MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL

WORKING CAPITAL MANAGEMENT, SERVICE QUALITY AND THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN SOMALIA

BY

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REG: 2021/HD10/4123X

A RESEARCH DISSERTATION SUBMITTED TO MAKERERE UNIVERSITY BUSINESS SCHOOL (FACULTY OF GRADUATE STUDIES AND RESEARCH) IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF ACCOUNTING AND FINANCE OF

MAKERERE UNIVERSITY

PLAN A

SEPTEMBER, 2023

DECLARATION

I **Mukhtar Mohamed Muse**, do declare that this research dissertation titled "Working Capital Management, Service Quality and the Financial Performance of Commercial Banks in Somalia" is my original work and has never been submitted to any institution for an academic award

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APPROVAL

This serves to certify that this research dissertation titled "Working Capital Management, Service Quality and the Financial Performance of Commercial Banks in Somalia" has been submitted for examination with my approval as the university supervisor.

Date: Nov. 20, 2023

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ACKNOWLEDGEMENTS

I wish to acknowledge and be grateful to Allah for enabling me to reach this point in my academic life and I am so thankful for unconditional Protection. I am also grateful to thank my Parents who were always there for me to succeed. My ALLAH host you dear parents in the highest rank of JANNAH.

Many thanks go to my Dear supervisors **DR. JULIET WAKAISUKA-ISINGOMA AND MS. JAMIYA NAKIYINGI** for the guidance rendered to me during the preparation of this dissertation and I sincerely appreciate the time you spared to guide me during this intensive work. Thank you again dears for your tireless efforts that you put in my dissertation book to come at the final stage. I am also grateful to thank My University Makerere University Especially My Collage MUBS for providing me with the conceptual means to complete this project. And also, I would especially like to thank my grandfather Mohamed Abdulle for unconditional Support that I needed, My Allah host you the highest rank in Jannah.

Finally, thanks to my family, tutors and numerous friends and I would especially like to thank my friends Jibril Dahir Hersi and Zakariya Said Abdi for providing me with free advice regarding my research and any other academic matters at MUBS.

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LIST OF BABREVIATIONS

SDGs Sustainable Development Goals

GDP Gross Domestic Product

SME Small Medium Enterprises

CVI Content Validity Index

ABSTRACT

The study examined the relationships between working capital management, service quality and the financial performance of commercial banks in Somalia. The study was based on the following research objectives: to examine the relationship between working capital management and the financial performance of commercial banks in Somalia,to assess the relationship between service quality and the financial performance of commercial banks in Somalia and to determine the predictive power of working capital management and service quality on financial performance of commercial banks in Somalia. The study presupposed a cross-sectional research design and a quantitative research methodology. In this study, the researcher handed out 108 questionnaires, of which 96 were returned, yielding a response rate of 88.9%. Regression and correlation techniques were used to analyse quantitative data.

The study revealed that there is a significant positive relationship between working capital management and financial performance, significant positive relationship between service quality and financial performance and positive relationship between working capital management and service quality of commercial banks in Somalia. Working capital management emerged to be stronger predictor of financial performance in commercial banks as compared with service quality.

Study findings showed that effective cash management practices are essential with in Somali commercial banks. Statements related to proper documentation of cash payments, regular bank account reconciliation, and maintaining adequate cash reserves are positively associated with Cash Management. As well as, effective management of accounts receivable is another critical aspect of working capital management and the findings suggest that proper management of accounts payable is associated with efficient supplier management.

CHAPTER ONE

1.0 BACKGROUND OF THE STUDY

The financial performance of commercial banks serves as a crucial indicator of their overall success and effectiveness in the financial sector(Dalayeen&Dalayeen, 2017). It encompasses various measures that assess the profitability, efficiency, and stability of banks, ultimately reflecting their ability to generate profits and create value for shareholders. The term performance refers to the act of performing, execution, accomplishment, fulfilment of a given task measured against pre-set standards of accuracy, completeness, cost, and speed (Dalayeen&Dalayeen, 2017).

Effective management of working capital is crucial for the success of entities, including commercial banks (Nobanee et al., 2011). Working capital management involves the investment in current assets and liabilities, which are liquidated within a year or less, and plays a vital role in the day-to-day operations of banks (Resimli&Guncy, 2011). The liquidity-profitability trade-off theory suggests a trade-off between liquidity and profitability, emphasizing the need to find a balance for optimal results (Bhattacharya, 2011).

Despite significant progress in the banking sector of Somalia in recent years, the financial performance of commercial banks in the country remains poor (Abdaziz-Ahmed, 2021). Financial performance can be evaluated through indicators such as profitability, dividend growth, sales turnover, and return on investments (Kizito, 2018).

Globally, the banking sector has faced an uncertain environment characterized by weaker economic growth, volatile financial markets, and stricter financial supervision (Bank of China, 2019). In this context, developed economies like the USA and China have shown divergent development in the banking industry (Bank of China, 2019). The banking systems in many

African countries, including Somalia, still face challenges such as low and inefficient intermediation and limited competition, leading to low performance of commercial banks (Abdaziz-Ahmed, 2021;Jajale, 2017). This is attributed, in part, to issues related to service quality and weak capital management techniques.

Previous studies have explored various aspects of financial performance in commercial banks; For example, Jajale (2017) examined the effect of cash management on the performance of commercial banks in Mogadishu, Somalia, and found significant relationships between capital adequacy, liquidity management, receivables management, payables management, and performance. However, this proposed study Was employed both probability and non-probability sampling techniques, as well as survey and interview methods for data collection.

Additionally, AL-Zararee, Almasria, and Alawaqleh (2021) found a significant relationship between working capital management and bank performance in their study conducted in Jordan. In contrast, the current study aims to apply both probability and non-probability sampling techniques. Moreover, the provision of good service quality is commonly associated with increased profitability (Beaumont et al., 2012). In a cross-sectional study conducted in Mogadishu, Sheikhdon (2021) revealed that service responsiveness and reliability are significantly related to the performance of commercial banks.

In the context of Somalia, recent research indicates a low performance of commercial banks (Central Bank of Somalia, 2021). The net assets of the Somalia banking sector, valued at USD 345 million in 2017, light in comparison to neighbouring countries like Uganda, which recorded over USD 168 billion in the same period (BOU Annual Report, 2017). Although the net assets of Somalia's banking sector increased to USD 600 million in 2019, it subsequently declined to

around USD 520 million in 2020 and further to USD 475 million in 2021 then increased to 530 USD in 2022 (Central Bank of Somalia, 2021).

Although Somalia's banking industry has made tremendous strides in recent years, the nation's commercial banks continue to perform poorly financially (Abdaziz-Ahmed, 2021). Due to the crucial role that commercial banks play in Somalia's overall economic development, this is an issue of utmost importance. According to national reports and indicators such as the Sustainable Development Goals (SDGs), the performance of commercial banks directly affects the achievement of key economic objectives, including poverty reduction, employment generation, and sustainable growth (UNDP, 2020). Moreover, the contribution of the banking sector to Somalia's GDP is significant, and its effective functioning is crucial for the stability and progress of the national economy (World Bank, 2021). The difficulties commercial banks encounter, particularly with regard to their financial performance, prevent them from achieving these objectives and call for a deeper comprehension of the variables affecting their performance. Therefore, conducting a study on the relationship between working capital management, service quality, and the financial performance of commercial banks in Somalia is vital for addressing these issues and formulating evidence-based strategies to enhance the banking sector's contribution to the country's economic development

1.1 STATEMENT OF THE PROBLEM

The performance of commercial banks holds significant importance for various stakeholders, including the country's Central Bank, government, bankers' association, and financial authorities (Odhiambo & Onyango, 2015). In the context of Somalia, recent research indicates a low performance of commercial banks (Central Bank of Somalia, 2021). The net assets of the Somalia banking sector, valued at USD 345 million in 2017, light in comparison to neighbouring

countries like Uganda, which recorded over USD 168 billion in the same period (BOU Annual Report, 2017). Although the net assets of Somalia's banking sector increased to USD 600 million in 2019, it subsequently declined to around USD 520 million in 2020 and further to USD 475 million in 2021 then increased to 530 USD in 2022 (Central Bank of Somalia, 2021). Such fluctuating performance has been attributed, in part, to issues related to low service quality and inadequate working capital management techniques (Sheikhdon, 2021). Moreover, limited research has been conducted specifically on the relationship between working capital management, service quality, and the performance of commercial banks in Somalia. Without a comprehensive understanding of the key factors that contribute to their success, it becomes challenging to improve the financial performance of commercial banks in Somalia. Therefore, this research project aims to bridge this knowledge gap by exploring the relationship between working capital management, service quality, and the performance of commercial banks in Somalia.

1.2 PURPOSE OF THE STUDY

The study was seeked to examine the predictive power of working capital management and service quality on the financial performance of commercial banks in Somalia.

1.3 OBJECTIVES OF THE STUDY

i. To examine the relationship between working capital management and the financial performance of commercial banks in Somalia.
ii. To assess the relationship between service quality and the financial performance of commercial banks in Somalia.
iii. To determine the predictive power of working capital management and service quality on financial performance of commercial banks in Somalia.

