

T.C
ÇANAKKALE ONSEKİZ MART ÜNİVERSİTESİ
SOSYAL BİLİMLER ENSTİTÜSÜ

**FINANCIAL AND STRATEGIC RISK MEASUREMENT AND
MANAGEMENT OF THE CLOTHING STORES IN
SOMALILAND**

YÜKSEK LİSANS TEZİ

Hazırlayan
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Çanakkale - 2016

TAAHHÜTNAME

Yüksek Lisans Tezi olarak sunduğum "Financial and Strategic Risk Measurement and Managment of the Clothing Stores in Somaliland " adlı çalışmanın, tarafımdan, bilimsel ahlak ve geleneklere aykırı düşecek bir yardıma başvurmaksızın yazıldığını ve yararlandığım eserlerin kaynakçada gösterilenlerden oluştuğunu, bunlara atıf yapılarak yararlanılmış olduğunu belirtir ve bunu onurumla doğrularım.

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06.10.2016

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Sosyal Bilimler Enstitüsü Müdürlüğü'ne
Mubarak Ahmed Mohamed ait Financial and Strategic Risk Measurement and Management of the Clothing Stores in Somaliland; adlı çalışma, jüriimiz tarafından İŞLETME Anabilim Dalı, **YÜKSEK LİSANS TEZİ** olarak oybirliği/oyçokluğu ile kabul edilmiştir.



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04/07/2016.

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4.3.2016.

ABSTRACT

FINANCIAL AND STRATEGIC RISK MEASUREMENT AND MANAGEMENT OF THE CLOTHING STORES IN SOMALILAND

The clothing industry has great effect on the economic development, employment, and social stabilization of Somaliland, but this important industry faces a large number of uncertainty conditions and risks, that costs more money. The researcher believes that effective risk measurement and management can increase the business success. For that reason this study was conducted to know the most important financial and strategic risks of clothing stores in Somaliland and also to know the risk measurement methods and management approaches of clothing stores in Somaliland.

We used the qualitative method of a self-completion questionnaire in order to collect data from four major cities in Somaliland. Due to the fact that top level managements are responsible for the risk measurement and management, the target groups included Owners, CEO, Finance manager, Accountants, Risk managers, and other managers.

The findings and results of this research shown us, the most important financial and strategic risks that affect the clothing stores in Somaliland are credit risk, liquidity risk, exchange risk, competition risk and customer risk. In the last the researcher made a conclusion and recommendations that the researcher hopes to decrease or eliminate the affect of the risks and increases the integration and effectiveness of good management.

Keywords: risk management, risk measurement, financial risks, and strategic risks.

ÖZET

SOMALİLİLAND'IN GİYİM İŞLETMELERİNDE FİNANSAL VE STRATEJİK RİSK ÖLÇÜMÜ VE YÖNETİMİ

Giyim sektörü Somaliland'ın ekonomik kalkınma, istihdam ve sosyal istikrar üzerinde önemli etkiye sahiptir. Bununla birlikte sektör, maliyetlerini artıran bir çok riskler ve belirsizlik koşullarıyla karşı karşıya bulunmaktadır. Araştırmacı olarak etkili risk ölçümü ve yönetiminin işletme başarısını etkileyebildiğine inanmaktayım. Bu doğrultuda, çalışma Somaliland'ın giyim işletmelerinin en önemli finansal ve stratejik risklerin neler olduğu ve bunların risk ölçüm yöntemleri ve yönetim yaklaşımları hakkında bilgi edinmek amacıyla yapılmıştır.

Konu hakkında gerekli verileri toplamak için Somaliland'ın dört büyük kentinde, nitelleyici kendi tamamlama anket yöntemi kullanılmıştır. Üst yönetimin risk ölçüm ve yönetiminden sorumlu olması nedeniyle hedef gruplar, işletme sahipleri, CEO'lar, finans yöneticileri, muhasebeciler, risk yöneticileri ve diğer yöneticiler olarak belirlenmiştir.

Araştırmanın sonuç ve bulguları, Somaliland'da faaliyet gösteren giyim işletmelerini etkileyen en önemli finansal ve stratejik risklerin kredi, likidite, döviz, rekabet ve müşteri riskleri olduğunu göstermiştir. Sonuç olarak, araştırma sonuç ve bulgularına dayanarak, tarafımdan varılan sonuçlar ve buna dayanarak yapılan önerilerin risklerin etkisini azaltacağı veya yok edeceği ve bütünleştirme ve iyi yönetimin etkililiğini artıracığı umulmaktadır.

Anahtar Kelimeler: risk yönetimi, risk ölçümü, finansal riskler ve stratejik riskler

ACKNOWLEDGEMENT

I would like to thank my supervisor, Assoc. Prof.Dr. Halis KALMIŞ for his patient guidance, continual support and helpful suggestions for not only my research, but also every step in my master program.

In addition, I would like to thank my Juri committee members, for their kindly support and valuable comments throughout different stages of this thesis/ dissertation.

I would also like to thank every member of the business administration department for promoting the warm and welcoming academic and social environment. They have been very friendly, encouraging and helpful.

I would also like to mention the valuable support of my friends; Khadar GAHAYR, for support of a data analysis program of this thesis.

Finally, I wish to thank my family and my wife for all the love and support throughout my life. My mother, father, brothers and my wife encouraged and supported me along my length and wandering path through graduate school. In fact, there are no words to express my gratitude to my family due to their tolerance and encouragements.

DEDICATION

This thesis is dedicated to my girl,
Samia Mubarak Ahmed.

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CHAPTER ONE INTRODUCTION

Over the last few decades, risk management has been an integral part of modern management. Management becomes more effective, when the risk management processes are carried out in a more consistent and structured way. The aim of risk management is to minimize the probability of future losses and to maximize the potential success of the business. An increasing globalization of business environment leads businesses to a highly increasing level of competition. Each company is trying to gain more access to the resources and customers, to maximize its market share and increase profitability, but it mostly faces financial and strategic uncertainty (Dalgıç 2013: 1). Uncertainty is used when the outcomes of future events are uncertain and the different states cannot be connected with probability of occurrence (Napp 2011: 4). Uncertainty arises from different sources, some of the financial and strategic sources include; interest rate volatilities, foreign exchange rate movement, sales on credit, cash flows movement, competition effect, customer change and customer demand changes. So that as the uncertainty is one of the famous characteristics of risk, it is necessary to assess, investigate and evaluate uncertainties that risk may arise. Measuring, exposing and managing the potential losses associated with the business activities are essential components of effective risk management (Dalgıç 2013: 3). It is a fact that we cannot know exactly what will happen the future in the business operations, but we have to make analysis, assessments, measurements and estimations in order to prevent, decrease or avoid the risks that may have a bad consequence to the businesses.

Several researches about the risk measurement and management of different business industries conducted in the world, but in Somaliland this is the first research about financial and strategic risk measurement and management of clothing stores in Somaliland.

Somaliland is the northern regions of Somalia. It announced its independence in 18 may, 1991, after the collapse of the central government of Somalia. But any country was not recognized yet. Somaliland is located in East Africa, which is a region that exists more problems like wars, civil wars, economic problems, poor administrations (governments), inflations, piracy, droughts and more other problems. Businesses that operate in Somaliland face all these problems and more other problems or risks. One of

those businesses is the clothing industry, which is dominated by small and medium sized enterprises concentrated in a number of regions that are highly depend on this sector. Clothing industry of Somaliland is one of the most important sectors that generate huge employment both skilled and unskilled employees. It operates in a very risky environment. Because in Somaliland international banks do not work, no strong central bank; so there is high exchange rate volatility. Local investment and saving banks work, but they are not strong ones. Businesses that operate in Somaliland face more problems at the side of investments, receiving loans, and sending money to the abroad; for example clothing stores take clothes from different countries, some of that countries Somali remittances do not work, so business people take money in their bags, and the money can be stolen or lost. The credit risk is very high in Somaliland because in the Somaliland Islamic business system is used which is free of interest rate and there is no government rules and regulation for the credit management. Other problems that face, the clothing stores of Somaliland and other businesses in Somaliland are lack of insurance, high transportation costs, because the international transportation agencies are afraid of the piracy in Somalia sea water; even the ships that come in Somaliland are very old and poor quality ships. There is a little or no business development policy for the government. Clothing industry of Somaliland is an industry which is full of risk that needs to measured and managed effectively, to ensure the achievement of business objectives.

For those reasons, this study was chosen to understand, explain, identify and clarify the financial and strategic risks that affect the clothing stores in Somaliland in order to manage those risks to an acceptable level and also to know the risk measurement and management methods of clothing stores in Somaliland.

1.1 Concept of Risk

Starting or developing a business mostly is followed by different types of financial, strategic and operational risks. Risk is an uncertain future event that has a negative effect. Risk does not have generally accepted definition, but some authors defined risk as any internal or external situation or event that has a potential impact upon business activities, preventing a business from successfully achieving its objectives, delivering its products and services, capitalizing on its opportunities or carrying out its operations and activities (Insurance Commission 2005: 1). Risk is a potential for a negative future event that may or may not happen (Wikipedia 2004). Risk or possible negative future event has two characteristics; probability of occurrence and consequence of occurrence. So if the probability of occurrence is not known, there is a future uncertainty, and the risk or the possible negative future event is undefined. It is difficult to exactly know

the consequence of the negative future events, because it is difficult to exactly know the likelihood and its magnitude. The risk arises from different sources, some are controllable others are uncontrollable, some are unique to a special industry others are common to all industries and also some are internal others are external. In the last decades it has been an increasing effort going to know the likelihood and magnitude of the risk before happening or become an obstacle to the essential components of the businesses. Some of the tools used to measure and analyze the likelihood and the magnitude of the risks includes; Gap analysis, duration analysis, scenario analysis, derivative risk measure analysis, portfolio analysis (Dowd 2002: 2-7). There are also other modern tools that are used to analyze and measure the likelihood and magnitude of the risks like; value –at-risk, volatility, and expected shortfall, these are modern risk measurement tools (Danielsson 2011: 73).

Risk is not always a problem as the modern management argues and it is essential to the development and progress, because if the company doesn't take a risk it doesn't grow, and the failure is the key part of learning, but before the failure we have to be able to balance correctly the possible negative consequence of the risk with the potential opportunity of the event (Laurie 2004: 3). Losses are always considered in terms of financial so in this research, we will study some of the financial risks like; interest rate risk, exchange rate risks, liquidity risks, cash flow risks, credit risks and also some strategic risks like; competition risks, customer risks, technology risks and government and economic risks.

1.2 Definitions and aims of risk management

Risk management is an organized method for identifying, measuring, selecting, developing, and implementing options for handling of risk (Juul Andersen and Winther 2010: 6). Risk management is a series of steps whose objectives are to identify, evaluate, address, control or eliminate business risk items before they become either an obstacle to successful business operations or a major source of expensive rework (Boehm 1989: 82).

Risk management is not exactly a new idea, because one of the earliest examples of risk management appears in the Kuran Kareem. King of Egyptian Pharaoh had a dream then he went to Prophet Joseph. Prophet Joseph interrupted the dream of the king as seven years of plenty to be followed by seven years of famine. To deal with this risk, prophet Joseph advised the Egyptian king, the Egyptian people to purchase and store a large quantity of corn during a good time to survive during the famine, the king took his advice as a result Egypt prospered and survived in the hard time (Quran

Kareem). There are also more other stories in the Kuran showing that Risk management was not a new idea.

The formal study of risk management started in the 1950s. Several sources dated the origins of the modern risk management to 1955-1965 (Dionne and Cirrelet 2013: 1). Sinder (1956) mentioned that there were no books on the subject of risk management at that time and no universities offered courses in the subject. The first two academic books of risk management were published by Mehr and Hedges in 1963 and William and Hems 1964 (Dionne and Cirrelet 2013: 2). Most, if not all of the modern risk measurement tools and management approaches, were discovered or started to use in the last 50 years of the last century, so this is showing that the study of modern risk management started in the last 65 years. During in the mid of the 1950s new forms of risk management emerged alternatives to the market insurance when a different types of insurance coverage become very costly or incomplete. Several of business risks were also becoming impossible or very difficult to insure (Dionne and Cirrelet 2013: 2).

1.2.1 Factors behind the modern risk management development

Rapid development of modern risk management is caused by a number factors; the high level volatility in the economic environment within which businesses operated in (Dowd 2002: 5). Unstable economic environment exposes companies to greater financial risks, and therefore provides motivation for companies to find new and better ways of measuring and managing their risk exposures. The second important factor contributing to the rapid development of risk management is the huge increase in business activities since in 1960s. The average number of shares traded per day in the New York Stock Exchange has grown from about 3.5m in 1970 to around 100m in 2000; and turn over in foreign currency exchange has grown from about one billion dollars a day in 1965 to \$1210 billion in April 2001 (Bank for international settlements 2001: 1). Advance of an information technology is also the third contributing factor for the development of risk management (Guldimann 1996: 17). Information technology has contributed more things to the development of modern risk management, it simplified the calculations of the complex mathematical calculations of risk, it increased, and simplified the availability of risk information with high speed, it minimizes the cost of risk calculations.

All the business, whatever their size and shape, whatever market, they operate in and whatever product or service they provide, are constantly faced with the multitude of risks. Indeed, business can only prosper by successful risk taking and managing and reducing risks to acceptable levels (Andy Osborne 2012: 60). Risk management

processes are processes that are designed to give managers with a level of confidence, in order to manage risks with an acceptable level or to take a level of risk worth or less than with the opportunity. This means risk management encourages the managers to not be risk averse, but it encourages managers to take risks which are equal or less than against opportunity. Risk management is a necessary element in achieving business objectives. Risk taking activities is intended to increase earnings, operations and activities of the businesses. However, if not managed well they can result in both financial and strategic losses, and may damage the businesses reputation. It is important to analyze, evaluate and assess the risks we take and to manage them systematically. The essential key element of managing risks is to correctly balance risk and opportunity or reward, because the acceptance of disproportionately high risk can have significant impacts on the business activities. In our own business, we need to take the correct balance between risks and potential opportunities; to maximize our upside risk (opportunity) and minimize our downside risk. Our businesses to be a profitable we need to manage risks appropriately, not to try to eliminate or avoid it, as, in any case, that simply is not possible. It is therefore essential that we understand the major risks to our business operations to be able to manage them to reach our business objectives and goals.

1.2.2 Why managing risks important?

The primary goal of managing risks is to insure uncertainty does not deflect the endeavor of reaching the businesses goals and objectives. Risk management is an important in the formation of business goals, because if the business defines goals without taking a consideration of the future risks it is possible to lose the direction when the risks affect to it. Clear and effective understanding of the risks and uncertainties facing the business facilitates effective resource allocations, and encourages and promotes effective management culture, which can solve the problem and uncertain events before they become risks, and finally minimizes the impact of the risk exposure.

1.2.3 How best can we manage risks?

Risk management as the other management systems, it consists of processes and stages, so in order to manage our business risks we have to follow the stages and process of the risk management system. It must be integrated into the normal operating procedures and processes of the business; it must be driven from top to down of the business and be recognized as the responsibility of everyone in the business. Top level managers are responsible in coordinating, demonstrating and implementation of the risk management. They also have the last decisions of how the information generated from

the risk management process could be used (insurance commission of western Australia 2011).

Risk can be managed in one of two ways: by analyzing each identified risk situation and taking specific measures that adapted to each one, with the large participation of the management in risk management, or by using more general analysis to establish security goals and guidelines in order to globally reduce risk without managing it through direct and personalized means and likely with less management participation of the process. In an ideal risk management, a prioritization process is also important whereby the risks with the highest loss and the highest probability of occurring are managed first, and the risks with the lowest probability of occurrence with the lowest loss is managed later (chartered accountants), but the process of balancing of risks with high loss but less probability of occurrence to the risk with a low loss but high probability of occurrence is not a simple task, because it could be mismatched.

