BUSINESS STRATEGIES ON FINANCIAL PERFORMANCE OF SELECTED COMPANIES IN PUNTLAND, SOMALIA

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ASIA e UNIVERSITY

2022

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A Thesis Submitted to Asia e University in
Fulfilment of the Requirements for the
Degree of Doctor of Philosophy

November 2022

ABSTRACT

Companies in Puntland have adopted business strategies, but despite the use of these strategies, the performance of these companies still remains poor. The selection of business strategies has been adversely mentioned as fundamental operational factor that has led to business collapse. The purpose of this study was to assess the effect of business strategies on financial performance of Companies in Puntland. The objectives of the study were: to find out effect of expansionary strategies on financial performance of Companies in Puntland, to determine the effect of diversification strategies on financial performance of Companies in Puntland, to find out to what extent replacement strategies affect financial performance of Companies in Puntland, to examine the effects of mutually exclusive investment strategies on financial performance of Companies in Puntland, to examine the effect of independent investment strategies on financial performance of Companies in Puntland and to determine the moderating effect of corporate tax on relationship between business strategies and financial performance of Companies in Puntland. The study adopted both descriptive and explanatory research designs. The target population of the study was 265 heads of five departments in 53 companies in Puntland. This study used stratified random sampling technique to select sample size of 160 respondents which the researcher determined using Slovin's Formula. Primary data was collected using a five Likert scale questionnaire. Descriptive statistics such as frequency distribution, standard deviation and mean were used to analyse quantitative data. Inferencial statistics such as correlation analysis, simple and multiple regression models were also applied. The findings were presented in tables and figures. The study found that expansionary strategies, diversification business strategies, replacement business strategies, mutually exclusive business strategies had a positive and statistically significant effect on financial performance of companies in in Puntland. Further, the study revealed that corporate tax had statistically significant moderating effect on the relationship between business strategies and Companies' financial performance in Puntland. The study recommended that the government of the state of Puntland should reduce taxes so that the management of different companies in Puntland can improve their financial performance.

APPROVAL

I certify that I have supervised / read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, as a thesis for the fulfillment of the requirements for the degree of Doctor of Philosophy.

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DECLARATION

I hereby affirm that the PhD thesis I am submitting is my own work, and that all contributions from other people or sources are appropriately and properly cited. I further declare that the content has not been submitted for a degree at this or any other university, in whole or in part. I understand and admit that any violations of this declaration constitute academic misconduct, and that any such violations may result in my expulsion from the program and/or denial of the degree.

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ACKNOWLWEDGEMENT

I would like to express my heartfelt thanks to Dr. Andrew Songoro Nyangau, a Lecturer of Kisii University in Kenya for being an outstanding supervisor to the completion of this research Thesis. His constant support and invaluable suggestions made this research successful. Further I extend my thanks to my beloved parents and family for their never ending support.

Also my sincere thanks go to my friends for their morale and academic support. Their outstanding and valuable inputs would never be shadowed in my heart. Finally, I would like to acknowledge the Mogadisho University & Asia e university administration for their continued postgraduate support and encouragement.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

COC	Cost of Capital
CTA	Cash to Assets
CPSP	Cost Per Service Provided
COC	Cost of Capital
CPSP	Cost Per Service Provided
ETA	Expense to Assets
EPS	Earnings per Share
MTBV	Market-to-book value
M&M	Modigliani-Miller
ROA	Return on Asset
ROE	Return on Equity
ROR	Return on Revenue
ROS	Return on Sales
ROCE	Return on Capital Employed
ROI	Return on Investment
SBU	Strategic Business Unit
OP	Operating profit
PAT	Profit After Tax
PPE	Profit Per Employee
UAE	The United Arab Emirates
U.S.	United States

