EFFECT OF RISK MANAGEMENT ON FINANCIAL PERFORMANCE OF SERVICE COMPANIES IN Mogadishu, SOMALIA

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Abstract: The general objective of this study was to investigate the effect of risk management on financial performance of service companies in Mogadishu, Somalia. Specifically, this study investigated the effect of credit risk, liquidity risk, market risk and foreign risk management on the financial performance of service companies in Mogadishu, Somalia. Effect of risk management practices has been vital in allowing the phenomenal growth in service companies. The operators of small, medium and large Scale businesses face certain degree of risk in their daily operation globally. Service companies were only succeed if their financial performances are made well In order to ensure the importance of financial performances for service companies and its determinants play the effectiveness and efficiency in service companies. Risk management should, therefore, be at the core of any organization this involves identifying and analysing risks, developing and implementing risk handling techniques and monitoring the progress of these in order to avoid and/or reduce the impact of risk on the financial performance of the firms. The population of the study was 167 a sample size of 50 Respondents selected which composed of management and staff in service companies in Mogadishu Somalia. inexperience in the field of business, particularly lack of technical knowledge plus inadequate managerial skills, lack of planning and lack of market research as causes of big business failure.. The sampling procedure of this study was used non-probability sampling procedure particularly. The study was used descriptive cross-sectional such us descriptive survey and explanatory research design and analytical based on quantitative data both primary and secondary sources based on the scope of the study. This research employed both qualitative and quantitative data collection method whereby data

were gathered by the use of closed ended questionnaires which are self-administered. The data collection was analysed using the software called Statistical Package for the Social Sciences (SPSS) version20. Factor analysis was used to assess the validity and Cronbach alpha to assess reliability of the questionnaire. Multiple regression analysis (standard and step wise) were conducted to determine the relationship between the effects of risk management determinants and financial performance. Results confirm the varying importance of the risk management determinants in the service companies in Somalia. In general, the results revealed that market risk, credit risk and liquidity risk have significant and positive effects on financial performance, while foreign exchange risk has insignificant effects on financial performance in the service companies in Somalia. The study findings indicated that there was a strong positive relationship (R= 0.720) between the variables. Standard multiple regression was conducted and there was positive and significant effect of Market risk on financial performance. On the standard multiple regression, there was positive and significant effects of Credit risk management on financial performance, there was positive and significant effects of liquidity risk on financial performance and there was positive but insignificant effects of Foreign exchange rate on financial performance .The study also recommends that the management of service companies should continuously assess their risk management practices to see if they are still practical in the face of a continuously changing operating environment. This will ensure that Somali service companies achieve international standards and, therefore, become both locally globally competitive.

Keywords: market risk, credit risk, liquidity risk and Foreign exchange rate.

1. Introduction

On the global level the economic environment in which most firms operate is highly volatile and uncertain .The impact of the global financial crisis has highlighted the importance of risk management (Coskun, 2012). Risk management importance is also attributed to the changing business environment characterized by threats from political, economic, natural, and technical resources (Wu & Olson, 2010). Risk management is a systematic approach that aligns strategy, people, technology, processes and knowledge with the purpose of assessing, evaluating and managing the risk that an organization faces, while the level of terrorism has risen to all times high as witnessed in the 9/11 in New York. The real level of risks comprises the steady toll of fires, accidents, thefts and other similar events including terrorism, political and economic crises and wars among others which are costly in terms of money and human pain, suffering and loss of lives. We live in a world full of dangers, hazards, risks and uncertainties as part of everyday life. (Hisnson and Kowalski, 2008).Due to

internationalization of business environments service companies' face certain degree of risk in their daily operations. In Somalia service companies face certain degree of risk in their daily operation it may include environmental risks, including natural disasters maintaining insufficient management, unskilled staff numbers and cover, employee safety and up-to-date skills these are extraordinary times, especially for service companies. The last decade has been marked by a succession of disasters that have thrust the discipline of risk management into the spotlight. When every aspect of the business is carefully considered, planned and executed based on accounting information. The managers can only control the risk within their control. However, a business could still face risk of closure due to some factors that are beyond its control such as: fire, flood, tornado, tsunami, hurricanes, earthquakes, political crises and war among others Risk is the probability that the outcome of an action or event could bring up adverse impacts on the business. The goal of effect of Risk Management is to measure and manage risks across a diverse range of activities used in financial sectors. Risk management is the total process of identifying, controlling and minimizing the impact of uncertain events.. The ability of the management of service companies is to carefully identify the risk that their business face and take action accordingly to counter the risk, will certainly be successful, profitable and contribute to the economic growth of the nation (kwanum, 2012). Risks are inherent in any business venture, and when it comes to financial risks, businessmen don't have much choice but to face them. It is for this reason that knowledge about effect of risk management is very important in the business world. The practice won't help businessmen avoid risks, but it gives them a chance to counterbalance the negative effects of risks whenever they have to take one. (Gluckman, 2010). Describing the risk management process as Risk identification, measurement and analysing, controlling and finance, evaluation and cost calculations most organizations perform the basic elements of risk management. However, companies with more mature risk practices do better financially. Companies around the world have made substantial investments in personnel, processes and technology to help control business risk. Historically, these risk investments have focused primarily on financial controls and regulatory compliance. Effective risk management starts at the top with clarity around risk strategy and governance. It is critical that the proper oversight and accountability exist at the board and executive levels.

