

## **Effect of Cash Management on Financial Performance of Food and Beverage Retailers in Puntland state of Somalia: A Case of Garowe District**

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### **Abstract**

Food and beverage retailers are vital for employment and job creation in Puntland. Having in mind both small scale and large scale retailers involve themselves in day to day circles of cash, execution of sound cash management practices is essential in order to ensure to profitability and sustainability of their business is at bar with their expectation in terms of success. The scope of this research was to discover the existing cash management practices of food and beverage retailers in the Puntland area as well as identifying the impacts of the established practices on their profitability and sustainability. There were four specific objectives for the study relating to the effect of firstly cash conversion cycle of the food and beverage retailers in Puntland. Secondly determining whether the retailers had appropriate inventory management systems for their businesses. Thirdly examining whether account receivable management policies for the retailers were in place and checking whether they are favorable for maximum profitability of their business. Fourthly determining whether account payable management systems for the food and beverage retailers were in place and their effect to the business and to assess financial performance of the retailers basing on their financial statements from their business. To achieve our objectives we applied knowledge of three theories of financial accounting: accrual theory of accounting, trade credit theory and agency theory. The research study mainly utilized descriptive survey to accomplish the objectives. A sample of 39 foods and beverages retailers located in Garowe were engaged in the study. Research findings: based on the study of the sampled retailers we performed financial analysis and found that the retailers had low liquidity ratio in their businesses, also we identified that the cash flow from different retailers was not consistent. Majority of the retailers reported that the problem of low liquidity ration resulted from the inability to pay their liabilities in due time due to fluctuation in food and beverages market trends in the area. It was also evident that the problem arose due to deprived managerial practices which include the incapability of the retailers to keep path of their operations and to use the gained information in planning and management of their financial transactions. Based on the research findings, the following suggestions are made to enhance food and beverage retailers' have better cash management skills and practices to allow them to be cost-effective and sustainable: The retailers should ensure proper keeping of their financial books of records to monitor and control cash inflow and outflow of their businesses. The retailers should enact some policies to manage bad debts form their customers, they should have a policies for bad debts write offs and also fines and penalties for long awaited uncollected amounts. Inventory control system should impose a monthly stock take of the retailer's stock count. Businesses should at all times ensure that the older items on the shelf are sold before the newer stock is put onto the shelf to prevent products from becoming expired or obsolete. Retailers should negotiate longer credit repayment terms with suppliers. They should also consider purchasing from the suppliers who are capable of offering a discount if the account is repaid within a certain period.

## 1. INTRODUCTION

### 1.1. Background of the Study

The recent financial crisis has put cash and its management back in the spotlight, forcing treasurers to focus their efforts on ways to improve their companies' cash management. Many companies in state of Somalia have of late suffered from cash and cash management crisis. This has raised alarm to concerned government bodies like treasury to focus their effort on establishing measures and strategies to ensure that firms abide to policies meant to ensure proper cash management. (Dropkin & Hayden, 2001) Improper cash management leads to decrease in company's liquidity thus exposing the enterprise to risk of it being not able to pay liabilities, operation cost become high and at the end the company may become insolvent.

Liquidity management is the heart of all enterprises either publicly or privately owned, governmental or non-governmental. Result of a company having low liquidity, the enterprise may end up in collapse phase if at all cash management issue is not addressed (Zietlow, 2007).

According to (Wayne & Harford, 2000), exposes the businesses to risk of not being able to pay its suppliers and employees in due time. The company maybe recognizing profit according to its financial statements but it might not be able to shell out its obligations when the time is due to poor cash and liquid fund management. Improved costs in the form of interest charges on loans, delayed payment penalties and losing supplier discounts for paying not on due time are most parameters that leads to lack of liquidity in an enterprise. Proper cash management is the key to handle these entire financial hiccups in a business (Dropkin & Hayden, 2001).Cash is crucial for every business (Coyle & B, 2000). Every company must have cash or at least access to cash to be able to pay for the goods and services it uses, and consequently, to stay in business (Guay & Harford, 2000). By ensuring the company with the necessary funds for supporting its everyday operations, cash management becomes a vital function for the company.

According to (Guay & Harford, 2000), Liquidity is said to be the ability of a company to change its assets into cash. It also comprises of cash at hand and accessibility to cash from external sources such as banks. Proper cash flow in a business is measured by the ability of an enterprise to pay all its expenses in due time and the way it is able to utilise cash at hand (Coyle & B, 2000).

Establishment of proper cash management systems in a business help the managers to: Control spending with respect to specified budget, minimize on borrowing and maximizing the opportunity cost of its company's resources.

There will be more cash inflow compared to cash outflows. Which truncate to a business being referred to healthy enterprise as it is able to build up cash balances with which to plug cash flow gaps, (Hughes & K, 2007). Management of cash flows is very vital to the operations of any organization as it must remain liquid enough to be able to finance its immediate obligations. An enterprise should ensure that it doesn't have too much cash at stake which may compel them to spend on operations not planned for but the cash should be balanced to fixed assets. These compel the business managers to properly manage the company's sources of funds. (Fabozzi & Peterson, 2003) Came to conclusion that, there is no business operation which is isolative of cash

management whereby the same cash is the most current asset a business can have. Cash management aims at ensuring a business carry out its operation smoothly and efficiently.

Cash management has the following purposes: adjusting expenditure in the collective, applying the budget well, decreasing of the cost of bank borrowing, and increasing the opportunity cost of resources (Fabozzi & Peterson, 2003). Control of cash is an important component in macroeconomic and budget management. However, it must be complemented by an adequate system for managing commitment (Foster, 1997). According to (Coyle & B, 2000), it is also necessary to avoid paying in advance and to track accurately the dates on which payments are due. Cash flow management is the process of monitoring, analyzing, and adjusting business' cash flows (Dropkin & Hayden, 2001). Cash flow is the life blood of all businesses and is the primary indicator of business health.

