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EFFECT OF ACCOUNTS RECEIVABLES MANAGEMENT ON FINANCIAL PERFORMANCE IN SMALL AND MEDIUM FIRMS IN MOGADISHU-SOMALIA

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Abstract: **The purpose of this study is to find out the effect of accounts receivable management on the financial performance of Small and Medium firms Enterprises in Mogadishu city in Somalia to be outlined by such study the researcher chose The specific objectives of the study to be cash flow management, credit management and credit policy management on financial performance which are the vital element of whole concept of account receivable management. Accounts receivable management on the financial performance in Small and Medium Enterprises (SMEs) are seen important event in the field of financial management lack of empirical evidence from the emerging economies and the absence of examination of the role of account receivable management on SME financial performance was no clear, the research design employs a survey design comprising of quantitative for data collection approach. The target populations had 102 SMEs from three sectors. The study was applied both probability and non-probability sampling procedures obtained a sample of 81 SMEs required for the study based on Slovene formula. The researcher was gather data used a questionnaires because the kind of the study involves variables that not possible to find out other tools questionnaire are seen most important tools for data collection. For explaining theoretical and empirical information on the past literature review on the effect of accounts receivable management on the financial performance of SMEs, the study was three sectors in Mogadishu Somalia. Inferential statistics such as Pearson correlation coefficient and coefficient correlation was used to analyze quantitative data and descriptive statistics are employed for variables of the study.**

Keywords: **Cash Flow Management, Debt Management, Credit Policy, Inventory Management and Financial Performance.**

1. INTRODUCTION

Accounts receivables management is an issue for every institution offering credit to its customers and the challenge for organizations is to protect profit margins by reducing write-offs, cutting the cost to collect and maximizing the cash collected. According to Bellie et al (2000) the view of Accounts receivables management should not be limited to customers who are unable to pay; the key is for organizations to use early identification of accounts at risk to enable proactive management of a customer before they become bankrupt.

Management of accounts receivables which aims at maintaining an optimal balance between each of the accounts receivables components, that is, cash, receivables, inventory and payables is a fundamental part of the overall corporate strategy to create value and is an important source of competitive advantage in businesses (Deloof, 2003).in practice account receivable become one of the most important issues in organizations with many financial executives struggling to identify the basic accounts receivables drivers and the appropriate level of accounts receivables to hold so as to minimize risk, effectively prepare for uncertainty and improve the overall performance of their businesses financially (Lamberson, 2005).

Many theories have been developed to explain the management of accounts receivables the agency theory initially put forward by Berle and Means (2003) also contributes to the accounts receivables management decision Therefore, the theory will help in trying to investigate if firms that present monitoring mechanisms of managers' actions have lower level of accounts receivables requiremen (Meigs et al.,2006).

2. SPECIFIC OBJECTIVES

1. To assess the effect of Cash flow management on the financial performance of Small and Medium firms in Mogadishu
2. To exam the effect of Debt Management on the financial performance of Small and Medium firms in Mogadishu
3. To determine the effect of Credit policy management on the financial performance of Small and Medium firms in Mogadishu
4. To find out the effect of inventory management on the financial performance of Small and Medium firms in Mogadishu.

3. THEORETICAL REVIEW

Transaction Cost Economics Theory

The optimum level of inventory should be determined on the basis of a trade-off between costs and benefits associated with the levels of inventory. Costs of holding inventory include ordering and carrying costs. Ordering costs is associated with acquisition of inventory which includes costs of preparing a purchase order or requisition form, receiving, inspecting, and recording the goods received.

Agency Theory

The agency theory initially put forward by Berle and Means (2006) also contributes to the Accounts receivables management decision. According to the theory, agency conflicts arise from the possible Divergence of interests between shareholders (principals) and managers (agents) of firms. The Primary duty of managers is to manage the firm in such a way that it generates returns to Shareholders thereby increasing the profit figures and cash flow. Due to a non-rational and opportunistic behavior of agents (Jensen, 2004), the interests and decisions of managers are not always aligned to the shareholders' interests, resulting in agency costs or agency problems.

4. RESEARCH FINDINGS AND DISCUSSIONS

Cash Flow Management

The study sought to investigate the effects of account receivable management on financial performance of SME's. Table 4.7 summarizes respondents' level of agreement on cash flow management affects financial performance. Question one the respondents agreed that your company is well prepared cash flow forecasts for you the future planning, reported a mean of this question is 1.88, and standard deviation .734, indicating that cash flow forecasting contribute to the company performance is very satisfactory. While question two concerned with the companies have systematically monitor in cash flow which caused better performance to the business, the respondents reported a mean of 1.99 and standard deviation is .797.while question three concerned with the company cash flow was vital to the performance for the last years reporting a mean of this question is 2.01, and standard deviation is .744

Table 4.1 Cash flow management

Statement	N	Mean	Std. Deviation
Your company is well prepared cash flow forecasts for you the future planning.	81	1.88	.734
The company have systematically monitor in cash flow which caused better performance to the business.	81	1.99	.797
The company cash flow was vital to the performance for the last years.	81	2.01	.744
There are regular policy have the company that guides cash flow and liquidity management.	81	2.15	.800
Valid N (listwise)	**81**		

Debt Management

The study sought to establish the effects of Deb Management on financial performance of SME's. First question Respondents agreed that most debtors stick to the credit period depicted by a mean of 1.79 and standard deviation is .722; Second question the respondents agreed that some of the debtors default in payment due by a mean of 1.79 and standard deviation is .759. While question three concerned with the enterprise analyze and report on debtors aging a mean of this question is 1.80 and standard deviation is .771, and question Four the respondent agreed That the firm suffer bad debts the mean of this question is 1.91 and standard deviation is 0.756 According to the findings of Gill, Biger and Matur (2010) profitability of the firms correlated with collection of accounts receivables. Inventory conversion period has a major impact on the length of cash conversion cycle.

