Review Form 1.7

Journal Name:	**Asian Journal of Economics, Business and Accounting**
Manuscript Number:	**Ms_AJEBA_108667**
Title of the Manuscript:	**INFLUENCE OF DEBT MANAGEMENT PRACTICES ON FINANCIAL SUSTAINABILITY OF SMALL AND MEDIUM FIRMS IN MOGADISHU, SOMALIA**
Type of the Article	

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INFLUENCE OF DEBT MANAGEMENT PRACTICES ON FINANCIAL SUSTAINABILITY OF SMALL AND MEDIUM FIRMS IN MOGADISHU, SOMALIA

ABSTRACT

Financial sustainability is an important realization of the firm which has potential to improve the overall viability of the firm. Realization of financial sustainability depends on among other things, how effective a firm is able to manage its debts. In countries like Somalia that are seeking to have economic recovery, it is anticipated that any effort to enhance debt management may in turn affect their financial sustainability and thus their overall contribution towards the growth and recovery of the economy at large. Thus, this study sought to establish the effect of debt management practices on financial sustainability of small and medium firms in Mogadishu, Somalia. The study was anchored on debt management theory. Correlational research design was adopted targeting 97 small and medium enterprises with operations in Mogadishu city and census was used. Information in its primary mode was obtained from managers/owners of the said small and medium enterprises with aid of questionnaire. After gathering and processing of data through means and standard deviations as well as regression analysis, it was noted that while credit terms (M=3.55, SD=0.777) and debt collection policy (M=3.55, SD=0.764) were highly rated by managers/owners of SMEs in Mogadishu, credit risk control (M=3.44) was a moderately rated aspect of debt management practices. It was also established that effective debt management practices are positively and significantly linked with financial sustainability ($p<0.05$). It was recommended that managers working among small and medium firms in Somalia review their current debt management practices to ensure they are more effective and efficient in contributing towards financial sustainability of their enterprises.

Key Words:debt management practices, financial sustainability, small and medium enterprises

INTRODUCTION

Background to the Study

Achieving financial sustainability is one of the far reaching objectives of the firm. Financial sustainability is an important construct that allows an organization to operate at an optimal level and thus contributing towards realization of the established goals (Gleißner, Günther&Walkshäusl, 2022).Financial sustainability is about having in place relevant strategies to enhance the revenue generating capability of an enterprise. However, realization of financial sustainability at firm level is strongly dependent on among other things, effective debt management (Zabolotnyy&Wasilewski, 2019).Indeed, effective and efficient debt management provides a good opportunity for the firm to maximize the wealth of shareholders as one of the far reaching goals. (Gleißner et al. (2022) suggested four broad measures of financial sustainability

ability of the firm to survive, grow, desirable level of exposure to earning risks and favorable earning risk profile.

Debt management is important in driving financial sustainability agenda of the firm. From the corporate finance point of view, debt is critical in providing the firm with an interest tax shield which is critical in maximization of the wealth of the owners (World-Bank, 2021). Effective debt management is critical in successful and important in allowing the firm to enhance its profitability. Proper debt management is aimed at improving the revenue generating potential of the firm which contributes towards financial sustainability of an enterprise. Generally, literature recognizes some of the measures of debt management as client appraisal and debt collection policy (Vértesy, 2020).Other measures adopted by Wanyama, and Gichure, (2023 in measuring debt management practices include credit terms and credit risk control. These are the same measures that were adapted to measure debt management in the present study.

Small and medium enterprises (SMEs) play instrumental role towards the growth of emerging economies like Somalia that have undergone long decade of civil war. In order to complement the full economic recovery and thus economic vibrancy of Somalia, all efforts should be made to boost and enhance this SME segment (Ahmed, 2020). It is hypothesized that supporting financial sustainability of this sector would be an important endeavor to enhance its vibrancy and thus contribution towards economic recovery of Somalia (Hassan, 2022). However, financial sustainability of these firms cannot be realized if effective mechanisms and efforts have not been put in place to among other things manage their debts (Zayed, Mohamed, Islam, Perevozova, Nitsenko&Morozova, 2022). It is anticipated that an evaluation of the current debt management practices of the said SMEs would be critical in allowing them to enjoy the benefits from interest tax shield and maximization of the same is likely to enhance their revenue generating potential hence financial sustainability and thus the motivation of this present tudy.