1.4 RESEARCH QUESTIONS

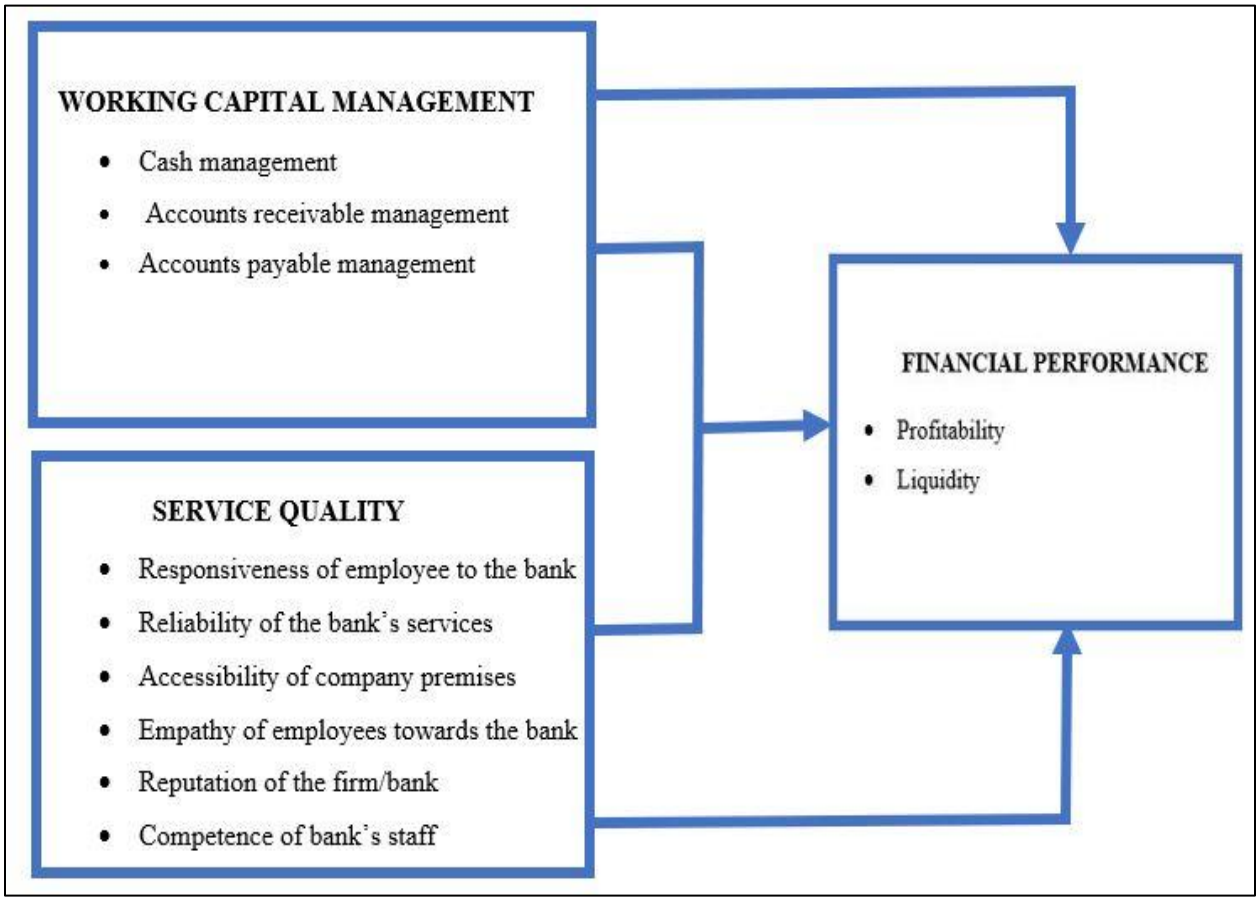
i. What is the relationship between working capital management and the financial performance of commercial banks in Somalia?

ii. What is the relationship between service quality and the financial performance of commercial banks in Somalia?

iii. What is the predictive power of working capital management and service quality on financial performance of commercial banks in Somalia?

1.5 CONCEPTUAL FRAMEWORK

Figure 1: Conceptual Framework



Source: *Adopted from* AL-Zararee et al. (2021); Kizito (2018); and Sheikhdon (2021)

The conceptual framework for this study is guided by the concepts of service quality and working capital management as the independent variables, and financial performance as the dependent variable. The aim of the study is to explore the relationship between these variables and how they impact financial performance. Service quality was conceptualized in terms of Responsiveness of employee to the bank, Reliability of the bank's services, Accessibility of company premises, Empathy of employees towards the bank, Reputation of the bank, and Competence of bank's staff. These aspects of service quality are expected to have an impact on financial performance, particularly in terms of liquidity and profitability. The study was investigating how improving service quality in these areas can lead to improved financial performance. Working capital management was also be considered as an independent variable in this study. This was measured in terms of cash management, accounts receivable management and accounts payable management. The study was explore how effectively managing working capital affects financial performance.

The dependent variable in this study is financial performance, which was measured in terms of profitability and liquidity. The study was examined how service quality and working capital management impact financial performance of commercial banks. It is hypothesized that improving service quality and working capital management was have a positive impact on financial performance.

In summary, the conceptual framework for this study involves exploring the relationship between service quality and working capital management as independent variables and financial performance as the dependent variable. By examining the impact of service quality and working capital management on financial performance, the study aims to identify strategies that can be implemented to improve financial performance in organizations.

1.6 SCOPE OF THE STUDY

The scope of the study was looked at in terms of the geographical scope and the content scope, as demonstrated below;

1.6.1 GEOGRAPHICAL SCOPE

The study was conducted in Somalia. Somalia is a country in Africa bordered by Djibouti, Ethiopia, Kenya, Gulf of Yemen, and the Indian Ocean. Somalia has a strategic location on the Horn of Africa along southern approaches to the Bab el-Mandeb and routes through the Red Sea and Suez Canal.

1.6.2 CONTENT SCOPE

The study was focus on examining the relationship between working capital management, Service Quality and the Financial Performance of commercial banks in Somalia. The independent variables of the study are working capital management and service quality, and the dependent variable is financial performance. For this study, service quality was looked at in terms of responsiveness of employees, reliability of services, accessibility of company premises,empathy of employees, reputation of the firm and competence of staff, whereas working capital management shall be conceptualised in terms of Cash management, accounts receivable, and accounts payable. The dependent variable was financial performance conceptualised in terms of liquidity and profitability.

1.7 SIGNIFICANCE OF THE STUDY

The research findings will be of importance to many stakeholders. It is the hope of the researcher that;

1. This study will provide management with cost-effective ways of improving revenue collection and expenditure of commercial banks in Somalia.
2. The findings of this study will provide the commercial banks in Somalia with information about the role of service quality and working capital management on their financial performance as well as the recommendations on how to improve their performance.
3. The findings of this study will add value to the body of existing knowledge and perhaps lead to ventures in further research about the factors affecting the financial performance of commercial banks in Somalia.
4. The findings of this study will also serve as a partial requirement for the award of a Master's degree in accounting and finance from Makerere University.

CHAPTERTWO

LITERATURE REVIEW

2.0 INTRODUCTION

The section reviews the literature pertinent to the study and highlights the theory related to the study objectives aiming at establishing the effect of working capital management and service quality on financial performance of commercial banks in Somalia. The sectionwas further showed the contribution of different scholars and the knowledge gap that exists in the established literature.

2.1 THEORETICAL BACKGROUND

This study was underpinned by the SERVQUAL and pay-off models as illustrated therein;

2.1.1 THE SERVQUAL MODEL

This study shall be guided by the SERVQUAL model by Parasuraman, Valarie, and Leonard (1985). SERVQUAL measures service quality as the discrepancy (gap) between a customer's expectations for a service offering and the customer's perceptions of the service received. According to the SERVQUAL model, a service provider must be able to provide five critical elements of service: reliability, responsiveness, tangibility, assurance, and empathy.

In this study, it is believed that when the services provided have the above critical elements, the satisfaction levels of the customer increases, this in return leads to return customers, and these customers recommend their colleagues to purchase the same services. According to Oliver (1980), satisfaction occurs when the perceived service or product quality meets or exceeds the expected quality. Concerning this study, it is believed that customers are satisfied when their expectations about the services provided by a company are met or even exceeded (Kingsley,

2018). Because of customer satisfaction, the service providers witness an increase in their sales, leading to an increase in liquidity and profitability of their businesses.

2.1.2 THE TRADE-OFF MODEL

The study was also be guided by the tradeoff theory by Modigliani and Miller (1958). Trade-off model demonstrates that firms decide their optimal level of cash holding by comparing the marginal cost and benefits of holding cash. The liquidity-profitability trade-off theory, first proposed by Modigliani and Miller (1958), suggests that there is a trade-off between liquidity and profitability. The theory posits that a company can increase its profitability by investing in riskier projects, but this may come at the expense of liquidity. Similarly, a company can increase its liquidity by investing in safer, liquid assets, but this may come at the expense of profitability (Modigliani & Miller, 1958).

Working capital management, which involves managing a company's short-term assets and liabilities to ensure that it has enough liquidity to meet its operational needs, is closely linked to the liquidity-profitability trade-off theory. Efficient working capital management can help companies balance the liquidity-profitability trade-off by optimizing the use of short-term assets and liabilities to achieve the highest possible profitability without compromising liquidity.