1.2 Risk measurement

Risk and uncertainty have been a part of human activity since its beginnings. In the ancient time, events with negative consequences were attributed to divine providence or to the supernatural. The responses to risk under these circumstances were prayer, sacrifice (often of innocents) and an acceptance of whatever comes. No measure of risk was therefore considered necessary because everything that happened was pre-destined and driven by forces outside of our control. The advances of knowledge over the last few centuries and our shift to more modern, sophisticated ways of analyzing, assessing and evaluating uncertainty does not change the belief that powerful forces beyond our reach shape our destinies. Because some of the traders who use modern sophisticated computer models to measure risk, consult their religious and astrological charts when they confront with the possibility of large losses, but what is change is that we accept some risks arise from our business operations, decisions, or from other factors that we can able to prevent, minimize, mitigate, measure or manage their negative consequences. These new modern risk measurement models enabled us to choose between the risks, and take the ones which has the least loss and highest opportunity.

The discussion of risk measurement was initiated by Luca Pacioli, by posing a puzzle in 1494 that befuddled the people for almost two centuries. The solution to his puzzle and subsequent developments laid the foundation of risk measurement models. The modern study of risk measurement started in 1973. That year saw both the collapse of the Bretton Woods system of fixed exchange rates and the publication of the Black-

Scholes option pricing formula (J. Linsmeier and D. Pearson 1999: 3). Between 1970s and 1980s, some of the large financial institutions began to use on internal models of measuring and aggregating of risks of the whole institution (Dowd 2002: 10). They began using on these tools or models first for their own internal business risk management purposes. The most popular of these systems is the Risk Metric system developed by JP Morgan, called Value –at –risk and we will discuss in the next chapters of this thesis.

1.2.1 Risk measurement before VaR

In order to understand the modern risk measurement, we need first to mention the more traditional and ancient risk measurement tools. One common approach was a gap analysis, which was initially developed by financial institutions to give a simple, idea of interest rate risk exposure (Sinkey 1992: 12). Financial institutions traditionally used to measure for interest rate risk a method called duration analysis (Fabozzi 1993: 11-12). Duration analysis can be defined as the weighted average term to maturity of the bond's cash flows, where the weights are the present values of each cash flow relative to the present value of all cash flows (Dowd 2002: 6). The third approach is the scenario analysis (or 'what if' analysis), which is the process of estimating the expected values of a portfolio value after given period of time, assuming a specific change in the values of the portfolio's securities or key factors that would affect security values such changes in the interest rate (www.investopedia.com/terms/s/scenario_analysis.asp). The fourth approach is derivative risk measures; are Greek words, which are important tools for risk measurement, each word measures the sensitivity of the value of the portfolio to a small change in a given underlying parameter like, gamma, delta, Vega, rho and etc.

1.2.2 Portfolio theory

Another different approach of risk measurement is provided by portfolio theory. Portfolio theory is developed by Harry Markowitz, an American economist in the 1950s. The advantage of the portfolio theory is that it allows investors to analyze at risk relative to their expected earns or values. Markowitz, was a professor at Baruch College at the City University of New York, he shared in the 1990 Nobel Memorial Prize in Economic Sciences with William Sharpe and Merton Miller for his work of portfolio theory. Portfolio theory today is one of the well known theories of risk measurement, and it is called Modern Portfolio Theory, (MPT). Modern portfolio theory is a theory of investment which attempts to minimize a portfolio risk for a given level of expected return, or maximizes the expected return of the portfolio for a given level of portfolio risk, by choosing a various asset's proportions (Iyiola, Munirat and Nwugo 2012: 20). The standard deviation of the

portfolio return is used to measure the portfolio's risk (Dowd 2002: 5). For that reason when the investors making an investment they like a portfolio whose return has the highest expected value, and low standard deviations. Or other words an investor usually likes to choose a portfolio that minimizes the standard deviation for any given expected return, or alternatively maximizes expected return for any given portfolio standard deviation. If the portfolio has a higher expected return and low standard deviation it is efficient and all the rational investors choose that one. But normally the highest expected return portfolios are riskier than others. Therefore the investors need to make more extra analysis and assessment about the portfolios that they are choosing. Risk scared investors choose a safe portfolio with low standard deviation and low expected return, but the less risk scared one chooses a portfolio with high standard deviation and high expected return.

CHAPTER 2 RISK CATEGORIES

The risk management's main objective is to avoid unpleasant surprises that may affect the businesses. So in order to avoid unpleasant surprises a comprehensive list of identifying risks is required. Categorizations of risks are a specific way of grouping risks into a common area, in order to provide a structured and systematic approach of dealing with risks to a consistent level of information (Babou 2008). Categorization of risks is an important because it allows a business people to identify tools, policies and procedures to measure and manage risks that may face their businesses. A good set of risk categories enables managers/owners to focus on and increase the opportunity of measuring and managing risks.

It is impossible to develop one size fit for all risk categories of all businesses, because mostly every business faces challenges or risks that vary from the other business's risk. And the sources of risks are also uncountable. Some of the risks that most of the businesses have in common can be classified into the following sections:

2.1 Internal risks and external risks

Internal risks are those risks which arise from the events taking place within the business (Citibank 2000: 20). Such risks arise during the ordinary course of a business. These risks can be forecasted and the probability of their occurrence can be determined. Hence, they can be controlled by the firm to an appreciable extent or to an acceptable level. The various internal factors giving rise to such risks are: firm's production technology, education, skills and experience of the human resource, the weight of the debt funds of the financial structure, liquidity requirement, misunderstanding of the employee and employers, and physical factors (Bolak 2004).

External risks are those risks which arise due to the events occurring outside of the business organization (A. Horcher 2005: 24). External risks are generally beyond the control of the firm. Hence, the magnitude of these risks cannot be forecasted and their probability of occurrence cannot be determined with accuracy. External risks or environmental factors are the change of factors that occurs outside of the business control, and affect the overall risk level of the business (Bolak 2004). The various external factors which may give rise to such risks are:

- Economic factors are the most important causes of external risks. They result from the changes in the prevailing market conditions.

- Natural factors are the unforeseen natural calamities over which a firm has very little or no control.
- Political factors have an important influence on the functioning of a business, both in the long and short term.

2.2 Systematic and Unsystematic Risks

Systematic risk refers to the risks face of the entire market and cannot diversify away (Chauhan 2009: 6). Changes in the macroeconomic factors affect the systematic risk. Systematic risks also known as market risk exists, because there are systematic risks within the economy that affect all the businesses. Systematic risk influences a large number of firms or industries simultaneously, and cause stocks to tend to move together, which is why investors are exposed to them no matter how many different companies they own. Systematic risk causes of changes in the social, economic and political environment changes, its main sources are interest rate risk, market risk, political risk and foreign exchange rate risk (Başoğlu, Ceylan, and Parasız 2001).

Unsystematic risks are risks specific to a particular type of investment, company or business (Chauhan 2009: 6). Unsystematic risks can be managed through portfolio diversification, which consists of making and investments in a variety of companies and industries. Diversification reduces unsystematic risks because price of individual securities does not move exactly together. Unsystematic risks refer to the risks of associated with an investing in a business, or company. Buying shares of a business in the stock market, means taking all the risks of that business may faces.

Unsystematic risks include: the risk of fire and damage to the property, the risk of losing a key senior management personnel to death, the risk of a substitute product, the risk of losing the market leadership position, and all the risks those are specific to the firm. Unsystematic risk is unique to this company or industry. For example, the risk of food manufacturing company doesn't transfer to clothing manufacturing company; it is unique only the food manufacturing company. The main sources of unsystematic risks are; financial risk, management risk, labor strikes risks, research and development risks, business and industry risks, etc. Systematic risk are the asset's price movement caused by a change in the market as a whole, and unsystematic risk is an asset's price movement caused by factors or variables unique to the company or the industry itself.

2.3 Financial and strategic risks

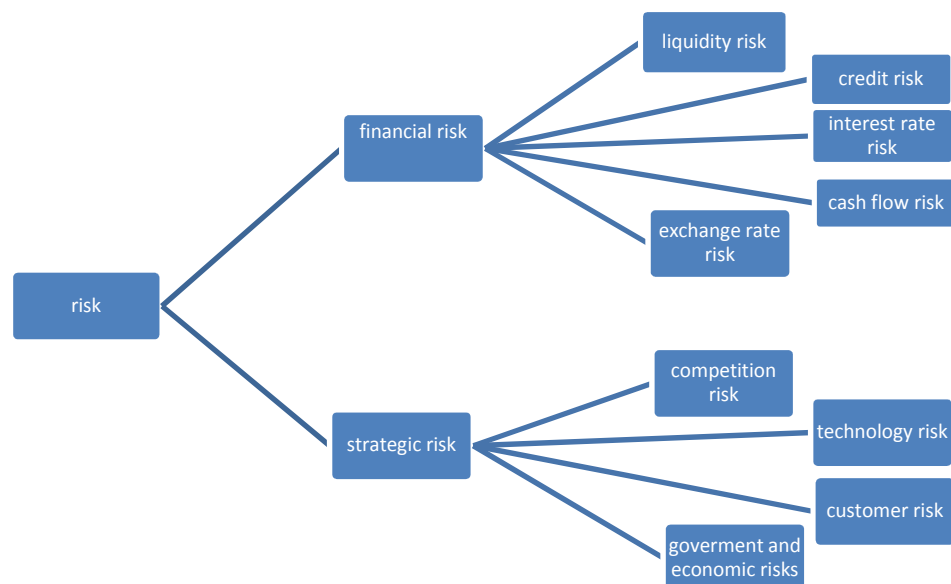
Financial Risk is one of the major risks that affects of every business across the fields and geographies. Financial risks arise through countless sources of financial nature, including sales and purchases, investing and loans, and various other business activities. It can arise as a result of legal transactions, new projects, mergers and acquisitions, debt financing, the energy components of the costs, or through the activities of the management decisions, stakeholders, competitors, foreign governments and more other sources (Chauhan 2009: 9). Major financial risks arise out of changes in the market prices such as foreign exchange rate, interest rate, commodity price, and also credits, liquidity, and cash flows (A. Horcher 2005: 23). The interactions of several risks can alter or magnify the potential impact to the business. For example the business may have interest rate risk and foreign exchange rate risk, if both move adversely the business may suffer significant loss as a result. Financial risks exist when a business's cash flow are not enough to pay the creditor's liability and fulfill other financial duties (Napp 2011: 13). Financial risk, is therefore, relates less to the business's operations and more to the amount of debt a business incurs to finance those operations. So as the debt of a business owes increases, the financial risks also increase.

Strategic risks are those threats that materially affect the ability of an organization to survive or reach its goals and objectives (Allan and Beer 2006: 3). The reason that the managers and owners of the companies take strategic risk is that they believe that they can exploit these risks to advantage and generate value. Strategic risks arise from unexpected events or conditions that significantly affect the performance or the outcomes associated with the business strategy (Bracken 2008: 302). Strategic risks are those that arise from the fundamental decisions that top level managements take concerning an organization's objectives and goals. Essentially, strategic risks are the risks of failing to achieve these business objectives. There is no an internationally agreed type of strategic risks, so in this study, we will classify strategic risks into government and economic factors risk, competition risk, customer risk, and technology risk.

In this paper risks will be classified and categorized into two groups financial and strategic risks. These two groups of risks are the most important risks that affect SMEs, as the Napp (2011: 14) mentioned in his book of risk management, more other studies also support his idea. So the rest of this paper, we will discuss more about the subgroups of this two risk groups and their measurement and management tools and approaches.

As we mentioned above, major financial risks arise from foreign exchange rate risk, interest rate risk, credit risk, liquidity risk, and cash flow risk; so in the next pages we will look deeply these risk sources.

Figure 1.1: Financial risk categories



2.3.1 Liquidity risk

We cannot measure and manage what we do not understand first. Any understanding of the liquidity risk must start with an understanding of the key characteristics of the liquidity risk. It is important to note that liquidity is different from liquidation, capital, and cash flow movement of the business. Liquidity refers to a company's ability to pay its bills from cash or from assets that can be turned into cash very quickly. Liquidity risk may be defined as the risk that a firm, through solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost (Bartlett, Kelliher, Chaplin, Dowd, and O'Brien 2005:46). Liquidity risk is the risk that a business may not be able to meet its commitments when they become due at a reasonable cost (Murphy 2007: 338). Liquidity risk is a secondary risk in the sense that liquidity risk increases always follow one or more other financial risks. For this reason liquidity risk is often called a 'consequential risk'. Because it is hard to imagine that a business can have liquidity problems, without having incurred earlier severe losses due to market risks, cash flow risk, credit or operational risk (Matz and Neu 2007: 16). Liquidity in general is simply the ability to access when cash

needed, but, liquidity risk for a business is more specific. Liquidity risk is the risk where financial and nonfinancial institutions will not be perceived as having sufficient cash, at one or more future periods in time, to meet such requirements (Matz and Neu 2007: 15). Financial and non financial firms do not feel equally of the liquidity risk, financial institutions feel the most and it affects the most, because the financial institution's business is mostly liquid.

Liquidity risk can have a severe impact on business operations, and its market access which can reduce or even impaired business activities due to reputation risk and short term funding capabilities. Financial institutions have realized that adequate system and processes for identifying, measuring, monitoring and controlling liquidity risks helps the business to maintain a strong liquidity position, which in turn will increase the confidence of investors and customers, and improve funding availability (Matz and Neu 2007: 25). Furthermore, financial institutions also recognized the importance of liquidity for the stability of the financial system and strive to minimize the impact of liquidity failures on the system of the business as a whole. Financial institutions cannot survive unless fund providers have confidence that they can get their funds back. Like the banks, liquidity is very important for the clothing stores in Somaliland, because they buy all the goods for cash, from China, Dubai, Yemen, India and everywhere in the world, so that if the store doesn't have a cash on hand it is impossible to find the products that it needs to sell to the customers and to continues it is operations so this is causing both its reputation and business operations to decrease.

Liquidity risk arises in any situation of the business where assets and liabilities are not completely matched. In financial institutions, average liability durations are often shorter than the average asset duration and some forms of the funding used, such as deposits, can be withdrawn at short notice, these give a rise to a risk as a decline in confidence makes funding expensive or even impossible to obtain (Murphy 2007: 338). Liquidity risk also arises when the firms financed for liability to buy and resale a product but fails to sell the product before the duration of the liability. Specificity is required for sound understanding, measuring, and managing liquidity risk, so the best liquidity risk categories or segments are; market liquidity risk and funding liquidity risk.

It is an important to be understood the difference between liquidity and Liquidation. The fact that almost of a firm's asset can, eventually, be converted into cash to pay off all obligations is related to its liquidation values, not its liquidity. Liquidity is the ability to efficiently meet present and anticipated cash flow needs without adversely affecting daily operations of the business (Matz and Neu 2007: 16). Liquidity usually refers

to a company's ability to pay its bills when they become due (www.accountingcoach.com). So the business managers/owners need enough liquidity to keep away from liquidity risk causing or contributing to, a business failure. Liquidity is often evaluated and measured by comparing a company's current assets to its current liabilities. Working capital, the current ratios, and the quick ratios are referred to as liquidity ratios, or short-term solvency ratios, since their calculations use some or all of the current assets and the current liabilities. Sometimes a company's accounts receivable turnover ratio, inventory turnover ratio, and free cash flow are also used to assess a company's liquidity. But liquidation is a term commonly used when a company sells parts of its business for cash, or when it sells assets in order to pay debts. Liquidation may also involve the winding down or the closing of a business (www.accountingcoach.com). As we understood from the definitions, measuring and managing of liquidity risk of clothing industries and every business is an important for keeping the reputation of the business and to continue business activities.

2.3.2 Definitions of exchange rate risk

To reduce the firm's vulnerabilities from the movement of the exchange rate, measuring and managing of the exchange rate risk is an important. Exchange rate movement could negatively affect the profitability and the asset value of the business (Papioannou 2006: 6). A common definition of exchange rate risk relates to the impact of unexpected exchange rate changes on the value of the firm (Madura 1989: 38). In particular, it is defined as the possible direct loss (as a result of unhedged exposures) or indirect loss in the firm's cash flows, assets and liabilities, net profit and, in turn, its stock market value from an exchange rate movements (Papioannou 2006: 4). To manage the foreign exchange rate risk related in business activity, risk management personnels need to know the type of current risk, managing strategy and the available instruments to deal with these exchange rate risks.