1.1 .Profile of service companies in Mogadishu, Somalia

Somalia has maintained a healthy informal economy, based mainly on livestock, remittance/ money_transfer companies and telecommunications, hotels and hospitals As the cycle of crisis

continues in Somalia, vital service companies faced risk According to the CIA website , Somalia has a gross domestic product (GDP) of $5.896 billion and is considered by the World Bank as a low income country and Somalia has been in a political turmoil since 1991, when the President, Siad Barre was ousted and civil war broke out in the country and It was not until August 2012 that a new internationally recognised government was formed and the country has moved towards stabilisation.(The World Bank, 201After the start of the civil war, various new service companies like telecommunications, and banks, Insurance companies began to spring up in the country and competed to provide missing infrastructure. Somalia now offers some of the most technologically advanced and competitively priced telecommunications like Somali telecommunication networks Hormuud Telecom, Somtel and Nation link, were the country's largest ISP. It was at the time the only provider of dial up services in Somalia's south-central regions and internet services in the world. Funded by Somali entrepreneurs and backed by expertise from China, Korea and Europe, these nascent telecommunications firms offer affordable mobile phone and internet services that are not available in many other parts of the continent. (TeleGeography, 2014) Money transfer companies have been among Somalia's few success stories in the past two decades. There are no functioning states or commercial banks registered in the Somali territories. The Central Banks of Somalia and Somaliland operate at a very basic level, and recent scrutiny of the Central Bank of Somalia suggests that there are major problems with corruption there. Munford M.(2010) Insurance is an essential element in the operation of sophisticated national economies throughout the world today. But insurance also serves a broad public interest far beyond its role in business affairs and its protection of a large part of the country's wealth. It is the essential means by which the "disaster to an individual is shared by many, the disaster to a community shared by other communities; great catastrophes are thereby lessened, and, it may be, repaired." Without insurance coverage, the private commercial sector would be unable to function. Insurance enables businesses to operate in a cost-effective manner by providing risk transfer mechanisms whereby risks associated with business activities are assumed by third parties.

1.2 Statement of the Problem

The operators of large Scale businesses face certain degree of risk in their daily operations globally. Risk is the probability that the outcome of an action or event could bring up adverse impacts on the business. It may include environmental risks, including natural disasters maintaining sufficient staff numbers and cover, employee safety and up-to-date skill the role of finance has been viewed as a critical element for the performance of service companies in

Somalia. Previous studies have highlighted the limited access to financial resources available to service **c**ompanie**s** compared to larger organizations and the consequences for their performance and development. Poor management and accounting practices have hampered the ability of service companies to raise finance. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to Service Company's Poor record keeping and lack of basic business management experience and skills are major contributors to failure of service companies. Researchers have also identified lack of access to external finance and weak capital base, inexperience in the field of business, particularly lack of technical knowledge plus inadequate managerial skills, lack of planning and lack of market research as causes of big business failure (Ngima, 2014).

Yakup and Asli (2010) point out in their study that over the last decade the business environment has become more and more global, which has not only enabled companies to gain access to new customers and to additional resource but also forced companies to cope with increased level of international competition and a growing diversity of international business risks as risks of fluctuating currencies, commodity prices and interest rates. According to Triantis (2000) using financial instruments provides significant benefits to companies such as corporate tax benefits, steady stream of cash flows which enables investing in a timely and profitable manner in future projects, and decreased probability of incurring bankruptcy or reorganization costs. Information asymmetry, taxes and transaction costs are the reasons which justify companies exercising risk management on behalf of individual companies' shareholders (Fan and Wang, 2011).. Furthermore, also Ameer (2010) mentions that hedging can increase a companies' value by reducing external liabilities such as taxes paid to government and both direct and indirect bankruptcy costs. This study therefore seeks to determine the effect of risk management techniques on financial performance of service companies in Mogadishu, Somalia. This will answer the question:

What is the effect of risk management techniques on financial performance of service companies in Somalia?