CHAPTER 1.0 INTRODUCTION

1.1 Introduction

Before 1960s, strategy meant “generalship”, “the art of war” and being concerned with managing army campaigns. Strategy was first employed in the early 1960s in the business conduct by Chandler, who developed strategic concepts together with the thoughts of business policy, industrial economics school and into prescriptive model with goals set by management group which employed defined strategies to try to attain their goals in what was referred to as corporate strategy. In 1970s, corporate strategy became concerned with vertical integration, firm size, market share, market penetration, diversification, acquisitions and mergers and general portfolio theory. Generally, it was believed that market dominance, diversification and large size would minimize risk and the management of diversified companies could be as divisions, as part of corporate portfolio. Moreover, the strategic business units (SBUs) would work almost independently with their own strategies, objectives, profit centres, costs and revenues. It was until 1980s that firm diversification ceased to be the trend up when it was realized that it is extremely difficult to operate portfolio companies were in most cases and that individual SBUs were valued more as independent entity as compared to be part of conglomerate (Murray Hunter, 2012).

Ansoff (1965) suggested that strategy is all about combining products with markets that the firm have selected, where these markets are continually monitors by the firm and makes decisions to either enter or exit. The gap analysis was introduced by Ansoff as the key to making proper decisions concerning markets to enter and formulated the idea of synergy, where return from a company’s mutual resources, should be more than the sum of its parts.

The dynamic nature of strategy was realized by some individuals who believed that in real life there was a propensity for strategy to grow as an interactive political and social process. Therefore, strategy is a fragmented procedure of informed incremental decisions that are socially based with minimal real coordination. Quinn further developed this idea and proposed that management entails guiding events and actions that finally results to a conscious strategy in systematic process which he referred to as ‘logical incrementalism”. Therefore, strategy is continually changing and evolving. Strategic decisions are usually made incrementally via a multitude of decisions instead of a formal process of strategic planning. This process takes place with association between the environment and the organization in an emergent way (Murray Hunter, 2012).

Other authors had similar opinions considering strategy as something partially unplanned and partly deliberate (Moncrieff 1999). Just like Mintzberg suggests, unplanned part of strategy is emergent, caused by appearing threats and opportunities in the environment which leads to ‘strategies in action.” or adhoc strategies. The “strategies in action” are caused by informal, unintentional actions and decisions taken which are not meant to be strategic. However, there is no evidence to propose that the firms’ performance is any poorer compared to if strategies were intentionally planned (Murray Hunter, 2012).

The development of business strategy starts with 1960s view point in which strategy was widely equated with corporate planning; 1970s emphasis on portfolio planning and diversification. The 1980s as well as 1990s are characterized by a focus on creation of less analytic and core competencies, more approaches that are people-oriented to management. However, it is suggested that these criticisms are centred on a view of strategy that are wish-driven is not as significant to a strategy rooted in unique abilities of individual firm. (John Kay, 2003).

However, quality of physical current business strategies may as well have a strong effect on a company's capability to recruit as well as retain people who are talented, some factors in current business strategies may be regarded keys affecting like Economics condition, Technology, productivity, morale among others. For a business to reach the boundaries of prosperity unique idea is important. Therefore, business managers are usually in morning to evening search for such kind of ideas by which private investment is anticipated to rise two major channels have stressed as resulting to financial growth of financial liberalization. First channel as a result of increased private saving that would come after the elimination of interest rate ceiling via an increase in of credit and second channel hence increasing investments' marginal productivity due to the higher cost of capital is via increased inspection of investment projects (Shabbir, 2016).

There are numerous factors which influence individuals' financial decision making of which demographic variables such as age, occupation, gender and tolerance of personal financial risk are the most essential one. Risk tolerance is an essential factor that affects numerous financial decisions. The aim of any financial investment is to obtain good returns. It is perceived that many times there exist a gap between perceived return of an individual and actual return. The mistake lies in the process of decision making which is affected by the individuals' risk tolerance. Research states that individuals tend to overrate their actual risk tolerance level due to the desire to emerge as socially acceptable. Understanding financial decision making and strategic patterns has usually been of high interest to financial service planners and providers as well as researchers. Risk tolerance and demographic variables influenced individuals' Investment pattern and investment decisions (Damodaran, 2016).