According to (Foster, 1997), Mentioned the needs to control cash flow in order to determine the amount of cash needed at specific time in a business operation. From the above highlight we can clearly say that cash management is vital to every business organization and it should be emphasized to all business managers to implement it in running their enterprises (Fabozzi & Peterson, 2003), state that management of cash flows is very vital to the operations of any organization as it must remain liquid enough to be able to finance its immediate obligations.

The management of cash flows must be in such a manner that the liquid cash is not in excess but must be balanced against the fixed assets. This means that the sources of finances and the application must be carefully managed (Hughes & K, 2007). Cash Management is essential to every business that designs to meet up with its financial obligations. No business operation is isolative of cash management. (Olowe, 1998). Said that cash is regarded as the most important current asset for the operations of businesses. Cash is the basic input required to keep the business running on continuous basis and it is also ultimate output expected to be realized by selling the services or products manufactured by firm ( Pandey, 2004).

Cash Management in imperative in every business organization as cash is said to be the life blood of any business. The essence of cash management is to ensure positive cash flow for smooth business operation. According to (Godwin & R, 2011) that efficient cash management involved the determination of the optimal cash to hold by considering the trade- off between the opportunity cost of holding too much cash and trading cost of holding too little. Therefore, there is the need for careful planning and monitoring of cash flows overtime as to determine the optimal cash to hold. According to (Gitman & L. J., 2009) it is objectively used to manage and determine the optimal level of cash required for business operation and the investment in marketable securities, which is suitable for the nature of the business operation cycle.

The pattern of the cash and operating cycle varies per industry., but in general term, the pattern involves the provision of cash as capital for firm's initial outlay., the procurement of raw material in manufacturing companies and finished goods in marketing companies, distribution of the finished goods obtain immediate cash or create debtors when goods are sold on credit term (Akinbuli & S.F, 2009). Furthermore, the process of managing cash has become a major challenge for most of the companies, because of its significant impact on the results of a company (Ekwere & A. B., 1993). The success of any business venture is predicted on how the management has planned and controlled it cash flows (Allman-Ward, M., Sagner, & J., 2003).

## **2. Statement of the Problem**

Food and beverage retailers in Garowe city Puntland state of Somalia play a major role in development country's economy. Their main problem was management of cash in their enterprises in order to realize a profit margin. Many retailers lacked knowledge in terms of sources they used to borrow their money. This exposed the retailers to crisis of cash management and also subjected their business to low financial performance. In some cases some food and beverage retailers though operate at low profit margin, they found themselves in acute positions where they were not able to cater for all their business obligations.

I studied relationship between relationships between cash management practices and gross profitability of 13 manufacturing companies using their financial data quoted in Nigeria stock exchanges books of accounts. And after performing product correlation regression model it was confirmed that there existed a considerable negative connection between independent variables (ROA & ROI) and dependent variable (credit policies, cash management, debtor's policies and inventory management). Conclusion from the study was increase in profitability of an enterprise may be propagated by proper cash management, shorter cash conversion cycle and proper credit policy.

Globally fluctuation in income statements and current financial position of many companies has arisen in most parts of the world. This is as a result of lack of understanding and implementation of cash management practices in their day to day operations. This has caused many companies become illiquid, insolvent while others end up collapsing (Media, 2012). In Somalia many business especially food and beverage retailers experiences poor financial performance to a point there are stuck to handle day to day company's obligations such as paying taxes, delays in salaries and wages payments and dividends to their shareholders due to lack of enough capital. The problems were majorly associated to poor cash managements.

In Puntland many shareholder have invested in food and beverage retailing businesses to take advantage of business opportunities in the area as it has a high population due to peace around the area. Shareholders expect the retailers whom they have trusted with their businesses to complete their expected values and realize profit. Some retailers have performed excellently but majority of retailers find themselves in a fix of low financial performance. A 2017 report on retailers in Puntland showed that most retailers did not pay and when they paid dividends consistently and when they paid they didn't met expectation of their shareholders. This propelled us to carry out this study. Since cash management constitutes many components such as cash conversion cycle, inventory management, receivable management, payable management as indices to measure financial performance of an enterprise, this study will study the relationship of each index independently on return of asset as an indicator of financial performance. The study will be based on sampled food and beverage retailers in Puntland state of Somalia

### **2.1 Objectives**

The objectives of the study are divided to general and specific objectives.

### **2.2 General Objective**

The overall objective of this study is to determine the effect of Cash management on the financial performance of food and beverage retailers in Puntland State of Somalia.

### **2.3 Specific Objectives**

1. To determine the effect of cash conversion cycle management on the financial performance of food and beverage retailers in Puntland State of Somalia.
2. To examine the effect of inventory management on the financial performance of food and beverage retailers in Puntland State of Somalia.
3. To determine the effect of Accounts Receivables management on the financial performance of food and beverage retailers in Puntland State of Somalia.
4. To find out the effect of Accounts Payables management on financial performance of food and beverage retailers in Puntland State of Somalia.

### **2.4 Research Questions**

1. How does cash conversion cycle management on the financial performance of food and beverage retailers in Puntland State of Somalia?
2. What is the effect of Inventory management on the financial Performance of food and beverage retailers in Puntland State of Somalia?
3. How does Accounts receivables management effect on the Financial Performance of food and beverage retailers in Puntland State of Somalia?
4. What is the effect of Accounts payables management on the Financial Performance of food and beverage retailers in Puntland State of Somalia?

### **2.5 Significance of the study**

This research will be of benefit to the academicians particularly those involved in finance or other related subjects, business retailers in general and food and beverage retailers.

This study will also providing the empirical information that will assist the community to recognize the importance of the Cash management and its effect on financial performance of firms especially food and beverage retailers in Puntland state of Somalia.

This research will be an addition to the existing literature on Cash management and it will enabling other researchers both academicians and practitioners to research further in this field especially in Somalia.

Food and beverage retailers are likely to benefit from the findings of the study and reorganize their financial management to benefit them to the extent of improving on financial performance.

