

The Impact of Accounting Practices on the Financial Performance of SMES in Somalia

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To Link this Article: <http://dx.doi.org/10.6007/IJARAFMS/v14-i3/22729> DOI:10.6007/IJARAFMS/v14-i3/22729

Published Online: 18 September 2024

Abstract

The aim of this study is to examine the impact of proper accounting practices on financial performance of small and medium-sized businesses (SMEs) in Somalia. SMEs play an important role in the country's economic development, job creation, and poverty alleviation. However, small businesses frequently confront particular accounting issues as a result of limited resources and unstructured systems. This study attempts to address a gap in understanding Somali SMEs' accounting procedures by investigating the extent to which these practices impact their financial performance. The study uses quantitative method, distributing questionnaires to 470 SME owners and managers from a variety of industries. Demographic statistics show that respondents had a fair gender representation, as well as a wide range of age and educational backgrounds. The statistics show that about 88 percent .3% of SMEs keep accurate accounting records, with about 58 percent utilizing manual methods and 42 percent using automated systems. Descriptive statistics suggest a strong emphasis on record-keeping techniques, with a mean score of 4.67, showing its importance in financial success. Correlation study reveals substantial positive associations between financial performance and elements such as record-keeping procedures ($r = .94$), the aim of correct accounting practices ($r = .65$), and the difficulties of faulty accounting record-keeping ($r = .57$). The regression model, with a R^2 of 0.899, demonstrates that these accounting methods explain a significant percentage of the variance in financial performance. The ANOVA analysis validates the model's relevance, and the results show that record-keeping habits are the most important predictor of financial success. The study suggests that proper accounting practices are critical to the financial performance of Somali SMEs. It proposes increasing access to accounting knowledge and technology to further strengthen these practices, hence promoting the long-term growth and development of Somali SMEs.

Keywords: Small Medium-sized Enterprises (SME), Financial Performance (FP), Record Keeping Practices (RKP), Purpose of Accounting Records (PAR), and Purpose of Proper Accounting Practices (PPAP).

Introduction

Small and medium-sized firms (SMEs) play an important role in global economies by contributing to economic growth, innovation, employment, and social development. They promote entrepreneurship, innovation, and economic resiliency (Abdinur & Karciglu, 2023). SMEs provide jobs, alleviate poverty, and promote regional development. They help diversify economies, lessen reliance on major sectors, and adapt fast to market changes. Therefore, developing and supporting the growth of SMEs is crucial for long-term development and social well-being (Bayraktar & Algan, 2019). Small and medium-sized enterprises (SMEs) play a critical role in emerging economies, boosting employment, innovation, and diversification. They decrease reliance on specific industries, encourage regional growth, and improve economic flexibility. They promote technology transfer, skill development, and poverty reduction, resulting in a more trained workforce, lower economic disparity, and improved community well-being. Nurturing and supporting SMEs' growth is critical for long-term, inclusive, and transformative economic development (Kesk et al., 2017). Small and medium-sized firms (SMEs) are critical to Somalia's economic development, employment creation, and poverty reduction. These businesses, which frequently have minimal resources and unstructured structures, confront particular accounting issues as compared to bigger corporations (Maow, 2021).

Accounting which is commonly defined as the language of business is the process of documenting, measuring, and reporting financial transactions of an organization, to create financial statements that describe a company's activities, and financial status, for a certain accounting period. Accounting is crucial for business operations, providing essential information for decision-making, regulatory compliance, financial planning, and stakeholder communication, and facilitating the comparison and analysis of financial data from various organizations. Several studies highlight the necessity of record-keeping for small and medium enterprises. Wadesango (2015), and Aladejebi (2019), both point to a lack of formal accounting systems and fundamental accounting knowledge among SMEs, which may be remedied via education and training. Odo (2018), underlines the possible implications of inadequate record keeping, such as being denied a loan. Ghasia (2018), emphasizes the need for accurate record-keeping, particularly in the context of business choices, survival, and success. These studies emphasize the importance of record-keeping in the success and growth of small and medium-sized enterprises.

Furthermore, recent studies have shown that record-keeping is crucial to the performance of small and medium-sized businesses (SMEs). Sooriyakumaran (2020), and Ahmed (2022) discovered that maintaining good accounting records has a substantial impact on the profitability and performance of SMEs. This is confirmed by Amosah and khalida (2023), who underlined the significance of record-keeping in the strategic growth of small-scale businesses. Srinivasarao et al (2020), also observed the extensive usage of accounting records in SMEs, showing an increasing recognition of their importance. These findings

highlight the necessity of record-keeping for SMEs, not just for financial management but also for overall business performance.

As the Somali economy evolves and grows, understanding and adopting a suitable accounting system customized to the unique demands of SMEs becomes critical for financial stability and long-term success. Accounting is a critical subject that allows firms to efficiently record, analyze, and present financial data. Despite the importance of accounting practices in SMEs, limited research has been conducted explicitly on the Somali environment. As evident aforementioned studies, The majority of existing accounting research focuses on accounting methods in developed economies, creating a void in understanding the accounting record keeping practices and how SMEs in Somalia deal with particular accounting difficulties. As a result, the purpose of this article is to address this gap by investigating the accounting practices and procedures used by SMEs in Somalia and their consequences for financial management, decision-making, and overall business success.

