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How Organizational Structure Affects the Financial Performance of Commercial State Corporations in Somalia

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Abstract

This research's primary objective was to evaluate how the structural organization affected Somalia's commercial state firms' financial performance. It specifically concentrated on how organizational size affected commercial state corporations' financial performance; how formalization of the structure affected financial performance; how much structure complexity influenced commercial state corporations' financial performance; and how much structure centralization affected commercial state corporations' financial performance in Somalia. Using a survey research methodology, the study concentrated on the three commercial state businesses in Somalia. Targeting three commercial state corporations in Somalia, the study used a method based on survey research. Data were collected using both structured and unstructured questionnaires, with closed-ended and open-ended questions; both qualitative and quantitative data were assessed by a statistical software package designed for social sciences (SPSS). It has been shown that characteristics like organization size, formalization, centralization, and complexity affect the commercial state enterprises' ability to succeed financially. The board had trouble establishing a relationship between the number of directors who were not executives and the outcomes of the commercial state company. Finally, the financial achievement of the commercial state companies was found to be affected by the structure of their organizations. The paper provides the recommendations that follow: Since the size and makeup of a commercial state corporation's board of directors have an impact on its financial success, it is important to actively influence the strategies of these organizations. To avoid a limited number of people controlling the company's financial outcomes, non-executive members should also be trained in corporate governance procedures.

Keywords

Financial Performance, Somalia Commercial Corporation, Internal setup, Level of Organizational Intricacy

INTRODUCTION

Makhmudova, M. (2023, April 11).asserts that one important determinant of financial performance is organizational structure. According to these authors, organizations often retain minimum functional or hierarchical levels, decentralize decision-making authority, and keep lines of communication open in order to adapt to changing conditions. In commercial state corporations, (Xashimov & Khaydarova, 2023) argues that evaluating organizational structure in relation to performance only improves things over time when more flexible, decentralized organizational systems take the place of more structured, centralized ones. (Xashimov & Khaydarova, 2023) maintains a similar stance, contending that self-management and dependency are the cornerstones of an organization's task design and impact organization effects via interactions like communication and conflict. Conversely, (Xashimov & Khaydarova, 2023) advises against this author claims that when decision-making is decentralized, employees at lower levels of the organizational structure often lose control over their daily operations. This might result in dysfunctional conduct and inefficient use of corporate resources.

The entire income and loss for a certain period of time, expressed as a performance level, is what determines a business's financial success. Decision-makers may evaluate the financial performance of a firm to make objective financial decisions about the results of business strategies and operations. One of the fundamental realities of business is that an organization's operational performance dictates its financial structure. It is possible for a company's financial status to have an effect on how efficiently it operates. Scholars from several disciplines related to corporate and strategic management have shown significant interest in the subject matter of financial performance.

Business practitioners in all organizational types have made financial performance their main focus since it affects an organization's health and, ultimately, its ability to survive. Superior performance is a result of managers' effectiveness and efficiency in using the resources of the business, which helps the economy of the country overall (Diamantidis et al., 2024) numerous metrics have used to assess economic success. Return on equity indicates the amount of money a corporation produces for investors who have invested in it, while the profit earned from sales indicates how many money a company generates relative to its sales. Return on assets evaluates the efficiency with which a company uses its resources. Two benefits of financial metrics are their ease of computation and their generally accepted definitions. Financial measurements have historically been used to assess the success of the manufacturing process or company (Tangen, 2003). A company's capacity to pay off debt on schedule and without interfering with regular business operations is largely determined by its liquidity.

Improving hand-offs between jobs is a major source of process benefits, and this is only possible when processes are well specified (Salvatori & Pallante, 2021). By effectively coordinating labor across functions, a process orientation reduces cycle time. Additionally, a process structure lowers some expenses. The faster time cycles lead to lower inventory levels and faster cash collections. Reduced carrying costs for cash and inventory result from the reduced working capital. Other costs are reduced when redundant tasks are removed between functions. Process organizations prevent this kind of duplication of labor by validating input just once for every action (Urgarchev et al., 2023).