### **2.6 Scope of the study**

The study focused on the effect of Cash management on the financial performance of food and beverage retailers in Puntland-Somalia with a focus on Garowe, Garowe is appropriate for being the capital city of Puntland State of Somalia, it is a peaceful town that attracted a lot of people including business men compared to other major towns in the region, in addition, most major food and beverage retailers have either a headquarter or a branch in Garowe.

The other rationale behind the choice of location are influenced by the researcher nearness to the selected sample as compared to conducting the research outside Garowe.

## **2.7 Limitations Of The Study**

The research had limitations where the business owners was suspicious of a possible investigation by the competing industries and firms hence give bias results, but the business officials were assured of all the intentions of the research findings was purely academic. There was limitation where extra information by workers may not be used due to the questionnaire, but the researcher got more information through the interview guide to the management team.

The researcher being alone had limitations in moving to many areas of different departments, but the researcher solved it by distributing questionnaire and interviewing in departments since they were found at a central place. The staff sometimes had busy work schedules e.g. attending to clients and customers, the researcher solved this by sticking to the allocated time and appointments where necessary.

## **3. RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents all the information pertaining to the research design or the type of study the sample and the sampling undertook as well as the procedure used to get the sample. The chapter covers research design, the population, sampling design, data and collection methods and data collection instruments as well as data analysis and interpretation.

### **3.2 Research Design**

This study used a case study design of Garowe city in Nugaal region of Somalia. This study Was be primarily employing a descriptive correlation design, the researcher used quantitative approach to quantify incidences in order to describe current conditions and to investigate the level of cash management and the financial performance from selected 39 food and beverage retailers using information collected from respondents through questionnaire.

The researcher mainly employed descriptive correlation design, quantitative approaches to get a clear knowledge and quantify levels of cash management among food and beverage retailers of Puntland. Descriptive correlation design was an appropriate design preferred by the researcher as it aim at establishing relationships between dependent and independent variables through quantifiable results. Descriptive studies are regarded as non-experimental studies that are used to describe characteristic of a certain individual or group under study.it focuses on identifying association between variables and formulating hypothesis upon making valid decisions and conclusions after the findings.

### **3.3 Research Population**

The population of the study Was all the 39 food and beverage retailers in Garowe Puntland state of Somalia. This population is the specified group of a population where enumeration is meant to be carried out to collect specified data of the sampling units. The researcher target population was food and beverage retailers of Garowe city in Nugaal region of Somalia. I selected the region as it hosted many food and beverage retailers who had established their business there as Garowe city is full of peace and has a high population.

### **3.4 Data and Data Collection**

The researcher applied both secondary and primary information to complete this study. Surveys instrument in questionnaire were used to collect primary data among the food and beverage

retailers. The questionnaires remained used to gather the primary data from the several food and beverage retailers in order to hit additional evidence from those who ran and or kept records of companies. During the running of the questionnaires the managers or owners was demanded to answer entirely and not to leave any part of the questionnaires unreturned. The student and assistants were highlighted retrieval of the questionnaires within 5 days from the date of delivery.

After the establishing of the questionnaires the data gathered was organized, collected, and set into the computer and statistically treated using the MS-Excel. The secondary data where come from the financial statement of the food and beverage retailers on the period of 2015 to 2017 consists of income statement, statement of financial position and cash flow statements.

### 3.5 Data Processing and Analysis

After the whole process of collecting data, we consolidated the questionnaires information in tables made in MS-excel. The researcher ran descriptive statistics analysis based on frequency tables and percentages based on the data collected. In our study we combined both inferential and descriptive analyses. We computed mean, standard deviation coefficient of variation among other descriptive statistics to test any association between WCM and gross profit of a company. The researcher developed hypotheses in this study where the null hypothesis stated profitability index was the same for all retailers despite cash management practices against alternative hypothesis which stated at least one was different.

To ascertain the hypothesis the researcher performed one-way and two way ANOVA. The researcher also performed F-tests to obtain critical values for the test parameters. For inferential statistics the researcher performed regression analysis where dependent variable was (financial performance) whereas (Cash conversion cycle, inventory management, receivables management and payables management) were treated as independent variables.

For inferential statistics, a regression model that relates the dependent variable (financial performance) to the independent variables (Cash conversion cycle, inventory management, receivables management and payables management) is used. The model is specified in equation (i)

$$ROA = \beta_0 + \beta_1 CCR + \beta_2 STR + \beta_3 RTR + \beta_4 PTR + e \text{ --- (i)}$$

Where: ROA is return on assets. This is computed as the ratio net profit to total assets (DeLoof & M, 2003). This is taken as the dependent variable in the study. This is reflected in equation (ii).

## 4. RESEARCH FINDINGS AND DISCUSSION

### Introduction

This chapter comprises data demonstration, analysis, and interpretations the findings of the study with reference to cash management and financial performance. This was done mainly through questionnaire to the selected respondents.

### 4.1 Demographic Characteristics of Respondents

Findings on the demographic characteristics of respondents were considered and responses noted there on as evidenced in tables below

#### Table 4.1--Age

Age	Frequency	Percentage %
Below 30 years	18	46
20yrs-40 years	12	31
40yrs-50 years	6	15
50 years and above	3	8
Total	39	100

From the table above 46% of the respondents were below 30years of age, 31% were between 30 to 40 years of age, 15% were between 40 to 50 years, and 8% were 50 years and above. This