This study aims to look into the present accounting techniques used by SMEs in various industries in Somalia. By evaluating these practices, the study seeks to uncover commonalities, problems, and opportunities for development in Somali SMEs' accounting practices and procedures. This paper mainly examines how various accounting practices affect the financial performance and decision-making capacity of SMEs. This investigation will shed light on the efficiency of various accounting systems and their consequences for Somali SMEs' long-term growth.

Literature Review

SME's Accounting Practices

For several reasons, Small and Medium-sized Enterprises (SMEs) use proper accounting procedures as they aid in strategic planning and decision-making, assist in risk management, prepare SMEs for audits, ease finance access, enhance operational efficiency, foster investor and stakeholder trust, and monitor financial health. Proper accounting practices are essential for SMEs to operate successfully, by helping SMEs manage their finances well, make wise decisions, and stay competitive. It is not simply about complying with regulations. Accounting records have a favorable impact on Malaysian small and medium-sized businesses' success. Maintaining accurate accounting records is essential for decision-making and also helps to increase efficiency and corporate performance for consistent business results. In the long term, keeping more accounting records will help an organization as a whole as it will boost processing capacity, enable reports to be generated promptly, and save overall operating expenses (Ahmed & Schleich, 2022).

Due to a lack of accounting expertise, a bad attitude toward accounting practices, and a lack of understanding of the need to maintain accounting records, more than half of SMEs in Mukah Division's manufacturing sector have poor accounting record keeping. Because maintenance accounting records are the language of business, they must be improved and followed by micro SMEs in the manufacturing sector. Sabtu et al., (2017). The difficulties SMEs confront in their accounting procedures have been brought to light by several studies conducted in Ethiopia. Both Tesfaye, (2019) and Mosisa (2014) discovered that a large number of SMEs depend on outside consultants for financial reporting due to a lack of

appropriate accounting expertise. The usage of single input systems and an emphasis on tax compliance rather than well-informed decision-making worsen this even further. Both MershaLakew et al (2017), and Region & Oynaka (2019), noted the absence of consistent financial reporting and record-keeping, with the latter highlighting the effect of these practices on financing accessibility. The combined findings of this research highlight the necessity of better accounting procedures and increased financial literacy among Ethiopian SMEs. Furthermore, numerous studies have brought attention to the accounting procedures and their effects on company performance that SMEs in Kenya confront. Both Jennifer & Dennis (2015), and Muteti et al (2018), stress the need for capacity building in accounting and financial management practices, with Muteti highlighting in particular the advantages of manual record-keeping as well as the difficulties associated with lack of experience and time. The significance of credit risk assessment and strategic management accounting methods in enhancing financial performance and growth is emphasized by Mbogo et al (2023), and SINDANI et al., (2016). All of these studies point to the need for better risk assessment techniques, financial management procedures, and accounting systems for SMEs in Kenya.

Moreover, several important conclusions are drawn from research on Tanzanian SMEs' accounting methods. Richard & Kabala (2020), emphasize the significance of debtor management, with SMEs employing non-formal techniques including networking and in-person meetings. Lackson & Muba, (2021) points out that poor adoption of financial reporting standards is caused by things like low perceived costs and insufficient information. Mabula (2019), highlights how important financial literacy is for important habits like record-keeping and financial planning. Malauri (2021), emphasizes the difficulties in maintaining financial records in MSBs, citing a lack of expertise and experience as the main obstacles. All of these studies point to the need for Tanzanian SMEs to have better record-keeping procedures, greater knowledge of reporting requirements, and better financial literacy. Besides, several studies on the proper importance of record-keeping and accounting practices have been conducted in Uganda. The findings indicate that maintaining accurate records is essential to the success of SMEs in Uganda, especially when it comes to obtaining loans (Eton et al., 2019). It ensures accountability and transparency, which has a favorable effect on financial performance. Nonetheless, financial record-keeping training is required Mwebesa et al., (2018). Even though record-keeping is important, there are obstacles to its implementation, such as the requirement for effective and efficient information management (Okello-Obura & Muzaki, 2015). Maintaining records is another important aspect of enhancing entrepreneurial success in SMEs (Sebikari, 2018).

Definition and Characteristics of SME's

The dearth of a precise internationally acknowledged and agreed-upon definition of SMEs results in definitions that range from one country to the next or between individual legislations. Small and Medium-sized Enterprises (SMEs) are enterprises with sales, assets, or personnel that fall below a particular level. The precise definition of an SME might differ between nations and regions since it is frequently decided by the local government or economic groups based on economic and social policy goals. Defining Small and Medium-sized Enterprises (SMEs) in Somalia presents a particular problem due to the country's economic structure, which has been heavily influenced by years of instability and the presence of informal business operations. Somalia's formal business regulatory structure,

which includes established definitions for SMEs based on staff count, yearly turnover, and balance sheet total/assets, is less developed than in many other nations. This lack of formalization implies that organizations frequently function without clear categorization into micro, small, or medium-sized enterprises based on these precise requirements. In the lack of explicit Somali government-provided criteria, we might take a broader approach to analyzing SMEs in Somalia, depending on international norms that have been modified to the local environment.