The Statement of the Problem

It is becoming more and clearer how important organizational structure is in managing the profitability and financial success of a company in order to achieve the organization's aims, a commercially owned the organizational systems of the state-owned companies should match. Managing and organizing each person's task is essential. As a result, firms have a variety of operating models, each with its own set of benefits and drawbacks (Xashimov & Khaydarova, 2023).Multiple empirical investigations confirm the notion that improved organizational designs ensure buyer payback while decreasing risk associated with investments. The connection between an organization's organizational structure quality and profitability is one of the central themes of governance studies. It's extremely difficult to forecast how this relationship will go, however, since many viewpoints exist.

A correctly operating structure of operations may be used to assess the overall effectiveness of an operational system; yet, organizational structure has been criticized for playing a significant role in the decline of service delivery and financial efficiency (Mudra, 2023). Abdu Alkhazaleh et al., (2022), using the value of resources as a performance indicator revealed evidence of a favorable association between enhanced governance and enhanced operational performance in firms. There is currently conflicting and unclear research in this field about the relationship between organizational structure and business success. According to Mohamed et al., (2024) when conflict management is handled properly, on the other hand, it has the potential to increase both the performance of workers and their level of satisfaction in Somalia. Safitri et al., (2023) investigated the connection between ownership, management, and performance among businesses listed on the Somali stock exchange. Meanwhile, (Panchal & Chand, 2023) all provided empirical evidence supporting a negative correlation between organizational structure and business performance. He stressed that, whenever an organization becomes too large, the nature and extent of that relationship may change and really depend on the size of the company. Studies have shown that market assessments, return on revenue (ROS), and return on assets (ROA) are superior for smaller enterprises.

According to the principle of agency, the least effective way to accomplish corporate objectives is to leverage the connection amongst agents and principals. In this type of structure, the shareholders expect the agents to behave and make decisions in the most favorable interests of the idea. The duties of agents and principals are well defined. But while making choices, the agent might not always operate in the best interests of the principals (Renz & Vogel, 2022). It's possible for the agent to act in a self-serving manner, seize chances, or fail to achieve a balance between the owners' expectations and the agency's objectives. According to agency theory, making the most of the relationship among agents and principals is the best method to accomplish business objectives. Under this type of arrangement, the shareholders anticipate that the representatives will act and make decisions that are optimal for the principle.

LITERATURE REVIEW (Theories Regarding the Search)

Theory of Agency

The concept of agency explains how corporate goals may be best achieved by utilizing the relationship between agents and principals. In an organization such as this, the shareholders want that the agents' actand choose in a way that best serves the concept. The responsibilities of principals and agents are well-defined. On the other hand, while making judgments, it's probable that the agent won't always behave in what's best for the principals (Serena & Giuditta, 2023). It's possible for the agent to behave egotistically, seize chances, or neglect to strike the correct balance between the owners' expectations and the agency's objectives. Corporate objectives can be most effectively attained by leveraging the connection between agents and principals, according to agency theory the shareholders in this sort of organization expect its representatives to act in the best interests of the principle while making decisions. Different, clearly defined obligations apply to principals and agents. The agent was unable to continuously make decisions that would be best for the principals, according to (Diggins, 2023). Acting in a self-serving manner, take advantage of opportunities, or fail to strike an equilibrium between the agency's goals and the owners' expectations.

Stakeholders and their approach

Under the idea of stakeholder theory, any association or person who has an influence on or affects how successfully an organization accomplishes its goals is called a stakeholder. The notion of stakeholders states that managers inside firms have a network of ties with suppliers, workers, and business partners. Others argue that this unique connection group is more significant than the connection between the owner, manager, and staff members, citing agency theory. Some argue that this stakeholder theory identifies people whose interests' management must consider (Inkpen et al., 2023) Supervisors have much too much authority under current organizational structures, which they may exploit to promote their personal agendas at the detriment of owners or the community as a whole.

The Philosophical Basis of Stewardship

Management functions as a capable corporate steward, as outlined in stewardship theory (Shimada, 2022) by prioritizing the protection of owners' interests and ensuring maximum returns on investment and operational efficiency. These distinctions between the management and agency theories account for the divergent motivations of managers. According to McGregor's Theory Y, individuals are naturally inclined to put forth significant effort and excel in their performance. (Kramer & Mandal, 2022) suggests that this theory forms the foundation of the stewardship theory. In line with stewardship theory, there is harmony between ownership and management, and organizations with effective structures can work together for the benefit of the owners.