1.3.1 General objective

The overall aim of the study is to explore the effect of risk management on financial performance of service companies in Mogadishu, Somalia.

1.3.2 Specific objective.

1. To evaluate the effect of market risk management on financial performance of service companies in Mogadishu, Somalia.

2. To investigate the effect of credit risk management on financial performance of service companies in Mogadishu, Somalia.
3. To identify how Liquidity risk management effects on financial performance of service companies in Mogadishu, Somalia.
4 .to explore how foreign exchange risk management effects on financial performance of service companies Mogadishu, Somalia

2.3. Conceptual frame work

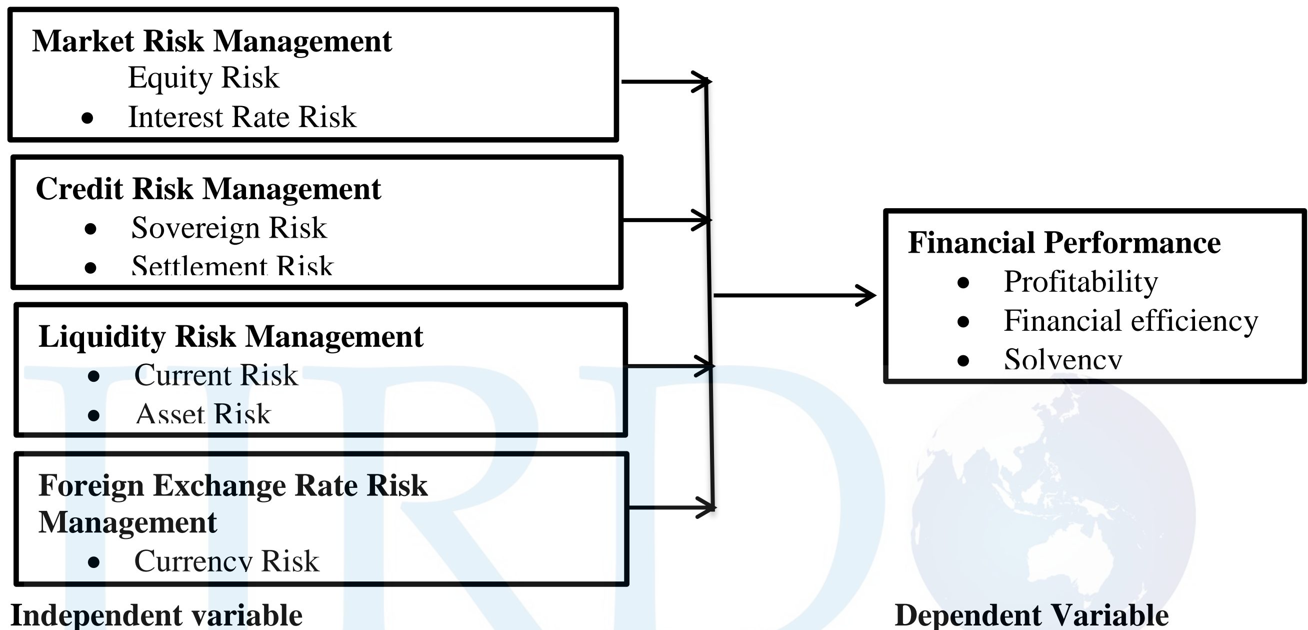

Figure 2.1. Conceptual frame work

2.4.1. Market Risk management

Market Risk is generally defined as the risk of the mark to market value portfolio, instrument or investment increasing or decreasing as a result of volatility and unpredicted movement in market valuations. Market risk is prevalent mostly amongst service companies that are into investment since they are active in capital markets. It can be better understood by dividing it into 4 types : equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices depending on the potential cause of the risk: Interest rate risk: Potential losses due to fluctuations in interest rate Equity risk. However, it is possible to liquidate tradable instruments or to hedge their future changes of value at any time. This is the rationale for limiting market risk to the liquidation period. In general, the liquidation period varies with the type of instruments. It could be short (1 day) for foreign exchange and much longer for 'exotic' derivatives. The regulators provide rules to set the liquidation period. (Holton, 2004).