**Table 4.2--Gender of Respondents**

Gender	Frequency	Percentage %
Male	34	87
Female	5	13
Total	39	100

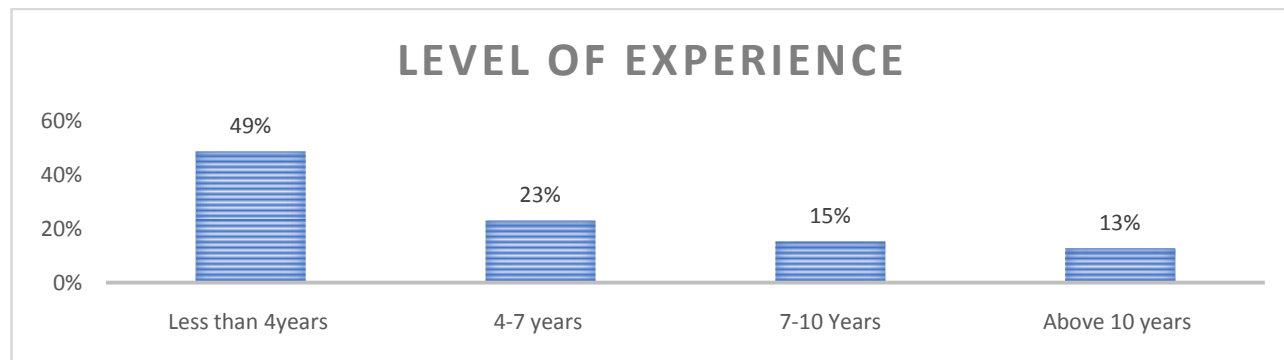
From the table above, 87% of the respondents were male, and there is only 13% female. This implies that there was gender bias because the female staff are less than men in the food and beverage retailers in Garowe Puntland Somalia.

**Table 4.3--Level of education**

Educational Level	Frequency	Percentage %
Basic	15	38
Certificate	11	28
Diploma	8	21
Degree	5	13
Total	39	100

From the table above 38% of the respondents were basic, 28% were certificate holders, 21% diploma holders and 13% were Degree holders. This implies that respondents had the capacity to answer questions in the questionnaire.



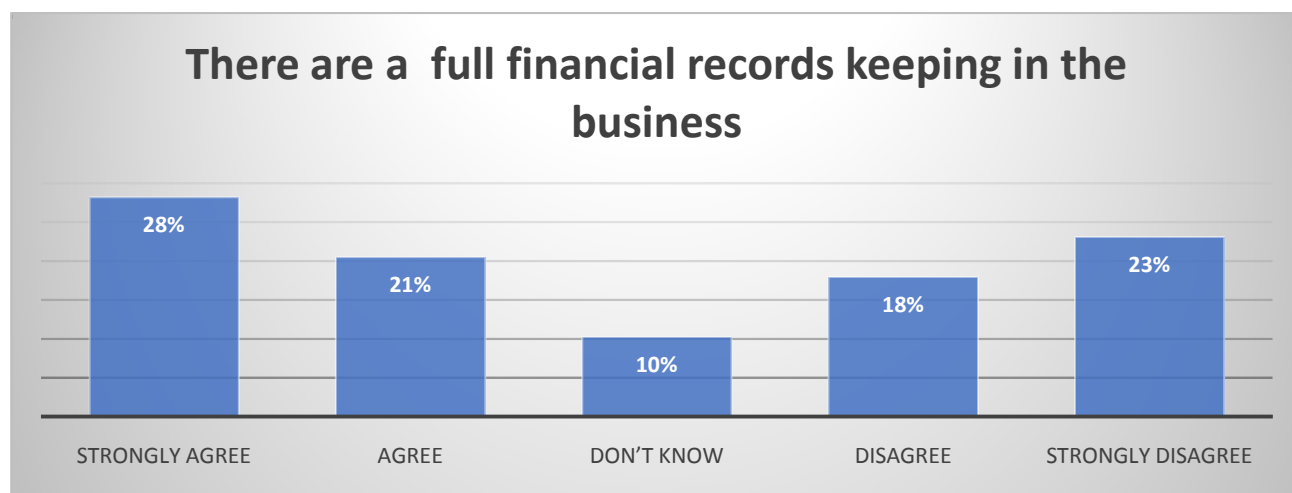


**Figure 4. 1 -- Respondent's level of Experience**

From the figure above 49% of the respondents had spent less than 4years in the enterprise, 23% had spent 3 to 6years, 15% had spent 7-10 years and 13% had spent above 10 years. This implies that respondents have experience with the enterprise.

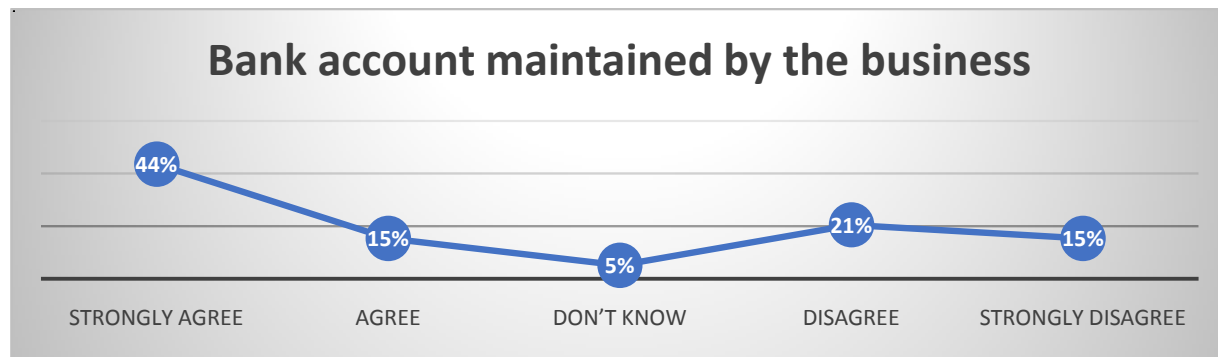
**4.2 Cash management practices in food and beverage retailers in Garowe Puntland Somalia.**

Findings on the various cash management practices in Garowe food and beverage retailers were considered and can be evidenced in tables below.



**Figure 4. 2 ---Formal financial records kept in the business**

From the figure above 28% and 21% of respondents were strongly agree and agree respectively also 18% and 23% of respondents were disagree and strongly disagree that there is a formal financial records kept in the retailers respectively while 10% of the respondents are not know what is a formal financial record keeping of the business. This implies that half of food and beverage retailers had a formal financial records and the others not.