Table 1

Characteristics definition micro enterprises small enterprises medium enterprises

CHARACTERISTICS	DEFINITION	MICRO ENTERPRISES	SMALL ENTERPRISES	MEDIUM ENTERPRISES
Number of Employees	The classification of businesses according to the number of employees.	1-10 employees	11-50 employees	51-250 employees
Yearly Sales	A business's total revenue for the year. Because of Somalia's informal economy, accurate estimates for annual turnover are difficult to determine.	Transactions are mostly cash-based, making exact amounts difficult to identify.	Transactions are mostly cash-based, making exact amounts difficult to identify.	Most transactions are in cash; particular quantities are difficult to quantify.
Balance Sheet/Total Asset	The total asset value listed on a company's balance sheet. Similar to yearly turnover, it is	Hard to define because of the unofficial economy.	Hard to define because of the unofficial economy.	Hard to define because of the unofficial economy.

	challenging to pinpoint precise numbers because of the informal and cash-based structure of the economy.			
Sector/Industry Dominance	Refers to the main industries in which SMEs conduct business.	Livestock, trade, agriculture, and fishing	Livestock, trade, agriculture, and fishing	Remittance services, trade, agriculture, and telecommunications
Unpretentiousness/Informality	It refers to the degree to which companies function without official registration or compliance with established regulations.	High	High	Moderate to High
Resilience	The capacity of businesses to prosper in the face of environmental and economic difficulties.	High	High	High
financial accessibility	The accessibility of financing and financial	Limited and restricted as it depends	Limited and restricted as it depends	growing the usage of mobile money payment systems and access to Micro

	services for companies.	on remittances and unofficial credit.	on remittances and unofficial credit.	financing from Islamic Banking is emerging
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Source: Author 2024

Methodology

Research Design

Research design is the structure or plan that the researcher uses to conduct the study. Hence, the purpose of this study is to scrutinize the impact of accounting practices on the financial performances of small and medium-sized enterprises in Somalia, quantitative research is found to be suitable and appropriate for this study. In this study, a quantitative research method is used to collect the numerical data and analyze it through using SPSS software. Quantitative research is a systematic investigation of observable phenomena using statistical, computational, or mathematical techniques (Given 2008). The researcher used a self-administered questionnaire for data collection, as it is easy to obtain and codify responses from large populations in different geographical areas. This method is popular among researchers due to its ease of obtaining data (Sekeran 2000).

Target Population

Population is the general or a complete set of elements that totalizes the total category of the subjects which is the interest of the researcher. Generally, the population is defined as the total category of subjects which is the focus of attention in a particular research (Sekaran, 2003). In this research, the target population is small and medium-sized enterprises in Somalia.

Sampling Technique

The sampling technique applied in this study is the probability sampling method. Probability sampling is explained by Uma Sekeran (2003), as the method whereby the elements in the people have a possible chance of being selected as part of the sample. This probability sampling can either be restricted (complex probability sampling) or unrestricted (simple random sampling) (sekeran 2003). In this study, unrestricted (simple random sampling) is employed. Because the whole element of the populace has an equal chance to be selected as the study participant Furthermore, (470) sets of questionnaires were distributed, collected, and analyzed.

Data Collection Method

According to (Zikmund 2003), Data collection is a procedure of measuring and gathering information on variables that are interesting to the researchers; this is to establish a manner that helps and enables researchers to answer the raised questions of the research, evaluate outcomes, and test hypotheses. In this research paper, quantitative research which is based on primary data is employed. Questionnaires were distributed and the responses from the respondents were collected and analyzed by using SPSS software

Techniques of Data Analysis

As for data analysis techniques, the collected data from the respondents is analyzed by using several statistical methods. The methods that are used in this study are analyzed using SPSS software and the results of the quantitative data is interpreted. It includes descriptive statistics, to identify the characteristics of the respondents. Moreover, to describe the differences between the variables as well as the demographic factors, the inferential analysis is also employed. Besides that, multiple regression analysis is also conducted.