Price volatility is not the same in high-liquidity and poor-liquidity situations. When liquidity is high, the adverse Deviations of prices are much lower than in a poor-liquidity environment,

within a given horizon. 'Pure' market risk, generated by changes of market parameters (interest rates, equity indexes, exchange rates), differs from market liquidity risk. This interaction raises important issues. Prices in emerging markets often diverge considerably from a theoretical 'fair value'.

Controlling market risk means keeping the variations of the value of a given portfolio within given boundary values through actions on limits, which are upper bounds imposed on risks, and hedging for isolating the portfolio from the uncontrollable market movements. (Alexander, 2008)

The currency risk is that of incurring losses due to changes in the exchange rates. Variations in earnings result from the indexation of revenues and charges to exchange rates or of changes of the values of assets and liabilities denominated in foreign currencies. Foreign exchange risk is a classical field of international finance, so that we can rely on traditional techniques without expanding them.

2.4.2 Credit risk management

This type of risk arises when one fails to fulfil their obligations towards their counter parties. Credit_risk can be classified into Sovereign Risk and Settlement Risk. Sovereign risk usually arises due to difficult foreign exchange policies. Settlement risk on the other hand arises when one party makes the payment while the other party fails to fulfil the obligations. Credit risk is the first of all risks in terms of importance. Default risk, a major source of loss, is the risk that customers default, meaning that they fail to comply with their obligations to service debt. Default triggers a total or partial loss of any amount lent to the counterparty (Mauri, 2008). Credit risk is also the risk of a decline in the credit standing of an obligor of the issuer of a bond or stock. In the market universe, a deterioration of the credit standing of a borrower does materialize into a loss because it triggers an upward move of the required market yield to compensate the higher risk and triggers a value decline. 'Issuer' risk designates the obligors' credit risk, to make it distinct from the specific risk of a particular issue, among several of the same issuer depending on the nature of the instrument and its credit mitigates (seniority level and guarantees) (Banks, 2004).

The study revealed that credit risk management has a significant effect on the financial performance of service companies in Mogadishu, Somalia and also that credit risk management has a significant effect on the liquidity position of service companies in Mogadishu, Somalia. Therefore, the study concluded that the practice of credit risk management as part of effect of risk management is essential for any organisation that wishes to post a positive financial performance. In its recommendation, the study ended up

underscoring the importance of inculcating credit risk management practices in any organisation that aspires to have a sound financial performance. A further recommendation is that Somali service companies need to concentrate more effort on the existing policies it has in place towards minimising or eradicating vandalism of its equipment if it is to realise further growth in its financial performance. Credit risk refers to the chance a business's cash flows are not enough to pay creditors and fulfil other financial responsibilities. The level of credit risk, therefore, relates less to the business operations themselves and more to the amount of debt a business incurs to finance those operations. This study provides an insight into the financial performance of Somali service companies and the extent to which this is affected by management of credit risks. Findings of this study will go a long way in informing the opinions and arguments fronted by finance practitioners. Somali service companies and other organisations on the other hand, will gain knowledge and insight on the need to strengthen their credit risk management practices, owing to their impact on financial performance. (Bessis, 2002) Creditors, bankers, management, staff, and prospective investors among others, will also find this study useful, since it might help them in gauging the performance of organisations. Lastly, findings of this study will help in filling in a gap in the field of finance by adding onto the existing knowledge on credit risk management as impacting on an organisation's financial performance. It may also open up the area to scholars and academicians for further

2.4.3 Liquidity Risk Management

Liquidity risk is defined liquidity risk as the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. However if you find this definition complex, the term 'liquidity risk' speaks for itself. It is the risk that may disable a company from carrying out day-to-day cash transactions. It is help-full, for instance, to distinguish between funding (or liability) liquidity, asset liquidity, and joint liquidity. Funding liquidity focuses on the avail- ability of unsecured liabilities that can be drawn on to create cash, including short-term and long-term debt facilities. Asset liquidity focuses on the availability of assets, such as marketable securities, inventories, receivables, and plant and equipment, which can be sold or pledged to generate cash. Asset liquidity risk is thus the risk of loss arising from an inability to convert assets into cash at carrying value in order to meet obligations Liquidity is therefore a vital element of financial management and must be considered and managed with care.. Liquidity risk as the risk of loss arising from a lack of cash or equivalents or, more specifically, the risk of loss arising from an inability to

obtain funding at economically reasonable levels or sell1 or pledge an asset at carrying prices, in order to cover an expected or unexpected obligation (Kithinji, 2010)

2.4.4 Foreign Exchange Risk Management

Butler (2008) refers foreign exchange risk as the risk related with the unexpected changes in exchange rates and foreign exchange exposure as the extent to which unexpected changes in exchange rates affect the value of a firm's assets or liabilities. Kirt further adds foreign exchange risk is a financial risk to manage value creation and loss prevention in a firm by internal and external financial tools. Piet and Raman (2012) say spot rate changes are offset by changes inflation though small firms may depend on unstable currency rates for profits.

