

# CAPITAL STRUCTURE AND GROWTH OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN MOGADISHU -SOMALIA

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## Abstract

Several empirical studies utilizing various frameworks have been conducted on various elements of capital structure, but researchers have yet to find the ideal capital structure. A variety of factors influence capital structure decisions, one of which is the firm's size. The capital structure of SMEs in Somalia is yet to be investigated; for instance, there isn't much research on the capital structure in Mogadishu; hence, this gap must be filled. In Mogadishu, the study looked at the connection between capital structure and SMEs' growth. The study's objectives included identifying the degree of growth experienced by SMEs in Somalia, as well as determining whether the two variables had a relevant relationship. Data was collected from the micro-financial institution staff in Mogadishu via a standardized questionnaire during July 2021, with a six-month time frame specified, utilizing a descriptive and correlation research approach. The data were analyzed with SPSS and then displayed in tables.

According to the study, the majority of Mogadishu's financial institutions have capital structure and growth strategies in place. It also shows that capital structure and SMEs' growth have a significant positive relationship. according to the study, Mogadishu's financial institutions should focus more on the capital structure if they wish to expand.

**Keywords:** Capital Structure, SMEs, Level of growth, and Degree of effectiveness

## 1. Introduction

A company's finance structure is critical to its success. The goal of capital structure research is to learn how SMEs use a combination of securities and finance sources to fund significant investments. Every capital structure decision is made with the purpose of increasing the firm's value. Maximizing firm earnings is difficult since it necessitates the selection of a balanced mix of stock and debt assets. A good capital structure decision helps a firm to grow, while a bad capital structure decision causes the firm to fail.

According to Myers (2001), capital structure research aims to explain the mix of securities and funding sources that firms use to support real investment. The capital structure theory was pioneered by Modigliani and Miller (1958), who discovered that capital structure is immaterial. The ability of a firm's earnings to generate value for the firm's welfare, according to Modigliani and Miller, determines its higher or lesser worth.

The Miller-Modigliani theorem states that there is no association between company capital structure and real business performance under the basic assumptions of fully developed capital markets, perfect competition, zero transaction costs, and no taxation. Modigliani and Miller's capital structure theorem caused the dispute, and the subsequent study found that there is no general theory that supports or disproves it. "There is no general theory of debt-equity decision and no reason to expect one," Myers (2001) concluded based on his controversial findings. The study of capital structure aims to explain the mix of assets and funding sources deployed by firms to support real investment," Myers (2001).

In the Bakara market, small and medium-sized businesses (SME) relate to firms with fewer than 10 partners and employees. The study's goal is to figure out how capital structure affects small and medium-sized businesses in Mogadishu, Somalia. The study's overall goal is to determine how capital structure affects small and medium-sized firm growth in Mogadishu, Somalia. As a result, the researcher investigated the impact of business type on capital structure decisions in Mogadishu, as well as the impact of growth potential and the level of risk exposure on capital structure selections.

## 2.0 Review of Literature

### 2.1 Capital Structure

According to Myers (2001), the goal of capital structure research is to "understand the mix of securities and financing sources that firms use to support real investment." The capital structure theory is a subject that many academics are unfamiliar with. A variety of empirical research was conducted from distinct points of view. The widely accepted idea of "capital structure irrelevance," which follows Modigliani and Miller's landmark work on capital structure, says that capital structure choice has an impact on business

value. Their theory is built on a set of very particular assumptions that are difficult to generalize in practice. Perfect capital markets, uniform expectations, the lack of taxes, and the absence of transaction costs are among these assumptions (Abor, 2005). Jensen & Meckling (1976), suggested that they emphasized the presence of agency cost while considering the principal-agent relationship between equity and debt holders. The finance provider is the principal in the agency cost framework, whereas SMEs are the agents. The information asymmetry between fund receivers and suppliers was studied by Myers and Majluf (1984).