Exchange rate risk is an important factor of financial risks, and it has a high impact to the clothing stores in Somaliland and it affects both as locally and internationally, because clothing stores take clothes from the abroad countries and any change that happens to the currency of one of those countries has a direct affect to the clothing stores in Somaliland. Exchange rate risk affects the cash flow of the stores including, receivable, payable, checks, and cash on hand. What is particularly important here is that process of selling and buying of the clothes in Somaliland undergoes at least three different currencies, because clothing stores sales the clothes in Somaliland shillings, dollar or Ethiopian currency (BIR) and when they are ordering the clothes they send dollar but every country sales its clothes for its currency. So there is always a

chance that the purchasing power of the invested money will decline or that the real return will decline due to exchange rate risk. The return expected by the investor (store) will change due to exchange rate movement. So lastly, we can say the exchange rate affects every person in the world where ever he/she is, but it affects severely on clothing stores in Somaliland, and in the following chapters we will look how the clothing stores in Somaliland measures and manages on their foreign exchange rate risk, and also in the last chapter of the study, we will make recommendations.

2.3.3 Interest Rate Risk

One of the most effective financial risks is the interest rate risk, because the changes of the interest rate can affect businesses in a various directions (Phillips 1995: 273). For example the business may have debt, loan or bank overdraft finance, that are based on the market interest rate movement, so as the market interest rate varies the interest payable on the borrowings based on the market interest rate also changes. For that reason, if the business is financed by a debt which is based on market interest rate, the business gets losse when the market interest rate increases, and is vice versa when it decreases. The decline of the interest rate may also cause problems or losses for example, if a business has a cash surplus and invested it in a bank or business, when the interest rate decreases the interest income of the business of the invested money also decreases. Another factor that the interest rate movement may cause a loss or risk of the business is that, when the interest rate increases the customer's interest payable increases, so that customer's consumption or customer's purchasing power decreases because they have a small money to buy something, so they buy less. In the last we can say when the interest rate increases the suppliers of the goods also increases the prices of their products to cover the cost they incur, because the increase of the interest may increase both the input cost and also the interest payment on the finance. It also encourages customer to postpone their purchases or shift to another alternative product or services (Hellier, Dhanani, Fifield and Stevenson 2005: 10). This last point has an effect in the clothing stores in Somaliland, where the interest is not used in, but the change in the interest rate of the world causes suppliers to raise the prices to cover the increase in their funding costs, because clothing stores in Somaliland take all the clothes from the abroad countries, so that a change in the interest rate of the world affects to the clothing stores in Somaliland, and this causes the price of the clothes to increase or decrease.

In Somaliland there is an Islamic business system, which is free of interest rate, so the interest rate risk affects Somaliland businesses very slightly (only supplier's effect).

Islamic financial banks and businesses provide products based on the profit, loss and risk sharings among the parties of Islamic partnership due to the rejection of receipt or payment of interests (Taqi 2008: 9). So in Islam is illegal or unlawful to lend the accumulated surplus (savings) based on interest, whether for commercial purposes or personal purposes. People can invest their surplus in trade, industry, manufacturing or providing a capital to others and participate in by sharing profits, losses and risks of the businesses established. This facilitates the circulation of money in the community and therefore, contributes to fair distribution of wealth, other ways few people will be rich and most of the community will be poor. In the Islam social benefits are more essential and preferable than individual benefits. Through interest rate, the capital collects among the hands of few investors and limits the circulation of money between community. Because the contracts based on interest rate make one party with a little risk and the other party with greater risk. Islam protects the wealth of the community, both the loaner and borrower for that reason Islam encourages loans without interest, but the partnership is preferable for investors and all parts share profits, losses, and risks.

2.3.4 Credit Risk

Credit risk is the risk of an economic loss from the failure of counterpart to fulfil its contractual obligations in accordance with the agreed terms (Philippe 2009: 431). Counterparty credit risk consists of two parts, pre-settlement and settlement risk. Pre-settlement risk is the risk that a counter party to a transaction will not settle during the life of the transaction or at the end of the deal. In contrast Settlement risk exists only when the principal cash flows have been exchanged, but the delivery of the asset has not occurred yet. Settlement risk is much shorter term nature, and it is greatest when the payment occurs with a different time zone of different notions, but pre-settlement risk exists over a long period started at the contracted time to the settlement period. The history of financial institutions has also shown that the biggest banking failures were due to credit risk. Credit risk involves the possibility of nonpayment, either on future obligations or during a transaction. Government's institutions borrow to do service to their communities, large businesses borrow to make acquisitions and grow and small business borrows to expand their capacity, or market share, and millions of individual use a credit to buy homes, cars, boats, clothes, foods and more other things, so credit is a powerful tool for the economic progress. Most of the credit has interest, which in intends to recover the losses from the credit, but what is important and interesting here is that in Somaliland there is a credit without cost, you can borrow what ever you want even money and bring back when you want without interest. That means Somaliland population uses Islamic and traditional

credit methodology. So that is why the researcher selected this topic to know the best way that can be managed and measured the financial and strategic risks of clothing stores in Somaliland.

Credit risk arises whenever a lender is exposed to loss from a borrower, counterpart, or an obligor who fails to pay their debt obligation as they have agreed or contracted (Colquitt 2007: 42-45). Credit risk exists whenever an individual takes a product or service without making immediate payment for it. Typically the risk of credit-related losses refers to the types of business transactions that is contracted for and can occur from a variety of credit loss scenarios. The most obvious is the failure to repay interest or principal on a direct or contingent loan obligation. Credit loss can also occur from failing to honor or repay reciprocal financial agreements that still have some economic value, such as credit derivatives contract. Finally, credit loss can occur from a decline a borrower's credit quality that results in a loss in the value of the debt obligation.

In order to have a good knowledge of credit risk and credit risk management, we have to understand these terms; the term exposure refers to a party that may possibly default or suffer an adverse change in its ability to perform. Recovery value stands how much can be retrieved if a default takes place or simply it is used to define the value to discover credit event. Likelihood demonstrates the probability that a default may happen. The larger of exposure and likelihood the greater the risk, on the other hand the higher the amount that can be recovered or recovery value.

2.3.5 Cash Flow Risk

Cash flow is the life blood of all business activities and is the primary indicator of business health (Matt H. Evans 2008). Cash flow is the measure of the business's ability to pay overheads such as rent, insurance, wages and cost of materials. Cash flow is the movement of money in and out of the business (Sabbadini and Lim 2011: 1). The effect of cash flow is real, immediate and, if mismanaged or not managed, it is very unforgiving. Cash needs to be monitored, protected, controlled and put to work.

Cash flow risk is the risk that is caused by the cash excessive or cash deficient (Matt H. Evans 2008). Effective cash flow management is the key business skills and will help protect the financial security of the business. The theory behind the cash flow management is to hold the right amount of cash. If we hold too much cash, we lose the opportunity to earn a return on idle cash. If we hold too little cash, we run the risk of not making timely payments to suppliers, banks, investors and other parties. So it is efficient to have an optimal cash balance that is neither excessive nor deficient. In order to prevent

or to decrease the effect of the cash flow risk, business manager and owners must sure that all obligations are paid on time, doing everything you can to collect cash as quickly as possible, and not holding excessive cash balances.

Despite the fact that cash is the lifeblood of a business and the fuel that keeps the engine running, most business owners don't truly have a handle on their cash flow, as said Philip Campbell, a CPA and a former chief financial officer at several companies and author of *Never Run out of Cash, Grow & Succeed* Publishing, 2004. He also said "Poor cash-flow management is causing more business failures today than ever before".

Academic studies over the last years have found that cash flow problems can be one of the leading causes of failure for businesses, because an effect of cash flow is real, immediate and, if mismanaged or not managed, it can cause severe problems. A study reported in August 2009 from Equifax, the credit reporting agency, found that bankruptcies among the nation's 38 million small businesses leaped by 79 percent between June 2009 and June 2010 was caused by risks arose from mismanagement of cash flows. While the U.S. Small Business Administration (SBA) estimates that about 650,000 new small businesses are launched each year, a 2007 study reported at the U.S. Bureau of Labor Statistics' Monthly Labor Review indicates that two-thirds will only survive two years, 44 percent survive four years, and 31 percent survive for at least seven years. Scholars have found over the years that insufficient capital is one of the main reasons for small business failure, coupled with lack of experience, poor location, poor inventory management and over-investment in fixed assets, according to the SBA ([http://www.charter financial group.org/how-to-manage-cash-flow](http://www.charterfinancialgroup.org/how-to-manage-cash-flow)).

2.3.6 Competition's Risk

Effective competition properly is good for the customer because it delivers lower prices, better quality goods and services and greater choice for consumers. Competition can create a strong motivation for firms to be more efficient and to invest in innovation, thereby helping raise productivity growth and also market share growth. But that does not mean every company is benefiting from the competition. Competition is one of the most popular risk carries or drivers. Because usually when the companies compete for the customers some of them succeed and others lose. For that reason some of the researchers like H. Boyd, De Nicoló and M. Jalal (2009: 13) argues that reduced competition has been considered business stability, but Competitive pressures from other firms and new entrants lead firms to look for better, more efficient ways to organize their business activities. Lack of effective competition could lead firms and managers to

operate with inefficient business models and technology as firms are unlikely to lose profits, market shares and etc.

Competition is the process of rivalry between firms striving to gain sales and make profits, and also is the driving force behind markets (S. Bressler 2009: 7). So efficient and effective risk management of the competing companies is an important. It is essential to know where your company is strong and where it is weak and how to foster to be a more effective competitor in the market.

An excessive competition among Somaliland clothing stores threaten the effectiveness and stability of some of the stores, the competition encouraged the managers and owners of the stores to take a riskier policies in an attempt to maintain its former profits or to increase (Abdi Hakim, Jamuriya news, Vol, 544). Examples of the riskier policies are taking more credit risks, increasing the sales on credit, and lowering selling prices, these riskier policies increase the probability of high risk ratio and more business bankruptcy, because In Somaliland there is free of interest credit, and mostly no credit limit and also no credit return fixed time. So it is very risk to make sales on credit, because mostly 30% of the credit will be a bad debt and will not return to the business. Clothing stores in Somaliland compete in price, product, quality, and also customer services. In general, there is no common competition risk management in Somaliland clothing industry.

2.3.7 Technological Risks

Technological risks may affect assets and processes vital to the business and may prevent compliance with regulations, impact profitability, and may damage a company's reputation in the marketplace. Technology risk can be a result from human error, or malicious intent. Protecting information assets like operational, financial data, customer data, and intellectual property personally, identifiable information, or protected health information is only the beginning. It's also important to identify and verify events such as data breaches, network failure, electronic fraud, and other suspicious activities before they result in fines and expenses, damage of the business's reputations or personnel reputation, prevent from reaching business goals, or even lead to a lawsuit. Having integrated information technology increases efficiency and promotes business relationships to save time and reduce costs (SyndiGate Media Inc. 2015). Today's modern business processes, technology takes part the whole activities of the business. For example, we use technology in the production department, finance department, sales department, and mostly every department in the business, so that IT risks cannot be

compartmentalized as risks that affect only special parts of the business, like the information technology department, or the production department. Understanding the role that technology plays in the core business operations, establishes the framework for understanding where relevant technology risks lie. Technological risks are present throughout the company and must be addressed as a whole.

In Somaliland technology has changed businesses in many ways. But it affects clothing stores at the side of the advertising, accounting, and communication. Whether you need to speak with an employee who is travelling in another state or country or you need to communicate with your supplier half way around the world, technology allows you to do so instantaneously. Technology allows the clothing stores to contact their supplier or dealers or workers in China, Dubai, Yemen, India, within seconds and even they send the samples they want through We chat, vibre, Skype and emails, and that are eliminated or decreased the risk of misunderstandings or wrong orders. Technology has allowed clothing stores in Somaliland to make a business relationship with customers without ever meeting face to face. Technology helps at the side of record keeping, accounting, auditing and control. Clothing stores can use technology to reduce costs. However, there are more risks and impacts of the technology on the clothing stores. Some of the technological risks are; viruses, malware, and Spams that collapse the computers and system which record the data. Human errors: incorrect data processing, careless data disposal, or accidental opening of infected email attachments, hackers: people who illegally break into computer systems, fraud: using a computer to alter data for illegal benefit, and passwords thefts, all of these are technology risks so measuring and managing technology risks are important. Anyway new technology is the key to create innovative, cost-efficient, and competitiveness of the companies in the long-term.

2.3.8 Government and The Economic Factors

In this category, the risks arise of the businesses independently. However, they affect the businesses to reach their objectives and goals. This risk category includes legal regulations, economic and political changes, security, and corruption. So measuring and managing of these risks strategically is very important, in order to ensure stability and reduce threats, because businesses avoid incidents that may cause losses. Stability is very important for the continuity of the business. Additionally, investors prefer financially and strategically stable companies or businesses. So measuring and managing of government and economic risks reduces unwanted and unexpected negative changes in

annual profits/income and encourages the expansion and competitiveness of the companies.

Maplecroft's base is Bath, United Kingdom and is a strategic and global risks consultant firm. Its work is to analysis, assess, and estimates economical, social, environmental and political risks affecting the world businesses. It makes a risk analysis in every country in the world. Its latest Country Risk Report for Somalia provides in-depth analysis of the risks facing companies investing in one of the world's most challenging operating environments (Somalia). It provides a comprehensive breakdown of the challenges posed by current political dynamics, the security climate, legal and regulatory developments, the human rights landscape and risks stemming from natural hazards.

Maplecroft's lastest report mentioned that In the autonomous region of Somaliland, compared to Somalia has a more advanced institutional capacity and rule of law, provides a more stable investment environment. However, the multiplicity of rival administrations and growing demands for regional autonomy across Somalia generates major legal uncertainty for investors. Meanwhile, corruption risks will remain pronounced for the foreseeable future, presenting potential legal and reputational repercussions for companies. Somaliland's low socioeconomic resilience and inadequate capacity for disaster response exacerbates the potential impact of natural hazards on business continuity. Flooding, particularly in western Somaliland, and bad roads in eastern Somaliland, is likely to undermine the efficient distribution of goods and services (www.maplecroft.com).

2.3.9 Customer's Risks

Customers (sometimes know as clients, buyers, or purchasers), are the recipients of goods, services, products, or ideas obtained from the seller, vendor or the supplier for a monetary or other valuable consideration (<http://en.wikipedia.org/wiki/Customer>). Satisfying the customers is the most important target of every company, so customers are a part of social forces in the macro environment affecting the business (www.globalmarket.com). Since the customers are the users of the products and services, they have a strong effect for the companies. In today's world of marketing, it is known that customer retention is more profitable and less risky than attracting new customers. Customer retention requires a continuous customer satisfaction; because if the customers leave the business that will be the most risky thing of the business and it is causing many other risks including both financial and other strategic risks. Poor customer services typically results in fewer customers, which

translates into lower sales and profits for the business. The most famous problems arise from the bad customer services are; loss of profit, loss of current customers, loss of future customers, and loss of reputation.

However, clothing stores of Somaliland are more vulnerable to the customer risks, because clothing stores by nature are open to failures. Since clothing stores sell fashions, before they order the clothes, they must do more analysis, about the designs, qualities, styles and even the colors of the clothes that they are ordering in order to reduce or minimize a loss from the orderings. At some times it happens that huge amount of clothes are not sale by the customers, and that causes the store to bankrupt or become impossible to work for long. Stores can use reactive and proactive strategies to mitigate the negative effects of product failures. Customer risks can be decreased or prevent by keeping the customers satisfied.

CHAPTER 3 RISK MEASUREMENT AND MANAGEMENT

There are different types of risk measurement tools and also management approaches so in the next section we will discuss some of these tools and approaches.

3.1 Risk Measurement

One of the most critical steps of risk management is the measurement of risk, to have a good risk management we have to measure it first. Risk measurement is an evaluation of the likelihood and extent (magnitude) of a risk (business dictionary.com). Attempts to measure risk involves estimating the probability of an adverse event occurring and its potential impact to the business activities (A. Harchar 2005: 205). Risk is one of the most effective matters that affect how managers and investors make decisions, so to measure the risks is one of the most critical steps of risk management. In the previous history, human beings attributed negative events by the super power (Allah) or divine providence and therefore made little efforts to measure it quantitatively. The idea of risk measurement started in 1494 by Luca Pacioli. Modern era of risk measurement began between 1970s and 1980s, when it was developed the modern risk measurement tools. The idea has been developing day after day, and more risk measurement tools developed, but still many big companies who use sophisticated modern risk measurement tools, face severe risks, because if God has decided to punish you no risk measurement tool or risk management product can protect you from the retribution.