For example, a company may choose to reduce its inventory levels to improve liquidity, but this could lead to lost sales and lower profitability. On the other hand, a company may choose to increase its inventory levels to boost sales, but this could tie up cash and reduce liquidity. Effective working capital management can help companies strike a balance between liquidity and profitability by optimizing inventory levels to meet customer demand without overstocking or understocking.

Similarly, effective accounts receivable management can help companies optimize credit terms to maximize sales while minimizing the impact on liquidity and profitability. A company may offer longer credit terms to customers to increase sales, but this could lead to slower cash flows and reduced liquidity. Alternatively, a company may offer shorter credit terms to customers to improve liquidity, but this could lead to lost sales and lower profitability.

In summary, the liquidity-profitability trade-off theory by Modigliani and Miller (1958) is closely linked to working capital management. Effective working capital management can help companies balance the liquidity-profitability trade-off by optimizing the use of short-term assets and liabilities to achieve the highest possible profitability without compromising liquidity.

2.2 CONCEPTUAL REVIEW

This study was guided by the concepts of working capital management, service quality, and financial performance.

2.2.1 FINANCIAL PERFORMANCE

The term performance refers to the act of performing, execution, accomplishment, fulfilment of a given task measured against pre-set standards of accuracy, completeness, cost, and speed (Dalayeen & Dalayeen, 2017). Performance indicates how the management of an enterprise has been accomplishing the goals, which they had set for the enterprise. Performance is a measure of the degree to which an organization fulfils its purpose and the purpose is to achieve its objectives, and thus, financial is the evaluation and interpretation of a firm’s financial positions and operations and involves a comparison and interpretation of accounting data (Dalayeen & Dalayeen, 2017). Similarly, according to Eshna (2022), financial performance refers to the process of measuring the results of a firm's policies and operations in monetary terms. In this

study, financial performance was looked at as a measure of firm's overall financial health over a given period and was measured in terms of liquidity and profitability.

2.2.2 WORKING CAPITAL MANAGEMENT

Working capital management is an essential aspect of financial management that involves managing short-term assets and liabilities to ensure that a company can operate efficiently and meet its financial obligations. There are two main aspects of working capital management: qualitative and quantitative.

Qualitative aspects of working capital management involve managing the non-financial aspects of a company's operations that affect its working capital, such as inventory management, credit policies, and supply chain management. These qualitative factors can have a significant impact on a company's cash flow and overall financial health. Effective working capital management requires companies to strike a balance between maintaining sufficient liquidity and maximizing profits (Smith, 1937).

Quantitative aspects of working capital management involve the analysis and management of financial data related to a company's working capital, such as cash flow statements, balance sheets, and income statements. Quantitative analysis can help companies identify inefficiencies in their working capital management and develop strategies to improve cash flow and profitability (Smith, 1937).

According to a study by Deloitte, effective working capital management can significantly improve a company's financial performance, with top-performing companies generating up to 2.5 times the cash flow of their peers through optimized working capital management (Deloitte, 2019). However, the study also found that many companies struggle with working capital

management, with average cash conversion cycles of 43.2 days, indicating significant room for improvement (Deloitte, 2019).

Several researchers conceptualise working capital differently. According to (Ahmad, Bashir, & Waqas, 2022), the working capital measurement includes working capital investment policy, working capital financing policy, cash conversion cycle, and net working capital. On the other hand, according to (Mohamud, 2018), working capital management can be conceptualised in terms of Cash management, receivables management, inventory management, and payables management were taken as the constructs of working capital management. For purposes of this study, working capital management was conceptualised in terms of inventory, accounts receivable, Cash management and accounts payable.

In conclusion, working capital management is a critical aspect of financial management, and both qualitative and quantitative factors must be considered to effectively manage a company's short-term assets and liabilities.

2.2.3 SERVICE QUALITY

Service quality plays a critical role in the success and competitiveness of commercial banks. It is essential for banks to understand and meet customer expectations to achieve customer satisfaction and loyalty. There are different definitions for service quality but for this study, service quality was defined as the difference between customer expectations for the performance of provided service and the assessment of the actual service (Ahmad et al., 2022).

Several dimensions have been identified in the literature to conceptualize service quality in the commercial banking sector. These dimensions include responsiveness of employees, reliability of services, accessibility of company premises, empathy of employees, reputation of the firm, and competence of staff (Parasuraman et al., 1988). For example, Gronroos (1984) measured

service quality dimensions based on functional quality and technical quality, while Parasuraman et al. (1985) identified ten dimensions that formed the basis of customer evaluation of service quality(Salome, 2022).

Parasuraman et al. (1988) conducted empirical studies in several industry sectors to develop and refine service quality dimensions and quantify customers' global (as opposed to transaction-specific) assessment of a company's service quality. Based on scale enhancement, the initial ten dimensions were condensed to five dimensions of tangibles, reliability, responsiveness, assurance, and empathy, usually referred to as SERVQUAL. In this study service quality was conceptualised in terms of responsiveness of employees, reliability of services, accessibility of company premises, empathy of employees, reputation of the firm and competence of staff. This definition acknowledges the subjective nature of service quality and highlights the importance of meeting or exceeding customer expectations.

Responsiveness of employees refers to the promptness, helpfulness, and willingness of service staff to address customer inquiries, requests, and concerns (Parasuraman et al., 1988). Studies have shown that responsive employees positively influence customer satisfaction and perception of service quality (Salome, 2022).

Reliability of services encompasses the consistency and dependability of service delivery, including the accuracy and timeliness of transactions (Parasuraman et al., 1988). Research has indicated that reliable services contribute to customer satisfaction and trust in the bank (Caruana, 2002). On the other hand, accessibility of company premises focuses on the physical accessibility and convenience of the service location, such as proximity, parking facilities, and accommodations for customers with special needs (Parasuraman et al., 1988). Studies have

highlighted the importance of convenient accessibility in enhancing customer satisfaction and perceived service quality (Salome, 2022).

Empathy of employees refers to the ability of service providers to understand and address the emotional and personal needs of customers (Parasuraman et al., 1988). Empathetic interactions have been found to positively affect customer satisfaction and perception of service quality (Beaumont et al., 2012). On the other hand, reputation of the firm involves the overall perception and reputation of the bank in the market, including its image and brand reputation (Parasuraman et al., 1988). Research has shown that a positive reputation contributes to customer satisfaction and perception of high service quality (Mamun et al., 2016).

Lastly, the Competence of bank staff relates to the knowledge, expertise, and skill level of service personnel in performing their tasks effectively (Parasuraman et al., 1988). Studies have found that competent staff positively influence customer satisfaction and perception of service quality (Titko & Lace, 2012).

2.3 EMPIRICAL LITERATURE REVIEW

This section covers a review of literature as per the specific objectives of the study. In this section, therefore, we look at the relationship between WCM and financial performance, service quality and financial performance, as well as the combined effect of WCM and service quality on financial performance.

2.3.1 WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE

Mohamud (2018) conducted a study aimed at investigating the effects of working capital management on the financial performance of small medium enterprises (SME‘s) in Kampala Central Division with a view to establishing a model directed at improving SMEs ‘performance. The dependent variable of the study was profitability measured with ROA and ROE which is

used as a proxy for financial performance. Cash management, receivables management, inventory management, and payables management were taken as the constructs of working capital management. The results from the working capital management components revealed that cash management, receivables management and inventory management had a significant positive relationship with financial performance, while payables management had non-significant negative relationship with financial performance.

In a related study, Mandipa & Sibindi (2022) examined the relationship between the financial performance and working capital management practices of South African retail firms listed on the Johannesburg Stock Exchange. The study sample comprised a panel of 16 South African retail firms for the period 2010–2019, and a fixed-effects estimator was employed in the analysis. It was concluded that working capital management practices influenced the financial performance of the South African retail firms. Whereas working capital management was conceptualised in terms of average age of inventory, average collection cycle, and average payment period, the proposed study was conceptualised working capital management in terms of accounts payable, accounts receivable, and inventory management. More so, the proposed study was conducted in Somalia, unlike the study by (Mandipa & Sibindi, 2022) which was carried out in South Africa.

The above study was also in agreement with Ragen (2017), who also examined the relationship between working capital management and the financial performance of manufacturing firms in Nairobi Kenya. The study found that there exist a negative relationship between average collection period and the firms' performance among the manufacturing firms in Nairobi County. However, the study found a positive relationship between average payment period and return on assets. There also exists a positive relationship between inventory turnover period and return on

assets. The study concludes that working capital management is a very important component of financial performance because it directly affects the liquidity and profitability of the companies. Also, unlike this study by (RAGEN, 2017) which was conducted in Kenya, the proposed study was conducted in Somalia in a bid to close down that geographical literature gap.

Another study conducted by Lazaridis and Tryfonidis (2006) examined the impact of working capital management on the profitability of Greek firms. The study used a sample of 146 Greek manufacturing firms over a period of five years. The results indicated that efficient working capital management positively influenced firm profitability. Specifically, the study found that shorter cash conversion cycles, lower inventory holding periods, and shorter accounts receivable collection periods were associated with higher profitability.