Many capital structure theories have been suggested over the previous two decades. Among these are the pecking order theory, free cash flow, capital signaling, trade-off, and market timing theories (windows of opportunity), as well as the fact that managers choose capital structure consciously (Zwiebel, 1996). , according to Lim, Macias, and colleagues(2020) suggested that Profitability, growth potential, tax shelter, liquidity, and cash flow volatility, all have a negative and significant impact on debt metrics On the other side, A collateral, non-debt tax, and profit volatility have a significant and beneficial impact on debt metrics. Furthermore, firm size, age, inflation rate, and interest rate all influence the present value of debt.

According to (Demirgüç-Kunt, Peria, et al., 2020), recognized intangible assets and leverage have a considerable positive relationship. In general, identifiable intangible assets enable debt financing in the same way that tangible assets do, especially in firms with few actual assets.

## **2.2 Optimal Capital Structure**

Each business has its own designed capital structure, according to capital structure theories. The optimal capital structure is the one that maximizes the firm's value (Bradley, Jarrell, and Kim, 1984). according to Bradley et al. (1984), The cost of financial stress determines the optimum capital structure. Companies with considerable profit fluctuations, according to the financial distress theory, are more likely to default on their debt commitments, resulting in financial distress costs.

The size of a company determines its debt ratio. According to Titman and Wessels (1988), larger enterprises are more diversified and less prone to insolvency than smaller businesses. Small businesses, they contend, have higher processing expenses when seeking long-term financing. A cost-benefit analysis determines the appropriate capital structure. According to Ezeoha (2008), short-term liabilities account for a significant portion of total finances regardless of firm size. The pecking order notion pushes businesses to employ revenues created internally instead of relying on outside sources.

On the other hand, the suitable capital structure is determined by the industry in which businesses operate. Serrasqueiro (2011), for example, investigated capital structure decisions made by SMEs in Portugal, and his findings revealed that capital structure decisions differed by industry. According to Serrasqueiro (2011) discovered that when internal resources are limited, Portuguese service SMEs turn to a short-term loans to fund their growth potential, but Portuguese manufacturing SMEs turn to long-term debt to fund their growth prospects. Even if liquidation is in equilibrium, the off-equilibrium risk of costly renegotiation may cause leverage to be reduced, according to the authors (Antill and Grenadier 2019). Even if stockholders pick the equilibrium method, giving them the option of reorganization makes them worse off ex-ante.

## **.2.3 Theoretical Framework**

### **2.3.1 Trade-off theory**

The trade-off theory of capital structure suggests that maximizing debt's tax advantage is necessary for a firm's profit. A firm's ideal capital structure, according to trade-off theory, entails a trade-off between debt's tax benefits and other leverage-related expenses (Bradley et al., 1984).

According to trade-off theory, firms with a lot of physical assets and taxable income should aim for a larger target debt ratio to benefit from debt tax benefits. Because organizations with a high level of tangible assets may utilize their assets as collateral for loans, asset tangibility may have an impact on a firm's debt level. According to Serrasqueiro and Rogao (2009), Asset tangibility has a beneficial effect on a firm's debt level. According to Al-Ajmi et al. (2009), tangibility and debt levels have a negative relationship. Tangibility and debt levels are adversely associated, according to Sheikh and Wang (2011). The negative association was confirmed by Karadeniz, Kandir, Balcilar, and Onal (2009).

According to Myers (2001). Suggested that, businesses adopt debt levels that strike a balance between the tax benefits of increasing debt and the risks of financial trouble. Taxpaying businesses, according to the trade-off theory, will borrow moderately. This theory does not contradict Modigliani and Miller's capital structure irrelevance thesis of frictionless conditions (1958). (Inflationary or taxing impacts are not present.)

### **2.3.2 Agency cost Theory**

Jensen and Meckling claim that (1976). a contract in which one or more people (the principals) engage another person (the agent) to do work for them while transferring certain decision-making authority to the agent. Because of the separation of ownership and control, there is conflict between the firm's managers and shareholders, which leads to agency concerns. These conflicts (agency issues) develop because these managers have the authority to utilize the firm's assets in ways that benefit them personally while diminishing the wealth of the firm's owners.

