THE ROLE OF FINANCIAL MANAGEMENT IN PERFORMANCE OF NON-PROFIT ORGANIZATIONS IN MOGADISHU SOMALIA

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1.1 ABSTRACT

This study investigated the role of financial management in performance of non-profit organizations the objectives of this study are to investigate cash management practices in non-profit organizations, to identify impact of capital budgeting practices in non-profit organizations and to determine the financing practices in non-profit organizations to achieve the objectives of this study, data was collected from 67 managers of some selected companies in Mogadishu – Somalia. Primary data has been used, researcher managed correlation research design to test the role of importance financial management in non-profit organizations by using SPSS software, also descriptive analysis such as frequency and percentage used to analyze the characteristics of respondents. As result of the analysis, the study revealed that all the dimensions of – financial management have a positive correlation with non-profit organizations. In conclusion the result indicated that there is strongly positive relationship the role of importance financial management in non-profit organizations.

KEYWORDS: ***financial management, performance of non-profit organations, cash management, capital budgeting practices, financing practices.***

1.2 INTRODUCTION

Every corporation needs a strong financial management system, which has an impact on all business activities. Business organizations need these systems to make the most use of their available financial resources and better fulfill their organizational duties (Nguyen 2001). The term "financial management techniques" refers to a method for organizing, directing, and controlling financial activities, such as the acquisition and effective use of a company's funds (Fraser et al. 2015). business dealings and activities are carried out in a methodical and well-managed manner. According to numerous studies (including those by Abuzayed (2012), Ban os-Caballero et al. (2012), Jindrichovska (2013), Kapitsinis 2019; Kaya and Alkane (2012), the financial management methods that an organization uses have a significant impact on its success or failure.

Poor management practices include financial complexity, mismanagement of funds, and lack of availability of long term funds for meeting the operating costs and capital expenditure (Pains and Gama 2015). Therefore, it is extremely important to incorporate financial practices that positively affect the performance of an enterprise specifically in the context of small and medium-sized enterprises (SMEs) which play a vital role in the economic development of a country. In this study, the term SMFEs refers to SMEs which are situated within the forest sector (Kazak 2007; Zama et al. 2019).

Globally. Organizations that disregard the information, tools, and techniques can face business failure. Because of the major restructuring in the positive implementation of government policies, have been developing in Pakistan‘s economy. As a result, there is an interest in knowing how handle their finances because better financial information leads towards improved control and increased chances of success (Yazdanfar and O¨ human 2015).

However, Pakistan is a developing country, and currently little research has been done about the financial management practices of s and its impact on the economy The healthy development of and financial management will continue to receive more attention to meet the competitive demands of promote the sustainable development of enterprises, and create more economic value. To fill in the existing gap of knowledge, this research investigates the impact of financial management practices on the growth of in Pakistan. This study offers several contributions to the literature. First, the study is novel in this sector and exceedingly significant for finance managers, owners, accountants of, and policymakers. This study serves as a

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guide for their decision making in knowing which financial management practices can enhance their growth and development and provide advice on what to do when their businesses are delivering the expected outputs.

In Africa. According to Saungweme, Maxwell (2014-12), on Factors influencing financial sustainability of local NGOs, A case study of Zimbabwe. Most of the local Non-governmental organizations are financially unsustainable and risk closing down and stopping service delivery to the needy not reached by government or private sector programmes if external donors pull out. local Non-governmental organizations in Zimbabwe need to change their approach to financial sustainability and start thinking hard about raising own incomes and establishing systems and processes that ensure longevity of their missions beyond external donor funding.

A number of donor-funded organizations in Kenya are experiencing shortage of funds. Lack of adequate funding affects the smooth running of organisations, particularly if it has reached a point where staffs can no longer get remunerations for the services they render. The level of performance is obviously going to be affected under such circumstances (Odhiambo, 2020). Good performance leads to organisational growth and, this can only be backed by financial incentives that keep the staffs motivated in discharging their responsibilities. Many NGOs are reducing the size of their staff while others are shutting their doors due to the lack of funds to manage the activities and programs (Kibunja, 2017). A good example of NGOs range from Management Sciences for Health (MSH), Save A Life, African Braille Centre (ABC), Red Cross and others just to mention. Such circumstances do not seem to be encouraging for a vibrant civil society. A vibrant civil society requires a more informed citizenry, especially citizens that are informed about policy related strategies that can be effectively implemented to improve the lives of grassroots people (Ndirangu, 2017).