Furthermore the following regression model has been employed by this paper

$$FP = \beta_0 + \beta_1PAR + \beta_2RKP + \beta_3PPAP + \beta_4CHIARK + \varepsilon$$

FP = Financial Performance

PAR = Purpose of Accounting Record

RKP = Record Keeping Practices

PPAP = Purpose of Proper Accounting Practices

CHIARK = Challenges of Improper Accounting Record Keeping

B0: Constant

$\beta_1, \beta_2, \beta_3, \beta_4$: Regression Coefficient

ε = Error Term

Findings and Analysis

This section relates to the findings of this paper

Demographics

Table 2

Demographic profile of the respondents

Demographic Profile of the respondents				
Sex				
	Frequency	Percent	Valid Percent	Cumulative Percent
Male	243	51.7	51.7	51.7
Female	227	48.3	48.3	100
Total	470	100	100	
Age of the Respondents				
	Frequency	Percent	Valid Percent	Cumulative Percent
20-30 Years	45	9.6	9.6	9.6
31-40 Years	199	42.3	42.3	51.9
41-50 Years	173	36.8	36.8	88.7
51 and Above	53	11.3	11.3	100
Total	470	100	100	
Respondents Educational Background				
	Frequency	Percent	Valid Percent	Cumulative Percent
Below Secondary	188	40	40	40
Secondary	171	36.4	36.4	76.4
Diploma	26	5.5	5.5	81.9
university degree	85	18.1	18.1	100
Total	470	100	100	

Table 2, shows the demographic profile of the study participants on SMEs in Somalia. 470 people participated in the survey, 243 men (51.7%) and 227 women (48.3%). This distribution shows an almost equal representation between genders in the sample of SMEs in Somalia. On the basis of age distribution, participants were divided into four age groups in which 20-30 years old respondents constituted 9.6% of the sample of 45 participants. 31-40 years of age respondents were majority of survey participants as they constitute 42.3% of the total sample (199 people). 41-50 years: 173 people, constituting 36.8% of survey participants, fall into this age group. 51 years and older: The remaining 11.3% of participants (53 people) were 51 years and older. This distribution indicates a difference in age representation between the SMEs included in the study. A large percentage of them are between 31 and 50 years old which means the majority of the respondents fell in this category. On the other Hand, The respondents educational backgrounds ranged widely across many levels. The results indicate that the majority of respondent's educational background were below Secondary: 188 respondents, or 40% of the sample followed by Secondary graduates with a noteworthy proportion of the sample (36.4%) consisted of 171 respondent. Furthermore, university degree holders amount to 85 individuals which is equivalent to 18.1% of the respondents. Diploma holders amount to least number of the sample as 26 respondents were diploma holder which is 5.5% of the entire sample.

Table 3
SME's Profile

SME's Profile				
Businesses Number of years in operation				
	Frequency	Percent	Valid Percent	Cumulative Percent
1-5 Years	246	52.3	52.3	52.3
6-10 Years	106	22.6	22.6	74.9
11-15 Years	80	17	17	91.9
more than 15 years	38	8.1	8.1	100
Total	470	100	100	
Business Type				
	Frequency	Percent	Valid Percent	Cumulative Percent
Retail/Merchandise	335	71.3	71.3	71.3
Manufacturing	71	15.1	15.1	86.4
Service	34	7.2	7.2	93.6
Construction	30	6.4	6.4	100
Total	470	100	100	
Business Ownership Type				
	Frequency	Percent	Valid Percent	Cumulative Percent
Sole Proprietorship	263	56	56	56
Partnership	182	38.7	38.7	94.7
Limited Liability Company	25	5.3	5.3	100
Total	470	100	100	

Table 3 demonstrates that 52.3 percent of SMEs have been in business for one to five years. This suggests a dynamic business climate where new businesses are often founded, or a

reasonably high turnover rate. 22.6% of the sample's SMEs have been in operation for six to ten years, indicating that a sizable percentage of companies are effectively making it past the early startup period but still within ten years of operation. 17% of businesses have been operating for 11 to 15 years, indicating a smaller but more stable set of businesses. Lastly, the lowest percentage of firms—8.1%—are those that have been in operation for more than 15 years. This might be due to a high rate of attrition over time or a smaller number of organizations that have managed to sustain themselves over the long run.

Regarding the business type, the findings indicate that 71.3% of SMEs being in the retail/merchandise industry, this is the most common company category. This high proportion can point to a low entry barrier and strong market demand for retail services. With a 15.1%, manufacturing companies are notably present but far less than retail. In comparison to the previously indicated groups, service-oriented SMEs make up 7.2% of the total, suggesting a smaller industry. With a 6.4% representation rate, construction enterprises are the least prevalent, maybe as a result of more stringent capital and skill requirements or higher entrance hurdles. On the other hand, 56% of SMEs are sole proprietorships, which dominate the ownership arrangements. This suggests that a sizable portion of companies choose individual ownership, maybe as a result of easier administration and decision-making procedures. At 38.7%, partnerships rank as the second most popular, indicating that a sizable portion of companies choose joint ownership in order to take advantage of a pooled pool of expertise and resources. With a 5.3% prevalence, Limited Liability Companies (LLCs) are the least prevalent. Compared to sole proprietorships and partnerships, the lower number of LLCs may be due to the regulatory, administrative, or financial complications that come with this ownership structure.