According to Feather son, Littlefield and Mwangi (2006), foreign exchange risk arises when fluctuation in the relative values of currencies affects the competitive position or viability of an organization. Firms are exposed to foreign exchange risk if the results of their projects depend on future exchange rates and if exchange rate changes cannot be fully anticipated. Generally, companies are exposed to, Transaction exposure, Economic exposure and Translation exposure (El-Masry, 2006; Salifu et al, 2007). Transaction risk occurs where the value of the existing obligations is worsened by movements in the foreign exchange rates Foreign Exchange risk comes about as dissimilarity between the assets held by a bank and the loans that fund its balance sheet. An unexpected depreciation of the local currency against the USD can dramatically increase the cost of servicing debt relative to revenues.

2.4.5 Measurement of financial performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

Measuring the financial performance of any company is an important function of business managers, analysts and bankers. They use a variety of financial tools which enables them to examine managerial effectiveness and identify the strengths and weakness of the company.

2.5 Empirical Review

In a study that was carried out by Steven (2003), he found out that corporate effect of risk management seeks to manage companies' exposure to currencies, interest rates, energy, commodities and other factors driven by the financial market. It should be viewed as an on-going process that continually evolves with the companies as it encounters new and unforeseen risks. However, in reality, many companies that have identified various risks in their businesses do not have formal risk policies or strategies in place to manage these risks within a corporate approved process (Baldoni, 2001 and Jalilvand 2000 With this transactional approach to managing risk, one begins with a blank sheet of paper each time a new issue or problem arises, and then develops an independent solution for each disparate problem. While the dangers of this kind of approach seem obvious, it is surprising how many companies rely on transactional approach. Clearly, companies would benefit from a process that is woven into their overall business strategies and management process.

Thus the development of effect of risk management in emerging economies will be likely to grow at a fast pace. In sum, the emerging economies have to face the trends of effect of risk management in the digital economy and thus face similar challenges. HMT (2004) presents two common alternative structures for risk management. The first one involves an Audit Committee, established as a Committee of the Board, ideally with non-executive membership and chaired by a non-executive, which will be charged with supporting the Accounting Officer in their responsibilities for issues of risk, control and governance and associated assurance. Effect of risk management practices fall into three major categories; credit risk practices, liquidity risk management practice as and market risks (Kithinji, 2010). In a study on risk management policies and practices in a Vietnamese Joint-Stock Commercial Bank's Transaction Office, Dam (2010) investigated the credit risk management framework and the effectiveness of the credit risk management practices at both the firm's and a transaction office's level. The study had a research gap since it did not address the effect of credit risk management practices on the financial performance of these firms.

Kithinji (2010) conducted a study on credit risk management and profitability of commercial banks in Mogadishu, Somalia, using the non-performing loan portfolio (the independent variable) as an indicator of the effectiveness of credit management practices. The intervening variable was the amount of credit as indicated by loans and advances normalized by the total assets. The dependent variable was the profitability measured by the return on total assets. Therefore, management need to be cautious in setting up a credit policy that might not negatively affects profitability and also they need to know how credit policy affects the

operation of their banks to ensure judicious utilization of deposits. Ahmed et al. (2011) conducted a study on risk management practices and Islamic Banks. The authors' aim was to determine the firm's level factors which have significantly influenced the risk management practices of Islamic banks in Pakistan. The study used credit, operational and liquidity risks as dependent variables while size, leverage, NPLs ratio, capital adequacy and asset management are utilizing as explanatory variable for the period of four years from 2006 to 2009.

Hansen (2009) conducted a study on the strategic foreign exchange risk management practice by Danish medium-sized non-financial, not-listed companies that are involved in international activities. The study showed that interaction between financial and operational hedges exists in the management of operating exposure and that operational and financial strategies are seen as complements to each other. The empirical results supported the hypothesis that the hedging strategies of the companies depend on their flexibility. The size of the companies exhibited significance in explaining the importance and application of the financial hedging means. The study differs from the current study since it did not link foreign exchange risk management practices to the financial performance of service companies. In addition, the study by Hansen (2009) was conducted in a developed economy while the current study is being conducted in a developing economy. According to Yakup and Asli (2010) increased risk exposures and increased hedging activity are consequences of internalization in of business environments. Also Yakup and Asli (2010) point out companies that have foreign sales, foreign income, and foreign assets are exposed to exchange rate risk (due to more of foreign currencies) and interest rate risk (due to higher leverage and lower quick ratios). Panos et al. (2009) highlight in their study that commodity risks have become more evident than before, for instance rapidly developing economies like China and India have driven up the global demand and prices. Through the developed markets companies are able to hedge the price and demand uncertainties by using financial contracts as forwards, futures, swaps, and options as discussed earlier.