To alleviate agency concerns and encourage corporate managers to act as owners of the firm, some shareholders enable equity remuneration and manager stock ownership schemes. According to Fosberg (2004)., officers and directors who have a significant

portion of their own wealth invested in the firm as common stock employ less debt in the capital structure than is desirable. As a result, the CEO's personal interests may take precedence over the interests of the company's shareholders. Managerial insiders are wary of using the proper amount of debt financing for the firm due to the increased risk of bankruptcy that comes with increasing debt levels.

### 2.3.3 Pecking Order Theory

If a firm's investment cash flow is insufficient to sustain capital expenditures, advised that it borrow rather than issue stock. As a result, the quantity of debt symbolizes the company's overall requirement for outside capital Myers (2001). According to the Pecking Order Theory, companies prefer to obtain capital from within rather than borrow from outside sources. As a result, businesses with sufficient liquid assets will be able to fund future expansions without having to rely on external (debt) financing.

The pecking order concept pushes firms to invest internal revenue before seeking outside capital. According to Zaher (2010) that some investments in debt-free firm portfolios produce higher returns than investments in leveraged firm portfolios over long and short durations. Investors prefer companies that avoid the temptation to borrow much and maintain a debt-free balance sheet, whereas organizations with a large amount of debt are penalized.

The pecking order principle encourages businesses to invest their own money before seeking outside funding. Over both long and short time periods, Zaher (2010) suggested that some debt-free firm portfolio investments outperform leveraged firm portfolio investments. Investors prefer companies that avoid taking on excessive debt and operate with a debt-free balance sheet, whereas companies with a lot of debt are penalized.

### 2.3.4 Asymmetric Information Theory

Another issue to consider while choosing capital structure is asymmetric information (Sheikh and Wang, 2011). According to Myers and Majluf (1984), the market may consider when making decision equity if management has information that investors do not.

To describe the concept of optimal capital structure, Myers and Majluf (1984) proposed the current concept of asymmetric information. Borrowing prices differ based on the source of finance due to knowledge gaps between the firm and potential loan providers. Internal sources of funding, such as if the fund's supplier is the firm, will have more information about the company than new stockholders, therefore new equity holders can expect a higher rate of return. It will be more expensive to issue new stock shares than to use internal money.

This argument might be made in a similar manner between internal finance and new loan holders. There is a pyramid of business preferences when it comes to funding their investments, according to asymmetric information theories (Myers and Majluf, 1984). According to the pecking order theory, in the absence of information asymmetry, corporations will first rely on internally generated funds, such as undistributed earnings, then turn to debt for more cash, and then issue stock to satisfy any remaining capital requirements. The cost of various funding choices is reflected in the preferred order.

### 2.3.5 Free Cash Flow hypothesis

According to the free cash flow theory, when a firm's commercial cash flow significantly exceeds its available investment opportunities, dangerously high debt levels, notwithstanding the risk of the financial crisis, will boost the value. For existing firms that have a history of overinvesting, the free cash flow theory was developed (Myers, 2001). The agency cost hypothesis is extended by the free cash flow hypothesis. In terms of the appropriate size of the corporation and how much cash should be delivered to shareholders, it illustrates the conflict between shareholder interests and managerial incentives.

### 2.3.6 The Influence of Firm-Level Characteristics on Capital Structure

**Profitability:** The financial status of a firm determines its performance profitability. According to Abor (2005), profitable businesses rely on debt as their primary source of funding. According to Jensen and Meckling (1976), profitability improves a firm's creditworthiness, lowering the cost of financial difficulty and encouraging businesses to use external debt to take advantage of the tax benefit opportunity. The debt amount of a corporation and its profitability are inversely associated, according to Titman and Wessels (1988). Sheikh and Wang (2011) discovered that debt ratio and profitability had a negative relationship.

**Firms' Growths:** According to Al-Ajmi et al (2009)..., a firm's capital form is determined by its growth prospects. The pecking order notion encourages companies to spend funds generated internally before seeking outside funding, meaning that growing companies should prioritize their internal reserves. The pecking order concept of capital structure is supported by Titman and Wessels (1988), who suggests a negative relationship between growth potential and debt.