Business strategists commonly carry out strategic analysis by using fundamental analysis, gut feel and technical analysis. Decision tools often support investment decisions. Portfolio theory is normally applied to assist an investor attain a satisfactory return than the risk taken. Investment decisions answer the question pertaining to whether today adding to capital assets will increase tomorrow revenues to cover costs. Investment decisions therefore refer to commitment of financial resources at diverse time in the hope for economic returns in future dates (Cleverley, 2017).

Firm's business strategies would generally consist expansion, acquisition, replacement and modernization of long term asset. Sale of business or a division is as well a business strategy. Decisions such as change of advertisement campaign or in sales distribution methods or a research as well as development programmed should further be assessed as business strategies since they have long term effects for the firm's benefits and expenditures. The financial performance refers to a subjective measure of how well a firm can generate revenues using assets from its primary form of business (Schaltegger & Wagner, 2017).

This term is as well employed as a general measure of overall financial health of a firm over a given duration of time, and can be employed to compare sectors or industries in aggregation or compare similar firms in the same industry. Financial performance for instance growth and profitability is employed, in the huge majority of present studies, to measure business performance (Hassan, Maturi & Mberia, 2017).

In decision making process one of essential assumptions is existence of valuable information (Hartman, DesJardins & MacDonald, 2014). Large number of this information is derived from financial statements and accounting information systems. Financial statements have to provide objective and realistic picture of realistic business situation of certain companies. In the context of financial statements consideration as a role of decision making, financial statements give whole number of diverse, analyses, procedures and instruments for understanding business (Hassan, Maturi & Mberia, 2017).

A process of management that is well-established on the basis of financial information and financial statements is one of the most essential presumptions of business quality (Drucker, 2017).

In the perspective of companies in Puntland, the functions are interlinked with managerial analysis since, as an information system it gives meaningful and significant financial information about the companies and organizations for internal management usage as well as external financial use (Fadun, 2013).

The significance of business strategies on firms' performance cannot be emphasized excessively because large number of factors that lead to failure of a business can be dealt with by employing strategies as well as financial decisions that influence growth as well as attainment of organizational goals (Memba & Nyanumba, 2013).

Business strategies that are formulated and implemented can be the main causes of financial distress or success in any business. There are numerous factors that affect an investment plans' decision making. decision making of investments influenced by various organizational factors that include past experiences, size of company, a variety of cognitive biases, sunk outcomes and an increase in commitment, individual differences, such as socioeconomic status and age, and a belief in personal relevance which participate determining an organisations financial performance (Goodwin & Wright, 2014).

1.2 Background to the Study

1.2.1 The Global Perspective

In research circles, from historical and organizations perspective, interest in business strategy has been very strong in the past two decades. Several points of view have been expected to examine the issue, and so have various prescriptions for companies facing worldwide competition. For a business to reach the boundaries of prosperity, unique idea is necessary (Shabbir, 2016).

In China, the high as well as aggressive competition amid companies on global stage calls for mind boggling decision making, rapidly growing multinational firms, advancement in transportation and improved communication technologies (Francois, Manchin, Norberg, Pindyuk & Tomberger, 2015). This would cause a business pressure that would force small and big companies to develop modern strategies inform of decision to stay alive in international environment. Right investment decision making is the only remedy for firms to stay alive and survive, it also means right investment decision provides high potential profit if properly managed (Handley & Limao, 2015). New markets, cheaper resources, new customers, cheaper factors of production, competitiveness of firms and improved strength are some of the advantages of right decision making (Kay, 2016).

