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THE IMPACT OF RECEIVABLES MANAGEMENT PRACTICES ON THE GROWTH OF BUILDING MATERIAL COMPANIES IN MOGADISHU, SOMALIA

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Abstract
Purpose: This study is to determine how accounts receivable management techniques affect the growth of building material companies in the context of Somalian Building Material Companies.

Theoretical framework: The Portfolio theory can be used to determine which customers should be awarded trade credit. Also, According to the portfolio theory, economic environment uncertainty has an impact on the decisions one is likely to make about investments. The idea claims that in order to reduce losses and risk and maximize returns, it is crucial to select and strategically mix choices and assets that offer lower risk and greater predicted returns.

Design/methodology/approach: The procedures have been determined to include accounts receivable analysis, accounts receivable extension, and accounts receivable collection. Both descriptive and inferential statistical methods were used in the investigation. A SmartPls was used to analyze the data, which was collected from 95 questionnaires distributed to chosen employees of five building material companies.

Findings: The findings show that receivable analysis and collection both have positive effects on business growth. On the other hand, the results indicate that receivable extension has a good impact on business growth.

Research, Practical & Social implications: The study suggested owners and managers take seminars and receive training on the various techniques for controlling and managing the levels of accounts receivable. Additionally, the study would contribute to the body of knowledge and act as a foundation for further study.

Originality/value: Testing and subsequent confirmation of receivable analysis and collection both have positive effects on business growth such as According to the findings, improving accounts receivable collection tactics by one unit leads to a 0.363% increase in growth, demonstrating that these procedures are favorable for the growth of construction material companies. The path coefficient (0.208), which states that a one-unit rise in accounts receivable extension processes causes a 0.208-unit increase in the growth of building material companies, illustrates this.

Key Words: Accounts Receivable, Analysis, Extension, Collection, Company Growth

Introduction

Account receivables are sums of money owed to a business as a result of providing a service or selling goods on credit. Consumers who lease goods or services are obligated to pay within a predetermined time period, which could be 14 days, 30 days, 60 days, or even longer depending on the vendor-buyer agreement. (Mohamed, 2013).

Customers who have not paid for goods supplied or services rendered by the company are categorized as accounts receivable (Likalama et al., 2016). The firm's credit policy is where accounts receivable management starts, but a monitoring system is also needed to make sure that the credit terms are adhered to. The only way to determine whether the issue is out of control is to use a capable receivables control system, which is frequently necessary (Getu Negusie, 2012).

Also, the Account receivable management consists of five steps: deciding who should be provided credit, defining a payment period, collection monitoring, measuring receivable liquidity, and lastly cash receipts from debtors (Ngugi et al., 2017). Also, the Accounts receivable are especially important to a company because they help it safeguard its revenues from being reduced by competition and lure new customers to acquire on advantageous terms. When there is industry competition, selling on credit becomes necessary. According to Omar et al. (2018), a business runs the danger of losing customers to rivals if it doesn't offer loans to them.

Since having too many or too few current assets may negatively impact a company's financial performance and hinder its smooth operation, managing receivables is an important aspect of financial management. (Duru, Ekwe, & Okpe, 2014).

All business growth is based on the selling of products or the delivery of services. They must sell their products on both a cash and credit basis in order to create clients and take market share away from their rivals in order to make this profit. Customers must be offered credit-based products, which calls for a well-managed credit system that enables the business to recover owed payments on time while minimizing buyer risk.

An Accounts Receivable Management Practices.: According to Njeru et al (2015), an accounts receivable is a cash flow component that directly affects a business's ability to expand. On the other hand, according to Wildavsky and Caiden (2004), insufficient accounts receivable management methods may cause cash flow problems for businesses. Accounts receivable management and cash flow forecasting are also included in cash flow management (Joshi, 2007).

Accounts Receivable Analysis Practices: In order to assess the risk of offering goods and services on credit, the accounts receivable analysis practices are used. (Kibor & Ngahu 2015). According to Myers and Brealey (2003), receivable analysis is the investigation and evaluation of credit data to establish a company's financial soundness. This could be done internally by the credit department or on behalf of the company by employing expert credit analysts.

Accounts Receivable Extension Practices: A company's credit management and policy determine whether or not to extend credit to customers. The accounts receivable and sales departments must collaborate in order to maximize sales in the shortest amount of time possible, Njeru, because sales are useless without fast payment (Njeru et al 2016).

Higher sales, on the other hand, will result from a credit extension policy with suitable lending criteria and terms, resulting in increased profitability and, eventually, increased growth for the company, and credit applications must be carefully checked before granting credit to ensure that a company only gives credit to creditworthy consumers (Moti etal. 2012).