The tangibility of a firm's profits influences its capital structure (asset structure). When informational disparities exist, physical assets are assumed to reduce lender agency costs and thus moral hazard (Jensen and Meckling, 1976). The smaller the danger of bankruptcy and the more collateral a company has, the more probable it is to convert its loan structure to the best capital structure feasible (Serrasqueiro and Rogao, 2009). On the other hand, Al-Ajmi et al. (2009), discovered a negative association between tangibility and the capital structure of a firm. A negative relationship between tangibility and debt ratio was also discovered by Karadeniz et al. (2009), which was confirmed by Sheikh and Wang (2011). (Debt-to-Revenue Ratio)

**Firm size:** The relationship between investment goals and their financial structure is a little hazy. A relationship's name denotes the type of relationship that exists both within and outside of a company's walls. The greater a corporation's control over its stakeholders, the more power it wields. Due to their diverse diversification and lower risk of financial failure, large organizations have easier access to capital markets than small businesses (Titman and Wessels, 1988). According to Al-Ajmi et al (2009)..., capital structure and firm size have a favorable association.

According to studies by Karadeniz et al. (2009), a company's size does not appear to be related to its debt ratio.

**Firms' Risk:** According to the pecking order theory and the trade-off hypothesis, leverage and firm risk have a negative relationship. The firm's information asymmetry, or investors' ability to estimate future earnings, may be reduced as a result of results volatility, rising financing costs (Al-Ajmi et al. 2009). According to the financial distress theory, businesses with significant profit fluctuations are more likely to be unable to satisfy their debt obligations, resulting in financial distress costs (bankruptcy)

### 2.4 Research hypotheses

The capital structure of small and medium-sized businesses has no relationship with their growth.

### 3.0 Methodology Research

The study's target demographic was senior executives and staff from seven small and medium-sized businesses in Mogadishu, Somalia. The population was chosen because they have past experience in Mogadishu with capital structure decisions for small and medium-sized businesses. The population of the study was 150 participants, and the sample size was 110. The researcher chose this city to collect data because he believed it would be the most convenient.

### 4.0 Presentation and discussion of findings

#### 4.1 Profile of the Respondents

Table 4.1: A Gender, Age and position of the respondents

Profile of the respondents		
Gender	Frequency	Percentage
Male	84	76.4
Female	26	23.6
<b>Total</b>	<b>110</b>	<b>100</b>
Age of respondents	Frequency	Percentage
25-35	56	50.9
36-45	24	21.8
46-55	21	19.1
56 and above	9	8.2
<b>Total</b>	<b>110</b>	<b>100</b>

Source: Primary Data 2021

The (Table 4.1). shows that Males made up the majority (76.4 percent) of the sample, while females made up the minority (23.6 percent). This demonstrates that men make up the vast majority of employees in Mogadishu, Somalia. According to the findings of the study, the majority of employees (50.9%) were between the ages of 25 and 35, while the minority (8.2%) were 56 and up. As indicated by this, the firm's staff were of all ages. They have various expectations of their own performance due to the age range of the workforce.

Table 4.2: The Educational Level and Experience of the Respondents

Profile of the Respondents	Frequency	Percentage
PhD	2	2
Master	15	14
Bachelor	38	35
Diploma	18	16

<b>Secondary</b>	34	<b>31</b>
<b>Other</b>	3	<b>2</b>
<b>Total</b>	110	<b>100</b>
<b>Experience of the Respondents</b>		
<b>Less than one year</b>	17	<b>15.5</b>
<b>1-2 years</b>	38	<b>34.5</b>
<b>3-4 years</b>	33	<b>30.0</b>
<b>5 years and above</b>	22	<b>20.0</b>
<b>Total</b>	<b>110</b>	<b>100.0</b>

Source: primary data 2021

According to the findings of the study, the majority of the employees in the sample (35%) have a bachelor's degree, while the minority (2%) have a Ph.D. This implies that the business was effective in attracting and maintaining highly educated employees who are likely to perform well in their positions. According to the findings of the study, the majority of employees (34.5 percent) had worked for 1-2 years. The statistics suggest that in Mogadishu, Somalia, there is a large diversity of employee experience enterprise, with the minority of respondents accounting for 15.5 percent of the total.