In another study, Song and Luo (2021) investigated the relationship between working capital management and financial performance in the Chinese context. The study focused on listed manufacturing companies in China and analyzed their financial data over a six-year period. The findings revealed that effective management of working capital, as measured by shorter cash conversion cycles and efficient inventory management positively impacted firm profitability. The study emphasized the importance of maintaining an optimal level of working capital to enhance financial performance.

These studies contribute to the existing body of knowledge by highlighting the significance of working capital management in relation to financial performance. They provide valuable insights into the specific components of working capital management and their impact on firm profitability, emphasizing the need for efficient management practices. By considering the findings of these studies and conducting a study in the Somali context, a comprehensive

understanding of the relationship between working capital management and the financial performance of commercial banks in Somalia can be obtained.

2.3.2 SERVICE QUALITY AND FINANCIAL PERFORMANCE

Odeny (2018)conducted a study to determine the influence of service quality on performance of Barclays Bank of Kenya limited. The study adopted a case study design and data was collected from a purposive sample of 10 managers involved in service delivery. The data were analysed using content analysis and the study concluded that the dimensions of service quality considered most important by customers were Reliability and Responsiveness. Finally, the study concluded that the service quality has a significant influence on the performance of Barclays Bank and makes an important contribution to profitability of the Bank.

Furthermore, Dahabo Research Centre (2022) conducted a study aimed at examining the effect of service quality on the financial performance of the commercial banks in Mogadishu, Somalia. The was guided by the following objectives: To find out the effects of service reliability on financial performance of the commercial bank in Mogadishu, Somalia; To establish the effects of Service responsiveness on financial performance of the commercial bank in Mogadishu, Somalia; and to determine the effects of empathy on the financial performance of the commercial bank in Mogadishu. Interview guides were used to collect data from a purposive sample of 8 bank employees from selected banks in Mogadishu and analysis was done in SPSS version 16. Multiple regression analysis results revealed that service reliability, service responsiveness, and empathy significantly affect the financial performance of commercial banks in Mogadishu, Somalia. Unlike this study that employed only interview method of data collection, the proposed study was employ both survey and interview methods of data collection.

On the contrary, a study by (SIDOW, 2017) found that there is no significant relationship between service quality and financial performance. The study by (SIDOW, 2017) was aimed at establishing the effect of service quality on performance of Banks in Somalia and his study employed a descriptive correlational study. Regression analysis was conducted in SPSS and it was revealed that while there is a positive correlation between service quality and financial performance of Banks, the relationship between the two variables was not significant. These results present inconsistent findings and thus the need for this study.

2.3.3 WORKING CAPITAL MANAGEMENT, SERVICE QUALITY, AND FINANCIAL PERFORMANCE.

The significance of working capital management and service quality on improving the financial performance of firms have been studied by many scholars (AL-Zararee, Almasria, & Alawaqleh, 2021; Farah & Farah, 2021; Hwang, Han, Jun, & Jinwoo, 2014; Kizito, 2018; Nor & Rage, 2019).

As seen in the existing pieces of literature, a number of scholars have studied independently how working capital management and service quality are related with financial performance, and it has been observed that a significant position relationship exists between these variables. For instance, Mohamud (2018)cash management, receivables management and inventory management had a significant positive relationship with financial performance, while payables management had non-significant negative relationship with financial performance.

Additionally, Dahabo Research Centre (2022) conducted a study aimed at examining the effect of service quality on the financial performance of the commercial banks in Mogadishu, Somalia and found out that that service reliability, service responsiveness, and empathy significantly affect the financial performance of commercial banks in Mogadishu, Somalia. Odeny (2018) also

conducted a study to determine the influence of service quality on performance of Barclays Bank of Kenya limited and found that service quality has a significant influence on the performance of the bank.

Even though it seems that no studies have been conducted about the combined effect of working capital management, and service quality on financial performance, the reviewed literature shows that there is a significant positive effect.

2.4 CONCLUSIONS FROM LITERATURE REVIEW

This section covers the literature related to how service quality and working capital management are related with financial performance. As seen in the existing pieces of literature, a number of scholars have studied independently how working capital management and service quality are related with financial performance, and it was revealed that both working capital management and service quality were significantly related with financial performance. However, most of these studies were conducted in other countries, not Somalia.

Even though both working capital management and service quality on financial performance were found to independently have a significant positive effect on financial performance, none of the reviewed studies looked at the combined effect of these variables on financial performance. Still, there are inconsistent results regarding the studies on the relationship between working capital management, service quality, and financial performance.

It is based on these gaps in literature that the researcher was motivated to examine the relationship between working capital management and service quality on the financial performance of commercial banks in Somalia.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This section presents the methods that was used in this study such as the research design, study population, sample size and selection, sampling techniques and procedure, data collection instruments, data quality control (validity and reliability), the procedure of data collection, data analysis and measurement of research variables.

3.1 RESEARCH DESIGN

Orodho (2003) defines a research design as the scheme, outline or plan that is used to generate answers to the research problems. This study used a cross-sectional survey research design, using descriptive and analytical methods emphasising a quantitative research approach. This will help provide data regarding working capital management, service quality, and the financial performance of commercial banks in Somalia.

3.2 STUDY POPULATION

The study was conducted on 40 commercial banks in Somalia(Central Bank of Somalia, 2021). The unit of analysis was the commercial banks and the units of inquiry was the bank managers, accountants, and creditofficer. This is because these selected persons are well conversant with the financial performance of commercial banks in Somalia.

3.3 DETERMINATION OF SAMPLE SIZE

Sampling is the procedure a researcher uses to gather people, places or things to study. It is the process of selecting a number of individuals or objects from the population such that the selected group contains elements representative of the characteristics found in the entire group (Orodho,

2003). A sample size of 36commercial banks(Krejcie& Morgan, 1978)was selected. Three units of inquiry comprising of one bank manager, one accountant, and one credit officer was selected from each of the 36 commercial banks, bringing the total sample size to 108 respondents.

3.4 SAMPLING TECHNIQUES AND PROCEDURES

The proposed study was employed both probability and non-probability sampling techniques.

3.4.1 RANDOM SAMPLING

According to Hamed (2016), probability sampling is a sampling technique where every member of the population has a chance of being part of the sample. In this study, the researcher was employed simple random sampling to select the 36 commercial banks for this study.

3.4.2 PURPOSIVE SAMPLING

The proposed study was also employed purposive sampling technique in data collection. Purposive sampling, is a sampling procedure in which particular settings persons or events are selected deliberately in order to provide important information that cannot be obtained from other choices(Hamed, 2016). The commercial bank managers, accountants, and credit officer were selected purposively because they are conceived to be more knowledgeable about the topic under investigation.

3.5 SOURCES OF DATA

The data was collected from the commercial banks in Somalia as the primary source of data. Primary data were obtained from respondents using self-administered questionnaires.

3.6 DATA COLLECTION METHODS

This includes the specific techniques to be used in the collection of data. For the purpose of this study, data shall be collected using self-administered survey.

3.6.1 SURVEY

The selection of the survey method was guided by the nature of data to be collected, the time available and the objectives of the study (Kothari, 2004).This method were used to collect data from the 36 commercial banks. One of the reasons why this method was preferred is because of its ability to collect large volumes of data in a short time.

Closed-ended self-administered questionnaires were used to increase the degree of reliability of the study. The questionnaires were developed using a six-point Likert scale to ease respondents' effort in responding to questions ranging from Strongly Agree (SA), Agree (A), Slightly Agree (SA), Disagree (D), Slightly Disagree (SD), and Strongly Disagree (SD) (Mugenda & Mugenda, 2003). A questionnaire was economical in terms of time and was easy to fill by the respondents. The items in the questionnaire focused on the research objectives and the research questions.

3.7 VALIDITY AND RELIABILITY OF THE INSTRUMENTS

The validity of the study was concerned with the extent to which the data collection instruments accurately measure what they intend to (Amin 2005). In this study, content validity index (CVI) and expert judgment were both used. After the questionnaire was written, academic supervisors were given access to it so they could comment on the suitability and clarity of the items it contained. The research instrument was given to 13 research supervisors in MUBS who were selected purposively by the researcher. These supervisors were requested to indicate which items were relevant and not relevant. While computing CVI, only responses that are relevant were considered. Content validity was computed as the responses for relevant items were added and divided by the total number of items. According to Creswell (2014), a CVI of 0.7 and above is considered valid.

Cronbach Alpha coefficient was used to determine Reliability of the instrument. According to George and Mallery (2003), if the reliability result is above 0.9 it is excellent, if it is above 0.8 it is good and if it is above 0.7 it is acceptable. These were presented in the Table 3.3.

Table 3.1 Validity and Reliability Result

Variables	Cronbach Alpha Coefficient	Content Validity Index	Number of Items
Working Capital Management	.752	.80	19
Service Quality	.795	.82	28
Financial Performance	.784	.73	8

Source: **Primary Data**

The results in Table 3.1 above indicate that the data collection instrument was both valid and reliable, generating content validity index and Cronbach Alpha coefficient values above 0.70 respectively. This implies that the instrument was delivering accurate and consistent results even when subjected several times to the field, hence valid and reliable.

