, we don’t keep records of everything, but we generally know how much received and spent	13	11.9
Total	109	100.0

Table 4.10 depicts that 60% of the respondents were used to keep records of the income and the expenditure of the company and 33% of the respondents used to keep records, but not all income and expenditure comes in and comes out of the company while 11.9% responded that they didn’t use record of income and expenditure but they could know how much received and spent. The study shows that great number of SMEs had financial literacy. This is consistent with (Mandell & Klein, 2007), in their study those stated that several states mandated high school courses in personal finance in an attempt to promote financial literacy of the students.

4.3.2 findings of how often during the last year the business had any money left unspent from previous earnings before the next moment of new revenues arrived

Table 4.11. shows the frequencies during the last year the business had any money left unspent from previous earnings.

Responsiveness	Frequency	Percentage
always	13	11.9%
very often	39	35.8%
sometimes	33	30.3%
very rarely	13	11.9%
never	11	10.1%
Total	109	100.0%

Table 4.11 portrays that 11.9% of the respondent used to have always money left unspent from previous earning before the next revenue arrived, 35.8% of the respondents often had money left unspent from previous earning before the next revenue arrived, 30.3% of the respondents sometimes used to

have money left unspent from previous earning before the next revenue arrived, but 11.9% of respondents replied that they rarely had money left unspent from previous earning before the next revenue arrived while 10.1% of the respondents had never had any money left unspent from previous earning before the next revenue arrived. This is concluded that most SMEs had very often money un-spent from previous earnings. This is contradicting withKnoll and Houts (2012), in their study.

4.3.3 Findings of what usually do with it if the business had any money left right before the next revenue arrived.

Table 4.12. shows what the business do with it if there is any money left right before the next revenue arrived.

Responsiveness	Frequency	Percentage
we spent it on consumer goods	32	29.4%
We keep it cash	18	16.5%
we deposit it or do not withdraw it from the account	15	13.8%
we invest in our own business	44	40.4%
Total	109	100.0%

Table 4.12 Shows that 29.4% of the respondents revealed that organization spent on consumer if there is any money left right before the next moment revenue arrived also indicates that 16.5% of the respondents used to kept their residuals on cash if there is any money left right before the next revenue arrived, but 13.8% of the respondents indicated that they used to deposit an account what is left behand when there is extra money before the next revenue arrived while 40.4% of the respondents used to invest when there is money left right before the next revenue arrived. These findings show that greatest number of the respondents used to re-invest their profit to their businesses. This is similar to the (Nguyen, 2001) in his study.

4.3.4 Findings of how often during the last year did the business run out of money from previous earnings before the new money arrived

Table 4.13 shows the frequencies during the last year did the business run out of money from previous earnings before the new money arrived

Responsiveness	Frequency	Percentage
always	13	11.9%
very often	27	24.8%
sometimes	37	33.9%
very rarely	12	11.0%
never	20	18.3%
Total	109	100.0%

Table 4.13 Depict that 11.9% of the respondent agreed that their business always run out of money from previous earning before the next revenue arrived, 24.8% of the respondents agreed that they were very often run out money from previous earning before the next revenue arrived, 33.9% of the respondents agre

ed that they sometimes used to encounter money running out from previous earning before the next revenue arrived, but 11.0% of respondents replied that their money from previous earning rarely run out before the next revenue arrived while 18.3% of the respondents agreed that their money from previous earning never run out before the next revenue arrived.

the SMEs had sometimes used to run out of money before the next money arrived.

4.3.5 Findings of what business usually do when money run(s) out before next income arrived

Table 4.14 shows what business usually does when money run(s) out before next income arrived

Responsiveness	Frequency	Percentage
we cut down expenses and save	19	17.4%
we spend our savings	35	32.1%
we borrow money from relatives, friends and acquaintances	36	33.0%
we borrow cash on bank credit	8	7.3%
we work extra hours or do additional jobs	11	10.1%
Total	109	100.0%

Table 4.14 shows that 17.4% of the respondents agreed that they cut down expenses and save when money runs out before next income arrived, and 32.1% of the respondents agreed that they spend their savings when money run(s) out before next income arrived, but 33.0% of the respondents said that they borrow money from relatives and friends while 7.3% of the respondents said that they borrow cash on bank credit when money run(s) out before next income arrived and finally 10.1% of the respondents said that they work extra hours or do additional jobs when money run(s) out before next income arrived. The study found that SMEs either borrow money from relatives, friends and acquaintances or spend their savings. This is contradicts with Anthes (2004) in his study which found that most of SMEs cut down expenses and save so as not to stop operations.