In order to make better risk measurement the firm must analyze, assess and identify all the possible risks that it is confronted to reach its objectives. Risk measurement is a process of preventing unexpected losses from the uncertainty (Henschel 2007). Risk can come from many different places, including internal and external environment of the firm, and there are hundreds of different types of risks, but, this study is intended to study only financial and strategic risks, which are the most effective risks that affect the clothing industry in Somaliland as the researcher believes.

3.1.1 Risk measurement tools

During the 1970s and 1980s, a number of major financial institutions started working on internal models to measure and aggregate risks across the business as a whole. They started work on these models in the first for their own internal risk measurement and management purposes and as the firms become more complex, it was becoming increasingly difficult, but also increasingly important, to be able to measure,

evaluate and aggregate risks of the business (Dowd 2002: 6). The best known of these models is the risk metric system developed by JP Morgan (one of the famous banks in the world). This system is originated when the chairman of JP Morgan, Dennis Weatherstone, asked his staff to prepare and give him a daily report of explaining and indicating the risks and the potential losses which are possible to happen over the next 24 hours, across the bank's entire trading portfolio. This report was given to him at 4:15, every day, after the close of trading activities. In order to meet this demand, the Morgan staff had developed a system to measure and aggregate all risks across different business sections, across the whole bank and also aggregate these risks into a single risk measure. As the Kevin Dowd mentioned in his book of an introduction of market risk measurement; these risk measurement tools used by JP Morgan's staff was value –at –risk (or VaR). Other modern risk measurement tools include volatility, expected shortfall and more others. Risk measurement tools used before value – at – risk (VaR) method were a Gap analysis, duration analysis, scenario analysis, portfolio theory, and derivatives risk measures (Dowd 2002).

3.1.2 Financial Risk Measurement Tools

Financial risks cannot be measured directly, but has to be inferred from the behavior of the observed market prices (Danielsson 2011: 73). This means financial risk measurement is not an easily work, because it is not a something that you can feel on the surface like heat or cold and it is not something that you can see or account directly like the profits or losses of the business in the trading day, but it is a something that needs more assessments, analysis, observations, uses of estimations, assumptions, probabilities and statistical modelling. We will discuss three risk measurement tools below: volatility, value at risk, and expected shortfall.

The objectives of risk measurement tools are to give decision makers a full information about the company's present and potential losses and risks that can come from the surrounding environment. As we saw in the above pages there are many different tools used to measure risk, so the selection and the use of tools is based on how well it measures on the intended task, so if a different risk measurement tools give us with a same outcome or results we take the one which easiest to use; on the other hand if they give us with a different results or answers we have to think more carefully about which one to use.

3.1.2.1 Volatility

Volatility or standard deviation of return is one of the most popular tools used for financial risk measurement analysis. This tool is sufficient as a risk measure when the financial returns are normally distributed, because all the statical properties of normal distributions are covered by mean and variance. But the normality of the distribution returns is mostly violated, if not all returns. For that reason the use of volatility as a risk measure may lead to wrong or misunderstanding conclusions (Danielsson 2011: 75). The other imperfections of volatility method include the fact that upside movement is considered as just risky, as the downside movement (risk) (David Harper 2006). To know or calculate the future volatility of our financial we need to use historical volatility. So in order to calculate the future volatility we need to take two steps, 1) calculate a series of periodic returns, and 2) to choose weighted scheme. Weighted scheme is the decision on the length (size); how long do we want to measure the daily volatility of our financial over the last 30 days, 360 days, or the last 5 years?

3.1.2.2 Value –at –risk

Value at risk is a single, summary, statistical measure of possible portfolio losses (J. Linsmeier and D. Pearson 1999). Value – at – risk is abbreviated VaR, also defined as the maximum loss expected over a given period of time with a given confidence level (Philippe, 2006:76). In all most losses greater than the value- at – risk are suffered only with a specified small probability. Apart from the difficult of calculating, understanding and using of statistical and probability assumptions used in its calculations, value at risk summarizes all of the risks of the portfolio into a single number suitable to decision making, forecasting the future, estimation of potential losses and reporting to regulators, or disclosure in an annual reports etc. So calculating of the statistical and probability assumption of VaR is difficult, but after the calculation it gives us an important information and confidence that we can base our decisions, because it is a simply way to describe the magnitude of the likely losses on the portfolio. For example, if 99% one-day VaR of security is 5%, this means that it estimates for the next one-day period, there is a 99% chance that security does no lose more than 5% of its value. Value at risk has become one of the most effective tools used to measure financial risk because of its logical simplicity, computational facility and its applicability. 1% and 5% are the two most common probability levels but a numbers which are higher and lower than these can be used in practice. Value at risk answer the question “How much a portfolio position can fall in a values over a certain time period with given probability? (Philippe 2006: 77).

Value –at – Risk is a quantile on the distribution of profit and loss (P/L). The profit and loss (P/L) of an investment portfolio is indicated by the random variable Q , with a especial realization indicated by q . if we have one unit of an asset, P/L of the investment portfolio would be indicated by this formulas:

$$Q = P_t - P_{t-1}$$

In generally, if the portfolio value is ϑ :

$$Q = \vartheta Y$$

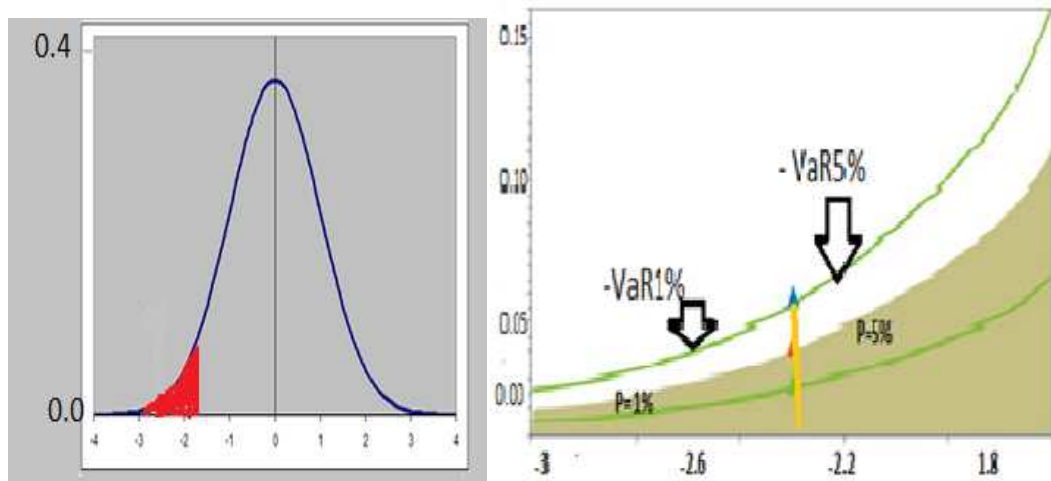
That is, the P/L is the investment portfolio value multiplied by the returns. The density of the profit and loss P/L is denoted by $f_q(\cdot)$. VaR is then given by:

$$Pr[Q \leq -VaR(p)] = P \quad (1)$$

$$P = \int_{-\infty}^{-VaR(p)} f_q(x) dx. \quad (2)$$

Although VaR represents the loss, it is reported as a positive number, but if it is reported as a negative number it is indicating that the invested portfolio has the given probability of making profit.

Figure 3.1: value at risk



(a) P/L density, $f_q(\cdot)$, and VaR (b) left tail of $f_q(\cdot)$, and VaR

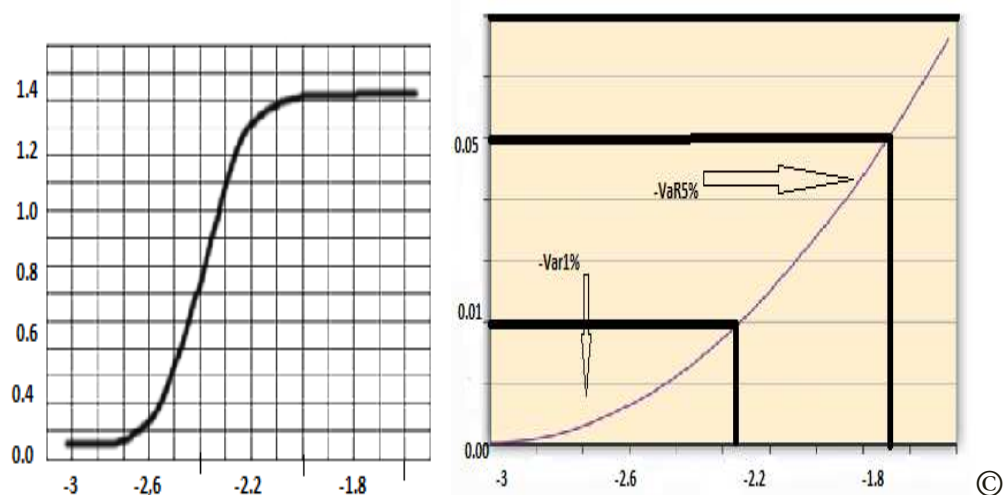
(c) P/L distribution, $f_q(\cdot)$ (d) Tail of $f_q(\cdot)$ and VaR

Figure 3.1 shows how the VaR is defined. Panel (a) demonstrates that the entire density of profit and loss P/L, while panel (b) magnifies in on the left tail, where the shaded area is identified the 1% and 5% probabilities (the area under the curve from the negative infinity to negative VaR equals 0.01 and 0.05, respectively). Panel (c) demonstrates the entire distribution of profit and loss (P/L). Lastly panel (d) shows the left part of the distribution.

3.1.2.2.1 Methods to Calculate Value –at –Risk

There are three basic methods that are used to calculate value at risk, although there are more differences or variations within each method. The three most common methods that are used calculated or computed value at risk are: Correlation or variance covariance method, historical simulation method and Monte Carlo Simulation method.

3.1.2.2.1.1 Variance covariance method

Variance covariance (Correlation) method of VaR describes the volatility of the price with standard deviation, and assumes the changes of prices and returns are equally distributed. The volatility is the changes of price measured in percentages that is equal to one standard deviation (Best 1998: 29). There are three important factors when calculating VaR in the covariance method these three factors are: normal distribution returns, holding period and the correlation between assets. This method is easy and fast to calculate, but since it assumes normal distribution of price changes it needs to be supplemented by stress test (Katarzyna Myczkowska 2013: 20).

For example: assume that we have two assets (trousers and shirts) received some information about the assets. The information that we have received is as follows:

Table 3.1: Variance covariance method.

	Asset A (trousers)	Asset B (shirts)
Current market price per unit	\$60	\$120
Number of units held	120	50
Total market value	\$7200	\$6000
Historical volatility	1.0% (one day)	2.0% (one day)

Assume that we are calculating the market price capital charges for these two assets (trousers and shirts) by using Basle Committees Quantitative criteria 99% confidence level or (2.33 standard deviations for one day) and 10 days holding period.

$$\text{Value at risk of A} = \$7200 \times 2.33 \times 1.0\% \times \sqrt{10} = \$530.5$$

$$\text{Value at risk of B} = \$6000 \times 2.33 \times 2.0\% \times \sqrt{10} = \$884.17$$

If the holding period is one year, the multiplication factor of the square root would be 252, because there are 252 trading days in one year.

The next step is to consider the correlation between these two assets (trousers and shirts). Again we need to collect and analyze the historical correlation between each pair of assets. In order to make this analyzes meaningful we need a lot of observations, at least one year's data as required by Basle Committee. And we need to use the familiar correlation formula:

$$\text{Risk A+B} = \sqrt{R_A^2 + R_B^2 + 2CR_AR_B}$$

Where R_A and R_B are the value of risk of A and B respectively, and C is the correlation between A and B. All correlation numbers lie between -1 and 1. Within this range there are three critical correlation numbers: 1, 0, and -1. If the prices of these two assets always move perfectly together, we say the correlation is 1. We can simply add the two values at risk numbers together, and derive the portfolio value at risk which is \$1414.67.

If the correlation is zero (0) between these two assets, which means that these two assets are completely independent of each other, the portfolio value at risk is:

$$= \sqrt{530.5^2 + 884.17^2 + 0} = 1031.11$$

If the correlation is -1, which means that they opposite or offset each other the portfolio value at risk is:

$$\sqrt{530.5^2 + 884.17^2 + 2(-1)530.5 \times 884.17} = 353.67$$

Or you can simply subtract \$530.5 from \$884.17

3.1.2.2.1.2 Historical Simulation Method

Historical simulation is one of the methods that are used to calculate of value at risk (Lau, 1997: 87). Historical simulation is a simple, a theoretical method that requires few assumptions about the statistical distributions of the underlying market factors, and it avoids some of the pitfalls of the correlation method (Best 1998: 30). Historical simulation method does not need the three assumptions that are important for correlation (variance covariance) method which are; constant correlations normal distribution returns, and constant delta. One of the most important reason that are preferred historical simulation method is due to; it is easy to understand, and the calculations are simple to implement compared to other methods, and also unlike the covariance method, historical simulation method does not assume that the price changes are equally distributed (Best 1998: 31). Historical simulation works by applying past price changes to the current portfolio.

In order to calculate historical simulation we need to:

1) Obtain price change series for every asset or risk factor, in order to revalue the portfolio (Best 1998: 34).

2) Applying price changes to the portfolio, to generate historical series of portfolio value change (Best 1998: 34).

For example: Assume that we have a portfolio of two assets and their current market values are \$100 and \$60 respectively. Next, we need to revalue these assets and come up with some alternative values based on their historical price movements. Assume a further that we need 120 sets of these alternative values (some people call them observation points) to make the result meaningful.

We observe the market prices of these two assets for the past 120 trading days. Based on these observation points, we can establish a list of alternative values, denoted as S_N and N_N as follows:

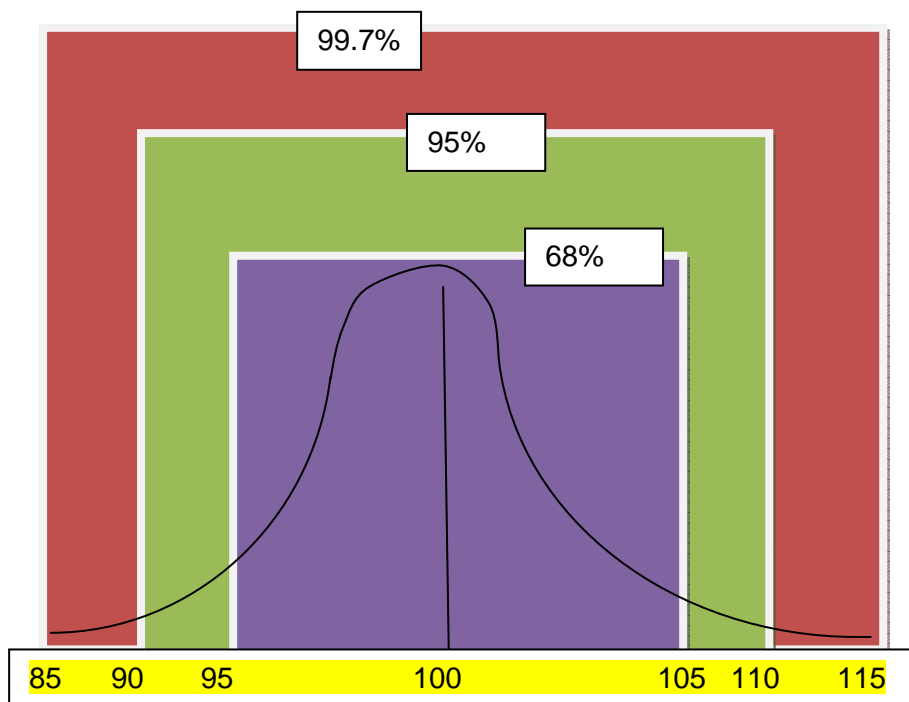
Table 3.2: Historical Simulation Method.