Research Problem

Financial sustainability is an important realization of the firm which has potential to improve the overall viability of the firm. Realization of financial sustainability depends on among other things, how effective a firm is able to manage its debts (Gleißner, Günther&Walkshäusl, 2022). Having debts in the capital structure of the firm beneficial since it lead to interest tax shield that improves the revenue generating potential and thus effective maximization of wealth of owners. It is thus anticipated that effective and efficient debt management mechanisms and practices can allow the firm to optimize interest tax shield that accrue from leverage and this is likely to contribute towards financial sustainability which is currently a challenge for firms especially SMEs operating in Mogadishu Somalia (Zayed et al., 2022).In countries like Somalia that are seeking to have economic recovery, it is anticipated that any effort to enhance debt management may in turn affect their financial sustainability and thus their overall contribution towards the growth and recovery of the economy at large.

The existing studies include Valaskovaand Gajdosikova (2021) that was an analysis of debt management and earnings at a corporate level focusing on Visegrad group enterprises. W that indebtedness at firm level has negative implication on earnings. Using a case of Guangzhou Baiyunshan Pharmaceutical Group Co in China, Wu, Yang and Zhang (2021) did an assessment of debt management and its link with firm value where a significant and direct link between variables was registered.

However, the aforementioned studies create gaps as some likeWu, Yang and Zhang (2021) were done in China and not Somalia. Other studies like Valaskovaand Gajdosikova (2021) adopted case studies that merely required qualitative as opposed to quantitative approaches hence creating gaps. Against these stated gaps, the present study was an analysis of the effect of theinfluence of debt management practices on financial sustainability of small and medium firms in Mogadishu, Somalia.

Research Objective

The study sought to establish the effect of debt management practices on financial sustainability of small and medium firms in Mogadishu, Somalia

Research Hypothesis

Ho1:debt management practices have no statistically significant effect on financial sustainability of small and medium firms in Mogadishu, Somalia

LITERATURE REVIEW

Theoretical Review

The debt management theory developed by Leong (1999) was used to underpin this study. This theory provides a demonstration of how holding of relevant quantities of loans with various maturities can improve overall sustainability of firms. The theory places more emphasis on the need for firms to effectively manage their debt levels so as to contribute towards financial sustainability. The theory argues that during debt management, efforts to reduce short term debt and raising the level of long term debts would increase the demand for short term debts while equities would be in excess supply (Tarus, &Tarus, 2023). The main focus of the present study was on debt management which this theory places more emphasis. Hence, building on this debt management theory, the present study would be interested in establishing the implication of credit collection policy and client appraisal as elements of debt management practices and their implication on financial sustainability.

Empirical Review

Wanyama, andGichure, (2023) conducted an evaluation of debt management practices and their connection with financial performance among enterprises that were involved in processing of sugar in Kenyan context. The variables entailed credit terms, client appraisal, and credit risk control and debt collection policy. After processing of the information that had been gathered, it was established that debt management practices are linked with financial performance in significant terms. Valaskova and Gajdosikova (2021) did an analysis of debt management and the link with earnings at firm level. The emphasis of this study was on some identified Visegrad group enterprises. Financial ratios of indebtedness was determined were computed and adopted for analysis. It emerged that indebtedness at firm level may adversely affect earnings of an entity.

In a study that was conducted in China, Wu, Yang and Zhang (2021) did an assessment of debt management and its implication on value of the firm. The design adopted was case study and after gathering of information, it was noted that effective debt management enhances the value of an enterprise. Das, Surti, Ahmed, Papaioannou and Pedras (2010) did an assessment of effective management of public debt and the link with financial stability. After gathering and processing of the views, it emerged that effective management of public debt management enhances the fiscal revenue stability of the government.

Conceptual Framework

Figure 1 below is the conceptual framework that was adopted in the present study”