4.4 Resource allocation

4.4.1 Findings of how the organization allocates sufficiently financial resource for strategic implementation

Tables 4.15. shows the level at which the organization allocates sufficiently its financial resource for strategic implementation.

Responsiveness	Frequency	Percentage
Strongly agree	31	28.4%
agree	30	27.5%
neutral	26	23.9%
disagree	10	9.2%
Strongly disagree	12	11.0%
Total	109	100.0%

Table 4.15 portrays that 28.4% of the respondents agreed strongly their organization were used to allocate efficiently its financial resource for strategic implementation, 27.5% of the respondents agreed their organization were used to allocate efficiently its financial resource for strategic implementation, also 23.9% of the respondents agreed that their organization were neither allocates efficiently its financial resource for strategic implementation nor dis allocates. These findings concluded that effective resource utilization leads good profitability. This is consistent with A. I. Asuquo and S.A. Effiong (2012) in their study which says that the efficiency of financial management practices can bring about a higher

profitability for SMEs. Therefore SMEs can improve their profitability by raising the efficiency of financial resource utilization.

4.4.2 Findings of whether the organization utilized its resources as per asset goals

Table 4.16. shows the level at which the organization utilized its resources as per asset goals

Responsiveness	Frequency	Percentage
Strongly agree	11	10.1%
agree	25	22.9%
neutral	38	34.9%
disagree	25	22.9%
Strongly disagree	10	9.2%
Total	109	100.0%

Table 4.16 shows 10.1% of the respondents strongly agreed that their organization utilized its resource as per asset goals, 22.9% of the respondents agreed that their organization utilized its resource as per asset goals, 34.9% replied neutral, which means neither utilize or dis utilize organization's resource as per asset goals but 22.9% disagreed that their organization utilized its resource as per asset goals while 9.2% Strongly disagree that their organization utilized its resource as per asset goals. These findings show that most SMEs utilize their resource as per asset goals averagely. This contradicts with withA. I. Asuquo and S.A. Effiong (2012) in their study which says that the efficiency of financial management practices can bring about a higher profitability for SMEs. Therefore SMEs can improve their profitability by raising the efficiency of financial resource utilization.

4.4.3 Findings of whether the organization provide for proper utilization of physical resource that are available.

Table 4.17 shows how far the organization properly utilize its physical resource that are available

Responsiveness	Frequency	Percentage
Strongly agree	15	13.8%
agree	24	22.0%
neutral	42	38.5%
disagree	16	14.7%
Strongly disagree	12	11.0%
Total	109	100.0%

Table 4.17 illustrates that 13.8% of the respondents strongly agreed that their organization utilize its physical resources, 22.0% of the respondents agreed their organization utilize its physical resources, 38.5% of the respondents replied that they were neither utilized nor dis utilized its physical resources but 14.7% of the respondents disagreed agreed that their organization utilize its physical resources while 11.0% Strongly disagree that their organization utilize its physical resources. This finding shows an average utilization of SMEs, and this is contradicts with (Derek, 2003), in his study shown that the greater SMEs utilize their physical resource the greater they increase profitability.

4.4.4 Findings identified how organization administer the resource allocated by the government and other donor agencies

Table 4.18 depicts that 18.3% of the respondents strongly agreed that their organization monitors and audits the resources allocated the government and other donor agencies, 16.5% of the respondents agreed that their organization monitors and audits the resources allocated the government and other donor agencies, 20.2% of the respondents replied that they were neutral which means they were neither agree nor disagree that their organization monitors and audits the resources allocated the government and other donor agencies but 19.3% of the respondents disagreed that their organization monitors and audits the resources allocated the government and other donor agencies while 25.7% of the respondents strongly disagreed that their organization monitors and audits the resources allocated the government and other donor agencies.