#### Description of the independent variable

The capital structure was the independent variable in this study. Each Likert scale was scored on a range of one to four, with one indicating considerable disagreement, two indicating disagreement, three indicating agreement, and four indicating extreme agreement. Employees were expected to rate control on each component of the capital structure in the table by ticking the proper number. The means and standard deviations of their responses were calculated using SPSS summary statistics, as shown in table 4.5. Capital Structure Means and Standard Deviations in Small and Medium-Sized Enterprises (n=110) (Table 4.3).

No:	CAPITAL STRUCTURE	N	Mean	Std. Deviation	Interpretation
1	The Dept. Repayment Capability of the Firm Determines Its Capital Structure	110	3.01	.723	High
2	Creditworthiness determines the capital structure of the firm.	110	2.93	.885	High
3	The liquidity capabilities of the firm determine its capital structure.	110	3.38	.558	Very high
4	The borrowing reserve determines the capital structure of the firm.	110	1.75	.953	Very Low
5	The capital structure of the firm is influenced by tax advantages.	110	2.10	.823	Low
6	Industry norms determine the business' future structure.	110	3.05	1.078	High
7	The firm's debt ratio is compared over time when assessing capital structure.	110	3.00	.909	High
8	When determining capital structure, compare the firm's debt ratio to the debt ratio of the industry.	110	3.16	.904	High

9	When determining capital structure, compare the firm's debt ratio to that of other firms.	110	2.99	.934	High
10	The capital structure decisions of the firm are influenced by the owner's judgmental decisions.	110	3.21	.791	High
11	Employee attitudes have an impact on the firm's capital structure decisions.	110	1.50	.904	Very low
12	The views of investment and commercial bankers have an impact on the business' future structure.	110	3.24	.928	High
13	Financial analysts' opinions have an impact on the firm's capital structure decisions.	110	3.15	.623	High
14	The capital structure decisions made by the firm are influenced by comparative industry ratios.	110	3.18	.880	High
<b>MEAN INDEX</b>		110	2.83	.96	High

Source: Primary Data 2021

The majority of respondents gave their firm's capital structure system a high rating, as shown in Table 4.3 by the mean and standard deviation. (mean:3). The capital structure decisions made by the firm are influenced by comparative industry ratios. Respondents responded that financial experts' opinions influence one firm's capital structure decisions (mean 3.15) when establishing a firm's capital structure and comparing its debt ratio to that of other firms.

When determining a firm's capital structure and comparing its debt ratio to that of other firms, respondents indicated (mean 2.10); and when determining a firm's capital structure and comparing its debt ratio to that of other firms, respondents indicated (mean 2.10); and when determining a firm's capital structure and comparing its debt ratio to that of other firms, respondents indicated (mean 2.10); and when determining a firm's capital structure and comparing its debt ratio to that of other (mean 2.99), The respondents scored a mean 3.16 capital structure firm compares its debt ratio to the industry debt ratio, in terms of the firm's capital structure is determined by industry norms (mean 3.05), firms capital structure is determined by borrowing reserve rated by employees (mean 1.75) and the result shows every low borrowing reserve.

The firm's capital structure is decided by its liquidity capability (mean 3.38) indicating that liquidity and capability are both very high; creditworthiness (mean 2.19), suggesting that it exists; and Department Repayment Capability (mean 3.01), indicating that it exists (mean 1.50).

A summary image of how respondents assessed the capital structure and average suggests was created for all fourteen items in table 4:3, revealing a mean index of 2.83, meaning that respondents' employees who chose the firm as a good imply 3 of their average.

Table 4.4: Means and Standard Deviations on of growth in the small and medium-sized enterprise (n= 110).