Accounting Practices

Table 4

Accounting Practices and systems used by SMEs

Do you maintain proper accounting records				
	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	415	88.3	88.3	88.3
No	55	11.7	11.7	100
Total	470	100	100	
Type of Accounting System used				
	Frequency	Percent	Valid Percent	Cumulative Percent
Manual System	272	57.9	57.9	57.9
Computerized System	198	42.1	42.1	100
Total	470	100	100	

The findings in table 4 shows the accounting practices and system used by SME's in Somalia. The results indicates that 88.3% of SMEs keep accurate accounting records. This is a sizable majority. This high proportion indicates that small and medium-sized businesses generally understand how important it is to keep precise and regular financial records. Strategic planning, regulatory compliance, and financial management all depend on accurate accounting. The remaining 11.7% of companies do not keep accurate accounting records,

suggesting a need for further education and understanding of the advantages of comprehensive financial records.

Furthermore, According to the findings, 57.9% of SMEs utilize manual accounting systems as their primary accounting system. This popularity shows that a large number of firms may be restricted or favored to use old, analog bookkeeping techniques, maybe as a result of financial limitations, a lack of access to technology, or a comfort level with manual procedures. That being said, it is significant that 42.1% of SMEs use computerized accounting systems. This suggests a dramatic change in the direction of digitalization, reflecting the advantages of improved data management simplicity, accuracy, and efficiency brought about by computerized systems.

Descriptive Analysis

Table 5

Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
Financial Performance	4.7755	0.2623	470
Record Keeping Practices	4.6665	0.31508	470
Purpose of Accounting Record	4.3209	0.3435	470
Purpose of Proper Accounting Practices	4.3603	0.35926	470
Challenges of Improper Accounting Record Keeping	4.5107	0.29853	470

The findings in table 5 indicates that SMEs place a high emphasis on record-keeping procedures (RKP), as seen by their 4.6665 mean score. The lowest ratings for the purposes of proper accounting practices (PPAP) and accounting records (PAR) suggest a least of support for these procedures. The Problems with Inaccurate Accounting With a Record-Keeping (CHIARK) score of 4.5107, SMEs are clearly concerned about the difficulties caused by unethical accounting procedures. These results demonstrate the necessity of focused initiatives to enhance the financial performance and accounting procedures of Somalian SMEs. If the issues raised by CHIARK are resolved, these businesses may see improved financial results. The results are essential for creating focused plans to improve accounting procedures and boost SMEs' financial results in Somalia.

Table 6

Correlation analysis

Correlations						
		FP	PAR	PPAP	CHIARK	RKP
FP	Pearson Correlation	1	.345**	.647**	.567**	.937**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	470	470	470	470	470
PAR	Pearson Correlation	.345**	1	.525**	.179**	.274**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	470	470	470	470	470
PPAP	Pearson Correlation	.647**	.525**	1	.391**	.586**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	470	470	470	470	470
CHIARK	Pearson Correlation	.567**	.179**	.391**	1	.536**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	470	470	470	470	470
RKP	Pearson Correlation	.937**	.274**	.586**	.536**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	470	470	470	470	470
** Correlation is significant at the 0.01 level (2-tailed).						

Table 6 shows the findings of the relationship between the dependent variable (financial performance) and independent variables. The results indicates that the purpose of accounting records and financial success have a moderate positive correlation ($r = .345$, $p < .001$). This suggests that there is a modest correlation between improved financial performance and having a clear grasp of and applying the purpose of accounting records. Additionally, there is a very significant positive association ($r = .937$, $p < .001$) between SMEs' record keeping practices and financial performance. This implies that attaining superior financial performance in SMEs is contingent upon the use of efficient record keeping techniques. Similarly, there is a significant positive association ($r = .647$, $p < .001$) between the purpose of proper accounting practices and financial performance. This suggests that improved financial performance is directly correlated with a thorough grasp of and application of appropriate accounting procedures. Lastly, there is a significant positive relationship ($r = .567$, $p < .001$) between the challenges of improper accounting record keeping and financial performance. This implies that improving financial performance requires tackling the issues associated with improper accounting record keeping.

Table 7

Cronbach's Alpha

Reliability Statistics	
Cronbach's Alpha	N of Items
0.877	57

Table 7 provides for a collection of 57 elements, the reliability statistics show a Cronbach's Alpha of 0.877. The scale's elements appear to have a high degree of internal consistency when their Cronbach's Alpha rating is 0.877. This indicates that the items measure the same underlying construct and have a strong correlation. A Cronbach's Alpha score of 0.7 or above is generally regarded as satisfactory, with values nearer 1.0 denoting more dependability. With an alpha of 0.877, the scale is therefore deemed dependable and appropriate for use in research, giving researcher's confidence in the consistency of the measures derived from these 57 items.