Observed market values S_n and N_n , where $n=0, \dots, 120$	Observed portfolio values P_n , where $n=0, \dots, 160$	Δ in observed market value $\Delta P = P_n - P_{n-1}$ where $n=0, \dots, 160$	Alternative value $AV = P_0 + \Delta P$
$S_0 = \$60, N_0 \100	$P_0 = \$160$		
$S_1 = \$100, N_1 \40	$P_1 = \$140$	$\Delta P_1 = -\$20$	\$140
$S_2 = \$110, N_2 \40	$P_2 = \$150$	$\Delta P_2 = +\$10$	\$170
$S_3 = \$115, N_3 \50	$P_3 = \$165$	$\Delta P_3 = +\$15$	\$175
$S_4 = \$116, N_4 \65	$P_4 = \$181$	$\Delta P_4 = +\$16$	\$175
Etc	Etc	Etc	etc
$S_{119} \$68, N_{119} \70	$P_{119} = \$138$		
$S_{120} \$67, N_{120} \70	$P_{120} = \$137$	$\Delta P_{120} = +\$1$	\$161

Source: Lau, 1997.

Assume that the portfolio's average rate of return and standard deviation are 0% and 5% respectively, and 100 alternative values are distributed normally as the figure shows:

Figure 3.2: Distribution of the historical simulation method



Source: Lau, 1997.

The figure of the distribution indicates that a lot of the alternative values (approximately 68 percent of them) fall in the range between 95 to 105. If we expand the range a little wider, say between 90 and 110, there are approximately 95 percent of the alternative prices falling in this range. If we expand this range wider again between 85 and 115, it covers almost all the alternative prices, 99.7 percent of them.

3.1.2.2.1.3 Monte Carlo Simulation Method

Monte Carlo method is the most advanced method to calculate value at risk due to its uses of large number of random simulations. Monte Carlo method is also more flexible than the other two methods (covariance and historical simulation). Monte Carlo method can be used in cases that cannot be used in historical simulation method like, when the historical data are not available historical simulation cannot calculate VaR but Monte Carlo method can calculate VaR (Katarzyna Myczkowska 2013: 24). Monte Carlo method is more realistic than covariance and historical simulation method, so that it is more likely to estimate VaR more accurately, but its implementations requires a powerful computer. Monte Carlo simulation does not need a past price movement to forecast the future prices (Best 1998).

3.1.2.2.2 Value at Risk deficiencies

- VaR only considers the result at the end of the holding period; hence it neglects what happens with the portfolio value along the way.
- VaR assumes the current positions being fixed over the holding period. In practice, however, positions are changed continuously.
- VaR doesn't measure the potential size of a loss given that the loss exceeds VaR. For example, VaR tells us the most we can lose if the tail event does not occur, it means it tells us the most we can lose 95%, 99% of the time, or whatever, but it does not tell us anything about what we can lose in the remaining 5% or 1% and so on. If the tail event occurs we know or can expect to lose more than VaR but VaR does not give us any indication about how much that may be. So that VaR is uninformative of tail losses.
- The main criticism of VaR, however, is that in general it lacks the property of sub-additivity. Risk measure is said to be a sub-additive if the sum of the measure risks is less than or equal to the sum of the measured risks of the individual positions considered on their own. Or simply sub-additivity means that aggregating individual risks does not increase overall risk.

3.1.2.3 Expected Shortfall

One of the alternatives of the risk measurement tools that have been proposed to overcome the problem of lack of sub-additivity in the VaR and/or to provide further information about the tail shape is expected shortfall (Danielsson 2011: 85). Such measures typically summarize the entire tail of the distribution as a single risk measurement. The most famous alternative risk measure is expected shortfall (ES), it has also many different names like tail VaR, expected tail loss, and among others. (Artzner et al. 1999) demonstrate that ES is sub-additive.

Expected shortfall has many of the same uses as the VaR; however it is better to measure of risk than the VaR for a lot of different reasons. VaR does not tell how much one can expect to lose if a tail event occurs, however expected shortfall tells what one can expect to lose if a tail event occurs. Unlike VaR expected shortfall is a coherent measure of risk since it covers also the sub-additivity criterion that VaR fails. The sub-additivity criterion implies that the convexity of the portfolio risk surface assures that portfolio optimization problems using expected shortfall measures will have a unique well behaved optimum (Dowd 2002: 29). Expected shortfall does not discourage risk diversification. Finally expected shortfall based risk expected return decision is more reliable than a VaR based risk expected return decision.

Expected shortfall answers the question of, what is the expected loss when losses exceed VaR? Expected shortfall answers this question by assuming the distribution function of the portfolio is continuous, the answer to the question is given by a conditional expected value below the quantile associated with probability P. Consequently, Expected shortfall can classify between the levels of riskiness in the manipulated and non manipulated assets. The fact we are taking an expectation means that Expected Shortfall is aware of the shape of the tail distribution while Value-at-Risk is not aware of.

<p>Definition: Expected shortfall is expected loss conditional on VaR being violated (i.e., expected profit/loss, Q, when it is lower than negative Value at risk):</p>
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$ES = -E\{Q Q \leq -VaR(p)\}.$

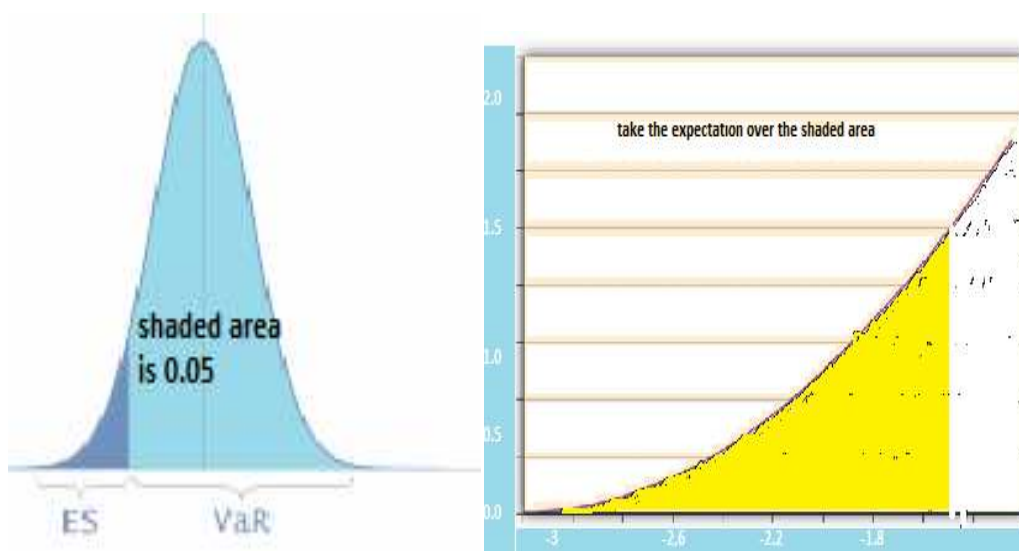
In a mathematical Expected Shortfall is defined by:

$$E(X) = \int_{-\infty}^{\infty} xf(x)dx.$$

In the expected shortfall, we are not taking expectation from $-\infty$ to ∞ but we are taking expectations from $-\infty$ to $-VaR(p)$. The area under $f_q(\cdot)$ in the interval

$[-\infty, -VaR(p)]$ is less than one, implying $f_q(\cdot)$ is not proper density function in this case. This can be overcome by defining a new density, $f_{var}(\cdot)$, obtained by the scaling $f_q(\cdot)$ up so the area under it comes one (as can be seen in figure 3.3).

Figure 3.3: Expected shortfalls



To derive mathematical expression for expected shortfalls (ES), we have to first identify the correct density to use.

$$1 = \int_{-\infty}^{\infty} f_q(x) dx.$$

$$P = \int_{-\infty}^{-VaR} f_q(x) dx.$$

So the tail density, $f_{var}(\cdot)$, is given by:

$$1 = \int_{-\infty}^{-VaR} f_{VaR}(x) dx = \frac{1}{P} \int_{-\infty}^{-VaR} f_q(x) dx.$$

The Expected Shortfall (ES) is then the negative expected value of P/L over the tail density $f_{VaR}(\cdot)$:

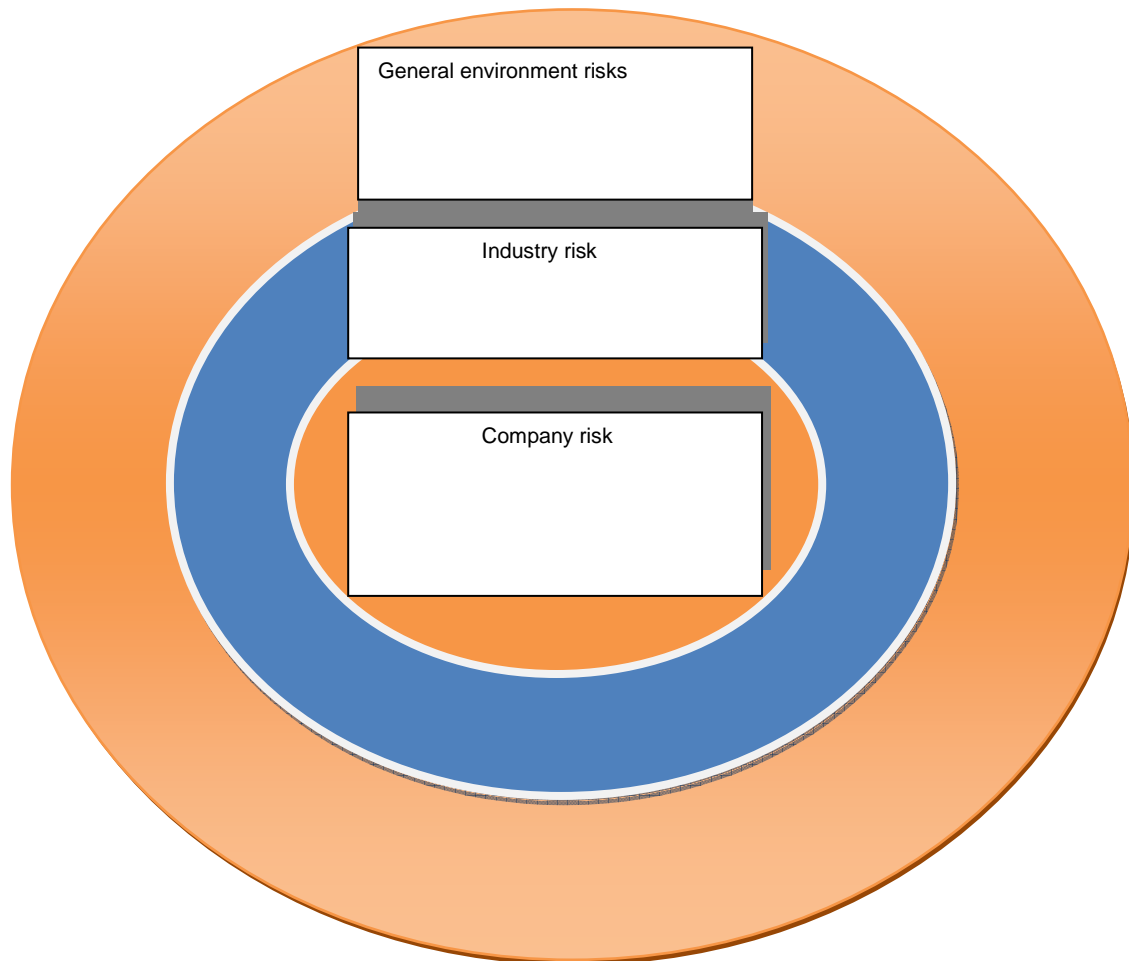
$$\begin{aligned} ES &= -[Q|Q \leq -VaR(p)] \\ &= - \int_{-\infty}^{-VaR(p)} x f_{VaR}(x) dx \quad (3) \end{aligned}$$

3.1.3 Strategic Risk Measurement Frameworks

Strategic risk measurement is the measurement of the likelihood and extent or magnitude of the strategic risks of the firm's operations (Allan and Beer 2006: 4). Strategic risk measurement frameworks are designed to identify the likelihood and extent or magnitude of the potential events in the business operations (L. Frigo and J. Anderson 2007: 26). As a result, many different frameworks have been developed to measure and evaluate strategic risks, but unfortunately there is no internationally accepted framework for strategic risk measurement, because, the strategic risks are caused mostly by continually changing factors, and also the strategic risk of the organizations are always different, every firm faces a strategic risks which are different from the other firm's risks. As the Preston Keat (2008) mentioned traditional commercial models and approaches were not picked up strategic risk measurement frameworks that cover all the strategic risks of the firms. But, in the strategic risk measurement field qualitative evaluation tools are adopted to measure the strategic risks that face the firm in the short term and long term. Because of the absence of mathematical strategic risk measurement tools and the difficulty of getting a sufficient data about the strategic risks (Bracken 2008: 302).

Strategic uncertainties always affect the businesses and results unexpected events that cause major deviations to the business plans. Strategic risks are attributed to cause more than 85 percent of the share holder's value decrease in the world (G.S. Day and P.J.H. Schoemaker 2006: 105). The efficiency of dealing with strategic uncertainties can be increased by making a proactive strategy of measuring, evaluating and preparing suitable responses for the emerging or potential negative events. Thus the business should have a structure in place to measure, identify and evaluate key trends, of the emerging risks. So in order to make better strategic risk measurement first we have to make good environmental scanning. There are no common standardized ways to scan, analyze and evaluate the broad mixtures of all potential possible negative events in the business environment. However, one of the essential ways to approach systematically the analysis, and evaluation of wider risk amalgam is first to consider the general environmental conditions that circumscribe the whole community, the second is to consider firm's conditions specific to the industrial environment in which the business operates and then lastly to focus on the factors that are internal to the firm's own activities.

Figure 3.4: Scanning of strategic risks



General environmental risks are political risks, economic risks, social and technological risks and can be analyzed by PESTEL framework (R. Whittington 2005). These risks are normally outside of the business control.

Industrial risks refers to the risks which arises from inside of the industry, which the business is operating, where competitive conditions may influence business problems, some typical framework used to analyze at this analytical level includes, Porter's Five Forces Model, industry network structures and competitive analysis (Juul Andersen and Winther Schroder 2010: 150).

Company risks are the risks that are especial/unique to the business as they are caused by business processes, technological systems and actions taken by the members of the organization (Juul Andersen and Winther Schroder 2010: 151). Some of the common frameworks used to analysis the business's internal risks include; Mc- Kinsey 7S model, value chain analysis and VRIO framework (M. E. Porter 1985 and J. B. Barney 2002).

The results from the general environment analysis, industry analysis and company analysis can be essentially feed into the initial strategic risk measurement process. When the various risks have been analyzed and identified clearly, the associated exposures should be measured, and evaluated with the aim of determining those risks that represent the most material economic effects to the business. The various risk factors are measured from two perspectives, called the likelihood that the underlying risk event will occur and the economic impact the specific risk event is expected to impose on the business (Taleb 2007: 86). The criteria for rating the likelihood are generally based on qualitative measurement and managerial judgments expressed in a ranking of the different events. The ranking efforts may be illustrated and expressed in a scoring system of table 3.3.

Table 3.3: Rating criteria of likelihood.

Score	Rating	Description
6	Frequent occurrence	Occurs more often than three times in every year
5	Almost certain	Occurs one to three times every year
4	Likely	Occurs once every one to four years.
3	Moderate	Occurs once every four to ten years.
2	Unlikely	Occurs once every ten to twenty five years.
1	Rare	Occurs more rare once every twenty five years.

The criteria for measuring or evaluating the economic impacts of the identified risk factors often have to be based on qualitative judgments. Strategic risks typically represent problems that are difficult to quantify, so the rating may express a rough indication of the potential direct economic losses caused by the negative event as well as the expected effects on the company's future earnings potentiality.