NO:	GROWTH	N	MEAN	Std. Deviation	Interpretation
1	The firm generates investments in order to retain long-term capacity.	110	3.10	.729	High
2	The organizations invest in order to keep their competitive advantage over competitors.	110	3.26	.759	High
3	Forecasted cash flows of investment projects are taken into account by the firm.	110	2.15	.804	Low
4	The firm uses investment opportunities for diversity and financial flexibility.	110	3.16	.841	High
5	The firm generates investments to boost stock price appreciation.	110	3.01	.914	High
6	When deciding on capital structure, the firm decides the possible cost of financial trouble.	110	2.85	.833	High

7	In capital structure, the firm decides the volatility of current and future earnings and cash flows.	110	2.40	.901	Low
8	When deciding on a capital structure, the firm uses debt restrictive covenants.	110	2.62	.857	High
9	The firm examines the potential for liquidity risk as a result of debt acquisition.	110	2.82	.869	High
<b>MEAN INDEX</b>		110	2.82	0.83	High

Source: Primary Data 2021

According to the mean and standard deviation in Table 4.4, the majority of respondents thought their firm had a high capital structure system. (mean:3). According to respondents (mean 2.82), the firm examines the liquidity risk that may develop as a result of debt acquisition; debt restrictive covenants are taken into account in capital structure decisions, and debt restrictive covenants are taken into account in capital structure decisions.

Employees (mean 2.62); firm considers the volatility of current and forecasted earnings and cash flows in capital structure decisions, according to respondents (mean 2.40); firm considers the potential cost of financial distress in capital structure decisions, according to respondents (mean 2.40); firm considers the potential cost of financial distress in capital structure decisions, according to respondents (mean 2.40); firm considers the potential cost of financial distress in capital structure decisions, according to respondents (mean 2.40); firm considers the potential cost of The first stage in capital structure decisions is to assess the possible cost of financial hardship (mean 2.85). The corporation makes investments in order to increase the value of its stock. Organizations consider the diversification and financial flexibility opportunity of investment respondents indicate (mean 3.16), organizations consider the forecasted cash flows of investment projects that of (mean 2.15) that indicates weakness of forecasting cash flows of investment, organizations invest to maintain their higher competitiveness against rivals that showed is good, organizations invest to maintain their higher competitiveness against rivals that showed is good, organizations invest to maintain their higher competitiveness against rivals that showed is good, organizations invest to maintain their higher competitiveness against rivals that showed is good (mean 3.26).

This refers to the organizations' investment (mean 3.10). To get a summary of how respondents rated the level of growth of medium-sized enterprises, the average index was calculated for all nine items in table 4.4, which came out to 2.82 (dev0.83), confirming that respondents' employees of selected capital structure rated the level of growth of small medium-sized and enterprise as good (mean, 3), which falls under the good level of medium enterprise on our scale.

According to the statistics, employees of big businesses believe that employees of medium-sized enterprises are more motivated. Employees assessed the level as good on an average index (mean index 2.82). **Relation between the capital structure and growth of small medium-sized enterprise**

Table 4.5 shows how Pearson's Product Moment Correlation Coefficient was used to study the relationship between two variables: capital structure and small and medium-sized firm expansion. In Mogadishu, Somalia, Table 4.5 shows the Pearson's Correlation Coefficient data for small and medium-sized firms (n=110). (corr. Coef.707\*\*p=0,000) (figure 4.5).

Table 4:5: Pearson's Correlations (n = 110)

Variables Correlated	R-value	Sig.Value	Interpretation	Decision on HO
capital structure	0.491	0.000	Significant correlated	Rejected
growth of small and medium-sized enterprises	0.491	0.000	Significant correlated	Rejected

Source: Primary Data 2021

Table 4.6 Regression Analysis between the Dependent and Independent Variables

Variables Regressed	Computed FValue	R2	Interpretation	Decision on Ho
.Capital structure	34.37	.241	Positively significant	Rejected

Dependent variable: level of growth.