Table 8

*Model Summary***Model Summary^b**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.948a	.899	.898	.08374	.899	1034.165	4	465	.000

a. Predictors: (Constant), PAR, CHIARK, RKP, PPAP

b. Dependent Variable: FP

Table 8 shows The Model Summary table includes numerous critical statistics that demonstrate the regression model's strength and relevance. R: The multiple correlation coefficient, which is 0.948. This suggests a very strong relationship between the predictors (RKP, PAR, PPAP, and CHIARK) and the dependent variable (FP). R Square (R^2) represents the coefficient of determination, which is .899. This figure indicates that the independent variables (RKP, PAR, PPAP, and CHIARK) can explain roughly 89.9% of the variance in financial performance (FP). This shows that the model has a high level of explanatory power. Adjusted R Squared: The corrected R^2 is 0.898. This statistic adjusts the R^2 value based on the number of predictors in the model, providing a more accurate estimate of the model's explanatory ability. The minimum difference between R^2 and adjusted R^2 indicates that the model is well-specified and includes meaningful factors. The standard error of the estimate is .08374. This number estimates the average distance the observed data fall from the regression line. A lower number implies a better match for the model. The regression model effectively explains variations in financial performance, as evidenced by its high R^2 and modified R^2 values. The model's predictors strongly contribute to the model, as indicated by the high F value and its related significance level.

Table 9

Anova

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.008	4	7.252	1034.165	.000b
	Residual	3.261	465	0.007		
	Total	32.269	469			
a Dependent Variable: FP						
b Predictors: (Constant), PAR, CHIARK, RKP, PPAP						

Table 9 displays an ANOVA table that gives a statistical analysis of the variation in the dependent variable (FP - Financial Performance) explained by the independent variables (RKP, PAR, PPAP, CHIARK). Regression yields a sum of squares of 29.008. This reflects the variance in the dependent variable (FP) that is explained by the regression model. Residual: The total of squared residuals is 3.261. This shows the variance in FP that the model cannot explain. Total: The total sum of squares is 32.269. This is the overall variance in FP, calculated by adding the regression and residual sums of squares. The degree of freedom for the regression is four. This reflects the number of predictors in the model. The residuals' degrees of freedom are 465. This is the total number of observations (469), minus the number of predictors plus one (4+1). The overall degree of freedom is 469. This is the total number of observations, minus one. The mean square for the regression is 7.252 (29.008 / 4). This number is used to determine the F-statistic. The residual has a mean square of 0.007 (3.261/465). The F-value is 1034.165. This is obtained by dividing the mean square regression by the mean square residual (7.252 / 0.007). The F-statistic assesses the overall relevance of the model. Significance (sig): The p-value for the F-test is .000. The model is statistically significant (p < .001). In other words, the observed F-statistic has a less than 0.1% probability of being caused by random variation, indicating that the independent factors have a substantial influence on the dependent variable (FP).

The ANOVA analysis validates the regression model's high significance. The predictors (RKP, PAR, PPAP, and CHIARK) explain a significant portion of the variance in financial performance (FP), as evidenced by the big F-statistic and related p-value. This supports the conclusion that the model is effective in forecasting financial performance using the identified independent variables.

Table 10
Coefficients

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.781	.074		10.567	.000		
	RKP	.680	.017	.817	40.922	.000	.545	1.836
	PPAP	.083	.015	.113	5.472	.000	.507	1.972
	CHIARK	.066	.015	.076	4.305	.000	.703	1.422
	PAR	.037	.013	.048	2.762	.006	.722	1.385

a. Dependent Variable: FP

Table 10 shows The Coefficients table contains specific information about the connection between each predictor variable and the dependent variable (FP - Financial Performance) in the regression model. Unstandardized coefficients: B: These coefficients show the amount of change in the dependent variable (FP) resulting from a one-unit change in the predictor variable, while keeping all other variables constant. (constant): 0.781. This represents the regression line's intercept. It denotes the anticipated value of FP when all predictors are 0. RKP (Record Keeping Practices of SME): 0.680. This means that for every one-unit rise in RKP, FP increases by 0.680 units, while other parameters remain unchanged. PPAP (Purpose of Proper Accounting Practices) = 0.083. This means that for every one-unit increase in PPAP, FP rises by 0.083 units, while other parameters remain unchanged. CHIARK (Challenges of Improper Accounting Record Keeping) = 0.066. This means that with every one-unit rise in CHIARK, FP increases by 0.066 units, while other parameters remain unchanged. PAR (Purpose of Accounting Records) = 0.037. This means that for every one-unit rise in PAR, FP increases by 0.037 units, while other parameters remain unchanged.

Standardized coefficients (beta): These coefficients are standardized variations of the B coefficients. They allow you to compare the relative relevance of each predictor variable in the model. RKP: 0.817. This is the highest Beta value, suggesting that RKP is the most important predictor in the model. PPAP: 0.113. This has a considerable favorable impact on FP but less so than RKP. CHIARK = 0.076. This also has a considerable favorable impact on FP, but less than RKP and PPAP. PAR: 0.048. This has the lowest Beta value, suggesting that it is the least influential predictor of the four.

T-Statistics and Significance (Sig.)

These data test the null hypothesis, which states that the coefficient is 0 (no impact).

(Constant): $t = 10.567$; $sig. = .000$. This coefficient is quite significant.