3.8 PROCEDURES OF DATA COLLECTION

Following the approval of the research proposal, the researcher was obtained an introduction letter from the University.The researcher was seeked approval or clearance from the administration of the different commercial banks to ensure that the ethical guidelines are followed throughout the data collection process. After pilot testing and ascertaining the reliability of the instruments, the researcher was administering the instruments in the area of study.

3.9 DATA ANALYSIS

Quantitative data was cleaned and coded according to the research objectives. The process of cleaning data was done to eliminate any errors and help improve the reliability of the data. The data was entered into Microsoft excel and later exported to SPSS software (Version 26) for analysis.As well, data were tested for factor analysis in order; (1) to understand the structure of a set of variables (2) to construct a questionnaire to measure an underlying variable and (3) to reduce a data set to a more manageable size while retaining as much of the original information as possible (Field, 2013).

The researcher was presented quantitative data as descriptive statistics using frequencies, percentages, mean and standard deviations from each of the study variables. “Strongly agree” and “agree” responses were joined to mean “agree” whereas “strongly disagree” and “disagree” were also be combined to indicate “disagree. Pearson’s correlation coefficient and regression coefficients were calculated and used to test the association and relationship among working capital management, service quality and financial performance of commercial banks, respectively.

3.10 MEASUREMENT OF VARIABLES

The proposed study was having working capital management and service quality as the independent variables. Service quality were conceptualised in terms of Responsiveness of employee to the bank, Reliability of the bank’s services, Accessibility of company premises, Empathy of employees towards the bank, Reputation of the bank, and Competence of bank’s staff (Salome, 2022). Working capital management was looked at in terms of accounts payable, accounts receivable, and cash management(Mandipa & Sibindi, 2022). The respondents were presented with various statements relating to the study variables and then asked to rank their

agreement levels on a 6-point Likert scale ranging from strongly agree to strongly disagree. The responses for each of the independent variables were used to compute continuous variables called service quality and working capital management. Financial performance was looked at in terms of profitability and liquidity(Eshna, 2022).

3.11 ETHICAL CONSIDERATIONS

Respondents was briefed about the objectives and significance of the study findings and was assured of confidentiality on their responses and were informed of the crucial role of this study(Bhandari, 2021). The data that was generated from the study was presented in general terms and no specific names of respondents was mentioned anywhere in the report(Bhandari, 2021).

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATIONOF FINDINGS

4.0 Introduction

This chapter presents the findings in relation to the research objectives and data collected from the field was processed and analysed using quantitative method. The approaches used in analysis provided more clarification on explanations on quantitative data. The attained information was summarized to show the responses of the respondents. All these findings were interpreted and presented, through re-examining research objectives.

4.1 Response Rate

The sample targeted 36 commercial banks in Somalia from which 108 employees were selected departments of the commercial banks, but due to some factors of inaccessible respondents, uncooperative respondents, misplacement of questionnaires and incomplete answered questionnaires; the researcher managed to retrieve only 96 questionnaires, with a response rate of 88.9% response as illustrated below

Table 4.1 Response Rate

Respondents	**Sample Size**	**Retrieved**	**Percentage response rate**
Number (n)	108	96	88.9%

Source: Field Survey, July 2023

Findings in Table 4.1, show that the researcher received a response from 88.9% of the sampled population. In other words, nearly 89% of the individuals approached for the study completed and returned their questionnaires, indicating a relatively high level of participation and engagement in your research. A high response rate is generally seen as a positive aspect of a

research study, as it suggests that your sample is more likely to be representative of the larger population and that the data collected is more robust (Amin, 2005).

4.2 Findings on the demographic characteristics of the respondents

Table 4.2 Demographic Analysis of Respondents

Gender	**Description**	**Count**	**Percentage**
	Male	70	72.9
	Female	26	27.1
	Total	**96.00**	**100.00%**
Educational level	Master Degree	30	31.3
	Bachelor Degree	40	41.7
	Diploma	16	16.7
	PHD	10	10.4
	Total	**96.00**	**100.00%**
Marital status	Married	30	31.3
	Single	50	52.1
	Divorced	13	13.5
	Separated or widowed	3	3.1
	Total	**96.00**	**100.00%**

Source: primary data 2023

The findings in Table 4.2 indicate that the majority of respondents in the study are male, comprising 72.9% of the sample. This gender distribution suggests that a significant portion of the participants are male, and their perspectives and responses played a crucial role in understanding how working capital management, service quality, and financial performance are perceived and affected within the commercial banking sector in Somalia. Female respondents made up 27.1% of the sample. While they were a smaller proportion, their input was still valuable as it represented the perspectives of women in the context of the study.

About 31.3% of the respondents had a Master's degree. This indicated that a substantial portion of the participants possessed advanced education, which might have influenced their ability to comprehend and provide insights into the complex topics of working capital management and financial performance. The largest educational group in the study consisted of respondents with Bachelor's degrees, accounting for 41.7% of the sample. Their input was significant as they represented a broad educational background, which was relevant for understanding how individuals with diverse academic backgrounds perceive these banking-related topics. 16.7% of the participants held diplomas. This group's perspectives may be shaped by their practical training and experiences and round 10.4% of the respondents had PhD degrees. Their advanced education provided deep insights into the topics under investigation.

The study included 31.3% of married respondents. Their marital status influenced their financial decisions and perceptions of financial performance, making their perspectives important in the analysis. A significant proportion, 52.1%, of respondents are single. Their financial attitudes and decisions differed from those who were married, making their responses valuable in understanding the dynamics of the commercial banking sector. 13.5% of the participants were divorced. Their experiences with financial matters and investments were distinct due to their marital history. A smaller group, 3.1%, comprised respondents who were separated or widowed. Their unique circumstances had an impact on their perceptions and interactions with commercial banks.

4.3 Background characteristics of commercial banks in Somalia

Table 4.3 Background characteristics of commercial banks in Somalia

Characteristics	Category	Count	Percentage %
Years of bank operations	<5	4	11
	6-10	18	50
	11-15	8	22
	16 and above	6	17
		36	**100**
No of employees	1-5	Nil	-Nil
	6-10	4	11
	11-15	6	17
	16 -20	11	30
	21 and above	15	42
		36	**100**
Core business speciality	Saving and credit	22	61
	Agricultural marketing	10	28
	Both saving &Agricultural	4	11
		36	**100**

Source: primary data 2023

From the Table 4.3, it was found that 4commercial banks (11%) had been in operation for less than 5 years. This indicates that a relatively small percentage of banks in the study had a relatively short history of operations in the Somali banking sector. A majority of the commercial

banks, 18 banks (50%), fell into the 6-10 years category. These banks represented a significant portion of the study's sample and had established a moderate tenure in the banking sector. 8 commercial banks (22%) had been operating for 11-15 years. This group represented a notable but smaller proportion of the banks, suggesting a moderate to longer history of operations. 16 years and above: 6 commercial banks (17%) had been in operation for 16 years or more. This category comprised a relatively smaller percentage of banks but included those with the longest-standing history within the Somali banking sector.

None of the commercial banks had between 1-5 employees. This category had no representation in the study. 4 banks (11%) had between 6-10 employees, indicating a modest workforce size. 6 banks (17%) had 11-15 employees, signifying a slightly larger workforce compared to the previous category The largest proportion of banks, 11 banks (30%), had between 16-20 employees. This group constituted a significant portion of the sample and represented banks with a substantial workforce. Finally, 15 banks (42%) had 21 or more employees, indicating a substantial number of banks with larger staff sizes.

A majority of the commercial banks, 22 banks (61%), specialized in saving and credit services as their core business. This suggests that a significant portion of banks in Somalia focused on providing financial services related to saving and credit. 10 banks (28%) specialized in agricultural marketing, indicating a smaller but notable segment of banks with a specific focus on the agricultural sector. 4 banks (11%) offered both saving and agricultural services as their core business. This category represented banks with a dual focus on financial and agricultural services.

4.4 Factor analysis

The analysis was carried out for both Working capital management and the financial performance of commercial banks measures to ascertain the weight of the factors in relation to the study variables they measure. As guided by Gie and Pearce (2013), factor analysis was used in this study to explain correlations among different variables as a result of one or more underlying factors (Working capital management). The technique involved classifying variables and the use of data reduction to extract factors that explained a bigger variation to the outcomes of the dependent variable (financial performance).

4.4.1 Factor analysis for Working capital management

The study constructs of Working capital management in the conceptual framework were analysed using factor analysis to establish their relative weights. The extraction method used was the rotated component factor analysis and the rotation method was varimax with Kaiser Normalization. All statements for the variables with weights of 0.5 or less were excluded from the analysis in line with Fabrigar, Wegener, MacCallum and Strahan (2009) who suggested that factor loadings lesser than 0.5 do not cause much variance in the observed variable and hence should be eliminated from the analysis. A summary of the results is indicated in Table 4.4 on the following pages. A summary of the results are indicated in Table 4.4.