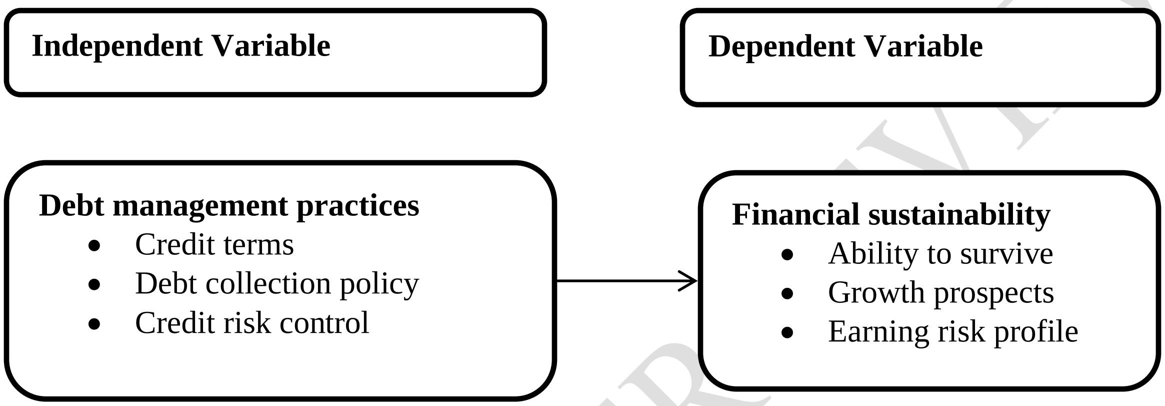

Figure 1: Conceptual Framework

METHODOLOGY

Research Design

Research design is defined as the overall structure and plan that guides how a study is conducted in terms of gathering and analysis of the findings (Sardinha& Pinto, 2019). The study adopted correlational design aimed at testing the formulated hypothesis to draw inferences.

Target Population

Target population is a collection of items including people with common observable attributes (Dawson, 2019). This study targeted97 small and medium enterprises from in Mogadishu city as the unit of analysis while managers/owners each from this enterpriserepresented the unit of observation.

Sample size and Sampling Technique

Sample size is small and representative elements that are selected from the entire targeted population (Adams& McGuire, 2022). Selection of the study sample is achieved through sampling technique. In this study, since the population was small and could easily be accessed, census was adopted. Thus, no sampling was conducted. According to Privitera (2022), census is appropriate when population has less than 200 elements.

Data Collection Instrument

An instrument for gathering information is a tool that is utilized to obtain information in its primary or secondary form (Thomas, Martin, Etnier& Silverman, 2022). In this study, primary information was gathered with support of structuredquestionnaire having close ended items. In design of this tool, a 5-point Likert scale was used where 1-strongly disagree and 5-stronngly agree.

Validity and Reliability of Study instrument

A study tool is deemed as valid when it provides measurement in line with the goal it was designed to measure (Lo, Rey-Martí&Botella-Carrubi, 2020). On the other hand, reliable tool provides consistent measurement even after successful trials (Nielsen, Eden&Verbeke, 2020). Determination of validity was aided by two industry experts in the field of corporate finance who made reviews and shared comments that were incorporated in the final version of the questionnaire before proceeding to the field in the actual study. For reliability, the questionnaire was pilot tested among SMEs outside Mogadishu town and the results from the same were used as a basis for computation of Cronbach Alpha Coefficients. As indicated by McKinley and Rose (2019), such values above 0.7 provide an indication of reliable scale having been used.

Data Analysis and Presentation

Analysis of data is statistical transformation of raw statistics into insights to generate a report (Rose, McKinley&Baffoe-Djan, 2019).The analysis of the obtained information was done by statistical package for social sciences guided by means and standard deviations and regression analysis. The regression model adopted during analysis took the following form:

$$\mathbf{Y= \beta_0+ \beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon}$$

Where Y= financial sustainability (as a composite score of ability to survive, growth prospects and earning risk profile.
B_0 = Constant
β_1, β_2, and β_3 are Coefficients
ε = error term
X_1= Credit terms
X_2= Debt collection policy
X_3= Credit risk control
Presentation of findings will be achieved through tables.

RESULTS AND DISCUSSION

Response Rate

Out of the 97 questionnaires that were administered to owners/managers of small and medium enterprises with operations in Mogadishu city, 73 were completed and collected for processing. This meant a response rate of 75.3% which according to Ghauri, Grønhaug and Strange (2020) was adequate in supporting the present analysis.

Debt Management Practices

The findings of descriptive statistics on debt management practices among SMEs in Mogadishu are as presented in Table 1 below:

Table 1: Debt Management Practices

Credit terms	**Mean**	**Std. Dev**
Your enterprise has in place formal credit terms	3.57	.865
Credit terms are strictly adhered during debt management in this enterprise	3.53	.689
Average score	**3.55**	**0.777**
Debt collection policy	**Mean**	**Std. Dev**
A clear debt collection policy is in place in this enterprise	3.51	.780
The debt collection policyoutlines clear procedure to follow up overdue debts in this enterprise	3.59	.748
Average score	**3.55**	**0.764**
Credit risk control	**Mean**	**Std. Dev**
There are adequate credit risks controls in this enterprise	3.47	.759
Credit risk control aims at tracking up all overdue debts in this enterprise	3.41	.793
Average score	**3.44**	**0.776**

Table 1 shows that while credit terms (M=3.55, SD=0.777) and debt collection policy (M=3.55, SD=0.764) were highly rated by managers/owners of SMEs in Mogadishu, credit risk control (M=3.44) was a moderately rated aspect of debt management practices.This means that debt management was practiced among the said SMEs ranging from a moderate to a high extent.