Table 4.18 shows how far the organization monitors and audits the resources allocated the government and other donor agencies if there are

Responsiveness	Frequency	Percentage
Strongly agree	20	18.3%
agree	18	16.5%
neutral	22	20.2%
disagree	21	19.3%
Strongly disagree	28	25.7%
Total	109	100.0%

4.4.5 Findings of whether the organization has well trained human resource help financial management practices

Table 4.19 shows how far the organization has well trained human resource managers to support its financial management practices

Responsiveness	Frequency	Percentage
Strongly agree	10	9.2%
agree	21	19.3%
neutral	33	30.3%
disagree	19	17.4%
Strongly disagree	26	23.9%
Total	109	100.0%

Table 4.19 shows that 9.2% of the respondents Strongly agreed that their organization had well trained human resource that could help financial management practices, 19.3% of the respondents agree that their organization had well trained human resource that could help financial management practices but 30.3% agreed that some while had well trained human resource but not as required while 17.4% of the respondents disagreed that their organization had well trained human resource that could help financial management practices and finally 23.9% of the respondents Strongly disagreed that their organization had well trained human resource that could help financial management practices.

4.4.6 Findings of whether the organization adopted information technology for its day to day operations

Table 4.20 shows how far the organization practiced information technology for its day to day operations to create good profitability

Responsiveness	Frequency	Percentage
Strongly agree	22	20.2%
agree	22	20.2%
neutral	20	18.3%
disagree	11	10.1%
Strongly disagree	34	31.2%
Total	109	100.0%

Table 4.20 represents that 20.2% of the respondents strongly agree that their organization adopted information technology for its day to day operations to create good profitability, 20.2% of the respondents agreed that their organization adopted information technology for its day to day operations to create good profitability, 18.3% of the respondents neither agreed or disagreed that their organization adopted information technology for its day to day operations to create good profitability but 10.1% of the respondents disagreed that their organization adopted information technology for its day to day operations to create good profitability while 31.2% of the respondents strongly disagree that their organization adopted information technology for its day to day operations to create good profitability.

4.5 Small business profitability

4.5.1 Findings of which tool SMEs used to measure profitability of the organization

Table 4.21 portrays that 24.8% of the respondents strongly agreed they used return on investment to measure profitability at their organizations, 28.4% agree that they used return on investment to measure profitability at their organizations, 20.2% of the respondents neither agreed or disagreed that they used return on investment to measure profitability at their organizations which means 50% they used return on investment to measure profitability at their organizations but 12.8% disagree they used return on investment to measure profitability at their organizations while 13.8% of the respondents strongly disagreed they used return on investment to measure profitability at their organizations.

Table 4.21. shows whether respondents used return on investment to measure profitability at their organizations

Responsiveness	Frequency	Percentage
Strongly agree	27	24.8%
agree	31	28.4%
neutral	22	20.2%
disagree	14	12.8%
Strongly disagree	15	13.8%
Total	109	100.0%

This finding shows that majority of SMEs used return on investment to measure profitability. This is consistent with(Dr. A. I. Asuquo), which revealed that 99 of 150 SMEs surveyed (66%) were profitable and used return on investment tool to measure profitability.

4.5.2 Findings of profitability criterion the business uses to measure certain working capital components

Table 4.22. shows criterions organization used to measure certain working capital management changes

Responsiveness	Frequency	Percentage
Strongly agree	8	7.3%
agree	35	32.1%
neutral	31	28.4%
disagree	19	17.4%
Strongly disagree	16	14.7%
Total	109	100.0%

Table 4.22 shows that 7.3% of the respondents strongly agreed that they used return on investment criterion in order to measure certain working capital management, 32.1% of the respondents agreed that they used return on investment criterion in order to measure certain working capital management, 28.4% of the respondents admitted that they sometimes used while others don't but 17.4% of the respondents disagreed that they used return on investment criterion in order to measure certain working capital management while 14.7% of the respondents strongly disagreed that they used return on investment criterion in order to measure certain working capital management. This finding shows same meaning that majority of SMEs used return on investment to measure profitability. This is consistent also with(Dr. A. I. Asuquo), which revealed that 99 of 150 SMEs surveyed (66%) were profitable and used return on investment tool to measure profitability.

4.5.3 Findings of how organization measure its profitability

Table 4.23. shows that measuring profitability at their organizations respondents use return on sales.