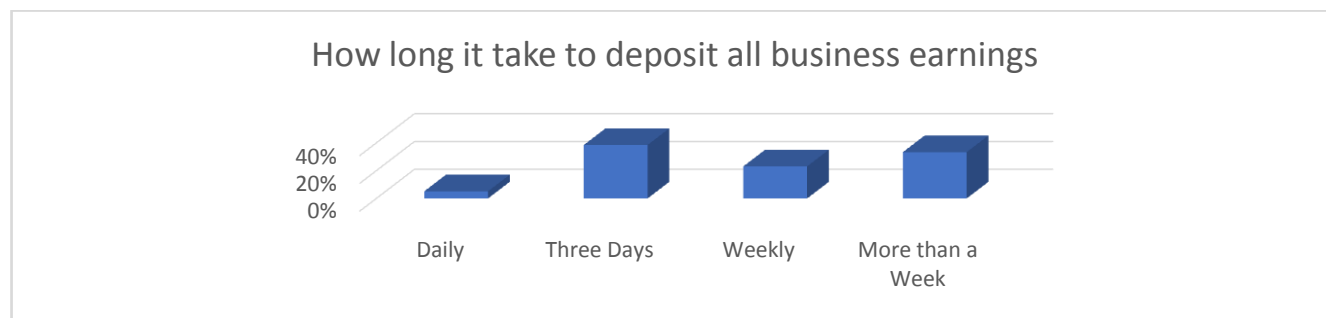
**Figure 4. 3 Bank account maintained by the business**

From the figure above 44% and 15% of respondents were strongly agree and agree respectively also 21% and 15% of respondents were disagree and strongly disagree while 10% of the respondents are not know what is a business bank account. This implies that most of food and beverage retailers had a business bank account.

**Table 4.4--Records kept on cash transactions**

Records	Frequency	Percentage%
Note Book	20	51
Payment Voucher	4	10
Cash Book	6	15
Bank Statement	9	23
<b>Total</b>	<b>39</b>	<b>100</b>

When the respondents were asked to indicate the various records they kept on cash transactions, note book records were the most significant (51%) as depicted in Figure 4.7 Other forms of records kept on cash transactions with their respective responses included Payment Voucher (10%), Cash Book (18.5%), and Bank statement 23%.



**Figure 4. 4 ---How long it take to deposit all business earnings**

From the figure above, 5% of the respondents deposit their business earnings on daily basis of all business earnings, 38% deposit once every three days, 23% of the respondents deposit their business earnings weekly basis, and 33% deposit after keeping the business earnings more than one week. This implies that most of food and beverage retailers are not deposit their earnings on daily basis.

**Table 4.5--Preparation of a cash budget for the business**

<b>Response</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly Agree	2	5
Agree	3	8
Don't know	8	21
Disagree	11	28
Strongly Disagree	15	38
<b>Total</b>	<b>39</b>	<b>100</b>

From the table above 5% and 8% of respondents were strongly agree and agree respectively also 28% and 38% of respondents were disagree and strongly disagree while 10% of the respondents are not know what is a cash budget and its benefit to the business. This implies that most of food and beverage retailers are not prepare cash budget.

### 4.3 Debtor's management practices in food and beverage retailers in Garowe Puntland Somalia

**Table 4.6--**There is a specific person who responsible for collection of debtors (Debt Collector).

<b>Response</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly Agree	3	8
Agree	5	13
don't know	9	23
Disagree	10	26
Strongly Disagree	12	31
<b>Total</b>	<b>39</b>	<b>100</b>

From the table above 8% and 13% of respondents were strongly agree and agree respectively also 26% and 31% of respondents were disagree and strongly disagree respectively while 23% of the respondents are not know what is a debt collector and its benefit to the business. This implies that most of food and beverage retailers don't have a specific person who responsible the collection and follow up of the debtors (debt collector).

**Table 4.7--Period that customers take to pay their accounts**

<b>Period</b>	<b>Frequency</b>	<b>Percentage %</b>
1 Month	2	5
45 days	4	10
2 months	8	21
More than 2 months	25	64
<b>Total</b>	<b>39</b>	<b>100</b>

From the above table 5% of customer can pay their outstanding in one month 10% in 45 days 21% is more than two months and 64% are more than two months. This implies there can be a high level of bad debt in food and beverage retailers in Garowe Puntland Somalia.

**Table 4.8--You give customers a discount if accounts are settled within a certain period**

<b>Response</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly Agree	4	10
Agree	7	18
Some times	5	13
Disagree	13	33
Strongly Disagree	10	26
<b>Total</b>	<b>39</b>	<b>100</b>

From the table above 10% and 18% of respondents were strongly agree and agree respectively also 33% and 26% of respondents were disagree and strongly disagree respectively while 13% of the respondents are sometimes give the customers a cash discount This implies that majority of food and beverage retailers don't give their customers a cash discount to encourage them early payment.

**Table 4.9--The default percentage rate of customers who buy on credit**

<b>Default Rate</b>	<b>Frequency</b>	<b>Percentage %</b>
1-5%	15	38
5-10%	12	31
10-15%	8	21
Above 15%	4	10
<b>Total</b>	<b>39</b>	<b>100</b>