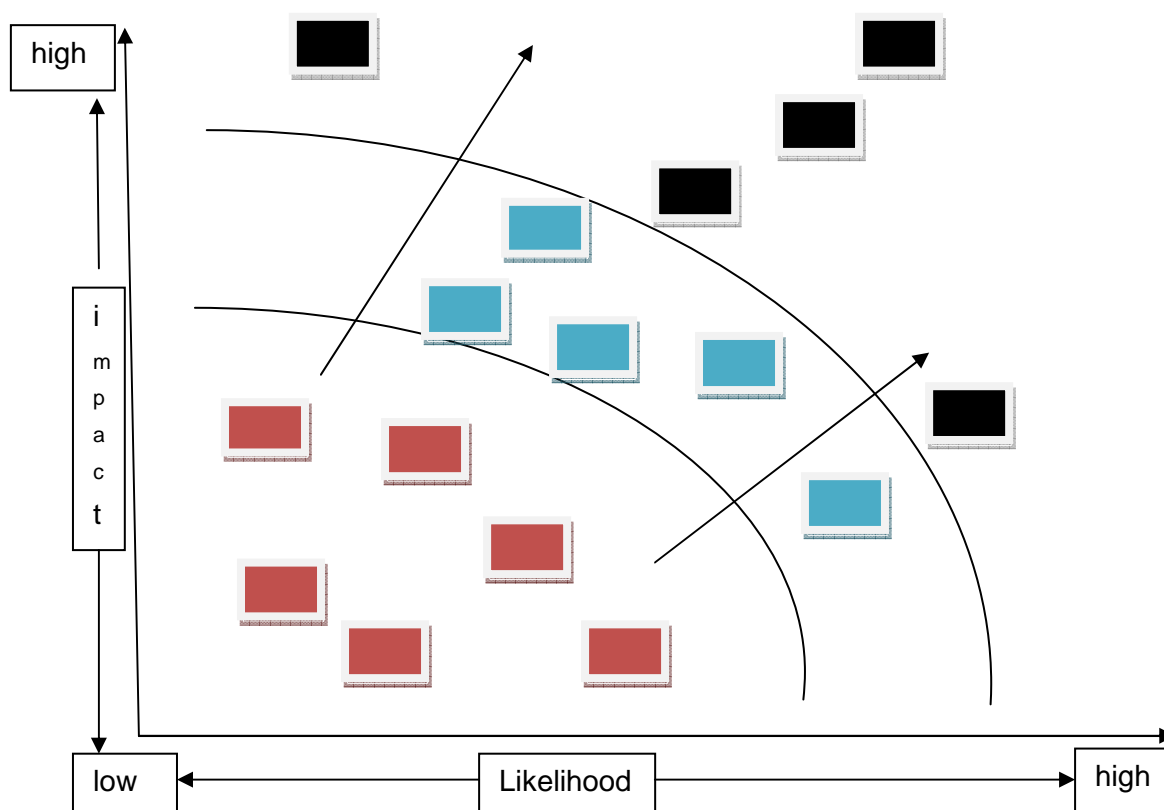
Table 3.4: Rating criteria of economic impact.

Score	Rating	Description
6	Catastrophic	Could threaten the existence of the business.
5	Severe	Loss estimated exceed two months of profit before tax, but do not threaten the existence of the business.
4	Major	Estimated losses of between ten days and two months of profit before tax.
3	Significant	Estimated losses of one to ten day average profit before tax.
2	Moderate	Estimated losses of 10 to 100 percent of the average daily profit before tax.
1	Minor	Loss estimates below 10 percent of the average daily profit before tax.

Once the two rating scales; the likelihood of an event and expected economic impact of the event have been identified in the qualitative measurement of all identified risk factors, they can be drawn into two by the two frameworks. The final risk valuation profile is then produced: the resulting risk map figure: 3.5. The most important risks that require an immediate attention of the management are made up by the (gray color), events positioned in the north-eastern corner of the map representing high likelihood and high impact events. In contrast, the low likelihood and low impact events (black color) in the southwestern corner do not warrant the same management attention.

NOTE: ranking number 5 in the graph represents a low likelihood and high impact catastrophic events. Even though the total score may be relatively low because of a low likelihood of occurrence, they should be considered, e.g. in the form of business continuity plans.

Figure 3.5: Risk map



3.2 Risk Management Methods

Due to the nature of life there will be always risks arising from the uncertainties. The important thing is to measure and manage the uncertainties before they become risks or cause losses. Generally, when doing a business the risks must be analyzed, measured and managed and the least risk decisions are taken. Although the modern theories of risk management argue that risk is an opportunity. People who finance businesses always consider the following aspects: return or profitability, safety of the business, and other future chances of the business (C.A. Williams, M. Smith and P. Young 2012: 20). This is also the same in the clothing stores in Somaliland. In order to have sustainable, competitive and profitable, measuring and managing of risks of the clothing industry is an essential. Clothing stores in Somaliland have many risks, including financial risk (credit risk, liquidity risk, foreign exchange risk, cash flow risk, interest rate risk), and strategic risks (government and economic risks, competition risk, new technology risks, and customer demand risk). So in order to eliminate and minimize these risks and

uncertainties measurement and management of clothing store's risks must to be understood well.

In Somaliland there is no effective risk management policies and procedures, no insurance companies, and even most of the big companies do not have a risk management department or personnel. Somaliland businesses are vulnerable to the risks, so that the researcher is going to search the most effective risks that affect the clothing stores of Somaliland and also how they measure and manage those risks.

3.2.1 Management of Liquidity Risk

Liquidity risk management is designed to keep liquidity risk within bounds without causing the business to too high cost of funds (Murphy 2007: 336) Liquidity risk management requires strong internal governance, implemented by adequate tools to identify measure, monitor and manage liquidity risk (Philippe 2009: 607). A liquidity risk management strategy like the other strategies is always made by the senior managers, directors or the owners of the businesses. After formulation, the strategy should be communicated throughout the business and must agree the day to day management of liquidity. One of the most important requirements for liquidity risk management strategy is the establishment of risk limits (Matz and Neu 2007: 67). The risk limits must also be appropriate for the size, nature, scope, and complexities of the business's operations. When establishing the liquidity risk management, it must be considered how the liquidity risk management of the firm will be coordinated with the business objectives, strategies and also the risk management objectives of the business. Especial attentions must be given to the critical relationship between the liquidity risk and other types of risks. Liquidity risk management starts with operational liquidity, with lays out the daily payment queue, forecasting all the cash inflows and outflows (Philippe 2009: 607). The liquidity management process aims to keep the net funding basis with reasonable bounds (Murphy 2007: 342), Part of the reason of this is that as a more funding is needed, it gets more expensive; and as surplus cash increases the rate at which it can be placed declines. Firms always prefer to have some liquidity risk and lower cost of funds. But it means that liquidity risk management is necessary. Some of the most important steps of liquidity risk management are; Measurement of liquidity risks and firm's liquidity profile and also managing of daily cash flow movements.

3.2.1.1 How the Clothing Stores in Somaliland Manage Liquidity Risk

Somaliland is a poor and unrecognized country, it doesn't have a good working central bank, which helps the business to do their business, and there are no credit banks

in Somaliland, there are few Islamic investment banks. So in the financial crisis clothing stores are very difficult to get a help. By the way, every store manages its own liquidity risk; some of the ways they manage their liquidity risk includes the following; 1. They increase the sales by decreasing the price of the clothes, and shoes. 2. Owners increase the working capital by adding the stores with cash from their deposits. 3. They sell some of their property like land, cars, buildings, etc., it is also difficult to get emergency cash from selling of the property, because you cannot sell the property quickly especially in the crisis times. 4. Some of them borrow money from their relatives and friends. 5. Others go to the investment banks like Salama, and Dahabshiil, which are the Islamic investment banks and this is also not easy, because the banks need collaterals and other conditions. By and large liquidity risk management is essential for the stores to continue their operations and to not lose their suppliers and customers, and to survive from reputation risk, bankruptcy, and other related costs and risks.

3.2.2 Foreign Exchange Rate Risk Management

Managing of exchange rate risk has become essential in the last decades, as a result of the unusual occurrence of a large number of exchange rate fluctuations. Exchange rate risk management is an integral part in every business decision about foreign currency exposure (Papaioannou 2001: 10). Volatile of Somaliland shillings with foreign currencies, especially US dollar causes a large influence on the clothing stores in Somaliland. Foreign exchange rate risk can be defined as the potential financial losses due to the devaluation of foreign currency against the domestic currency. Exchange rate changes, results a non-payment by buyers who may find it impossible to meet a foreign currency denominated payment obligations due to the devaluation of foreign currencies. Exchange rate risk management is the management of the potential losses that occurs as a result of exchange rate changes. Businesses with significant exchange rate risk exposures often need to establish an operational framework of the good exchange rate management (Allen 2003 and Jacque 1996). The primary objective of foreign exchange rate risk management is to minimize potential currency losses, not to make a profit from the foreign exchange rate movement (<http://www.slideshare.net/JosephSam>). Foreign exchange rate risk management entails of eliminating or reducing of exchange rate risk and also understanding of both the ways that the exchange rate risk could affect the operations of the business economically, and techniques to deal with the consequent risk implications (Papaioannou 2001: 12). Foreign exchange rate risk can be managed in different ways. Some foreign exchange rate risk can be managed using by pricing the sales in foreign currency. Spot transaction is called the buyer and the seller agree to make

payment by using current exchange rate and settle within two business days. The most common foreign exchange rate risk management is the forward contract. Forward contract enables the seller to sell a set amount of foreign currency at a pre-agreed exchange rate with a sale date of five days or to 2 years.

3.2.2.1 Overview of the Somaliland Monetary System and Exchange Rate Risk Management

Before the 15th century the Somali people were a nomadic, and used to relying on the nomadic lifestyle. They were used to relying on their livestock and their farms for subsistence, luxury, and etc. The camel was the most expensive thing they have; camel was the symbol of wealth, therefore it was used as a medium of exchange in the important issues of the social transactions; it was used as a compensation and dowry in marriage (Robert et, al. 1982: 65). Business routines were started in the coastal cities of the north east of Somaliland like Berbera, Seyla, His, and Maid, around the 15th century. These cities had strong business relations with the Arab merchants. But there were no coins or money at that time and the business started as a kind of barter (Robert et, al. 1982: 76). In the 15th century the first coins were used in Somaliland, the coins of Mamluk Egypt (Ibrahim Nor 2012: 591). When the colonials arrived in Somaliland it was circulated Maria Theresa Thaler from Eretria, Baisa Bronze coins of Muscat, from Mombasa and Zanzibar. There was also an expensive Indian rupee in Somaliland at the time of colonials arrived (Robert et, al. 1982: 76).

In Somaliland the British colonial had never had their own currency. In Somaliland 1800s rupees were used as a medium of exchange along with Maria Theresa thalers (Robert et, al. 1982: 77). Somaliland achieved its independence in 1960, and the economy was subsistence level. After 5 days from the independence Somaliland has united with Somalia. The first bank, which was opened in Somalia was Cassa per la Circolazione Monetariadela Somalia, opened on 18th April, 1950, and issued Somali bank note with par of Italian Lira. The first Somali shilling was issued on 1st July 1960 at the par of an East African shilling (global financial data). The first Somali national bank was established on July 1, 1960, the plan was that the bank replaces the two foreign banks in the country (Little 2003: 45). The bank has become the first financial institution in the country and it has worked well (Little 2003: 45). The bank of Somalia has gained an opportunity to control the exchange rate efficiently in 1970s. But unfortunately the financial system of the country collapsed in 1991, when the government of Somalia collapsed.

In 1991 Somaliland decided to announce that it wants to be an independent state. Somali central banks collapsed in 1991 because of the government collapse and complete formal financial system stopped. The Somali shilling started depreciating in a very short period of time. Somali shillings become worthless in Somaliland after Somaliland printed its own currency, and foreign currencies have found a place in Somaliland economy. US dollars, Dirham of the United Arab Emirates, Saudi Riyals and Ethiopian Birr are all started circulating in the country. The Somaliland shilling remained to be used for government taxes, small exchanges and as a significant medium of exchange for marginal transactions and this kind of transaction is important for small businesses and the poor levels of the community. For that reason Hargeisa (capital of Somaliland), Burao, and Berbera clothing stores make sales mainly in dollar and Wajale clothing stores mainly in an Ethiopian Bir.

As I have mentioned above the Somaliland shilling is used mainly government taxes, daily shopping, and other small transactions, but it does not mean that the clothing stores and other business industries reject Somaliland shilling, but they prefer dollar more than Somaliland shilling because the exchange rate risk, so in order to prevent a loss or risk from the Somaliland shilling they don't prefer Somaliland shilling.

Clothing stores in order to manage the exchange rate risk from the different moneys they do the following:

- Every morning before the trading activities they try to know the exchange rate (Somaliland shilling to dollar and also Ethiopian Bir to Dollar). Normally the exchange rate of Somaliland shilling to dollar \$1=6500 SL.S. And \$1=20 Ethiopian Bir.
- They told the customers to change the Somaliland shilling into dollar.
- In the evening they exchange all the Somaliland shillings and Ethiopian Bir that they make sales on that day into Dollars.
- When the customer buys in Somaliland shilling stores take Somaliland shillings more than the market rate.

3.2.3 Interest Rate Risk Management

Managing interest rate risk is a fundamental component in the safe and sound management for all businesses. The management of interest rate risk is important in the global community, and the growth in the interest rate derivatives market in the last few decades demonstrates its increasing importance (Hellier, Dhanani, Fifield and Stevenson 2005: 4). Interest rate risk is the exposure or the negative impact of the firm's financial conditions from the adverse movements of interest rates. Interest rate risk exists where

there is an interest bearing assets such loans and bonds, because of the possibilities of changes in the value of the loans, bonds and other interest bearing assets. So as to survive from the negative impacts of the asset's value changes of the interest bearing assets, risks must be managed to an acceptable level. Analyzing, evaluating, measuring and managing of firm's exposure caused by changes of the interest rates in an import element of good risk management process.

In the financial risks, interest rate risk is the least effective in the Somaliland businesses; because in Somaliland there is an Islamic business system which is free of interest. Islamic financial banks and business systems provide products and services based on the profit, loss and risk sharings among the parties of Islamic partnership due to the rejection of receipt or payment of interests (Taqi 2008: 9). For that reason, interest rate risk doesn't affect Somaliland clothing stores locally or domestically it only affects internationally because clothing stores take clothes from the abroad like China, Dubai, Yemen, Turkey, India and Thailand, so any change in the interest rate of one of that countries, causes a change in the price of the clothes, because suppliers may raise their prices to cover the increase in their funding costs. So clothing stores should have to closely look the interest rate changes that happen the countries that they have business relations.

3.2.4 Credit Risk Management

Credit risk management is the art and science of determining which counterpart may defaultly the agreed terms (Brown 2012). As the name implies credit risk management is predicted on the existence of risk and uncertainty to leverage the earnings from lending to borrowers. Credit risk arises whenever a lender is exposed to a loss from counterpart, borrower, or an obligor who fails to pay their debt obligation as they have agreed and contracted (Colquitt 2007: 3). Credit risk management covers the decision making process, before the credit decision is made, and the follow-up of credit commitments, monitoring and reporting processes (Kosmas Njanike 2009: 5). The most important key of credit risk management is the reduction of credit exposure. Some of the well known techniques of credit risk management are; formalizing the credit function, considering opportunities for credit exposure diversification, using a collateral where appropriate, dealing with high quality counterparts, requiring settlement and payment techniques that provide certainty, using netting were a possible, and also monitoring and limiting market values of outstanding contracts (A. Horcher 2005: 110).

The process of Credit payment covers the steps, starting with a credit application form, examination of the credit application and all reviews of the proposal. The process should be centralized or decentralized. Most credit experts say that a centralized credit structure is the best of the credit risk management process (Dalgıç 2013: 3). The two most common reasons are cost and control. It is much less expensive to have a centralized operation (Atkinson 2005: 3.). Credit risk can also be controlled making constraints in order to limit the losses at the time of default. The authorization sets maximum risk amount for any customer, or group firms. To use the limit system efficiency, the risk reporting system should enable the risk manager to monitor all the credit risk related to a unique customer or group of customers. The important issue is to avoid lending a borrower an amount beyond its borrowing capacity or above the customer's credit limit.

Clothing stores of Somaliland use traditional based credit system, no interest for the credit and also mainly no limits that both parts known, and mostly no fixed time. Credit risk is one of the common risks of the clothing stores in Somaliland and it has a severe effect, every year stores incur 10th thousands of dollar loss from the credit risk. Every store has its own credit policy and procedures. The most common techniques of credit risk management that clothing stores of Somaliland use is the collateral (in Somali language rahmaad) and guarantor (a person, organization, or other business who guarantees will pay if the creditor doesn't pay).