Responsiveness	Frequency	Percentage
Strongly agree	14	12.8%
agree	29	26.6%
neutral	34	31.2%
disagree	15	13.8%
Strongly disagree	17	15.6%
Total	109	100.0%

Table 4.23 portrays that 12.8% of the respondents strongly agreed that measuring profitability used return on sales, 26.6% of the respondents agreed that measuring profitability use return on sales similarly 31.2% of the respondents agreed that they were neutral to use return on investment to measure profitability, but 13.8% of the respondents disagreed that measuring profitability used return on sales whiles 15.6% of the respondents strongly disagreed that they used return on sales measuring profitability. These findings reveal that SMEs always do not use return on sales to measure profitability but sometimes used to measure profitability. This contradicts withabubakar (2009) in his findings of the profitability mechanisms and the profitability of the businesswhich revealed thatwas used to ROS to measure profitability for their business.

4.5.4 Findings of how decision making based on ROI and ROS influence organizational performance

Table 4.24 shows the level at which taking decisions based on ROI and ROS influenced organizational performance to increase profitability

Responsiveness	Frequency	Percentage
Strongly agree	20	18.3%
agree	30	27.5%
neutral	25	22.9%
disagree	15	13.8%
Strongly disagree	19	17.4%
Total	109	100.0%

Table 4.24 shows that 18.3% of the respondents strongly agreed that they used to take decisions based on ROI and ROS to increase organizational profitability, similarly 27.5% of the respondents agreed that they used to take decisions based on ROI and ROS to increase organizational profitability but

22.9% of the respondents showed that they were neutral to take decisions based on ROI and ROS to increase organizational profitability and 13.8% of the respondents agreed that they were used to take decisions based on ROI and ROS to increase organizational profitability while 17.4% of the respondents strongly disagreed that they used to take decisions based on ROI and ROS to increase organizational profitability.

4.5.5 Findings of whether an organization has well trained financial manager to support financial management practices

Table 4.25. shows of whether an organization has well trained financial manager to support financial management practices

Responsiveness	Frequency	Percentage
Strongly agree	23	21.1%
agree	22	20.2%
neutral	25	22.9%
disagree	15	13.8%
Strongly disagree	24	22.0%
Total	109	100.0%

Table 4.25 illustrates that 21.1% of the respondents strongly agreed that their organization had well trained financial manager to support financial management practices, 20.2% of the respondents agreed that their organization had well trained financial manager to support financial management practices, 22.9% of the respondents reply that they were neutral neither agree nor disagree that they had well trained financial manager to support financial management practices but 13.8% of the respondents disagreed that their organization had well trained financial manager to support financial management practices while 22.0% of the respondents strongly disagreed that their organization had well trained financial manager to support financial management practices. The found that most SMEs had averagely good financial managers that might handle smooth running of financial management practices. This is consistent with M.Rage (2003), of his study in Nageria which showing a relationship.

4.5.6 Findings of whether business adopted profitability in its day to day operations to increase profitability

Table 4.26. shows at which level the organization practices profitability mechanisms to increase business performance.

Responsiveness	Frequency	Percentage
Strongly agree	15	13.8%
agree	22	20.2%
neutral	35	32.1%
disagree	8	7.3%
Strongly disagree	29	26.6%
Total	109	100.0 %

Table 4.26 Depicts that 13.8% of the respondents strongly agreed that their organization used to practice profitability mechanisms to increase business performance, 20.2% of the respondents agreed that their organization used to practice profitability mechanisms to increase business performance similarly 32.1% of the respondents reply that they were neutral neither agreed nor disagreed that their organization used to practice profitability mechanisms to increase business performance, but 7.3% of the respondents disagreed that their organization used to practice profitability mechanisms to increase business performance similarly while 26.6% of the respondents strongly disagreed that their organization used to practice profitability mechanisms to increase business performance.

4.6 Regression analysis

Table 4.27 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.991	.982	.981	.17961

Table 4.27 shows the model summary. **R** value was 0.991which suggests that the independent variables had a high influence on profitability. As shown by the R^2, the model accounted for 98.2% of the variance in financial plan.

Table 4.28 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	178.067	4	44.517	1.380	.000
	Residual	3.355	104	.032		
	Total	181.422	108			

In the table 4.28 above, the **F** statistic of 1.380 was insignificant at 5% level, p = 0.00. This suggests that the financial management practices model used was fit to explain the relationship between financial management practices and profitability.