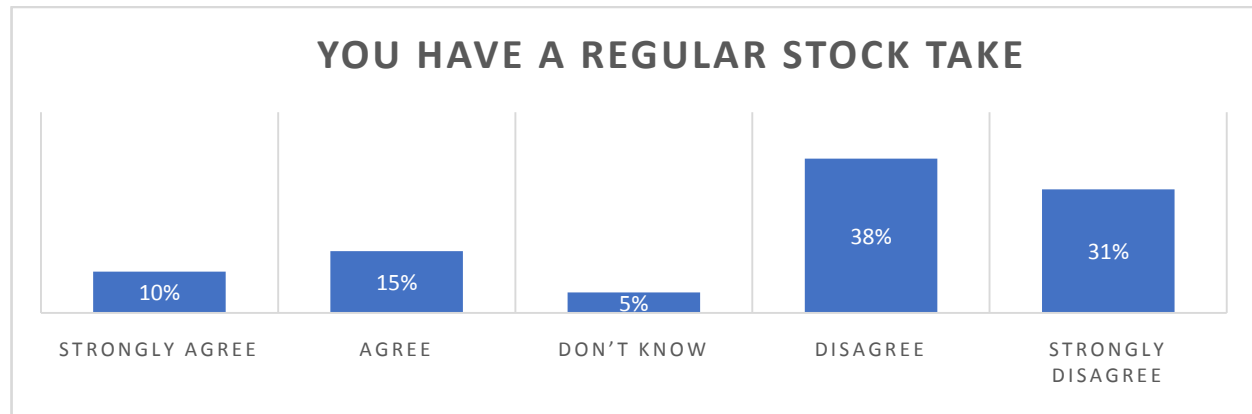
From the above table 38% of respondents mentioned that they incur 5% of bad debt, 31% incur 10%, 21% experience 15% and 10% of food and beverage retailers incur above 15% of bad debt so this implies there is a high level of bad debt in food and beverage retailers in Garowe Puntland.

#### **4.4 Inventory management practices in food and beverage retailers in Garowe Puntland.**

**Table 4.10--Your firm deals with inventory Control System**

<b>Response</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly Agree	3	8
Agree	6	15
Don't Know	10	26
Disagree	11	28
Strongly Disagree	9	23
<b>Total</b>	<b>39</b>	<b>100</b>

From the table above 8% and 15% of respondents were strongly agree and agree respectively also 28% and 23% of respondents were disagree and strongly disagree respectively while 26% of the respondents they don't know what is inventory control system.This implies that majority of food and beverage retailers don't use a formal inventory control system.



**Figure 4. 5--You have a regular stock take**

From the figure above 10% and 15% of respondents were strongly agree and agree respectively also 38% and 31% of respondents were disagree and strongly disagree that they have a regular stock take while 5% of the respondents are not know what is a regular stock take and its benefit to the business. This implies that most of food and beverage retailers are not deal with regular stock take.



**Figure 4. 6-- You sometimes run "out of stock" for some goods**

From the table above 49% and 18% of respondents were strongly agree and agree respectively that they run out of stock for some goods also 13% and 10% of respondents were disagree and strongly disagree that they sometimes run "out of stock" for some goods while 10% of the respondents they run out of stock for some goods. This implies that most of food and beverage retailers run the business "out of stock" for some goods.

**Table 4.11 -- You have some products that don't get sold**

Response	Frequency	Percentage %
Strongly Agree	17	44
Agree	7	18
Don't know	6	15
Disagree	4	10
Strongly Disagree	5	13
Total	39	100

From the table above 44% and 18% of respondents were strongly agree and agree respectively that they have some products that don't get sold also 10% and 13% of respondents were disagree and strongly disagree that they have some products that don't get sold while 15% of the respondents they don't know if there is a product that not get sold. This implies that most of food and beverage retailers have some products that don't get sold.

#### 4.5 Accounts Payables management practices in food and beverage retailers in Garowe Puntland Somalia.

**Table 4.12 -- How long do you take to pay your creditors?**

Period	Frequency	Percentage %
1 Month	7	18
45 Days	10	26
2 Months	16	41
More than 2 Months	6	15
Total	39	100

From the above table 18% of respondents can pay their outstanding in one month 26% in 45 days 41% is more than two months and 15% are more than two months. This implies that also food and beverage retailers in Garowe Puntland Somalia are not able to pay their outstanding amount in one month.

**Table 4.13 -- You have taken a loan to finance the business.**

Response	Frequency	Percentage %
Strongly Agree	7	18
Agree	3	8
Don't Know	6	15
Disagree	15	38
Strongly Disagree	8	21
Total	39	100

From the table above 18% and 8% of respondents were strongly agree and agree respectively that they have taken a loan to finance the business also 38% and 21% of respondents were disagree and strongly disagree that they have taken a loan to finance the business while 15% of the respondents they don't know if there is a product that not get sold. This implies that most of food and beverage retailers have taken a loan to finance the business.

#### 4.6 Financial Performance in food and beverage retailers in Garowe Puntland Somalia.

**Table 4.14 -- The business has being profitable over the past 3 years**

Response	Frequency	Percentage %
Strongly Agree	7	18
Agree	9	23
Don't Know	5	13
Disagree	10	26
Strongly Disagree	8	21
Total	39	100

From the table above 18% and 23% of respondents were strongly agree and agree respectively that their business has being profitable over the past 3 years also 26% and 21% of respondents were disagree and strongly disagree that their business has being profitable over the past 3 years while 13% of the respondents they don't know if their business has being profitable over the past 3 years.

**Table 4.15 -- The business profit equals your profit target of last year**

Response	Frequency	Percentage %
Strongly Agree	2	5
Agree	4	10
Don't Know	7	18
Disagree	15	38
Strongly Disagree	11	28
Total	39	100

From the table above 5% and 10% of respondents were strongly agree and agree respectively that the business profit equals your profit target of last year also 38% and 28% of respondents were disagree and strongly disagree that the business profit equals your profit target of last year while 18% of the respondents they don't know.

**Table 4.16 -- The business capital is increased every year**

Response	Frequency	Percentage %
Strongly Agree	9	23
Agree	7	18
Don't Know	5	13
Disagree	13	33
Strongly Disagree	5	13
Total	39	100

From the table above 23% and 18% of respondents were strongly agree and agree respectively that the business capital is increased every year also 33% and 13% of respondents were disagree and strongly disagree the business capital is increased every year while 13% of the respondents they don't know.