There is no doubt that the role of financial management will change from what it is today in the future, so it is crucial that financial management takes these predictions seriously. The role of financial management in an organization is one that is constantly evolving and is, therefore, in line with the appropriate modern ideas and methods in the areas of use (Mofleh, 2011).

In Somalia. The continued warlord conflict, internal displacement, insufficient rainfall, drought, and high food costs have all conspired to cause Somalia to experience its worst humanitarian crisis in 18 years, which is marked by rising food insecurity and malnutrition rates. More than half of the population in Somalia requires humanitarian aid as a result of the country's severe and pervasive humanitarian crisis (Crig, 2003).

Massive humanitarian needs have also arisen as a result of widespread warlord conflict, population displacement, starvation, and illness (African Development Bank, 2010). This prompted the growth of civil society organizations and nonprofit organizations in Somalia. These nonprofit organizations receive funding from donors and mostly carry out two sorts of projects: developing projects and emergency programs that aim to benefit the suffering Somali people, particularly Internally Displaced People (IDP5) who have been uprooted within the nation. But regrettably, they collapse after a few years of being founded due to a lack of funding for ongoing operations.

However. This study we will examine the role of financial management in in performance of non-profit organations.

1.3 LITERATURE REVIEW

1.3.1 Introduction

This chapter discusses the literature related to the role of financial management in in performance of non-profit organizations. The review focuses mainly on prior studies of the role of financial management in organizations' performance. Therefore, the research focus on, Cash management practices, Capital Budgeting practices, and Financing practices in non-profit Organizations.

1.3.2 Determinants Financial Performance

The financial performance has proven to be a very delicate matter in most companies. This is attributed to the fact that despite numerous strategies being formulated by the companies most companies still underperform. This shows that the financial performance is a multidimensional factor influenced by various factors which include; financial management practices, company size, corporate governance and external factors.

1.3.2.1 Financial Management

In many ways, the financial management of not-for-profit organizations is comparable to the financial management of the commercial sector; however, there are several significant differences that change the focus of a not-for-profit financial manager. Profitability and enhancing shareholder value are the main priorities of a for-profit company. A not-for-profit organization's main objective is to continuously meet a socially desired need; it is not to increase shareholder value. Because they rely on resource providers who are not involved in exchange transactions, not-for-profit organizations typically don't have the same financial flexibility as commercial enterprises. The offered resources are intended to deliver products or services to a client other than the real resource provider. As a result, the non-profit must show that it is a good steward of resources that have been provided; money that has been given for a certain reason must be used for that purpose. The donor may have stated this goal explicitly or it may be inferred from the not-for-declared profit's mission. Stewardship of these contributed resources must be emphasized in a not-for-management profit's and reporting processes. The staff must be able to prove that the funds were spent in accordance with the donor's instructions. The usage of fund accounting systems has become increasingly more crucial as external financial reports have started to place greater attention on donor limitations (Lowis, 2003).

Financial Management are the outlines in the management of the financial resources they include working capital which refers to the capital required in the every-day operations of the business and thus acts as the driver to the organization 's growth (Harris, 2005). This includes; inventory management, cash management, account payables management and account receivables management. This isto ensure that there is sufficient cash flow to cater for both the current and the future operational expenses (Fekete, et al., 2010).

Contrarily, cash budgeting is the process of committing funds or capital over an extended period of time for specific purposes that fit within the strategic position of the company. Despite this awareness of cash budgeting, businesses frequently rely more on their informed intuition than on predetermined budget plans (Pandey, 2012).

1.3.2.2 Cash Management Practices

Cash management is simply defined as making the right amount of money available at the right time and the right place to meet the government's obligations in the most cost-effective way. The main features of modern cash management are centralized government bank accounts and establishment of a Treasury Single Account, ability to make accurate cash flow forecasts, use of short-term financing instruments, and capacity for the investment of excess cash reserves. Establishing a sound cash management framework with the mentioned features is beneficial not only to the governments and public entities, but also to other stakeholders including the beneficiaries of government payments, banks and lenders. Given the recent COVID-19 (coronavirus) pandemic and locked-down measures introduced in many countries, governments had to deal with unanticipated revenue decreases, and significantly increased public expenditures due to fiscal stimulus packages and pandemic related health expenditures. Therefore, existence of a wellstructured government cash management is now even more important than before. This paper aims to explore cash flow forecasting and cash management practices in 24 countries in various regions, at different income levels and technical capacity, and alignment to good practices based on the information provided at the World Bank workshops on Cash Flow Forecasting and Cash Management held in 2018 and 2019 (Cangoz et al, 2020).