RKP: $t = 40.922$, $sig. = 0.000$. This prediction is quite important.

PPAP: $t = 5.472$; $sig. = .000$. This prediction is also quite significant.

CHIARK: $t = 4.305$; $Sig. = .000$. This prediction is important.

PAR: $t = 2.762$, $sig = .006$. This predictor is significant, but less so than others.

Collinearity Statistics

Tolerance refers to the fraction of a predictor's variation that cannot be explained by other predictors. Low tolerance suggests the possibility of multicollinearity. The values vary from 0.507 to 0.722, showing satisfactory levels of multicollinearity. VIF (Variance Inflation Factor) is the inverse of tolerance. VIF values greater than 10 imply significant multicollinearity. Values vary from 1.385 to 1.972, which is substantially below the level of concern, showing that multicollinearity is not an issue in this model.

The regression model reveals that all predictors (RKP, PPAP, CHIARK, and PAR) have a statistically significant positive effect on financial performance (FP). Record Keeping Practices of SMEs (RKP) is the most important predictor, followed by Purpose of Proper Accounting Practices (PPAP), Challenges of Improper Accounting Record Keeping (CHIARK), and Purpose of Accounting Records (PAR). The low VIF values indicate that multicollinearity is not an issue in this model. Overall, the model gives valuable insights into the aspects that influence financial Performance.

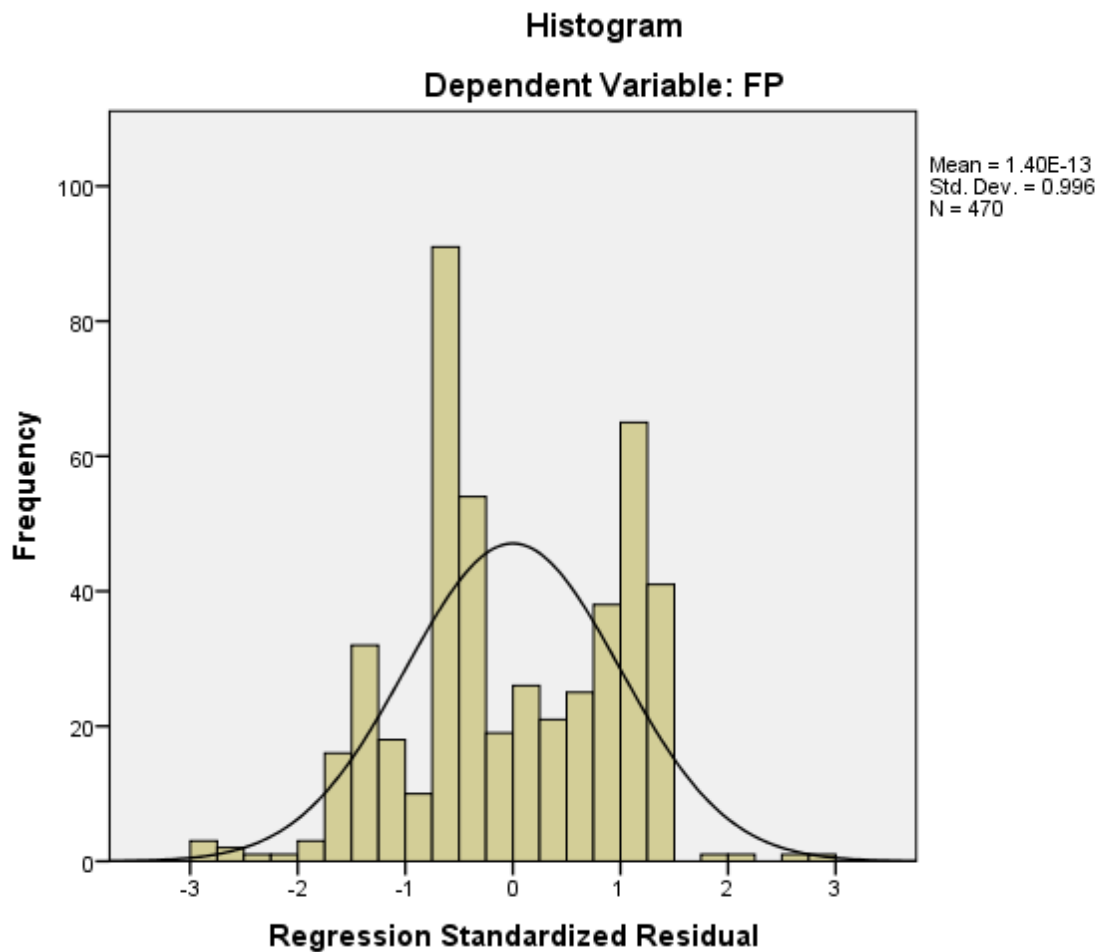
Table 11

Residuals

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.9688	5.0648	4.7755	0.2487	470
Residual	-0.2465	0.23124	0	0.08338	470
Std. Predicted Value	-3.244	1.163	0	1	470
Std. Residual	-2.944	2.761	0	0.996	470

Table 11 presents the residuals. Statistics show that the model's projected values for financial performance (FP) vary from 3.9688 to 5.0648, with a mean of 4.7755 and a standard deviation of 0.24870. The residuals, which indicate the discrepancies between observed and predicted values, have a mean of zero and a standard deviation of 0.08338, showing that the forecasts are generally close to the actual values. The standardized residuals range from -2.944 to 2.761, indicating that the majority of the residuals are within 3 standard deviations of the mean, a commonly used criterion for spotting outliers. The general distribution of residuals indicates that the model fits the data well, with no significant heteroscedasticity or non-normality in the residuals.