2.7 Research gaps

The researcher observes that though this study put into consideration some of the credit risks that service companies face and their effect of their performance, it is evident that the survey was done to bring out the general situation of service companies in the countries under study. This information, though important, does not answer the questions raised in the present study about the effect of risk management in service companies. This study therefore intends to fill in this gap by carrying out a study focusing on service companies in Mogadishu, Somalia in

this study. the effect financial performance service companies. Ogujuiba, et al., (2004) reported that finance will usually be a constraint to service companies.

Most service companies folded up or lacked competitiveness because they lacked the much required financial capacity to prosecute their operations. The researcher observes that this study was carried out and there is a possibility that the data captured does not represent the actual situation on the ground. The researcher seeks to fill in this gap by carrying out the present study in order to capture the situation on the ground. The study also intends to focus on service companies in Mogadishu, Somalia and thus having a practical scope., (Ahene, 2007)) carried out a study on changing regulatory environment for service companies and their performance in Somalia, the study results indicated that access to effect of risk management had been on the main bottlenecks to service companies' development in the country. This was a result of fluctuating inflation rate in the country and the constant change in the rate of interest charged on loans by both banks and non-banks financial institutions.

Methodology

This study adopted a cross-sectional study design, involves looking at people who differ on one key characteristic (such as age) at one specific point in time and it can be done more quickly regarding characteristic of a sample of a population, recent practices, conditions or needs. It is a plan in which a researcher obtains research participants and collects information from them. According to (Huber & Scheytt, 2013) A research design refers to a plan for collecting and utilizing data so that the desired information can be obtained with sufficient precision. Both qualitative and quantitative data on financial management practices is used. The techniques are designed to best suit quick collection of data. The sampling technique adapted to this research was non-probability sampling particularly purposive or judgmental because the researcher selected the respondents that can give accurate information about the problem at hand. Kumar (2005) stated that judgmental sampling is a way of sampling where the researcher selected using his/her judgment to select the population members who are good at information related to the study. The data will be collected and presented to give exploratory analysis to particular phenomena with emphasis to cover the extent of the topic.

RESEARCH FINDINGS AND DISCUSSION

In this chapter, raw data from the questionnaires was analysed and interpreted. Various tests were used to test the relationship between variables, level of significance, reliability and random distribution of data. Specifically, the researcher used Cronbach's alpha test, descriptive statistics test, Pearson Bivariate correlation and Multiple Regression analysis. The

independent variables of the study were Market Risk management. Credit risk management Liquidity Risk Management, Foreign Exchange Risk Management and how they affected the dependent variable which was Service Company's financial performance in Mogadishu, Somalia.

Table 4.1 Response Rate

Response	Total	Per cent
Non Responses	03	06
Responses	47	94
Total	**50**	**100**

4.3 Reliability and validity

Prior to exploring and describing the relationship between Market Risk Management, Credit risk management ,Liquidity Risk Management, and Foreign Exchange Risk Management in Service Companies' financial performance, Somalia, the measures were examined and assessed to gauge reliability and validity.

4.3.1 Reliability analysis

Cronbach's alpha was used to determine the internal reliability of the questionnaire used in this study. Values range between 0 and 1.0; while 1.0 indicates perfect reliability, the value 0.70 is deemed to be the lower level of acceptability (Hair, Black, Barry, Anderson, & Tatham, 2006). The reliability statistic for each of the identified factors is presented in Table 4.2. It is evident from Table 4.2 that the overall Cronbach's alpha coefficients for all the constructs in the study were 0.743. The study measures were found to be highly reliable in that they all had alpha coefficient greater than the minimum accepted Cronbach's alpha coefficient of 0.741(Hair *et al.,* 2010).The findings indicated that Market Risk management had a coefficient of 0.734, Credit risk management had a coefficient of 0.751 Liquidity Risk Management had a coefficient of 0.726, Foreign Exchange Risk Management had a coefficient of 0.725.