Table 4.4 Showing Rotated component matrix for Working capital management

Statements	**WC1**	**WC2**	**WC3**
In our bank, all cash payments are properly documented	.849		
In our bank all bank accounts are reconciled regularly (daily, weekly or monthly)	.825		
There are adequate cash reserves to pay off short term debts on a timely basis	.808		
In our bank, there are policies on how cash is handled	.783		
In our bank, there is documented evidence for all cash transactions	.808		
Our bank offers required loans to customers		.796	
In our bank, there is a maximum period for which credit customers should pay their loans		.784	
There is an efficient debtors' management system in our bank		.762	
In our bank, background checks are made before credit is issued to a customer		.761	
Our bank has accurate cash flow analysis and forecasting for accounts receivable		.692	
Proper management of accounts receivable improves financial performance.		.784	

Our bank has timely cash flow analysis and forecasting for accounts receivable		.762	
Our bank uses popular accounts payable software in managing its suppliers			.814
Our bank records all accounts payable transactions for its suppliers			.793
In our bank, there are policies on how accounts payables are managed			.775
Our bank has proper procedures in managing its suppliers			.640
In our bank normally investigates its supplier's issues as needed			.616
Our bank builds relationships with its suppliers			.793
Our bank makes timely payments to its suppliers			.775

Source: Primary Data 2023

In Table 4.4, all cash payments are properly documented has a very high positive loading value of .849 on Cash Management. This indicates that this statement strongly relates to the Cash Management component. In other words, proper documentation of cash payments is a critical aspect of cash management. All bank accounts are reconciled regularly (daily, weekly or monthly) also has a high positive loading value of .825 on Cash Management. This statement emphasizes the importance of regular bank account reconciliation in cash management. There are adequate cash reserves to pay off short-term debts on a timely basis and there are policies on how cash is handled" both have positive loading values (above .7) on Cash Management, indicating that they are related to cash management practices. There is documented evidence for

all cash transactions also has a high positive loading value on Cash Management, reinforcing the idea that proper documentation is essential in cash management.

The banks offer required loans to customers has a high positive loading value of .796 on Accounts Receivable Management. This suggests a strong association between offering loans to customers and the Accounts Receivable Management component. There is a maximum period for which credit customers should pay their loans and proper management of accounts receivable improves financial performance both have positive loading values (above .7) on Accounts Receivable Management, indicating their relevance to accounts receivable management.

The banks use popular accounts payable software in managing its suppliers and the banks record all accounts payable transactions for its suppliers both have very high positive loading values (above .8) on Accounts Payable Management. This suggests a strong connection between these statements and the Accounts Payable Management component. There are policies on how accounts payables are managed and the banks make timely payments to its suppliers also have positive loading values (above .7) on Accounts Payable Management, highlighting their relevance to accounts payable management. The banks have proper procedures in managing its suppliers and in our bank normally investigates its supplier’s issues as needed" have moderate loading values on Accounts Payable Management (.640 and .616, respectively), indicating a less strong but still relevant association with accounts payable management.

These findings from the rotated component matrix reveal how different statements relate to specific components of working capital management within commercial banks in Somalia. Each component represents a distinct aspect of financial operations, and these relationships can help banks understand the importance of various practices in managing their working capital effectively.

4.4.2 Service Quality

The following are the findings on service quality

Table 4.5 Findings on service quality

Statement	**SQ1**	**SQ2**	**SQ3**	**SQ4**	**SQ5**	**SQ6**
Reliability of services	.781					
Our staff are consistent and dependable in the performance of their duties	.821					
Personnel are qualified and fluent	.623					
We aim to find answers through customers responses	.785					
We keep customers informed about when services will be provided	.852					
We are dependable in handling customers' service complaints and queries	.812					
We always keep customer information confidential	.791					
We are always willing to help customers and provide quick service		.823				
Management is easily accessible by its customers		.832				
We respond to queries of clients especially getting		.879				

back to email and phone inquiries						
We provide customers adequate personal attention		.793				
We provide prompt response when customers face challenges.		.801				
The bank has several branches through the country.			.852			
Customers can access their funds at any time.			.812			
Customers are always free to visit the bank during working hours.			.791			
There is enough security making the bank safe to access.			.823			
ATM points are accessible at any time of the day			.832			
The bank provides caring, individualized attention to customers				.823		
Customers can easily contact the bank both online and offline at anytime				.832		
We have customers' best interest at heart				.879		
We provide services to customers at their own convenient time				.793		
The bank has a strong anti-money laundering					.623	

policy						
The bank rarely receives customer complaints about our service quality					.785	
We have a strong relationship with our customers					.852	
We have a good record with the banking regulator					.812	
Our staff have formal training in their specific area speciality						.852
Our staff receive regular onsite hands-on experience training						.812
The bank has a thorough recruitment policy						.791
All staff have the minimum academic requirements required for their respective jobs						.823

Source: Primary Data 2023

From the findings in Table 4.5 show that the staff of banks are consistent and dependable in the performance of their duties which has a very high positive loading value of .821 on SQ1. This indicates that this statement strongly relates to the Reliability of Services component. In other words, staff consistency and dependability are key factors in ensuring the reliability of services provided by the bank. The banks aim to find answers through customers' responses and they always keep customer information confidential both have high positive loading values (above .7) on SQ1, indicating their relevance to the reliability of services.

The banks are always willing to help customers and provide quick service" has a very high positive loading value of .823 on SQ2. This statement strongly relates to the Responsiveness of Employees, emphasizing the importance of quick and helpful customer service. Banks' managements are easily accessible by its customers and they respond to queries of clients especially getting back to email and phone inquiries both have very high positive loading values (above .8) on SQ2, suggesting their strong connection to responsiveness.

The banks have several branches throughout the country has a very high positive loading value of .852 on SQ3. This statement strongly relates to the accessibility of bank premises, indicating that the presence of multiple branches enhances accessibility. Customers can access their funds at any time and customers are always free to visit the bank during working hours both have high positive loading values (above .7) on SQ3, underlining their relevance to accessibility.

The banks provide caring, individualized attention to customers has a very high positive loading value of .823 on SQ4. This statement strongly relates to the empathy of the employees, emphasizing the importance of personalized and caring service. Customers can easily contact the bank both online and offline at any time and banks have customers' best interest at heart both have very high positive loading values (above .8) on SQ4, indicating their strong association with empathy.

The banks rarely receive customer complaints about our service quality has a high positive loading value of .785 on SQ5. This statement relates to the reputation of the bank, suggesting that a good reputation is associated with low customer complaints. We have a strong relationship with our customers and the banks have a good record with the banking regulator both have high positive loading values (above .7) on SQ5, indicating their relevance to the bank's reputation.

The banks' staff have formal training in their specific area specialty has a very high positive loading value of .852 on SQ6. This statement strongly relates to the competence of the employees, highlighting the importance of well-trained staff. The banks' staff receive regular onsite hands-on experience training and all staff have the minimum academic requirements required for their respective jobs" both have high positive loading values (above .7) on SQ6, emphasizing their connection to employee competence.

These findings from the rotated component matrix reveal how different statements relate to specific components of service quality within commercial banks in Somalia. Each component represents a distinct aspect of service quality, and these relationships can help banks understand the importance of various practices in providing high-quality services to their customers.

4.4.3 Factor analysis for financial performance

The study dimensions of financial performance including profitability and liquidity were examined using factor analysis to establish their relative weights. This technique was used to discover the most critical factors that influence the co-variation among multiple observations (Williams, Onsman& Brown, 2016). The extraction method used was the rotated component factor analysis and the rotation method was varimax with Kaiser Normalization, which considers weights of ≤ 0.5 to be suppressed (Hair, Black & Babin et al., 2009). The 0.5 cut off range was used because as Hair et al., (2009) indicated, it helps in identifying a set of factors with a big contribution to the outcome variable (in this case financial performance). See Table 4.6 on the following page for the findings.

Table 4.6 Showing Rotated component matrix for financial performance measures

Statement	FP1	FP2
The bank is able to pay off all its short-term debts as and when they fall due.	.852	
The bank effectively manages its cash flows and liquidity risk.	.812	
The bank maintains an adequate level of liquid assets to handle unexpected cash outflows.	.791	
The bank has established appropriate liquidity management policies and procedures.	.823	
The bank actively monitors and forecasts its liquidity position to ensure stability.	.852	
The revenues have been growing for the last three years		.791
For the past three years, our bank earns above industry average profits		.823
The bank has achieved its most important goals over the last three years.		791

Source: Primary Data 2023

Findings in Table 4.6 shows that the banks are able to pay off all its short-term debts as and when they fall due has a very high positive loading value of .852 on FP1. This indicates that this statement strongly relates to the liquidity component of financial performance. It emphasizes the importance of the bank's ability to meet its short-term obligations promptly. The banks

effectively manage their cash flows and liquidity risk and the banks maintain adequate level of liquid assets to handle unexpected cash outflows both have high positive loading values (above .7) on FP1, suggesting their strong connection to liquidity management. The banks established appropriate liquidity management policies and procedures and the bank actively monitors and forecasts its liquidity position to ensure stability both have very high positive loading values (above .8) on FP1, indicating their strong association with effective liquidity management.

The revenues have been growing for the last three years has a high positive loading value of .791 on FP2. This statement relates to the Profitability component, indicating that revenue growth is associated with financial profitability. For the past three years, the banks earn above industry average profits and the bank has achieved its most important goals over the last three years" both have high positive loading values (above .7) on FP2, emphasizing their relevance to financial profitability.