Credit risk management is important because, borrowers need credit to invest their businesses and for which they hope to get a return. At the same time, financial institutions or lenders supply a credit to earn profit, when the customers borrow. So the process of providing credit has a multiplier effect on the global economy supply. A more varied but also descriptive definition of credit is given by the economist dictionary of economics, which states that credit is "the use or possession of goods or services without immediate payment," credit enables a producer to bridge a gap between the production and sales of goods or services.

3.2.5 Cash Flow Risk Management

For a business to be a successful, good cash flow management is important. Cash flow management is to hold the right amount of cash. Cash flow is one of the most critical components of success for a small or mid-sized business. Without cash, profits are meaningless. Many a profitable business on paper has ended up in bankruptcy because the amount of cash coming in doesn't compare with the amount of cash going out (www.charterfinancialgroup.org/how-to-manage-cash-flow). Firms that don't exercise good

cash management may not be able to make the investments needed to compete, or they may have to pay more to borrow money to function. Good cash management has a double benefit: it can help you to avoid the debilitating downside of cash crises; and it can grant you a commercial edge in all your transactions (www.derbyshirebusinesshelp.co.uk/cost-control). The best practical steps for managing cash flow risk are: to prepare budget. Budgeting help you measure your business's actual performance against a benchmark. Budgeting can help you prepare for the future and foresee problems before they occur. To prepare cash flow forecast, preparing a cash flow forecast encourages you to think ahead and consider what the next twelve months may bring.

In general cash flows into the business in the form revenues and goes out in the form of expenses. In practice revenues and expenses are dependent on internal and external factors, assuming companies can control their internal factors the primary risk of the business's cash flow may be posed by external factors, like the customer demands and suppliers. If the customer demand of your business's products decreases the revenues of your business will also decrease. When the demand shock causes revenues to fall faster than expenses, clothing stores of Somaliland has few options beyond borrowing to cover the expenses. Also borrowing is not easy and it is also difficult to find, because there is no credit banks in Somaliland and the Islamic investment banks are limited and also their conditions are very tough and they may refuse to lend. When the supply shock causes the expenses of faster than revenues, clothing stores of Somaliland may be able to raise the prices but this is also lowering the demand and offsetting any expected revenues increase. Because in the demand law when the prices increase the sales decreases. In the times of economic volatility, expenses may raise and revenues may fall simultaneously due to solely to external factors outside of the company's control, like when droughts happened in Somaliland in 2011, many clothing stores closed or bankrupted. Reduction in the firm's cash flow volatility increases firm's value.

3.2.6 Government and economic risk management

In nations around the world, minimizing, and reducing a business risk to an acceptable level, and also developing innovative ideas and taking them to market successfully is an important factor for economic growth and sustainability. In these days of the globalization and the knowledge economy, production of knowledge, particularly localized tacit knowledge, is viewed as a valuable regional asset (Braken, Bremmer; Gordon 2008: 265). How the relevant government authorities support or hinder the chances of success in these areas will therefore be of interest to each nation concerned.

Mainly each government develops and supports policies, rules and regulations and challenges about the business, which are based on religion, cultural, historical, and technical backgrounds. To avoid misunderstanding/ bad impact or risk from these rules and regulations strong interaction is desirable between actors such as businesses, academia, research institutes, finance bodies, industry associations and government agencies. Government can affect markets either through direct participation (as a market maker or as a buyer or supplier of goods and services), or through indirect participation in private markets (for example, through regulation, taxation, subsidy, price ceilings, quality controls or other influences). Government interventions can promote efficiency or inefficiency, because of over regulations, restricted competition, or efficiently because of motivation, development and encouragement.

In Somaliland the most effective government and economic risks that face clothing stores are high taxes, low government services for example, if a fire breaks out there is no fire fighter cars or they come later, there is a delay of commodities in the ports and airports. Clothes are also theft in the ports and airports. Other government or country and economic risks include low local market; because of the population number is very low in Somaliland, high transportation costs, low availability of skilled labor and low of socio- economic. So in order to manage these risks, they prefer to import their clothes from Djibouti (neighbor country) which is less tax rate, less delay and more secure than Somaliland ports and airports.

3.2.7 Competition Risk Management

In an increasingly global market, businesses face rising levels of competition. As such, it is natural that all businesses face some degree of competitive risk. In the last years, many big name brands have fallen victim to the effect of competitive risks or threats from their competitors. Former industry heavyweights according to their industries such as Kodak, Blackberry and Nokia have all been laid low when faced with strong competition and unable to defend their market share (risk and compliance magazine.com). The failure of these companies demonstrates that, irrespective of the size, nature of the firm, any company can easily lose market share and potentially their entire business if they don't make good competitive strategy. One of the main reasons a business fails is that it cannot defend the risks from the competing companies. So the company must have strategies for measuring and managing the risks of the competition.

Developing a good competitive strategy and techniques can be considered a critical success factor for the businesses. For a competitive strategy to be successful,

owners and managers need to develop a competitive strategy that can be sustained over a period of time. By and large managers should not expect the business competitors to well come their business with open hands; instead the competitors will likely defend against their business. To make a successful market penetration the business requires to develop a successful sound strategy that can serve well, that allowing the business to successfully penetrate into the market and win enough market share to ensure that the business will earn enough profit and become successful. So in order to decrease the risks of competition, business must develop a competitive advantage. Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to the natural resources, technology, and human resources. To develop good competitive strategy, three important factors that needs to be in mind. First competitive advantage must be able to generate customer value. Customer value can be defined by the customer in terms of lower price, speedy delivery, high customer care services, convenience, good quality or some other characteristics (S. Bressler 2012: 8). Second the product or service must satisfy the customer. Regardless whether your product or service could be considered superior to competitor's product or services might not be as important as your customer's satisfaction to your product is actually being the superior. Lastly, as your business strategies and tactics become more difficult to copy by the competitors, your business competitive advantage becomes strong and effective. Basic strategy principles state that business tactics that are more difficult to copy provides a more sustainable competitive advantage.

3.2.8 Customer Risk Management

The Customer is an individual, group of individuals or business that purchases the goods or services produced by a business (www.investorwords.com). The customer is the end goal of businesses, since it is the customer who pays for supply and creates demands (Ryals and Knox. 2007: 3-4). So any problem or risk that arises from the customers can immediately affect the whole of the business. Businesses often compete through advertisements or sales in order to attract a larger customer base. Managers or/and owners of the businesses know when a customer has a problem, the experience of resolving the issue has a profound impact on future purchases, the reputation of the business and the future development of the business. And the most important way that can attract, retain customers and manage, or prevent the risks from the customers is to satisfy the customers and make customer services. Many surveys clearly demonstrate that customer service has a dramatic impact on the buying behavior among customers by

mid-sized companies (Ryals and Knox 2007: 3-4). Good customer service results in an increased personal and business purchases, while bad customer services drivers a customer to find alternatives, interestingly, customer service experiences are judged more on the timeliness of the interaction than on the final outcome. Managing customer complaints effectively, is an essential to the continued success of any business. Every risk in the business has a direct relationship to the customers, and every risk arises from the customers' effects more other risks to start, which may be difficult to manage that can have a severe impact on the business and that may cause a business to be out of the business environment.

Customer integration in the process of innovation and taking some ideas from the customer decreases the probability of bad consequence. In the innovation stage if the customers are not shared with new designs and ideas of the product or service, that may cause to not sell even though the product or service meets the highest superior quality. The advantage of integrating customer into the innovation stage may also turn into a disadvantage when these customers, representing only a small group, are the only ones interesting in the new product (Kausch 2007: 26).

Clothing stores of Somaliland are not good at the side of the customer services/care because stores do not make more customer care programs, but they give priority to satisfy the customer needs, they bring what the customers need. Customer needs; cheap clothes, good quality clothes and good design clothes, for that reason owners and managers of the stores always go to the abroad countries like China, Dubai, India and Thailand and Turkey in order to search for cheap clothes with acceptable quality.

3.2.9 Technology Risk Management

Today, businesses are heavily relying on technology to support complex and complicated business operations and to handle critical information. Putting technology risk management on the business agenda today can safeguard and potentially improve business value, brand, profitability, market shares, reputation and also utilizing of resources more effectively. Converging technology risk management with the risk management process of the business enables the business to operate in the most cost-effective way with a known level of risk. Because today the calculation of the magnitude and the likelihood of the risks are using computerized programs (H. Vellani, 2007: 133). Having integrated information technology increases efficiency, and permits business relationships to save time and reduce costs (H. Vellani, 2007: 133). Technology

permeates the operations of an entire institution and therefore the technology risk is not special for a particular area or department. Technology enables key processes that a company uses to develop, deliver, and manage its products, services, and support operations, so any problem that arises from the technology can heavily affect the business. Understanding the role that technology plays in core business operations, and establishing a framework for understanding where relevant technology risks lie are essential. By understanding the role that technology plays in supporting various business functions, company management is in a better position to determine the relative importance of these functions and prioritize the systems, applications, and data involved. Technological risks are present throughout the company and must be addressed, evaluated, measured, managed as a whole to maintain and to increase business effectiveness (<http://www.allaboutrisk.com>). Evaluating and identifying vulnerabilities and threats provides company management with a view of the risks faced by the company given the enabling role of information technology. Once these risks have been identified, an appropriate technology risk management strategy can be developed and implemented. Technology risk or IT risk is any risk related to the information technology (Lewis M. 2000: 94). While information technology has long been appreciated as a valuable and important asset, the rise of the knowledge economy has led to organizations becoming increasingly dependent on information, information processing and especially information technology. Various events or incidents that compromise technology in some way can cause adverse impacts on the organization's business processes or mission, operations ranging from inconsequential to catastrophic in scale.

Clothing stores in Somaliland, In order to manage their technological risks managers and owners of the business should evaluate their current technological risks which may impact the company's ability to conduct business. Technology risks can be managed by hiring IT technicians, who have deep knowledge about the technology and how to solve errors and problems arise from the technology, that can also understand the business and can communicate effectively with business leaders. It can also be managed by fostering a culture where risk management and mitigating controls are the integral part of the business.

CHAPTER 4 FINANCIAL AND STRATEGIC RISK MEASUREMENT AND MANAGEMENT OF CLOTHING STORES IN SOMALILAND

4.1 RESEARCH METHODOLOGY

This chapter presents a detailed description of research methodology. Methodology is the detailed procedure used to answer the research questions of the study (Yuko Oso and Onen 2009: 74). The methodology was used in gathering the data, analyzing, assessing the data and reporting the results. Here the researcher aims at explaining the methods and tools that were used to collect and analyze data to get proper and maximum reliable information related to the subject or the problem under the study.

4.1.1 Research Design

This study was conducted through surveys (questionnaire), to find out the financial and the strategic risk measurement and management of the clothing stores in Somaliland, in order to determine strategies and methods that can be decreased or eliminated or managed their risks to an acceptable level, based on empirical study. This design was chosen because it provides insights into a comprehension of an issue or situation. Survey research design is an efficient way of gathering data by selecting samples from the population to analyze and to get solutions to the problems (Yuko Oso and Onen 2009: 74). Survey research design was selected for this study because the data was collected from four cities (Hargeisa, Burao, Wajale, and Berbera), so this design is the most suitable research design according to economically, availability of time and reliability.

4.1.2 Population

Target population refers to the total set of people, a group of things, total number of subjects, or elements that the researcher interest to investigate (Yuko Oso and Onen 2009: 76). In statistics target population is the specific population about which information is desired.

The target population of this study was the managers, owners, accountants, CEOs, finance managers and risk managers of clothing stores in Somaliland. Managers and owners are also the risk managers of the clothing stores in Somaliland mostly. Clothing stores in Somaliland are one of the effective business sectors in Somaliland so measuring and managing their risks is an important.

4.1.3 Sample Population

The sample population of this study consists of 90 respondents selected from clothing stores of four major cities of Somaliland through simple random sampling. Thus, this study was conducted through simple random sampling (SRS), to select the sample. This sampling technique is chosen because of, to avoid bias and to ensure that each member of the target population has an equal and independent chance of being included in the sample, and also get correct, transparent and reliable data.

4.1.4 Data Collection

Qualitative primary data was used for the study. It was collected through self-detailed administered questionnaires. The selection of this tool has been guided by the nature of the data to be collected, the time available as well as by the objectives of the study. Questionnaires were constructed using open-ended and close-ended type of questions, in an effort to get reliable and valid data.

The questionnaire was administered by the researcher and the supervisor Assoc. Prof. Dr. Halis KALMIŞ, Who is also lecturer of finance and economics of Çanakkale Onsekiz Mart University, it has tested and controlled by Assist. Prof. Dr. Serdar KURT. Data was collected by the researcher. Follow-up activities included face to face meeting, telephone calls, and emails were made. To allow reasonable time to the respondents, two weeks were allotted for filing the questionnaire.

4.1.5 Reliability and Validity of Research Instrument

To establish the validity of the research instrument the researcher sought opinions of experts in the field of study especially the researcher's supervisor (Assoc. Prof. Dr Halis KALMIŞ) and other lecturers, and this was facilitated by the necessary revision and modification of the research instrument to enhance reliability and validity. Reliability refers to the consistency of measurement and is frequently assessed by using the test– retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures.

4.1.6 Data Analysis

This section deals with the organization, interpretation and presentation of the collected data (Yuko Oso and Onen 2009: 99). An analytical method involves utilization of the right analytical tools to address each research question in the study. Care is taken as

the choice of wrong analytic technique could lead to a wrong conclusion. The study involved an assessment of financial and strategic risk measurement and management methods of clothing stores in Somaliland. Data collected from this survey was arranged, organized, edited and controlled to have the required quality and accuracy. Then it was entered into a statistical package for the social science (SPSS) and Microsoft excel for the generation of frequency tables, charts.

4.2 Findings

Here, the empirical data collected from our self completion questionnaire was presented. Firstly, we presented the percentage of each answer from the respondents and summarized the importance of each factor. Then we examined some questions with cross-tabulation.

4.2.1 The Results of the General Information

We targeted owners, managers, CEO, accountants, finance managers, and risk managers of the clothing stores in Somaliland. We received responses from 90 respondents of the clothing stores of Somaliland. The results were processed by the SPSS program. Firstly, we presented the demographic results in order to demonstrate the general information of our study.

4.2.1.1 Demographic Characteristics of the Respondents

In this section, the distribution of the respondents for each of the demographic characteristics will be shown.

4.2.1.1.1 Location Distribution

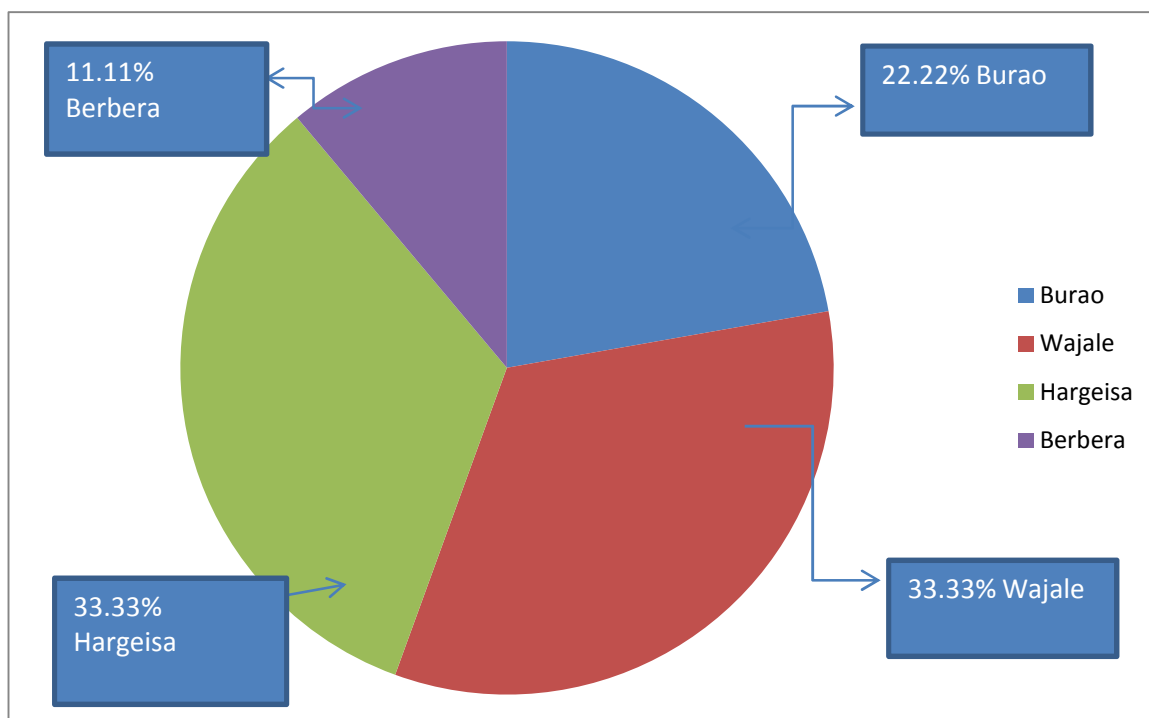
The location distribution of the respondents is shown in table 4.1.