As indicated in the table, capital structure effectiveness has a substantial effect on growth (R square=0.241, F=34.37, p-value 0.05). According to the table, capital structure effectiveness influences growth by 24%. The researcher concludes that capital structure effectiveness has an impact on growth at the 0.05 level of significance. In order to stimulate growth, management has come to the conclusion that the capital structure must be improved.

### Major findings and discussions of the study

This study was guided by three objectives, each of which was divided into three parts. The first goal was to see how successful capital structures are in small and medium-sized firms. The second aim was to determine how quickly small and medium firms grew. The final goal was to see if there was any correlation between capital structure and the growth of small and medium-sized businesses. The fourth step, in addition to the study's conclusions, was to propose ideas and strategies for enhancing small and medium business growth.

The descriptive statistics result gave frequencies and percentages, demonstrating the characteristics of the respondents as well as the distribution of the study's population, which was the investigation's original purpose. According to the data, there were more males than females employed by small companies in Mogadishu. The data also revealed that the skill-based pay included workers of all ages, each with their own set of job expectations.

Data analysis using descriptive statistics for means and standard deviations in SPSS revealed that (i) the capital structure system in private selected enterprises in Mogadishu had a score of (mean 2.83); std dev (0.96) and (ii) the growth of small medium and sized enterprises (mean 2.82); std dev (0.83). In Mogadishu, Somalia received a score of (mean 2.83); a standard deviation (0.83) in private selected business owners.

The capital structure system is highly correlated to the number of growth of small and medium-sized firms, according to Pearson's Linear Correlation Coefficient (corr. Coef.491\*\*p=0,000). The stated study hypothesis is denied, but the alternative is accepted, resulting in the conclusion that the capital structure system and small-business growth are strongly associated at the 0.05 level of significance (sig. = 0.000).

### Conclusions

**Capital structure and small-sized medium enterprise companies:** The goal of this study was to see how effective capital structure was for small and medium-sized businesses in Mogadishu, Somalia, with the assumption that capital structure had no effect on effectiveness. This researcher disproved the null assumptions. Based on the findings of the study, the researcher came to the following conclusions: effectively implemented capital system approaches considerably lead to high levels of enterprise business effectiveness.

**To determine the level of growth of small and medium enterprises in Mogadishu:** The goal of this study was to see how to measure the level of growth of chosen Mogadishu enterprise firms, with the hypothesis that the level of growth system had no effect on Mogadishu firm business profitability. The researcher rejected the null hypothesis and reached the following conclusion as a result of the findings. Small and medium-sized firms in Mogadishu, Somalia, have seen significant development as a result of successful profitability measures.

**To formulate ideas and the strategies to further improve the growth of small and medium enterprises besides of the findings of the study in Mogadishu:** In addition to the findings of the research businesses in Mogadishu, Somalia, the study's goal was to determine how ideas and strategies to further enhance the growth of small and medium enterprises. Capital structure and the small business system, according to the research, had minimal impact on market share. Based on the findings, the researcher rejected the null hypothesis and came to the following conclusions. Smallbusiness capital structure solutions that were well-executed resulted in a considerable increase in the volume of business growth.

### 5.0 Recommendation

Despite the fact that SMEs incur higher transaction costs when raising long-term loans, the findings of this study imply that long-term loan repayment should be covered by appropriate reserves. Furthermore, SMEs should use capital project approaches such as evaluating payback length and cash flow estimations when investing in long-term projects. Firms should, however, take into account the significant profit volatility of long-term efforts; otherwise, they risk defaulting on their loans and incurring financial distress charges.

Another issue to consider is that SMEs should consider the opinions and ideas of investment project managers when deciding on capital structure. Furthermore, when choosing on capital structure, SMEs should consider the agreements signed with the organization's creditors through bond covenants; otherwise, creditors might refuse to give money to fund long-term projects in the near future. SMEs should also consider tax advantages when deciding on a capital structure. Finally, capital structure decisions should not be based simply on the subjective opinions of the owners; SMEs should consider capital budgeting tools, cash flow predictions, and stakeholder perspectives.



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