These findings from the rotated component matrix reveal how different statements relate to specific components of financial performance within commercial banks in Somalia. Each component represents a distinct aspect of financial performance, and these relationships can help banks understand the importance of various practices in maintaining liquidity and achieving profitability.

4.5 Correlation analysis

Table 4.7 Correlation analysis results

		1	2	3
Working capital management	(1)	1.000		
Service quality	(2)	.546**	1.000	
Financial performance	(3)	.642**	.582*	1.000
** Correlation of significant at 0.01 level (2-tailed)				

Source; Primary data, from research findings, 2023

4.5.1 Working capital management and the financial performance

Table 4.7 presents the results of a correlation analysis that examines the association between working capital management and the financial performance of commercial banks in Somalia.

The correlation coefficient of 0.546 suggests a moderately positive association between working capital management and service quality in commercial banks in Somalia. This means that as working capital management practices improve (such as cash management, accounts receivable, and accounts payable), there tends to be a corresponding improvement in the quality of services offered by these banks. Efficient working capital management may positively influence a bank's ability to meet customer demands and provide better service.

The correlation coefficient of 0.642 indicates a strong positive relationship between working capital management and financial performance in Somali commercial banks. This suggests that banks with more effective working capital management practices tend to exhibit better financial performance. Effective working capital management can contribute to improved liquidity,

reduced financial risk, and better profitability, all of which can positively impact financial performance.

4.5.2 Service quality and financial performance among commercial banks

The correlation coefficient of 0.582 signifies a moderately strong positive relationship between service quality and financial performance among commercial banks in Somalia. This implies that banks that excel in providing high-quality services are more likely to experience better financial performance. Enhanced service quality can lead to increased customer satisfaction, loyalty, and potentially higher revenues, which can, in turn, contribute to improved financial outcomes.

4.6 Regression analysis

The researcher used coefficients (beta values) statistical technique to analyse the data which helped to determine the extent to which Working capital management and Service Quality relates financial performance.

Table 4.8 Model Coefficients and Summary

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.218	1.531		2.102	.042
Working Capital management	1.504	.462	.462	3.339	.002
Service Quality	.401	.169	.329	2.378	.023
Dependent variable: Financial Performance					
R	.699				
R Square	.488				
Adjusted R Square	.461				
Std. Error of the Estimate	.398				
R Square Change	.488				
F Statistic	18.132				
Sig.	.000				

Source: Primary Data from research findings

4.6.1 Working Capital Management

The standardized coefficient (Beta) of 0.462 suggests that working capital management has a moderate positive impact on financial performance. The t-statistic (3.339) and p-value (.002) indicate that working capital management is statistically significant at the 0.05 significance level. This means that changes in working capital management have a significant influence on financial performance.

4.6.2 Service Quality

The standardized coefficient (Beta) of 0.329 suggests that service quality has a moderate positive impact on financial performance. The t-statistic (2.378) and p-value (.023) indicate that service quality is statistically significant at the 0.05 significance level. This means that changes in service quality also have a significant influence on financial performance.

4.6.3 Model Summary

The adjusted R-squared value accounts for the number of predictors in the model and is 0.461, indicating that the model has been adjusted for its complexity. The standard error of the estimate is 0.398, representing the average amount by which the observed financial performance values deviate from the predicted values in the model. The F-statistic (18.132) and its associated p-value (.000) suggest that the overall model is statistically significant, indicating that the independent variables collectively contribute significantly to explaining the variation in financial performance.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

4.0 Introduction

This chapter introduces the findings related to the research objectives set out in Chapter four. The data collected from commercial banks in Somalia were processed and analysed using quantitative methods. The analysis aimed to clarify the relationships between various variables and provide insights into the factors influencing financial performance.

5.1 Discussion of findings

The study indicates a strong positive relationship between effective working capital management practices and financial performance in Somali commercial banks. The study reveals a moderately strong positive relationship between high service quality and financial performance. This suggests that commercial banks excelling in service quality tend to experience better financial outcomes. The rotated component matrix results provide insights into the components of working capital management, service quality, and their associations with financial performance. By focusing on improving these components, Somali commercial banks may enhance their predictive power in terms of financial performance.

5.1.1 Working capital management and financial performance of commercial Banks

The findings reveal that effective cash management practices are essential within Somali commercial banks. Statements related to proper documentation of cash payments, regular bank account reconciliation, and maintaining adequate cash reserves are positively associated with Cash Management. This indicates that Somali banks should focus on these aspects to enhance

their cash management and liquidity, which, in turn, can positively influence financial performance.

Effective management of accounts receivable is another critical aspect of working capital management. Statements related to efficient debtors' management, background checks before extending credit, and accurate cash flow analysis and forecasting for accounts receivable are positively associated with Accounts Receivable Management. Somali banks should aim to improve these practices to optimize their accounts receivable and financial performance.

The findings suggest that proper management of accounts payable is associated with efficient supplier management. Statements related to using popular accounts payable software, recording all accounts payable transactions, and having policies on accounts payables management are positively associated with this component. Somali banks should consider these practices to maintain strong relationships with suppliers and enhance efficiency.

The findings agree with what (Mwangi,2013) mentions that an an optimal working capital management is expected to contribute positively to the creation of the firm’s value and what (Olawale,2014) stated that the existence of an efficient and effective working capital management can make a substantial difference between the success and failure of an enterprise.

5.1.2 Service quality and the financial performance of commercial banks

Reliability of services (SQ1): This component reflects the importance of consistent and dependable staff performance. It's associated with customer satisfaction and reliability in service delivery.

Responsiveness indicates the willingness of bank employees to provide quick and efficient services. It's vital for customer satisfaction. Accessibility and security are crucial for ensuring

that customers can access banking services safely and conveniently. Empathy represents the bank's commitment to understanding and addressing customer needs, which is linked to customer loyalty. A positive reputation indicates trustworthiness and reliability, factors that attract and retain customers. Competent staff is essential for providing quality services and maintaining customer trust.

The findings indicate that all these components are vital for ensuring high service quality within Somali commercial banks. Banks that excel in these areas are likely to experience increased customer satisfaction, loyalty, and potentially higher revenues, contributing to improved financial performance. These observation further justify what Abdullah et al (2006) stated that the provision of good service quality is commonly associated with increased profitability, customer satisfaction, customer loyalty, customer retention, customer attraction and positive word of mouth.

5.1.3 Working capital management, Service quality andfinancial performance of commercial banks

Liquidity management is critical for financial stability. Effective cash flow management, maintaining adequate liquid assets, and having established policies and procedures are positively associated with Liquidity. Somali banks should prioritize these practices to meet short-term obligations and maintain financial stability. Profitability components highlight the importance of revenue growth and above-average profits for financial performance. Somali banks that experience revenue growth and earn above-industry-average profits tend to exhibit stronger financial performance. Revenue generation and profit optimization strategies are essential for financial success.

Overall, these findings emphasize the interconnectedness of working capital management, service quality, and financial performance within Somali commercial banks. Effective working capital management practices can positively influence liquidity and profitability, while excellent service quality can enhance customer satisfaction and revenue generation. Somali banks can benefit from focusing on these key areas to improve their overall financial performance and competitiveness in the market.

5.2 Conclusions

In the pursuit of understanding the intricate dynamics between working capital management, service quality, and financial performance within commercial banks operating in Somalia, this research has yielded valuable insights.

This research has successfully achieved its objectives by providing valuable insights into the relationships between working capital management, service quality, and financial performance in Somali commercial banks. The findings emphasize the importance of efficient working capital management and the delivery of high-quality services in enhancing the financial well-being of these banks. As Somali commercial banks continue to grow and evolve, these insights can guide strategic decisions aimed at optimizing financial performance and ensuring sustainable success in a dynamic banking environment. This research aimed to address three primary objectives:

The study has provided valuable insights into the relationship between working capital management and financial performance in Somali commercial banks. The findings indicate a strong positive relationship between effective working capital management practices and better financial performance. Somali banks that excel in managing their working capital components, including cash management, accounts receivable, and accounts payable, tend to exhibit improved

financial performance. This underscores the importance of efficient working capital management in enhancing the financial health of commercial banks in Somalia.

The research findings have shed light on the relationship between service quality and financial performance in Somali commercial banks. The study reveals a moderately strong positive relationship between high service quality and improved financial performance. Commercial banks in Somalia that prioritize and excel in delivering reliable, responsive, accessible, empathetic, and competent services to their customers are more likely to experience better financial outcomes. This highlights the significance of service quality as a contributing factor to financial success in the banking sector.

As well, the study explained a favorable predictive power, implying that both working capital management and service quality have a significant influence on the financial performance of Somali commercial banks. By improving these key components of their operations, banks in Somalia can enhance their ability to predict and achieve better financial results in the future. Effective working capital management and high service quality can serve as valuable indicators and predictors of financial success in the banking industry.

5.3 Recommendations

The following are the recommendations of the study based on the findings and achievement of the research findings

Working capital management must be streamlined in the bank settings as it has a significant impact on financial performance. For example, prober debtor management leads through good debt collection would improve the liquidity position of banks.