Table 4.29 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.640	.347		-1.843	.068
	working capital management	.429	.121	.285	3.543	.001
	Financial Literacy	.302	.099	.246	3.061	.003
	Resource Allocation	.465	.089	.455	5.200	.000
	financial planning	.164	.128	.021	3.055	.0032

Table 4.29 above, the researcher conducted a multiple regression analysis so as to determine the relationship between profitability of SMEs in Mogadishu Bakaro market (dependent variable) and financial management practices (independent variable).

The following regression equation was obtained:

$$\text{Profitability} = 0.05 + 0.429X_1 + 0.164X_2 + 0.302X_3 + 0.465X_4$$

From the regression model obtained above, holding all the other factors constant, profitability of SME's in Howlwdag district in Bakaro market measures would be 0.705. A unit change in working capital management holding the other factors constant will lead to a positive change in profitability of SME's in Howlwdag district in Bakaro by 0.429. Similarly a unit change in Financial Planning holding all factors constant will lead to a positive change in profitability of SME's by 0.164. Also a unit change in Financial Literacy will lead to change in profitability by 0.302, while a unit changes

in resource allocation will lead to a change in profitability by 0.555.

This implies that financial management practices has a significant influence on profitability of SME's in Howlwdag district in Bakaro in respect to the current profitability of SME's in Howlwdag district in Bakaro market and the financial management practices of owners, managers and employees of SME's. The obtained regression equation further implied that there was a direct relationship between financial management practices and profitability of SME's in in Howlwdag district in Bakaro market of SME's.The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the corresponding probability value obtained and α=0.05. If the probability value was less than α, then the predictor variable was significant otherwise it wasn't. Therefore, financial management practice was significant in the model as its corresponding predictor variables was 0.025. The findings of the study also revealed that a few owners/managers of SME's that able to practice good financial management were able to get profit and expand their businesses significantly. These findings are consistent with previous studies that have been conducted in relation to the effect of financial management practices on profitability of small and medium enterprises. With regard to the regression results, it was observed that there was a strong positive relationship (R= .992) between financial management practices and profitability of SME's in Howlwdag district in Bakaro market. This is supported by a journal article research carry out in Nigeria by Dr. A. I. Asuquo& Dr. S.A. Effiong(2012) on the effect of financial management practices on profitability of small and medium enterprises. The SMEs are chosen locate in cities as Calabar, Uyo. Simultaneously, the questionnaires were sent out to 350 directors in referred cities above and selected via mail within one month by using questionnaire which were clarify via mail address. This finding leads to the conclusion that the efficiency of financial management practices can bring about a higher profitability for SMEs. Therefore SMEs can improve their profitability by raising the efficiency of financial management practices.

5.Conclusions

In this study the researcher concludes that the better SMEs have financial management practices the better they boost their profitability.

This conclusion is supported by the researcher's study findings which implied that there was a very Strong positive relationship (R= .992)between the variables. This finding is consistent to a similar research made by (Rao, 2010)who found a positive relationship (R = 0.751) between financial management practices and profitability of small and medium enterprises in jimma town, Ethiopia and (Dr. A. I. Asuquo) also showed similar finding between financial management practices and profitability of SMEs in Nigeria. As results of improving financial management such as working capital management, financial planning, financial literacy and resource allocations so do the profitability.

6.Recommendations

Since managing finance such controlling and manipulating of working capital management, financial planning, financial literacy and resource allocations has large effect on the increase of the profitability as indicated in conclusion above, the researcher recommending that owners and managers to employee good financial managers to their businesses/ organizations. As indicated research finding there is a strong correlation between financial management practices and profitability, SMEs owners and managers should give first priority to train and develop financial managers in order to in hence their profitability and their targets of financial performance.

7.Recommendation of father research

This research were carried out inside the capital of Mogadishu specially Howlwdag district in Bakaro market but could be generalized the rest districts of city since Bakaro market where the study specifically conducted hosts the headquarters of most business which might have other branches to other districts in the city.

The researcher is recommended further study to be made outside the capital such provinces where such need of financial management practices may exists.

Future researchers can also conduct a study in relation financial management practices and profitability of SMEs of other autonomous government in Somalia such Puntland, Jubbaland and Galmudug.

Further research should be made in areas of financial management practices and the growth of small and medium enterprises using same dimension or different other than mine. The study recommends that future research should lay more focus on SME's in the rural areas in order to find out whether there is similar relationship exists between financial management practices and profitability of SMEs.

8.References

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