The Collection and Deposit Legislation requires FMS to conduct periodic cash management reviews of Federal agency financial operations. These reviews examine and analyze agency management of the following programs: collections and deposits, disbursements, inventories, imprest funds, and other cash held outside the Treasury. The Federal agency and FMS agree on recommendations and plans for improvement. The Cash Management Improvement Act (CMIA) was enacted in1990 to improve the transfer of Federal funds between the Federal Government and the States. The statutory purpose of CMIA is to: (1) ensure efficiency, (2) provide effectiveness, and (3) ensure equity. The National Performance Review began in 1993 when President Bill Clinton announced a 6-month review of the Federal Government. The goal was to identify problems and offer solutions and ideas for savings. The report was divided into four sections: (1) Cutting Red Tape, (2) Putting Customers First, (3) Empowering Employees to Get Results, and (4) Cutting Back to Basics. One of the three steps to accomplish the last section, Cutting Back to Basics, is to collect more through imposing or increasing user fees where pricing makes economic sense, and by collecting what the Government is owed in delinquent debt or fraudulent overpayment of benefits. Essentially, the Government must find better, more efficient, and more effective ways to pay for its programs and activities. On April 26, 1996, Congress passed the Debt Collection Improvement Act of 1996. A major part of this Act began the EFT Program. The EFT Program requires Federal agencies to disburse payments via electronic funds transfer, with few exceptions. The Treasury published regulations to provide guidance to Federal agencies. Agencies began enrolling payment recipients for electronic payments by collecting payment recipients' bank account information and enhancing their systems to provide various electronic payment alternatives. The cooperative efforts of Federal agencies, the private sector, OMB, and FMS have spawned an impressive list of improvements since the mid-1980's and generated billions of dollars in interest saving (peter,2009).

1.3.2.3 Capital Budgeting Practice

The importance of capital budgeting for a firm cannot be overemphasized. Capital budgeting decisions have a long-term impact on the viability of a firm and its ability to operate as a going concern. Compared to current asset management decisions, there is almost no room for flexibility or correcting a mistake if a wrong capital budgeting decision has been made and implemented. For instance, if you once have a bad experience with a particular supplier for raw material inventory, you may change to a better and more reliable supplier the next time you order inventory. However, if you realize some time after procuring and installing a manufacturing plant that you chose the wrong process or wrong plant capacity, the cost of change in plant would usually be prohibitive. Given the importance of capital budgeting decisions, this research paper highlights commonly used capital budgeting techniques, computation of discount rate and methods for estimating project risk; as employed by business firms listed on Karachi Stock Exchange (KSE) (H. Jamal and Farrukh, 2008).

Widespread opinion among scholars and practitioners is that a firm's future success and survival ultimately depend on it getting its current investment decisions right. In their renowned handbook on Corporate Finance, Brealey, Myers and Allen state that a good investment remains good business even if it is not optimally financed, but that a bad investment will be a wrong decision even with the best financing policy (Brealey et al., 2010). Paradoxically, Michael J. Brennan noted that in 1995 a finance instructor had much more to say about financial policy than about capital budgeting (Brennan, 1995).

1.3.2.4 Financing Practice

The external factors are the environmental conditions that originate outside the business and play a role in determining whether the organization will prosper or fail (Kuratko & Hodgetts, 2004). These factors may be inclusive of the competitors available in the market and the competitive strategies they have in use. By evaluating the external environment, the management is in a better position in formulating strategies that will work best as such performance will be enhanced when the organization gains competitive edge against its rivals. However, when the organization is not able to balance its external factors, its returns will reduce drastically. The managements are therefore necessitated to take into considerations the external factors when formulating the company's strategies (Wakaba, 2014).

For this deal to go through as is, our borrower would have to have net operating income of at least \$215,000. If we assume that she can run her practice within the normal operating margins of today's private practice, and is at a 28 percent profit margin, then she would have to ensure that the practice is producing at least \$781,650 per year in gross revenue (collected). Given these metrics, we could ascertain that she is in a position to make this deal work, assuming that she is approved through underwriting. Moreover, we can also conclude that she has the opportunity to turn this into a very profitable practice (Herry,2018).

Cannibalizing the asset side of your personal net worth statement to make debt payments is no path to financial prosperity. They must both be done in tandem and unison, not at the expense of one another Business debt can be perilous, but it also can be a tool to facilitate business growth. The key takeaway from the examples outlined in this article: Understand the kind of debt that is useful to you, and the related decisions that can make it more manageable (alex 2010).