Additionally, credit request forms, financial records, and involvement in industry credit connections can all assist a business in gathering the knowledge required to make an informed decision regarding lending to both potential and current clients. Robert, (2008). To reduce the frequency of defaults and bad debts, only the client's creditworthiness should be considered, according to Gill et al. (2010).

Accounts Receivable Collection Practices: In essence, the art of collection involves getting to know and, ideally, understanding the customer so that the right strategy can be used to collect the debt without straining the customer-seller relationship. The techniques and tools used by a business to recover accounts receivables are known as accounts receivable collection practices. In a credit collection policy paper, the methods for recovering past-due debts are outlined together with the degree of rigor or flexibility given to them. (Megginson & Scott, (2008).

To encourage early payments, the seller may offer discounts on his or her credit items, making this one of the credit customers who reduces the firm's profitability (Omar et al., 2018). Building Material Companies (BMC) in Somalia, like those in many other countries, confront fierce competition. Building Material Companies (BMC) must offer their products on both a cash and credit basis, and many of these companies lack an adequate credit system that allows them to collect their accounts on time while avoiding buyer risk. They may continue to rely on the traditional credit-based system (Aden et al., 2011).

Because of this gap, it is vital to investigate the relationship between receivable management techniques and the growth of Building Material Companies (BMC). Therefore, the researcher attempted to analyze the impact of accounts receivable management methods on the growth of Building Material Companies (BMC) in Mogadishu, Somalia.

Theoretical Frame work

Portfolio theory

Portfolio theory can be used to determine which customers should be awarded trade credit. Also, according to the portfolio theory, economic environment uncertainty has an impact on the decisions one is likely to make about investments. The idea claims that in order to reduce losses and risk and maximize returns, it is crucial to select and strategically mix choices and assets that offer lower risk and greater predicted returns.

Theory of the Growth

The other theory based on our study was The Theory of the Growth of the Firm, The reason the company must expand is because its owners, or the entrepreneur, continually strive to boost earnings and maintain a stronger liquidity position in order to meet daily financial responsibilities (Penrose, 1959). According to Penrose (1959), a company increases its knowledge base in order to grow. Furthermore, Njeru et al (2016) state that six areas of techniques for handling accounts receivable must be examined. and These elements are known as the Six Cs (Customer, Character, Capacity, Capital, Collateral, and Condition). A customer is a person or business who uses another company's products or services. A manager's personality is what makes them effective. Do they have any prior experience? Would they make a good corporate leader?

The capacity is the ability to pay obligations using earned money. Capital refers to the money available to fulfill promises. Collateral is the security provided, such as a promise of property or a guarantee from a third party. This framework predominates where information is acquired to offer products or services on credit. The C's can be discovered from a variety of sources, including the company's previous interactions with clients, which can be found by following the development of the clients' payment history, reviewing prior years' financial statements, contacting credit reporting agencies, and even contacting the clients' financial institutions. Kalunda (2012).

Conceptual Framework

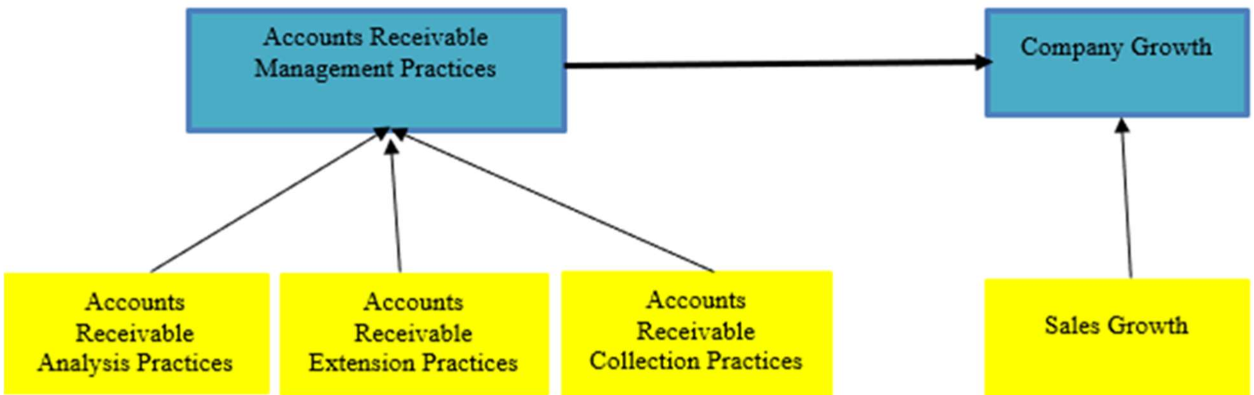


Figure 1: Conceptual Framework

Research Methodology

This study used descriptive research and inferential methodologies, and the target population was 125 employees from five (5) building material companies in Mogadishu, Somalia, with a sample size of 95. These workers were classified as sales managers, salespeople, and accountants.