Regression Results and Hypothesis Testing on Debt Management Practices and Financial Sustainability

In order to draw informed inferences on debt management practices and financial sustainability, regression analysis was conducted and Tables 2, 3 and 4 are breakdowns of the findings.

Table 2: Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.933[a]	.870	.862	.38645

Table 2 indicates that 86.2% change in financial sustainability of small and medium firms in Mogadishu, Somalia is explained by their debt management practices. The Analysis of Variance results are shown in Table 3.

Table 3: Analysis of Variance

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Regression	47.138	3	15.713	154.463	.000[b]
Residual	7.019	69	0.102		
Total	**54.157**	**72**			

Table 3 indicate that on overall, the regression model adopted in this study was significant ($p<0.05$). Beta coefficients and significance results are shown in Table 4.

Table 4: Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.013	.841		1.204	.235
Credit terms	.223	.039	.037	5.718	.016
Debt collection policy	.197	.075	.202	2.608	.012
Credit risk control	.467	.054	.753	8.659	.000

From Table 4 above, the following equation is predicted between debt management practices and financial sustainability:

$$\mathbf{Y = 1.013+0.223X_1 +0.197X_2+0.467X_3+\varepsilon}$$

Where:

Where Y= financial sustainability (as a composite score of ability to survive, growth prospects and earning risk profile.

ε = error term

X_1= Credit terms

X_2= Debt collection policy

X_3= Credit risk control

The study was guided by the following hypothesis:

Ho1:debt management practices have no statistically significant effect on financial sustainability of small and medium firms in Mogadishu, Somalia

From Table 4, then p-values of credit terms ($p=.016<0.05$), debt collection policy ($p=0.012<0.05$) and credit risk control ($p=0.000<0.05$) were all less than 0.05. Thus, the study reject hypothesis Ho1 above and deduce that debt management practices have significant effect on financial sustainability.This finding agree with Wanyama, and Gichure, (2023) who also established that debt management practices are linked with financial performance in significant terms. Wu, Yang and Zhang (2021) noted that effective debt management enhances the value of an enterprise. Das, Surti, Ahmed, Papaioannou and Pedras (2010) established that effective management of public debt management enhances the fiscal revenue stability of the government.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Debt management was practiced among SMEs in Mogadishuranging from a moderate to a high extent.Credit terms, debt collection policy and credit risk control all had positive beta coefficients besides being significant. Thus, the study reject hypothesis Ho1 and concluded that deduce that debt management practices have significant effect on financial sustainability.

Recommendations

Managers working among small and medium firms in Somalia review their current debt management practices to ensure they are more effective and efficient in contributing towards financial sustainability of their enterprises.

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Debt Mgt

by TII Service

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ABSTRACT

Financial sustainability is an important realization of the firm which has potential to improve the overall viability of the firm. Realization of financial sustainability depends on among other things, how effective a firm is able to manage its debts. In countries like Somalia that are seeking to have economic recovery, it is anticipated that any effort to enhance debt management may in turn affect their financial sustainability and thus their overall contribution towards the growth and recovery of the economy at large. Thus, this study sought to establish the effect of debt management practices on financial sustainability of small and medium firms in Mogadishu, Somalia. The study was anchored on debt management theory. Correlational research design was adopted targeting 97 small and medium enterprises with operations in Mogadishu city and census was used. Information in its primary mode was obtained from managers/owners of the said small and medium enterprises with aid of questionnaire. After gathering and processing of data through means and standard deviations as well as regression analysis, it was noted that while credit terms (M=3.55, SD=0.777) and debt collection policy (M=3.55, SD=0.764) were highly rated by managers/owners of SMEs in Mogadishu, credit risk control (M=3.44) was a moderately rated aspect of debt management practices. It was also established that effective debt management practices are positively and significantly linked with financial sustainability ($p<0.05$). It was recommended that managers working among small and medium firms in Somalia review their current debt management practices to ensure they are more effective and efficient in contributing towards financial sustainability of their enterprises.