#### 4.7 Inferential Statistics

To achieve the objectives of the study, a regression of ROA on CCC, STR, RTR and PTR was run on the data obtained over the period 2015 to 2017. The findings from the regression output are indicated in the below table:

**Table 4.17--Regression Output Data**

Regression Statistics	
R Square	0.7099
Standard Error	0.0245
Observations	20

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Signif F</i>	
Regression	4	0.02212	0.00553	9.17860	0.00059	
Residual	15	0.00904	0.00060			
Total	19	0.03116				

	<i>Coefficients</i>	<i>SE</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.07444	0.01563	4.76231	0.00025	0.04113	0.10776
CCC	0.08851	0.02370	3.73458	0.00199	0.03800	0.13903
STR	0.13238	0.05053	2.61978	0.01932	0.02468	0.24009
RTR	-0.15138	0.04485	-3.37540	0.00416	-0.24697	-0.05579
PTR	-0.02398	0.03650	-0.65702	0.52112	-0.10178	0.05382

The output shows that the variables correctly fit the data. This is because the R-square value from the output is 0.7099. This is also called coefficient of determination. This shows that 70.99% of the changes in ROA are explained by the four independent variables CCC, STR, RTR and PTR.

The model can therefore be relied upon for inferential analysis given that only 29.01% of the changes in ROA are due to random factors indicated by the error term e. This is also confirmed by the F-ratio of 9.1786 which is far greater than the significant F at 95% confidence interval of 0.00059.

The output model is specified as:

$$ROA = 0.0744 + 0.0885CCR + 0.1324STR - 0.1514RTR - 0.024PTR$$

The model having been verified to be reliable for inferential analysis, the following findings are discussed.

#### 4.8 Effect of Cash Management on Financial Performance

From model we can clearly see the regression output coefficient=0.0885. since the coefficient is positive it shows that cash conversion in cash management has a direct relationship to financial performance of a business. This means that any step to strengthen cash management by a retailer will increase financial performance of the business by 8.885%. This indicates that cash management has a positive effect on financial performance since the coefficient is positive. T-statistic=3.7346 ≥ critical t value=2.000. it compels us to reject the null hypothesis that irrespective of cash management practices, profitability of an enterprise remain same. The conclusion therefore go inline that cash management and financial performance are strongly associated. Two tailed p-value at α=0.05 from the table is 0.00199 which is ≤0.05 hence cash management is a strong determinant of financial performance (ROA) of an enterprise. The p-value is less than 0.05, the probability at 95% confidence level hence the variable CCR is significant in determining ROA.

This can be contrasted with the findings of (Gulet, 2014) who investigated effect of cash management practices of an enterprise over performance of (SMEs) in Pakistan from 2006-2012. When he finalize the study established that there is a negative association of two variables under the study. He connected the change to outside factors such as working environment of the



business. Generally we can say that environment at which an enterprise is operating is a key component contributing to its financial performance irrespective of cash management practices.

In Ghana (Akoto, 2013) Investigated association in WCM versus profit index of 13 sampled manufacturing firms in state of Ghana using their financial data of a period of five years. After regression analysis in a lineal model the results had a positive slope showing that CCC and performance of a business were strongly associated. His results are confirmed by our findings of this project as they have drawn to same conclusions.

#### **4.9 Effect of Inventory Management on Financial Performance**

STR coefficient from our model=0.1234. since the coefficient is positive this shows that stock turnover ratio of a business have a strong association to financial performance of the business.

From the table we see that  $t\text{-static}=2.6198 \geq 2.00$  critical  $t\text{-value}$  at  $\alpha=0.05$ . thus reject the null hypothesis. Our conclusion will be inventory management is positively related to ROA, the indicator of financial performance- $\text{value}=0.01932$  which is less than 0.05 hence indicating significant relationship. From the above results we can clearly say taking all the independent variables as a pair, STR is determinant to ROA of a business.

This can be compared with the findings of (Almazari, 2013) investigated association in WCM and profit of a company using samples of Saudi Arabia cement firms who at the end of his study concluded the two variables had a negative association .in our findings we have seen a positive relationship between ROA and STR which simply implies in other words a negative association of stock holding length to financial performance of an enterprise (Almazari, 2013).

In contrast some researchers such as (Mathuva, 2010). For instance in a research to investigate association between WCM and financial progress among Kenya companies in over the period 1993 to 2008 established a linear relation between stock conversion time and gross business profit margin. This suggest that every business operating environment is of key to financial performance of an enterprise.

#### **4.10 Effect of Receivables on Financial Performance**

Regression coefficient output for receivable turnover ratio= -1514. the value is negative thus existence of inverse relationship between account receivable management and financial performance of a business. This is confirmed by  $t\text{-static}=-3.3754 \leq -2.000$  critical  $t\text{-value}$  at  $\alpha=0.05$ . hence we accept alternative hypothesis. This leads to a conclusion that receivable turnover ratio is negatively associated to ROA which is an indicator of financial performance P-VALUE = of 0.00416 which is less than 0.05 at  $\alpha=0.05$ . this clearly shows that RTR has a strong association to ROA. Thus it is a determinant to financial performance of an enterprise.

Our results falls in comparison to researchers like (Gulet, 2014) in his case study of association between WCM and FP of small medium enterprises concluded that receivable turnover ratio and profitability had negative association. Investigation for researchers like (Akoto, 2013) in Ghana, (Oladipupo, 2013) in Nigeria and (Deloof & M, 2003) also found similar results in his study which was carried out in Belgium. This leads to a conclusion that receivable management has same results to business success in terms of performance in all areas.

#### **4.11 Effect of Payables Management on Financial Performance**

Regression coefficient output for payable turnover ratio= -0.024.the value is negative thus existence of inverse relationship between account receivable management and financial performance of a business. This is confirmed by t-static=0.657  $\leq$  2.000 critical t-value at  $\alpha=0.05$  this value is not statistically significant hence we do not reject the null hypothesis. This leads to a conclusion that payable turnover ratio has no significant effect on ROA which is an indicator of financial performance of a company. at  $\alpha=0.05$  we see that p-value =0.5211. which is greater than 0.05. hence it goes in line that taking CCC, STR, RTR and PTR as a pair PTR is not a determinant to ROA as an indicator to financial performance of a company.