Results and Discussion

Demographic Data

Table 1: Gender, age, education level, and employment status are all factors to consider.

Variables	Frequency	Percentage
Gender		
Male	68	71.6

Female	27	28.4
Age		
20 – 30 Years	61	64.2
31 – 40 Years	10	10.5
41 and above	24	25.3
Level of Education		
Diploma	31	32.6
Bachelor	53	55.8
Master	11	11.6
Employment Status		
Accountant	39	41.1
Salesman	26	27.4
Manager	30	31.5

In accordance with the above data, 68 respondents (71.6%) were men, and the remaining 27 respondents (28.4%) were women. Men were more prevalent than women in this survey. In addition, 61 (64.2%) of the respondents were between the ages of 20 and 30. 10 responders, or 10.5% of the total, were between the ages of 31 and 40. There were 24 responses aged 41 and up, representing 25.3% of the total. In terms of educational level, 31 respondents (32.6%) held a Diploma. The 53 responders were bachelor degree holders, representing 55.8% of the total. Furthermore, master holders made up 11.6% of the respondents, implying that master holders are the study's fewest participants. According to the study, 39 respondents held accountant roles in the organization, accounting for 41.1% on average. 26 respondents (27.4%) work as salespeople in the organization, while 30 (31.5%) are managers.

Measurement Model

The study used average variance expected (AVE), composite reliability (CR), and divergent validity (Loading). Discriminant validity was also used to evaluate the measurement model. The PLS method was applied to all assessments that had factor loadings greater than the suggested 0.7 thresholds, with the exception of the (ARAP3, ARCP2, & AREP3) items, as shown in (Table 3.2). If the aggregate of loadings produces high charging scores that lead to AVE scores more than 0.6, factor loading values equal to or greater than 0.6 are acceptable (Byrne, 2016). As a result, the

researcher retains (ARAP3, ARCP2, & AREP3) elements in the model. Whereas, The average extracted variance (AVE) and composite reliability (CR) values are all within the acceptable bounds of 0.5 and 0.7, respectively.
In the study, The Fornel-Larcker criterion was used to assess the discriminating validity of the test. Each connection between two constructs is compared to the AVE root square. For a component to pass the discriminant validity test, its AVE must be higher than its squared correlation with any other notion. .
based on Fornell & Larcker's (1981) analysis. The Fornel-Larcker criterion is satisfied, and no cross-loadings are larger than the corresponding loadings, suggesting that discriminant validity is preferred in this investigation. See Table 3.3. It is now established that the Hetrotrait Monotrait ratio (HTMT) is a new and superior criterion for evaluating discriminant validity. ((Henseler et al., 2015). Henseler et al., 2015). Additionally, it was suggested that in order to prove the selective reliability of the cutoff values or limit, the HTMT ratio should be smaller than one. Since every piece of data is below the limit, selective validity is proven.
See Table 3.4. Due to this, the measuring model utilized in this study exhibited sufficient discriminant validity.

Table 2: Factor Loading & Reliability

Construct	Items	Loading	CR	AVE
ARAP	ARAP1	0.800	0.836	0.562
	ARAP2	0.741		
	ARAP3	0.657		
	ARAP4	0.792		
ARCP	ARCP1	0.839		
	ARCP2	0.646	0.878	0.711
	ARCP3	0.848		
	ARCP4	0.705		
AREP	AREP1	0.922	0.848	0.585
	AREP2	0.915		
	AREP3	0.667		
SG	SG1	0.802	0.86	0.673
	SG2	0.859		
	SG3	0.798		