Histogram Chart



This histogram depicts the distribution of the regression standardized residuals for the dependent variable FP in a statistical study with a sample size of 470 observations ($N = 470$). The mean of the regression standardized residuals is almost zero (Mean = $1.40E-13$), showing that the residuals are centered around zero, as is expected in a well-fitting regression model. The standard deviation is close to one (Std. Dev. = 0.996), indicating that the residuals are distributed normally. The histogram looks to be relatively symmetrical, with the majority of the residuals clustered toward the center. This is further reinforced by the overlaid normal curve, which indicates that the residuals follow a normal distribution pattern. However, there are significant deviations from perfect normalcy, especially the conspicuous peaks around -1 and 0, as well as a slightly smaller peak around 1. There are also fewer observations at the extreme ends of the distribution (less than -2 and more than 2), with relatively few outliers.

In regression analysis, the assumption of residual normality is critical for accurate hypothesis testing and estimating confidence range. The shown histogram, together with the normal curve, show that the residuals are about normally distributed, supporting the normality assumption. Minor deviations from normality are frequently acceptable in practical applications, but they should be further evaluated using additional tests such as the Shapiro-Wilk test, the Kolmogorov-Smirnov test, or Q-Q plots. The residuals appear to be generally

normally distributed and centered around zero, with a standard deviation close to one, indicating that the regression model fits the data well and without considerable bias. This histogram shows that the regression standardized residuals for the dependent variable FP are roughly normally distributed, which supports the validity of the regression model's assumptions and outcomes.

Conclusion

The study's findings highlight the importance of accounting methods in the financial success of SMEs in Somalia. The demographic analysis found a fair representation of gender, as well as a wide range of age and educational backgrounds among respondents, indicating a variety of viewpoints on accounting methods in SMEs. The bulk of these businesses are very new, with more than half having been in existence for less than five years. Retail/merchandise emerged as the leading company form, with sole proprietorships being the most frequent ownership structure.

The survey shows that accounting methods are widely adopted among Somali SMEs, with 88.3% keeping correct accounting records. However, a significant fraction of these enterprises still use manual procedures, indicating a potential opportunity for development through technology adoption. The descriptive and correlation analyses revealed a substantial positive association between good record-keeping methods and financial success, stressing the significance of precise and consistent financial documentation.

Regression and ANOVA studies confirmed the considerable influence of accounting methods on financial performance. Record-keeping techniques, the purpose of correct accounting processes, the problems of improper accounting record-keeping, and the purpose of accounting records all have a significant impact on financial performance. Among these, record-keeping techniques had the greatest impact.

Recommendations

1. **Enhanced Accounting Education and Training:** Given the substantial dependence on manual accounting processes, there is an obvious need for improved education and training programs that focus on current accounting procedures. These programs should target SMEs' owners and managers to help them better understand and utilize computerized accounting systems.
2. **Promoting Technological Adoption:** Promoting the use of computerized accounting systems may considerably enhance the accuracy and efficiency of financial management. Policymakers and business support groups should make it easier for SMEs to get inexpensive accounting software and give technical assistance as they migrate from manual to computerized systems.
3. **Developing Tailored Accounting Solutions:** Somali SMEs confront distinct issues that require customized accounting solutions. Localized training materials and support systems should be created to address the unique characteristics of the Somali business environment.
4. **Policy Support and Incentives:** Incentives should be considered by the government and stakeholders to encourage SMEs to adopt and maintain effective accounting

standards. This might include tax breaks, subsidies, or free access to accounting software and training programs.

5. Strengthening Regulatory Frameworks: Ensuring compliance with accounting standards can improve financial transparency and performance for SMEs. This includes not only establishing clear rules, but also giving the required assistance to SMEs to comply with these requirements.
6. Establishing procedures for continual monitoring and assessment of SMEs' accounting processes helps uncover opportunities for improvement and quantify the effect of changes made. Regular audits and feedback sessions may help ensure that accounting methods remain in line with best practices and changing company demands.
7. Fostering a culture of prudent financial management through support networks and mentorship programs between experienced accountants and successful small and medium-sized enterprises. These networks can give continuing help and tools to SMEs who want to enhance their accounting procedures.

By implementing these advice, Somali SMEs may greatly improve their financial performance, so contributing to overall economic growth and stability. Improved accounting standards will not only help individual businesses succeed, but will also contribute to the Somali economy's general resilience and development.

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