Key Words: debt management practices, financial sustainability, small and medium enterprises

INTRODUCTION

Background to the Study

Achieving financial sustainability is one of the far reaching objectives of the firm. Financial sustainability is an important construct that allows an organization to operate at an optimal level and thus contributing towards realization of the established goals (Gleißner, Günther&Walkshäusl, 2022).Financial sustainability is about having in place relevant strategies to enhance the revenue generating capability of an enterprise. However, realization of financial sustainability at firm level is strongly dependent on among other things, effective debt management (Zabolotnyy&Wasilewski, 2019).Indeed, effective and efficient debt management provides a good opportunity for the firm to maximize the wealth of shareholders as one of the far reaching goals. (Gleißner et al. (2022) suggested four broad measures of financial sustainability

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Conceptual Framework

Figure 1 below is the conceptual framework that was adopted in the present study"

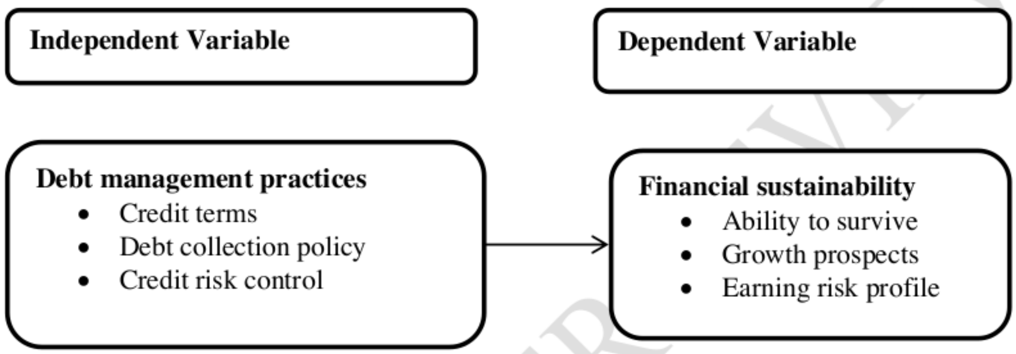

Figure 1: Conceptual Framework

METHODOLOGY

Research Design

Research design is defined as the overall structure and plan that guides how a study is conducted in terms of gathering and analysis of the findings (Sardinha& Pinto, 2019). The study adopted correlational design aimed at testing the formulated hypothesis to draw inferences.

Target Population

Target population is a collection of items including people with common observable attributes (Dawson, 2019). This study targeted97 small and medium enterprises from in Mogadishu city as the unit of analysis while managers/owners each from this enterpriserepresented the unit of observation.

Sample size and Sampling Technique

Sample size is small and representative elements that are selected from the entire targeted population (Adams& McGuire, 2022). Selection of the study sample is achieved through sampling technique. In this study, since the population was small and could easily be accessed, census was adopted. Thus, no sampling was conducted. According to Privitera (2022), census is appropriate when population has less than 200 elements.

Data Collection Instrument

An instrument for gathering information is a tool that is utilized to obtain information in its primary or secondary form (Thomas, Martin, Etnier& Silverman, 2022). In this study, primary information was gathered with support of structuredquestionnaire having close ended items. In design of this tool, a 5-point Likert scale was used where 1-strongly disagree and 5-stronngly agree.

Validity and Reliability of Study instrument

A study tool is deemed as valid when it provides measurement in line with the goal it was designed to measure (Lo, Rey-Martí&Botella-Carrubi, 2020). On the other hand, reliable tool provides consistent measurement even after successful trials (Nielsen, Eden&Verbeke, 2020). Determination of validity was aided by two industry experts in the field of corporate finance who made reviews and shared comments that were incorporated in the final version of the questionnaire before proceeding to the field in the actual study. For reliability, the questionnaire was pilot tested among SMEs outside Mogadishu town and the results from the same were used as a basis for computation of Cronbach Alpha Coefficients. As indicated by McKinley and Rose (2019), such values above 0.7 provide an indication of reliable scale having been used.

Data Analysis and Presentation

Analysis of data is statistical transformation of raw statistics into insights to generate a report (Rose, McKinley&Baffoe-Djan, 2019).The analysis of the obtained information was done by statistical package for social sciences guided by means and standard deviations and regression analysis. The regression model adopted during analysis took the following form:

$$Y= \beta_0+ \beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$$

Where Y= financial sustainability (as a composite score of ability to survive, growth prospects and earning risk profile.