In Germany, business strategies are the foundation for economy's growth as well as employment. Modern capital stock creates the foundation for technological advancement, ensures competitiveness of a country and therefore facilitates entrepreneurial success as well as sustainable development of qualified employment. The investment required for tomorrow should be made today for Germany to be capable of providing employment and prosperity for future generations. The major reason for competitive strength of German economy is its unusual combination of large corporations, self-employed individuals, numerous micro-businesses and a broad segment comprising of SMEs enterprises. Nevertheless, over the past decades, the amounts that enterprises are investing in Germany have deteriorated noticeably. They are extremely low to maintain current capital stock or ensure Germany's long-term attractiveness and competitiveness as a location for an industry and business (Fratianni & Savona, 2017).

In India, formulating optimal business strategies of the firm comprises of one of the most important decisions in corporate finance especially in the contemporary risky scenario after the global turmoil. The impact of these decisions is long-term and therefore, firms have to ensure the optimal allocation of capital to the right investment projects. In view of the current uncertain environment, the traditional models that explain the firm's propensity to invest have lost importance. It is observed that Indian firms that expanded in size developed the propensity to invest vis-à-vis the risky environmental forces. In developing countries like India investments are imperative to development in terms of contribution to GDP and employment. Results on cash flow clearly indicate that once the business model Indian firm is perceived to be robust primarily because of assured and alternative domestic demand, the financing appears to be unimportant constraint. According to Database of Indian Economy in 2018, significant initiatives have been taken by Indian Government to strengthen the country's economic credentials, to make it one of the strongest economies across the world. India is rapidly becoming home to develop companies based on high developing areas such as e-commerce, mobility and other vertical particular solutions, thereby establishing new markets. By investing abroad for acquiring global and regional reach, Indian companies are expanding their global presence and acquiring a stronger foothold (Gordon, 2010).

In Europe, particular investment agreements and trade agreements are ever-larger factors in examining the attractiveness of a particular location when making decisions on investment. For this reason, European Commission is making the correct approach in principle when, in the perspective of the lack of development in WTO framework, it negotiates with strategically essential partners on more bilateral trade agreements. The creation of general trade agreements and rules to encourage sustainable trade by the two sides working toward implementation of international conventions on climate protection and environmental protection and occupational health as well as safety help create a level playing field as well as enhance the level of planning security of investment decisions in other countries as well. Moreover, foreign investment does not replace domestic innovation instead in many circumstances it supplements them. Additionally, trade policy should preserve respective parliaments' authority, ensure local self-government as well as discharge of responsibilities, boost transparency in international value chains, should be based on high social and ecological standards (Fratzscher, 2015).

In the past decade, Turkey has made meaningful progress with growth of major industries as well as growing investment and trade, and currently it ranks as 17th largest economy globally. Simultaneously, Turkey introduced significant endeavours towards enhancing investment and trade over the past decade. The commitment by the government to transfer resources from agriculture to services and industry helped increase medium-technology exports' share for example from automotive sector. To increase innovative capabilities and capacity, major steps were done and in the last five years' programmes that re supported by the government have focused greatly on enhancing of private sectors' innovative activities by providing loans, grants and incentives (Güven & Feride, 2015). As a well-integrated country into European market by way of customs union, companies in Turkey have high level expertise as well as competitive power in export, investment and production related activities. They have further established and accessed their existence in other developing economic regions, including the Middle East, Asia-Pacific, Africa and Gulf Countries., Turkey is an ideal investment terminal between Asia, the centre of international growth, and Euro Zone, the biggest single market, with its transcontinental position (Cihad, 2014).

1.2.2 Regional Perspective

In Uganda, the decision making process in the region (Horn of Africa) is made with all the contributing factors and regional dynamics being well identified (Hassan, Maturi & Mberia, 2017). Just like other regions investors try their best to make proper decision and thus minimize or avoid losses in future. For individuals with zero or lesser experiences and knowledge on investing, it is challenging to choose the correct investment decision (Handley & Limao, 2015). Severe losses may be caused by making the wrong decision since investment is related with risk for which risk is an essential factor that determine the decision by an investor to invest. Whether in terms of loss or profit, riskier investment will give a huge return. Likewise, to compensate