The findings contradict those of similar studies which show that payables management is statistically significant in establishing financial performance. (Gulet, 2014) In his study found that payables management was strongly associated to performance of a business in terms of (ROA) which contradicts to our findings.

Another researcher(Almazari, 2013)who conducted a study in Saudi Arabia. In his study of the relationship between working capital management and firms' profitability of Saudi cement manufacturing firms listed on the Saudi Stock Exchange over the period 2008-2012, He found there is a significant negative (nonlinear) association between payables period and gross profit which we agree according to the findings of this study.

From this study we can clearly say that the sole reason why account payable is not significant factor in food and beverage retailers in Puntland is due to unfavorable operating environ where retailers don engage much on credit trade. We also came to understood while conducting questionnaires that inputs for retailers are sourced outside the country.

## **5. SUMMARY CONCLUSION AND RECOMMENDATIONS**

### **Introduction**

The chapter provides the summary of the findings from our data. The chapter provide conclusion and recommendation of the research in line with our objectives of the study. The sole reason was to investigate association of cash management in business to their success in term ROA as an indicator of business growth. The study focused on food and beverage retailers of Garowe city in Somalia.

### **5.1 Summary Of The Findings**

The study found different findings based on the parameters used to measure financial performance of the food and beverage retailers in Garowe Puntland state of Somalia.

#### **5.1.1 Effect of Cash conversion cycleOn Financial Performance**

Based on cash management we found that CCR had a positive effect on financial performances of the retailers. This arose after running the data we obtained from the 39 retailers in a regression model and found a coefficient associated to Cash conversion ratio to be positive at 95% CI. This concludes to any attempts to improve cash management by the retailers will lead to good financial performance of their businesses.

#### **5.1.2 Effect of Receivables managementOn Financial Performance**

As indicated by receivables turnover period. The findings were contradicting those of cash and stock management since RTR was also found to have a negative effect on financial performance.

This is because the regression output provided a negative coefficient for the RTR variable which was statistically significant at 95% confidence level. This indicates that as far as food and beverage retailers in Garowe are concerned, the better the receivables management, the lower the profitability of these type of firms and vice versa.

### **5.1.3 Effect of Payables management On Financial Performance.**

Although the variable had an output with a negative coefficient implying that payables management negatively affects financial performance, the coefficient was not statistically significant at 95% confidence interval given that the P-value was more than 0.05.

It means that payables management as indicated by PTR has no effect on financial performance of food and beverage retailers in Puntland state of Somalia.

### **5.1.4 Effect of Inventory management On Financial Performance**

Based on inventory management we found that average inventory turnover ratio had a linear significance on gross profit of the retailers. This was supported by a positive coefficient output at 95% CI in our model which was statistically significant where ROA as an indicator of financial performance was the dependent variable.

## **6. Conclusions**

From the summary above and our findings we made the following conclusion: These include:

Firstly there is acute level of fluctuation of financial performance in businesses shown by increase regression variation coefficients to effect on cash management from ROA, CCC, STR, RTR and PTR, maybe majorly be contributed by unstable operating environment in Somalia.

Secondly, as indicated by the cash conversion cycle ratio has a positive effect on financial performance as indicated by ROA. It was evident from the study that improving cash conversion cycle will lead to good financial position to food and beverage retailers especially in Garowe City of Somalia as indicated by a positive coefficient value of cash conversion cycle on financial performance.

Thirdly, receivables management as indicated by the receivables turnover ratio has a negative effect on financial performance as indicated by ROA. Receivable management is of key to food and beverage retailers of Puntland state of Somalia as indicated by receivable turnover ratio on ROA as an indicator of financial performance. Retailers should establish better account receivable policies and procedures for their enterprises to improve their financial performance.

Fourthly, payables management as indicated by the payables turnover ratio has a no effect on financial performance as indicated by ROA. Food and beverage retailers cannot impact their financial performance by shifting the landscape of their payables management on creditors' procedure.

Lastly, Inventory management is very important component for food and beverage retailers of Puntland state of Somalia as showed by stock turnover ratio there is a positive effect on financial performance by ROA. To improve financial performance of retailers should establish better inventory policies and procedures for their enterprises.

## **7. Recommendations**

Based on the research findings, the following suggestions are made to enhance food and beverage retailers' cash management knowledge and practices to enable them to be profitable and sustainable:

Firstly cash conversion cycle the retailers should have proper management of their cash conversion cycle from the selling the goods or services till the receipts of the money, records kept correctly to keep track of all transactions that the businesses are engaged in. This will not only efficient their way of doing business but also it will help them realize greater profit margin in their enterprise as they are able to manage cash inflows and outflows properly.

Secondly the debtors the retailers should establish policies to handle their account receivables and ensure that they are followed and implemented. They should consider imposing incentives to the debtors to encourage them to make their payments in good time in order to have good working capital in their businesses. They should lay policies that will help them collect long awaited debts or impose procedure for write-offs. We found that 31% of retailers had established account receivable control systems to hasten debtors' payment by offering a discount and they were doing great in terms of their liquidity.

Thirdly the inventory control system should be establishes to closely monitor retailers stock. Food and beverage retailers should carry out monthly stock take in order to restock out of stock commodities. Retailers should also consider re-ordering their items in order to identify commodities that are out of stock to restock them and for those which are surplus in stock they should sell them first.

Fourthly payables management a business should abide to term of agreement with their suppliers upon receiving the stuff from them to avoid long awaited cases without paying them as this may kill their morale and shift their services to other enterprises. Retailers should consider buying their food stuff from suppliers with discount in their goods. Retailers need to consider purchasing non-perishable items in excess for them to avoid incurring more cost. Retailers should always try their best to make prompt payments to their creditors.

### **Suggestions For Further Research**

This study focused on food and beverage retailers in Garowe Puntland state of Somalia. A similar research could be carried out on other retailers in the whole state of Somalia to find out whether the same results will be obtained so as to allow generalization of the results. Future research can also be conducted to establish if other types of retailer businesses also incur the same difficulties regarding cash management practices.

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