B_0 = Constant

β_1, β_2, and β_3 are Coefficients

ε = error term

X_1= Credit terms

X_2= Debt collection policy

X_3= Credit risk control

Presentation of findings will be achieved through tables.

RESULTS AND DISCUSSION

Response Rate

Out of the 97 questionnaires that were administered to owners/managers of small and medium enterprises with operations in Mogadishu city, 73 were completed and collected for processing. This meant a response rate of 75.3% which according to Ghauri, Grønhaug and Strange (2020) was adequate in supporting the present analysis.

Debt Management Practices

The findings of descriptive statistics on debt management practices among SMEs in Mogadishu are as presented in Table 1 below:

Table 1: Debt Management Practices

Credit terms	**Mean**	**Std. Dev**
Your enterprise has in place formal credit terms	3.57	.865
Credit terms are strictly adhered during debt management in this enterprise	3.53	.689
Average score	**3.55**	**0.777**
Debt collection policy	**Mean**	**Std. Dev**
A clear debt collection policy is in place in this enterprise	3.51	.780
The debt collection policyoutlines clear procedure to follow up overdue debts in this enterprise	3.59	.748
Average score	**3.55**	**0.764**
Credit risk control	**Mean**	**Std. Dev**
There are adequate credit risks controls in this enterprise	3.47	.759
Credit risk control aims at tracking up all overdue debts in this enterprise	3.41	.793
Average score	**3.44**	**0.776**

Table 1 shows that while credit terms (M=3.55, SD=0.777) and debt collection policy (M=3.55, SD=0.764) were highly rated by managers/owners of SMEs in Mogadishu, credit risk control (M=3.44) was a moderately rated aspect of debt management practices.This means that debt management was practiced among the said SMEs ranging from a moderate to a high extent.

Regression Results and Hypothesis Testing on Debt Management Practices and Financial Sustainability

In order to draw informed inferences on debt management practices and financial sustainability, regression analysis was conducted and Tables 2, 3 and 4 are breakdowns of the findings.

Table 2: Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.933[a]	.870	.862	.38645

Table 2 indicates that 86.2% change in financial sustainability of small and medium firms in Mogadishu, Somalia is explained by their debt management practices. The Analysis of Variance results are shown in Table 3.

Table 3: Analysis of Variance

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Regression	47.138	3	15.713	154.463	.000[b]
Residual	7.019	69	0.102		
Total	**54.157**	**72**			

Table 3 indicate that on overall, the regression model adopted in this study was significant ($p<0.05$). Beta coefficients and significance results are shown in Table 4.

Table 4: Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	1.013	.841		1.204	.235
Credit terms	.223	.039	.037	5.718	.016
Debt collection policy	.197	.075	.202	2.608	.012
Credit risk control	.467	.054	.753	8.659	.000

From Table 4 above, the following equation is predicted between debt management practices and financial sustainability:

$$\mathbf{Y = 1.013+0.223X_1 +0.197X_2+0.467X_3+\varepsilon}$$

Where:

Where Y= financial sustainability (as a composite score of ability to survive, growth prospects and earning risk profile.

ε = error term

X_1= Credit terms

X_2= Debt collection policy

X_3= Credit risk control

The study was guided by the following hypothesis:

Ho1:debt management practices have no statistically significant effect on financial sustainability of small and medium firms in Mogadishu, Somalia

From Table 4, then p-values of credit terms ($p=.016<0.05$), debt collection policy ($p=0.012<0.05$) and credit risk control ($p=0.000<0.05$) were all less than 0.05. Thus, the study reject hypothesis Ho1 above and deduce that debt management practices have significant effect on financial sustainability.This finding agree with Wanyama and Gichure (2023) who also established that debt management practices are linked with financial performance in significant terms. Wu, Yang and Zhang (2021) noted that effective debt management enhances the value of an enterprise. Das, Surti, Ahmed, Papaioannou and Pedras (2010) established that effective management of public debt management enhances the fiscal revenue stability of the government.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Debt management was practiced among SMEs in Mogadishuranging from a moderate to a high extent.Credit terms, debt collection policy and credit risk control all had positive beta coefficients besides being significant. Thus, the study reject hypothesis Ho1 and concluded that deduce that debt management practices have significant effect on financial sustainability.

Recommendations

Managers working among small and medium firms in Somalia review their current debt management practices to ensure they are more effective and efficient in contributing towards financial sustainability of their enterprises.

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