Evaluation on Scientific

Many empirical investigations have explored how economic performance correlates with various aspects of organizational structure. According to (Kotelska, 2023), an organization's structure is primarily influenced by its environment, technology, or size. Business performance and company culture were investigated by (Akara & Opuala-Charles, 2024). They saw culture in listed Malay companies as a means of control. A company needs a strong corporate culture that can articulate the company's objectives and procedures in order to accomplish this. They found that a strong company culture may improve economic performance, that economic success breeds a strong corporate culture, that performance and culture are correlated, and that there is no real relationship between the two. AZIZ et al., (2023) employed regression analysis to investigate the association between various organizational structure attributes and the financial sustainability of 176 financially distressed Caribbean governments from 1988 to 1996.

Their findings showed that there was a more than twofold rise in the likelihood of bankruptcy for firms that selected an outside board in place of the CEO. Higher levels of ownership by insiders are positively connected with a company's chances of survival. Leidenberger et al., (2021) discussed how many of those elements influence organizational structure and are interconnected. There is a larger demand for communication in a complex organization between several levels vertically or across numerous departments horizontally. The more complex an organization gets, more effective coordination, communication, and administration are required (Roy, 2023).

After investigating the impact of ownership framework, board effectiveness, and management discretion on the success of listed firms in Somalia, (Githaiga, 2023) came to the following conclusions: Ownership concentration reduces management innovation and originality and detracts from the success of the company; a rise in government ownership of a company also detracts from performance.

TECHNIQUES OR METHODOLOGY

The three business state businesses in Somalia were the study's target population, and it employed a survey research design. Mix unstructured and structured questionnaires were used to collect data, and the statistical program known as the Statistical Programming Software for the Social Sciences, or SPSS, was used to evaluate the data using qualitative and quantitative methods. To identify relationships between and among the variables under investigation, inferential statistics such as interaction, regression analysis, and regression models were used.

RESULTS OF THE FINDINGS

The research discovered that knowing the sex of the participants was critical to determining the extent to which equal chances existed in the occupations they indicated. The results showed that women represented 28.56 percent of the responders, although men brought approximately 71.43%. Therefore, it may be assumed that among Somalian groupings, males made up the majority gender. A large percentage of respondents (35.71%) replied that they were among the ages of

20 and 30 when asked to define their age. This aligns with the results of the investigation. The analysis's findings also revealed that 28.57% of those of the people who responded were between the ages of 31 and 40. Additionally, 25.0% of the overall population was above 50, according to the data. 10.71% of those who remained said they had reached 50 years of age or older. The study indicates that the respondents were probably old enough to provide shrewd criticism on the financial impact of organizational structure on Somalia's commercial state businesses.

The purpose of the study was to ascertain the educational background of the respondents. The statistics showed that the majority (46.43%) had a bachelor's degree, with graduates with master's degrees (25%) and those with doctoral degrees (17.86%) following closely behind. 10.71% of the surviving people identified as having a diploma. The financial achievements throughout the entrepreneurial enterprise companies was shown to be influenced by four variables: organizational scale, establishment of the structure, the difficulty of the construction, and centralized of the structure.

An overview of the findings is summarized below:
The financial success of Somalia's commercial state businesses is heavily influenced by their organizational structure. An organization's structure influences its efficiency, decision-making processes, communication routes, and overall effectiveness in meeting financial objectives. In the context of Somalia's commercial state firms, where the government has a large stake in economic activities, the organizational structure can have both positive and bad financial outcomes.

Efficiency

A commercial state corporation's organizational structure can affect its operating efficiency. A well-defined organization with clear lines of power and responsibility can improve decision-making processes and operational efficiency. In contrast, a complicated or bureaucratic organizational structure may result in inefficiencies, decision-making delays, and increased operating expenses (Rieger & Schonfeld, 2020).

Decision-Making Processes

The organizational structure governs how choices are made in a commercial state company. A centralized structure in which all decisions are taken at the highest levels of management may cause delayed decision-making processes and limit the corporation's capacity to adapt rapidly to market developments. In contrast, a decentralized organization that allows lower-level employees to make decisions might result in speedier replies and better financial performance (Kim et al., 2021).