Table 4.2 Reliability Statistics

Variables	Cronbach's Alpha	Comments
Market Risk management	0.734	Accepted
Credit risk management	0.751	Accepted
Liquidity risk management	0.726	Accepted
Foreign exchange risk mgt	0.725	Accepted

Cronbach's Alpha

4.3.2 Validity analysis

Factor analysis was used to check validity of the constructs. Kaiser-Mayor-Oklin measures of sampling adequacy (KMO) & Bartlett's Test of Sphericity is a measure of sampling adequacy that is recommended to check the case to variable ratio for the analysis being conducted. In most academic and business studies, KMO & Bartlett's test play an important role for accepting the sample adequacy. While the KMO ranges from 0 to 1, the world-over accepted index is over 0.5. Also, the Bartlett's Test of Sphericity relates to the significance of the study and thereby shows the validity and suitability of the responses collected to the problem being addressed through the study. For Factor Analysis to be recommended suitable, the Bartlett's Test of Sphericity must be less than 0.05.

The study applied the KMO measures of sampling adequacy and Bartlett's test of sphericity to test whether the relationship among the variables has been significant or not as shown in below in table 4.3. Factor 1 was based on four items that represented Market Risk management, Factor 2 was based on four items that represented Credit risk management, Factor 3 was based on four items that represented Liquidity Risk Management, and Factor 4 with four items represented Foreign Exchange Risk Management, while the last Factor was based on four items that represented company's financial performance The Kaiser-Mayor-Oklin measures of sampling adequacy shows the value of test statistic as .5716, which is greater than 0.5 hence an acceptable index. While Bartlett's test of sphericity shows the value of test statistic as 0.000 which is less than 0.05 acceptable indexes. This result indicates a highly significant relationship among variables.

4.6 Regression Analysis

Multiple regression analysis was performed to assess the relationship between the dependent variable (company's financial performance) and the independent variables (market risk management, credit risk management, liquidity risk and foreign exchange risk) in Mogadishu, Somalia. The research used statistical package for social sciences (SPSS V 20) to code, enter and compute the measurements of the multiple regressions.

Regression Models

Table: 4.14 Model Summaries

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.720[a]	0.518	0.472	.39320

4.6.1 Model Summary

Adjusted R^2 squared is coefficient of determination which tells us the variation in the dependent variables due to change in the independent variables. From the findings in the table below the value of adjusted R squared is 0.518 and indicates that there was variation of 51.8% on financial performance of service companies in Mogadishu due to changes in market risk management, credit risk management, liquidity risk and foreign exchange risk at 95% confidence interval and the remaining 47.2% are accounted by other factors contained in the standard error. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strongly positive relationship between the study variables as shown by 0.720.

Table: 4.15 Analysis of Variance .

Model		Sum Squares	df	Mean Square	F	Sig.
1	Regression	6.983	4	1.746	11.291	000[a]
	Residual	6.494	42	.155		
	Total	13.476	46			

a. Dependent Variable: financial performance

As shown the ANOVA table 4.15, it is clear that the overall standard multiple regression model (the model involving constant, a market risk management, credit risk management, liquidity risk and foreign exchange risk management) is significant in predicting how market risk, credit risk management, liquidity risk and foreign exchange risk management determine company, financial performance of service companies in Mogadishu, Somalia. The regression model achieves a degree of fit as reflected by an R^2 of 0.720[a] (F = 11.291; P = 0.000 < 0.05).

Table: 4.16 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	-.130	.348		-.373	.711
market risk management	.370	.124	.335	2.991	.005
credit risk management	.270	.121	.286	2.235	.031
liquidity risk management	.337	.119	.352	2.825	.007
foreign exchange risk management	.072	.097	.094	.741	.463

a) Dependent Variable: financial performance

From the data in the above table the established regression equation was:

The regression results on how a market risk, credit risk, Liquidity Risk and Foreign exchange risk determine company's financial performance of service companies in Mogadishu, Somalia. The multiple regression equation was that