Table 4.2 Debt Management

Statement	N	Mean	Std. Deviation
Most debtors stick to the credit period	81	1.79	.722
Some of the debtors default in payment	81	1.79	.759
The enterprise analyze and report on debtors aging	81	1.80	.771
the firm suffer bad debts	81	1.91	.756
Valid N (listwise)	**81**		

Credit Policy Management

The study sought to establish the effects of Credit Policy management on financial performance of small and medium enterprises in Somalia from the findings indicated in table 4.9. First question the respondents agreed that the firm has a credit policy the mean of this question is 1.79 and standard deviation is .81, while the second question concerned the firm has a credit collection policy, the mean of this question is 1.81 and standard deviation is .766. While question three concerned with the firm offers some sales on credit the mean of this question is 1.83 and standard deviation is .724. Lastly question four concerned the firm exploits trade credit as much as possible the mean of this question is 1.95 and standard deviation is .868 García-Teruel and Martínez-Solano (2014) explore the relationship between profitability and accounts receivable with71, 635 firms in Spain during the period of 2000-2007.

Table 4.3 Credit Policy Management

Statement	N	Mean	Std. Deviation
The firm has a credit policy	81	1.79	.810
The Firm has a credit collection policy	81	1.81	.766
The firm offers some sales on credit	81	1.83	.724
The firm exploits trade credit as much as possible	81	1.95	.868
Valid N (listwise)	**81**		

Inventory Management

The study sought to establish the effects of inventory management on financial performance of SME's. The first question concerned with your business review its inventory levels respondents agreed that mean of this question is 1.79 and standard deviation is .810. Second question concerned your business prepare its inventory budget the mean of this question is 1.81 and standard deviation is .766, while question three concerned with your business utilize computer in managing inventory so the mean of this question is 1.83 and standard deviation is .724.

Table 4.4 Inventory Management

Statement	N	Mean	Std. Deviation
Your business review its inventory levels	81	1.79	.810
Your business prepare its inventory budget	81	1.81	.766
Your business utilize computer in managing inventory	81	1.83	.724
Your business apply theories of inventory management in determining the inventory level	81	1.95	.868
Valid N (listwise)	**81**		

Model Summary

Model summary is a summery that describes how far the in dependent variables explain the dependent variables that mean the greater R value has the great number the greater independent variables explain with dependent variable. In order to test the research hypotheses, a standard multiple regression analysis was conducted using financial performance the dependent variable, and the four investigations determine effect of accounts receivable management on the financial performance: cash flow management, debt management, credit policy management and inventory management as the predicting variables.

Table 4.5 Model Summary

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.525[a]	.276	.245	.66012

Analysis of Variance

Analysis of Variance (ANOVA), as the name implies, is a statistical technique that is intended to analyze variability in data in order to infer the inequality among population means. This may sound illogical, but there is more to this idea than just what the name implies. The ANOVA technique extends what an independent-samples t test can do to multiple means. The null hypothesis examined by the independent samples t test is that two population means are equal. If more than two means are compared, repeated use of the independent-samples t test will lead to a higher Type I error rate (the experiment-wise α level) than the α level set for each t test.

Table 4.6 Analysis of Variance

ANOVA[b]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	11.766	3	3.922	9.001	.000[a]
	Residual	30.939	71	.436		
	Total	42.705	74			

5. CONCLUSIONS

Based on the findings of this study, the following conclusions were drawn. The results reveal for cash flow management, other independent variables (debt management, credit policy management and inventory management) were found to have positive significant correlations on financial performance at 5% level of significance. There was a weak positive but insignificant Performance correlation credit policy management ($r = 0.433$, $P < 0.05$). There was a weak positive and significant correlation between cash flow management ($r = 0.46$, $P < 0.05$). There was a strong negative and highly significant correlation between debt management and financial performance ($r = -0.019$, $P < 0.01$). There was a weak positive but insignificant Performance correlation credit policy management ($r = 0.433$, $P < 0.05$) There was a moderately positive and highly significant correlation between effects of accounts receivables and financial performance($r = 0.469$, $P < 0.01$). The results imply that cash flow management, credit policy management, inventory management significantly influenced financial performance of the SME's in Mogadishu Somalia.

6. RECOMMENDATIONS

The study recommends that small and medium enterprises companies should enhance their cash flow management by adapting a more and sitting policy their cash flow management.

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

Management should come up with a sound strategy towards credit Policy management so as to avert the problem of mismatching investments and also the quality of credit should be enhanced.

Management should come up with a sound strategy towards inventory management to avert the problem of mismatching investments and the quality of inventory should be enhanced.

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