1.3.2.5 Non-profit organization

In contrast to governmental organizations (the first sector) and for-profit companies, nonprofit organizations are what we used to refer to as non-governmental or nonprofit organizations (the second sector). The NPOs offer public products and services, place a strong emphasis on individual devotion, and encourage individuals to add chance values. Nonprofit organizations are thought to prioritize addressing societal problems over maximizing individual wealth. The NPOs can serve as the public administration's body for this reason. The nonprofit sector, also referred to as the third sector, is a term that arises in the context of a market economy where there is a clear division of labor between the public and private sectors. The term "nonprofit organization" refers to social organizations (such as neighborhood associations and private non-enterprise units) that engage in charitable, volunteer work in the public interest or for mutual benefit, and are not connected to or employed by the government or any of its departments or agencies. The growth of nonprofit organizations in industrialized nations showed a trend: the co-governance of society by the government and nonprofit groups. Nonprofit groups, businesses, and government institutions now play a crucial role in society in China and have evolved into societal forces that cannot be replaced.

Non-governmental in character. (3) Non-profit. (4) Autonomy. (5) Offer to help. (6) Public nature. 1 According to the bylaws of social organizations, non-profit organizations are supported by the civil sector and are self-managed with a view to serve the community. Governmental organizations, for-profit organizations, and nonprofit organizations make up the three components of the organizational structure of contemporary society, representing the primary types of social organizations in the political realm, the economic sphere, and the social sphere. From the perspective of social function, governmental organizations primarily provide monopolies of public goods, for-profit firms primarily supply private goods, and nonprofit organizations provide non-monopolies of public goods, to meet the unique demands of specific social groups. According to organizational goals, the public interest is the government's primary objective, commercial interests are the primary target of for-profit organizations, and the public interest is the primary objective of nonprofit organizations (david,2015).

1.3.3 Empirical Review

Recently, there has been a lot of interest in how businesses are doing. This is due to the fact that most businesses frequently have financial performance issues. Different results from numerous studies have been given. A study on the impact of financial performance practices on the financial performance of Nigerian enterprises from 2009 to 2011 was undertaken by Oni et al. Survey research was employed in the study. The study included 72 businesses as its sample. Both secondary and primary data were used in the investigation. The use of regression analysis was also made.

According to the study, the financial performance was not significantly impacted by financial performance practices. In 2015, Salah did research on business profitability in Ghana's Tamale Metropolitan region. The study employed primarily primary data and a cross-sectional design to conduct it. The investigation made use of multiplicative linear regressions and Pearson's correlation coefficient. The study found that working capital management, AIS, investing, and financing, as well as other financial management techniques, have a favorable effect on firms' returns. conducted a study on the methods used by businesses in the Singapore and Australia regions for financial management. Cheese, among others) (2015). 145 businesses were polled for the study, and primary sources were used to get the data. The survey found that businesses had a wide range of formal and informal financial management practices. The organization's financial performance improved when its financial management procedures were well-organized. The study was unable to pinpoint the precise methods of financial management in use or the correlation between the research variables.

Rathnasiri (2015) conducted research on Sri Lankan enterprises about the financial management strategies used with regard to many company factors, including manager education level, business size, legal structure, leverage, and geography. The relationships between the variables regarding the number of years the business has been in operation under the current management as well as the location of the business were tested using non-parametric tests, which revealed that there were no significant differences in the adoption of financial management tools and techniques. According to the study's findings, the financial performance was not significantly impacted by financial management approaches. A study on the difficulties faced by Kenyan companies registered on the NSE was undertaken by Mureithi (2014). The study used random sampling to select a sample of 48 NSE-listed companies. Tables and graphs were used to present the data after it had been processed using a descriptive research design survey. According to the survey, the organizations must contend with the following issues: security, debt collection, an inability to control financial systems, and internal competition.

Ouma (2015) conducted research to ascertain the extent to which non-listed companies at NSE apply financial management methods and the impact on Kenyan economic growth. To gather primary data from 41 companies not listed at the NSE, the study used a questionnaire that was given to the managers of the sampled companies. According to the survey, 45% of businesses used domestically produced funds for financing, 35% invested in long-term assets, 82% maintained a cash limit, 75% of the businesses sold their goods for cash, and 92% maintained a manual inventory register. The study also revealed that 55% of respondents did not use a formal accounting system, and 74% created financial statements without the assistance of a licensed accountant. This suggests that organizations need to create programs to build their capacity in the area of financial management techniques (Peter2010).

1.4 METHODOLOGY

This study was conduct through explanatory research design an explanatory is data collection method that determines whether, and to what extent an association exists between two or more paired and quantifiable variables (Onen and Oso, 2011) survey research aims to ascertain if there is significant association between two variables (Reid, 2014).