Y= ß0+ß1X1+ß2X2+ ß3X3 + ß4X+ e and the multiple regression equation became

Y = -0.130 + 0.370X1 + 0.270X2 + 0.337X3. As depicted in table 4.13, there was positive and significant effects of Credit risk management on financial performance ($\beta = 0.286$; t =2.235; $p < 0.05$). Credit risk management is a primary cause of many business failures their credit risk management by putting in place measures to curb the risk and this enhances efficiency of services of the institutions. There was positive and significant effect of Liquidity risk on financial performance ($\beta = 0.352$; t = 2.825; $p < 0.05$) the ability of the firm to cover its' expenses and therefore it also shows whether the company is able to cope with some

losses due to risk occurrence the ability to measure market and credit risk is far from perfect. However foreign exchange management was found to have positive but insignificant effect on financial performance ($\beta = 0.094$; $t = 0.741$; $p > 0.05$) converting foreign currency to local currency in service companies causes a lot of losses because of fluctuation of foreign exchange rate. There was positive and significant effect of Market risk on financial performance ($\beta = 0.335$; $t = 2.991$; $p < 0.05$) the main reason for this factor is that the service companies are not as transparent as larger corporations Moreover, market risk is not diversifiable and cannot be laid off, meaning that, as long as people, systems and processes remain imperfect, market risk cannot be fully eliminated.

The research will add to the existing literature on risk management by developing a model that could improve the implementation of (ERM) practices in the Somali service companies Therefore, the proposed theoretical framework for this study may be a useful tool for academics to understand these previous circumstances in the future and improve on them.

Recently, there has been growing interest in risk management across the world due to a number of parallel events. The impact of the global financial crisis has highlighted the importance of risk management (Coskun, 2012). Approach to risk management may not give the senior management and the board aggregated risk management (D`Arcy, 2001; Lam, 2000). Despite the growing importance of risk management, there is still a lack of evidence on risk management implementation in service sectors

According to (Suranovic 2010).This theory explains how exchange rate values are determined and why they fluctuate as they do. It is also known as the asset approach to exchange rate determination. (Alexander, 2008)Controlling market risk means keeping the variations of the value of a given portfolio within given boundary values through actions on limits, which are upper bounds imposed on risks, and hedging for isolating the portfolio from the uncontrollable market movements. McDermott (2000) foreign exchange risk is a financial risk to manage value creation and loss prevention in a firm by internal and external financial tools. Dam (2010) investigated the credit risk management framework and the effectiveness of the credit risk management practices at both the firm's and a transaction office's level.

5 .3 Conclusion

Based on the findings of this study, the following conclusions were drawn. The results reveal that market risk, credit risk and liquidity risk have significant and positive effects on financial performance, while foreign exchange rate has insignificant effects on financial performance in the service companies in Somalia these findings indicate that the existing foreign exchange rate is not so suitable for improving financial performance in the service companies in Somalia Most of the service companies in Mogadishu, Somalia are both small and large companies with a wide branch network throughout the country in order to take services closer to their customers and hence enhance market share in the face of growing competition. Owing to their sizes, it can be concluded that these companies are faced with greater risks and hence the need to manage risk appropriately.

A large number of these companies had put in place measures to spearhead risk management and this could explain why most of these companies had continued to be in operation for a long duration of time. The study also concludes that risk identification and mitigation play the most significant role in influencing financial performance of service companies. Hence, risk identification can essentially be said to be the key starting point of any risk management program as companies cannot manage what is unknown. On the other hand, once identified, risks must be mitigated so that the impact on the firm is reduced. The study results, however, also show that all the four risk management practices were of some significance in influencing financial performance and hence the conclusion of this study is that service companies need to adopt a complex approach in their risk management efforts that all the practices that were the focus of this study in order to realize the full benefits of their risk management programs.

5.4 Recommendations

The finding reveals that service companies did not maintain properly avoiding risk as a result they cannot be able to identify, assess and plan the management of their business risk effectively. More and more service companies did not cover their business against risk accurately. As a result of the importance of risk management to the performance, survival and sustainability of service companies to the Economic growth of the country as a whole, the study recommends that:

1 Service companies should try to maintain proper liquidity and foreign exchange rate management so that they will be able to plan, identify asses and manage their risk effectively.

2 The management of service companies should put in place cost-effective measures for timely risk identification and effective risk mitigation so as to ensure that their financial performance is not impacted negatively.

3. The study also recommends that the management of service companies should continuously assess their risk management practices to see if they are still practical in the face of a continuously changing operating environment.

4 The management should control information technology in risk management by installing information systems that can carry out risk assessment & measurement more accurately and for monitoring their risk management programs for effectiveness.

5 This should further be complimented by training of employees on risk management policies of the firm, with clearly defined roles and responsibilities for risk management.

6 There is also need service companies to address corporate governance issues in their risk management programs. Risk management programs that are supported by senior company officials are more likely to succeed, thereby enhancing financial performance.

7 Lastly, the study recommends that the management of service companies should put in place risk management frameworks such as ERM that conform to international best practice. This will ensure that Somali service companies achieve international standards and, therefore, become globally competitive.

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