Strengthen Working Capital Management Practices. Commercial banks in Somalia should prioritize the enhancement of working capital management practices. This includes efficient management of accounts receivable, optimizing cash flows, and prudent accounts payable management. Regular reviews of these practices can ensure that the bank's liquidity position is well-maintained, contributing to improved financial performance.

Invest in Service Quality Enhancement. Banks should place emphasis on consistently delivering high-quality services to customers. This includes improving responsiveness, accessibility, and reliability of services. Staff training and qualifications should be aligned with the goal of offering superior service experiences to customers. Addressing customer complaints promptly and effectively can contribute to improved service quality.

Commercial banks must make an effort to improve all aspects of service quality as they influence significantly their financial performance. This is because poor service quality leads to lesser repeat business from existing customers and also will lead to fewer referrals and ratings from customers.

5.6 Suggestions for Further Research

Investigate how these external factors interact with working capital management and service quality to shape banks' profitability and stability.

Investigate how customer preferences for different banking services, channels, and experiences influence banks' financial performance. This could provide insights into tailoring service offerings to meet customer demands effectively.

Analyse how compliance with regulatory requirements affects working capital management, service quality, and overall financial stability.

Investigate the impact of technological innovations, such as digital banking platforms, mobile banking apps, and fintech partnerships, on working capital management and financial performance. Analyse how digital transformation strategies can enhance operational efficiency and customer engagement.

5.7 Limitations of The Study

First and foremost, this study was cross-sectional in nature implying that the research design chosen limits the study's potential to infer causation.

The researcher faced bureaucracy during data collection in some commercial banks. This consumed up more time due to delays in approving the data collection exercise. However, the researcher got an introduction letter explaining that the data needed was for academic research purposes and had no other motives. The researcher also made up more follow ups to minimize time overruns in the research process.

The researcher preferred to use a quantitative approach, so the research missed out on extra information that could be obtained using a qualitative study.

Last but not least, the researcher encountered numerous obstacles when gathering data, and low-quality internet was another source that hindered the research's ability to continue. Additionally, there was a language barrier present during the study's execution.

The study was excluded the general political environment of Somalia because it can effects the data collections.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear Respondent,

I am **Mukhtar Mohamed Muse,** pursuing a Master's degree in Accounting and Finance of Makerere University. As a partial requirement for the fulfilment of my course, I am conducting a study titled "working capital management, service quality and the financial performance of commercial banks in Somalia."

This study is purely for academic purposes, therefore all your responses was be treated with strict confidentiality and was in no way be linked to you. Kindly answer these questions personally such that we are able to analyse the data accurately.

SECTION A: Demographic Characteristics

Characteristics	Category	Codes	Response (Tick)
Gender	Male	0	
	Female	1	
Education level	Diploma	1	
	professional skills	2	
	Batchelor Degree	3	
	Master Degree	4	
	PHD	5	
Marital status	Married	1	
	Single	2	
	Divorced	3	
	Separated or widowed	4	

SECTION B: Background characteristics of commercial banks

Characteristics	Category	Codes	Response (Tick)
Years of bank operations	>5	0	
	6-10	1	
	11-15	2	
	16 and above	3	
No of employees	1-5	0	
	6-10	1	
	11-15	2	
	16 -20	3	
	21 and above	4	
Core business speciality	Saving and credit	0	
	Agricultural marketing	1	
	Both saving &Agricultural	2	

SECTION C: Working Capital Management

For the statements in this section, rank your agreement with them on a scale of 1-6 where by 1-Strongly Disagree (SD), 2-Disagree (D), 3-Slightly disagree (SD), 4- Slightly agree (SA) 5-Agree (A), and 6-Strongly Agree (SA).

S/N	Statements	SD (1)	D (2)	SD (3)	SA (4)	A (5)	SA (6)
WC1	**Cash Management**						
WC11	In our bank, all cash payments are properly documented	1	2	3	4	5	6
WC12	In our bank all bank accounts are reconciled regularly (daily, weekly or monthly)	1	2	3	4	5	6
WC13	There are adequate cash reserves to pay off short term debts on a timely basis	1	2	3	4	5	6
WC14	In our bank, there are policies on how cash is handled	1	2	3	4	5	6
WC15	In our bank, there is documented evidence for all cash transactions	1	2	3	4	5	6
WC2	**Accounts Receivable Management**						
WC21	Our bank offers required loans to customers	1	2	3	4	5	6
WC22	In our bank, there is a maximum period for which credit customers should pay their loans	1	2	3	4	5	6
WC23	There is an efficient debtors' management system in our bank	1	2	3	4	5	6
WC24	In our bank, background checks are made before credit is issued to a customer	1	2	3	4	5	6
WC25	Our bank has accurate cash flow analysis and forecasting for accounts receivable	1	2	3	4	5	6

WC26	Proper management of accounts receivable improves financial performance.	1	2	3	4	5	6
W27	Our bank has timely cash flow analysis and forecasting for accounts receivable	1	2	3	4	5	6
WC4	**Accounts Payable Management**						
WC41	Our bank uses popular accounts payable software in managing its suppliers	1	2	3	4	5	6
WC42	Our bank records all accounts payable transactions for its suppliers	1	2	3	4	5	6
WC43	In our bank, there are policies on how accounts payables are managed	1	2	3	4	5	6
WC44	In our bank has proper procedures in managing its suppliers	1	2	3	4	5	6
WC45	In our bank normally investigates its supplier's issues as needed	1	2	3	4	5	6
WC46	In our bank builds relationships with its suppliers	1	2	3	4	5	6
WC47	Our bank makes timely payments to its suppliers	1	2	3	4	5	6

SECTION D: Service Quality

SQ1	**Reliability of services** **In our bank,**						
SQ11	Our staff are consistent and dependable in the performance of their duties	1	2	3	4	5	6
SQ12	Personnel are qualified and fluent	1	2	3	4	5	6
SQ13	We aim to find answers through customers responses	1	2	3	4	5	6
SQ14	We keep customers informed about when services will be provided	1	2	3	4	5	6
SQ15	We are dependable in handling customers' service complaints and queries	1	2	3	4	5	6
SQ16	We always keep customer information confidential	1	2	3	4	5	6
SQ2	**Responsiveness of employees**						
SQ21	We are always willing to help customers and provide quick service	1	2	3	4	5	6
SQ22	Management is easily accessible by its customers	1	2	3	4	5	6
SQ23	We respond to queries of clients especially getting back to email and phone inquiries	1	2	3	4	5	6
SQ24	We provide customers adequate personal attention	1	2	3	4	5	6
SQ25	We provide prompt response when customers face challenges.	1	2	3	4	5	6
SQ3	**Accessibility of Bank premises**						
SQ31	The bank has several branches through the country.	1	2	3	4	5	6

SQ32	Customers can access their funds at any time.	1	2	3	4	5	6
SQ33	Customers are always free to visit the bank during working hours.	1	2	3	4	5	6
SQ34	There is enough security making the bank safe to access.	1	2	3	4	5	6
SQ35	ATM points are accessible at any time of the day	1	2	3	4	5	6
SQ4	**Empathy of the Employees**						
SQ41	The bank provides caring, individualized attention to customers	1	2	3	4	5	6
SQ42	Customers can easily contact the bank both online and offline at anytime	1	2	3	4	5	6
SQ43	We have customers' best interest at heart	1	2	3	4	5	6
SQ44	We provide services to customers at their own convenient time	1	2	3	4	5	6
SQ5	**Reputation of the bank**	1	2	3	4	5	6
SQ51	The bank has a strong anti-money laundering policy	1	2	3	4	5	6
SQ52	The bank rarely receives customer complaints about our service quality	1	2	3	4	5	6
SQ53	We have a strong relationship with our customers	1	2	3	4	5	6
SQ54	We have a good record with the banking regulator	1	2	3	4	5	6
SQ6	**Competence of the employees** **In our bank;**	1	2	3	4	5	6
SQ61	Our staff have formal training in their specific area	1	2	3	4	5	6

	speciality						
SQ62	Our staff receive regular onsite hands-on experience training	1	2	3	4	5	6
SQ63	The bank has a thorough recruitment policy	1	2	3	4	5	6
SQ64	All staff have the minimum academic requirements required for their respective jobs	1	2	3	4	5	6

SECTION E: Financial performance

FP	**Statement**	**SD (1)**	**D (2)**	**SD (3)**	**SA (4)**	**SA (5)**	**A (6)**
FP1	**Liquidity**						
FP11	The bank is able to pay off all its short-term debts as and when they fall due.	1	2	3	4	5	6
FP12	The bank effectively manages its cash flows and liquidity risk.	1	2	3	4	5	6
FP13	The bank maintains an adequate level of liquid assets to handle unexpected cash outflows.	1	2	3	4	5	6
FP14	The bank has established appropriate liquidity management policies and procedures.	1	2	3	4	5	6
FP15	The bank actively monitors and forecasts its liquidity position to ensure stability.	1	2	3	4	5	6
FP2	**Profitability**						
FP21	The revenues have been growing for the last three	1	2	3	4	5	6

	years						
FP22	For the past three years, our bank earns above industry average profits	1	2	3	4	5	6
FP23	The bank has achieved its most important goals over the last three years.	1	2	3	4	5	6

Thank you for your time.