The study is also said to be survey in design because there was intent to establish the Role of importance of financial management in non profit Organizations in Mogadishu-Somalia,this method was considered best for the research‘s purpose and This study will conduct through quantitative method. In addition, the study was used Primary data.

Confirmatory research tests a priori hypotheses — outcome predictions that are made before the measurement phase begins. Such a priori hypotheses are usually derived from a theory or the results of previous studies. The advantage of confirmatory research is that the result is more meaningful, in the sense that it is much harder to claim that a certain result is generalizable beyond the data set. The reason for this is that in confirmatory research, one ideally strives to reduce the probability of falsely reporting a coincidental result as meaningful. This probability is known as αlevel or the probability of a type I error. Exploratory research, on the other hand, seeks to generate a posteriori hypotheses by examining a data-set and looking for potential relations between variables. It is also possible to have an idea about a relation between variables but to lack knowledge of the direction and strength of the relation. If the researcher does not have any specific hypotheses beforehand, the study is exploratory with respect to the variables in question (although it might be confirmatory for others). The advantage of exploratory research is that it is easier to make new discoveries due to the less stringent methodological restrictions. Here, the researcher does not want to miss a potentially interesting relation and therefore aims to minimize the probability of rejecting a real effect or relation; this probability is sometimes referred to as β and the associated error is of type II.

This study focused some companies such Daalo airline, salaam airline and daruuro airline in Mogadishu. The target population of this study was 80 participants.

The researcher uses questionnaire for collecting data in this study. The rationale for choosing questionnaire was guided by the nature of data to be gathered, the time available, as well as the objectives of this study; in addition to that, the research concern with variables that cannot be openly observed such as opinions, behaviors and attributes of the respondents. The research questionnaire will comprise closed questions only and was adopted from the previous studies and the Role of importance of financial management in non-profit Organizations in Mogadishu-Somalia.

1.5 SUMMARY OF FINDINGS

This study was guided by three objectives; To investigate Cash management practices in nonprofit Organizations in Mogadishu-Somalia. To identify impact of Capital Budgeting practices in non-profit Organizations in Mogadishu Somalia. To determine the Financing practices in non-profit Organizations in Mogadishu Somalia.

On the major findings There are several findings that have been attained in this study in which its general objective was ―Role of importance of financial management in non-profit Organizations‖ the respondents disagreed collectively in that statement due the result generated their responses which. General objective was divided into the following three specific objectives:

The first objective of this study was to ascertain the Role of importance of financial management in non-profit Organizations and data analysis and results revealed the following findings under this objective. The result of analysis showed the Role of importance of financial management in non-profit Organizations was making the strongest unique contribution to explaining the dependent variable which indicates the Cash management practices, but was insignificant(sig=.772).

The second objective of the study is determines the Capital Budgeting practices in non-profit Organizations the respondents were asked questions related how the Capital Budgeting practices in non-profit Organizations and their responses were low way. Further, the study found R was 28, which indicates that the Capital Budgeting practices in non-profit Organizations although in signifancy was reported (sig=.824).

The third objective of the study determines the financing practices in nonprofit Organizations the respondents were asked questions related how the financing practices in non-profit Organizations and their responses were low way. Further, the study found R was 28, which indicates that the financing practices in non-profit Organizations although in signifancy was reported (sig=.863).

1.6 CONCLUSION

This study was examining the Role of importance of financial management in non-profit Organizations of public and private Companies in Mogadishu- Somalia. The target population of this study was infinite and sample size was 67 using W.G.cochran formula contains nursing and doctors; the instrument used in this study was self-completed questionnaire.

The study was conducted through a descriptive design; the objective of the study to ascertain the Role of importance of financial management in non-profit Organizations, to find out the financing practices in non-profit Organizations

1.7 RECOMMENDATIONS

It is now very obvious that there is the Role of importance of financial management in non-profit Organizations. Obviously, it has some shortcomings, although those may be minimal. Thus, the process of implementing non-profit Organizations in the organizations should:

The study recommends that organizations should Cash management practices, Capital Budgeting practices and financing practices to their revenue generating authorities. Since it will help them create sense of loyalty and encourage their customers in the company. Finally, the study recommends that Mogadishu Business.

- To Determine the Cash management practices in non-profit Organizations Mogadishu Somalia.
- To Analysis the Capital Budgeting practices in non-profit Organizations Mogadishu Somalia.
- To investigate Financing practices in non-profit Organizations Mogadishu-Somalia

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