Table 3: Fornell-Larcker Criterion

	ARAP	ARCP	AREP	SG
ARAP	0.750			
ARCP	0.292	0.765		
AREP	0.067	0.076	0.843	
SG	0.431	0.469	0.256	0.82

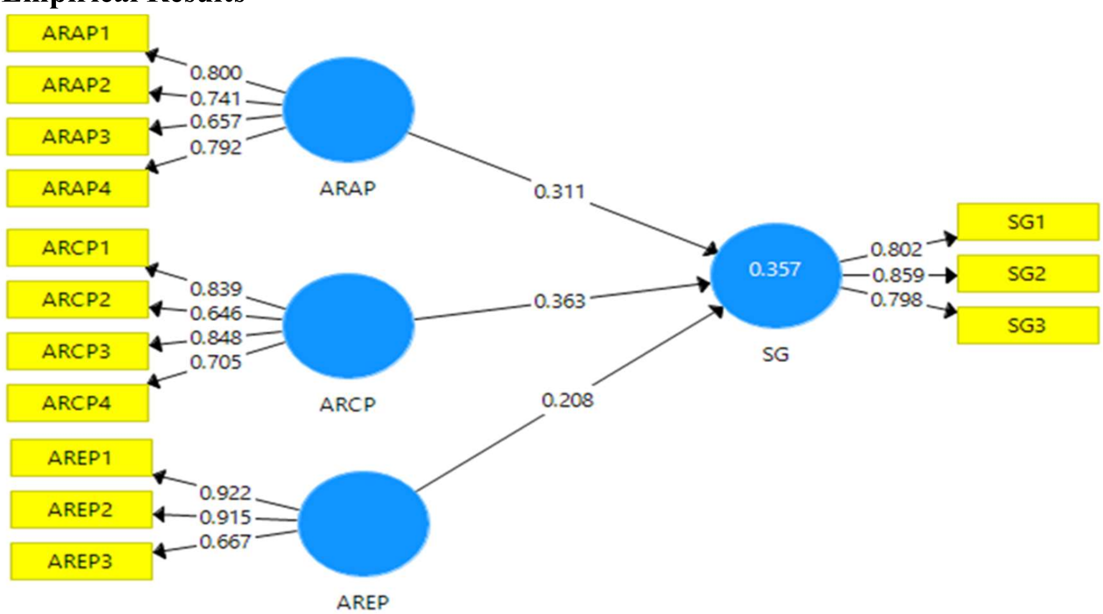
Table 3.4: HTMT

	ARAP	ARCP	AREP	SG
ARAP				
ARCP	0.284			
AREP	0.103	0.128		
SG	0.439	0.532	0.304	

Structural Model

The effects of independent variables (accounts receivable analysis practices, accounts receivable collection strategies, and accounts receivable extension methods) on dependent variables (sales growth) were examined in the study using a structural model. Furthermore, accounts receivable analysis techniques have a good influence on sales growth, as evidenced by path coefficients (0.311), whereas accounts collection practices have a positive effect on sales growth, as indicated by path coefficient value (0.363). Furthermore, the path coefficient (0.208) of receivable extension procedures has a beneficial effect on sales growth. Figure II.

Figure 2: Empirical Results



Conclusion

The objective of this study was to determine how accounts receivable management techniques impacted the growth of building material businesses in Mogadishu, Somalia. The specific goals of the study were to determine how account a receivable analysis procedure, accounts receivable collection techniques, and accounts receivable extension procedures affected sales growth.

The findings of this study show that accounts receivable analysis practices accepted growth positively, as shown by the path coefficient (0.311), which indicates that an increase of one unit in accounts receivable analysis practices boosts growth by 0.311.

The study also discovered that boosting accounts receivable collection methods by one unit results in an increase in growth of 0.363%, suggesting that these practices are favorable for the expansion of building material companies. As shown by the path coefficient (0.208), which states that an increase of one unit in accounts receivable extension practices results in an increase of 0.208 in the growth of building material companies, the study also found that accounts receivable extension practices have a positive impact on the growth of building material companies. The three goals of the research are to determine how accounts receivable analysis practices affect the expansion of building-related companies, how makes up receivable extension practices affect building material companies, and how accounts receivable collection practices affect building material companies. The research found that these three goals had a positive impact on business growth, as shown by route coefficients.

As a consequence, the path coefficient of analysis was 0.311, indicating that the increasing one unit in the analysis will result in an increase in growth of 0.311, and the path coefficient of the collection was 0.363, indicating that the increasing one unit in the collection will result in an increase in growth of 0.363. Finally, the path coefficient of extension was 0.208, indicating that the increasing one unit in the analysis will result in an increase in growth of 0.208.

Recommendations.

The study recommends management implement the steps recommended by Ngugi et al. (2017), which are: choosing who should be given credit, deciding a payment period, collection monitoring, evaluating the liquidity of receivables, and finally cash receipts from debtors, in order to pay attention to accounts receivable management practices. The report makes recommendations for additional research on the impact of accounts receivable management on profitability.

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