Communication Channels

Effective communication is critical to the success of any firm. A commercial state corporation's communication channels are influenced by its organizational structure. A hierarchical structure with several layers of administration can inhibit communication across levels of the company, resulting in misunderstandings and inefficiencies. In contrast, a flat organizational structure that encourages open communication and cooperation can improve information sharing and decision-making (Maurer et al., 2023).

Resource Allocation

The organizational structure governs how resources are allocated in a commercial state corporation. A well-designed structure that connects resources with strategic goals may boost financial performance by ensuring that resources are used efficiently and effectively. However, an ineffective organizational structure that does not prioritize resource allocation based on strategic goals may result in waste and poor financial performance (Lechner et al., 2024).

Adaptability

In today's rapidly shifting corporate climate, flexibility is critical for long-term success. The organizational structure of a commercial state company can influence its capacity to respond to external market pressures and changing economic conditions. A flexible and agile organizational structure that allows for rapid responses to market changes can improve financial performance by allowing the company to grab opportunities and successfully reduce risks (Bressler & Bressler, 2023).

Overall, the organizational structure of Somalia's commercial state businesses influences their financial success. These organizations may enhance their financial outcomes and achieve long-term growth in a competitive business landscape by creating an efficient organizational structure that supports efficiency, agility, communication, and smart resource allocation.

The goal of the research was to examine the relationship between commercial state companies' management composition and their fiscal health. The results of the research support the participant's assertion that corporate dimensions and structures had a significant influence on the financial stability of state-owned firms. The mean score of 3.79 indicates that the board had substantial obstacles as a result of the intricate structure of commercial and state organizations. The respondents strongly felt that structural rigidity had a major impact on how commercial state businesses formulated their strategies, as indicated by the mean score of 3.87.

RECOMMENDATIONS AND CONCLUSIONS

Conclusion

The study's conclusions indicate that corporation size, legality, complexity, and emphasis all had an impact on the financial stability of private state businesses. The group of directors reviewed the manner in which the size for nonexecutive trustees may influence the company's business position. The board was the one that initiated the process of creating the business plan.

The analysis of data showed that the organizational structure of commercial state businesses affected their financial performance. Directors were involved in developing the company's internal corporate governance procedures. A decrease in shareholder concentration had an impact on the financial performance of state-owned businesses. Employee involvement also played a role in the financial performance of commercial state enterprises. Leadership was found to affect the financial success of these businesses. Overall, traits such as organizational expansion, formalization, intricacy, and structure centralization were identified as factors influencing the financial performance of commercial state companies. The study's findings supported the notion that a formalized organizational framework and size significantly influenced financial performance. Respondents perceived substantial obstacles in the board's functioning due to the complex structure surrounding state-owned businesses, as indicated by the average rating of 3.79. Additionally, institutional centralization was perceived to have a significant impact on the formulation of strategies by commercial state businesses, as indicated by a mean score of 3.87.

Suggestions and Recommendations

The study highlights the significance of considering the composition and size of the board in relation to the financial performance of commercial state businesses. It emphasizes the importance of carefully determining the number of non-executive board members as they can impact financial outcomes. Additionally, the study suggests that board members should possess a high level of knowledge since they play an active role in shaping the business plan. Training for non-executive directors in internal corporate governance procedures is recommended. To prevent a small group from exerting undue influence on financial performance, it's advisable to reduce ownership concentration. Moreover, fostering a culture of proactive fiscal oversight among employees is beneficial for commercial state businesses.

The report recommends that the board should implement thorough financial monitoring. It also stresses the importance of establishing clear guidelines for selecting and replacing the CEO and directors in a constitution. Finally, this study contributes valuable knowledge to the field of human resource management in Somalia (Bolatito & Mohamoud, 2024). It lays the groundwork for future research and practical applications focused on incentive management and employee performance. Somali organizations and multinational enterprises working in the region are actively encouraged to examine and redesign their pay schemes to better reflect Somalia's unique socio-cultural and economic realities.

Additionally, it suggests that commercial state companies should institute regular corporate governance audits and reviews. This proactive approach to corporate governance not only helps prevent financial losses but also addresses issues like theft, corruption, and other irregularities.

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