Table 4.1: Location distribution of the respondents

	Frequency	Percentage
Burao	20	22.22
Wajale	30	33.33
Hargeisa	30	33.33
Berbera	10	11.11
Total	90	100.00

Table 4.1 and figure 4.1 shows the location distributions of the respondents participate in the survey. According to the results, 20 participants (22.2%) live in Burao, 30 participants (33.33%) live in Hargeisa, 30 participants (33.33%) live in Wajale, and 10 participants (11.11%) live in Berbera.

Figure 4.1: Location distributions of the respondents



4.2.1.1.2 Age Distribution

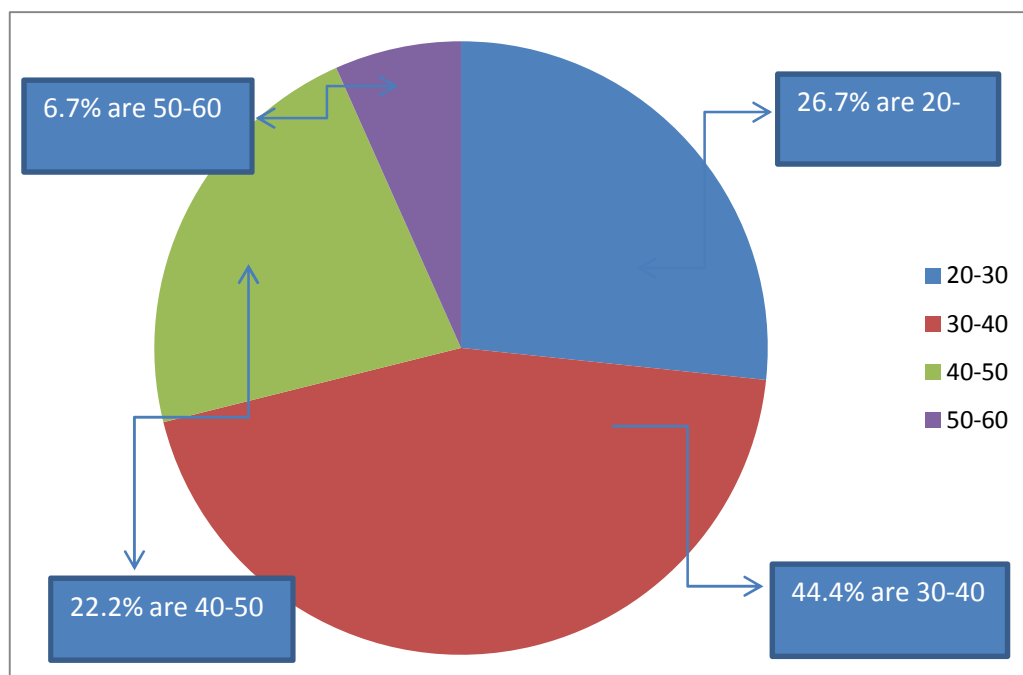
The age distribution of the respondents is shown in table 4.2.

Table 4.2: The age distribution of the respondents

Age	Frequency	Percentage
20-30	24	26.7
30-40	40	44.4
40-50	20	22.2
50-60	6	6.7
60 and over	0	0
Total	90	100.00

Table 4.2 and figure 4.2, shows the age distribution of the respondents participate in the survey. According to these results 24 participants (26.7%) are 20-30, 40 participants are (44.4%) 30-40, 20 participants (22.2%) are 40-50, 6 participants (6.7%) are 50-60, and there was no any participant at the age of 60 and over.

Figure 4.2: Age distribution of the respondents



4.2.1.1.3 The gender distribution of the respondents

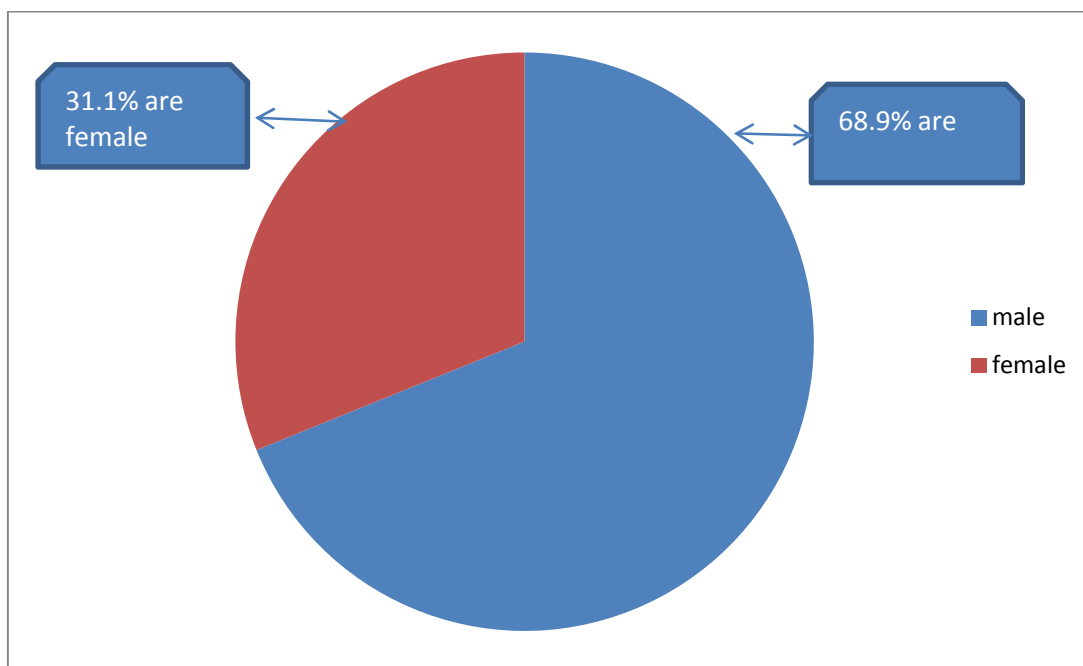
The gender distribution of the respondents is shown in table 4.3.

Table 4.3: The gender distribution of the respondents

Gender	Frequency	Percentage
Male	62	68.9
Female	28	31.1
Total	90	100.00

Table 4.3 and figure 4.3 shows the gender distributions of the respondents participate in the survey. According to these results, 62 participants (68.9%) are males and 28 participants (31.1%) are females.

Figure 4.3: Gender distributions of the respondents



4.2.1.1.4 Occupation distribution

Table 4.4 and figure 4.4 shows the occupational distribution of the participants in the survey.

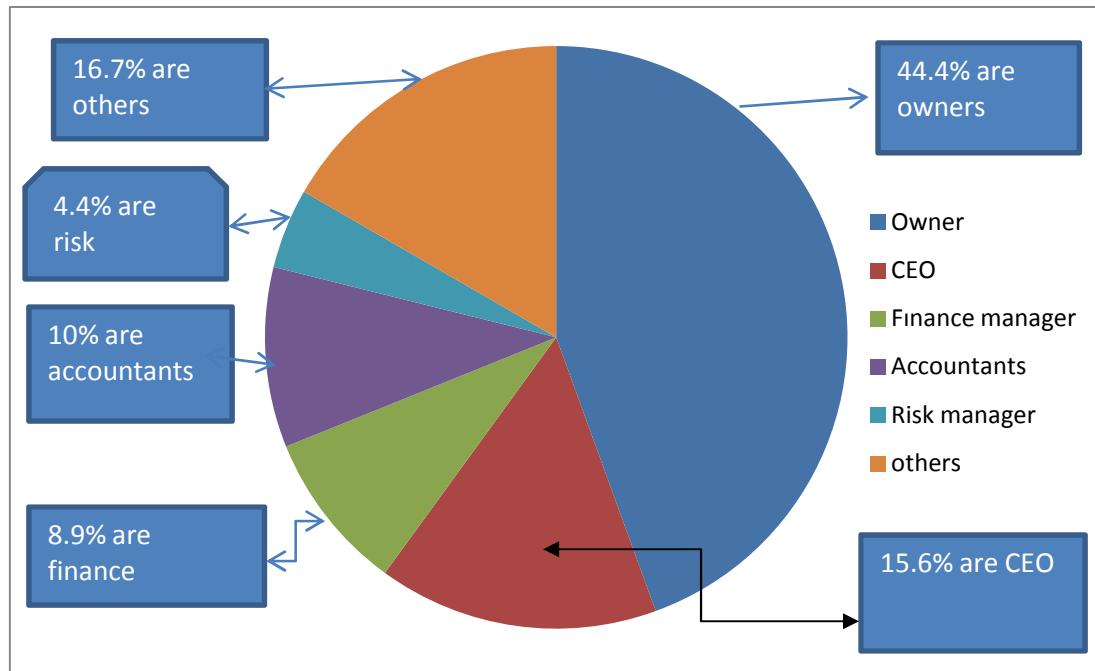
Table 4.4: Occupation distribution of the respondents

Occupation	Frequency	Percentage
Owner	40	44.4
CEO	14	15.6
Finance manager	8	8.9
Accountant	9	10
Risk manager	4	4.4
Others	15	16.7
Total	90	100.00

As the results show 40 of the participants (44.4%) are owners, 14 participants (15.6%) are CEO, 8 participants (8.9%) are finance manager, 9 participants (10%) are

accountants, 4 participants (4.4%) are risk manager, and 15 participants (16.7%) are other participants.

Figure 4.4: occupation distributions of the respondents



4.2.1.1.5 The education level distribution

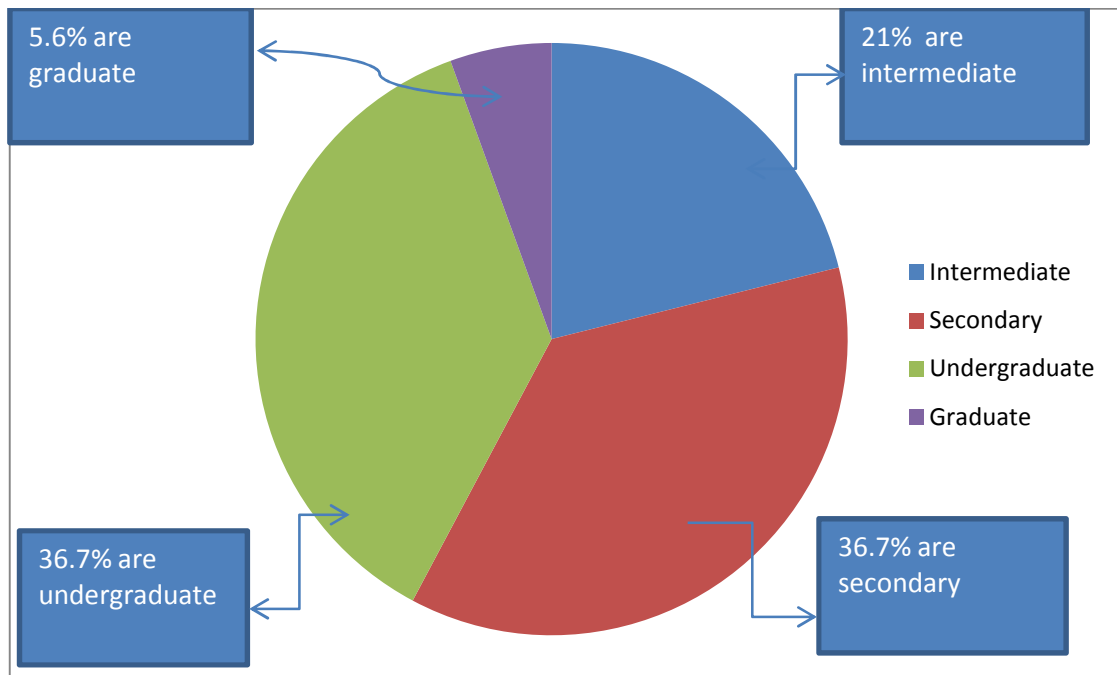
The education level distributions of the respondents are shown in table 4.5.

Table 4.5: Education level distribution of the respondents

Education	Frequency	Percentage
Intermediate	19	21
Secondary	33	36.7
Undergraduate	33	36.7
Graduate	5	5.6
Postgraduate	0	0
Total	90	100.00

Table 4.5, and figure 4.5, shows the education level distributions of the respondents participate in the survey. According to these results, 19 participants (21%) are intermediate. 33 participants (36.7%) are secondary. 33 participants (36.7%) are undergraduate. And 5 participants (5.6%) are graduates and there is no any post graduate participants in the survey.

Figure 4.5: Education level distributions



4.2.2 Results of the survey questions

Here the researcher is presenting the results of the survey question. The questions of this survey are twenty six questions, composed of closed ended and open ended questions. It was used SPSS to analyse the response of the participants.

4.2.2.1 Field of activities

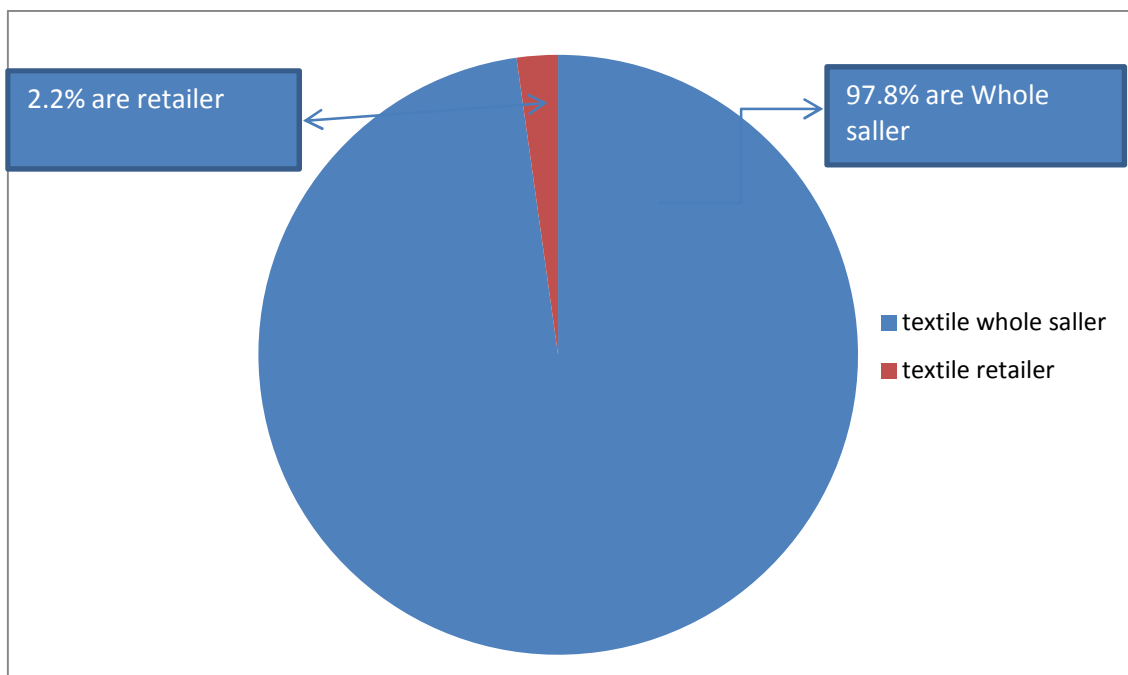
Table 4.6, shows the field of the business activities took part the survey.

Table 4.6: Q1. What is the field of activities of your business?

Field	Frequency	Percentage
Textile wholesaler	88	97.8
Textile retailer	2	2.2
Construction	0	
Services	0	
Manufacturing	0	
Others	0	
Total	90	100.00

Table 4.6, and figure 4.6, shows the field of business activity distributions in the survey. According to these results 88 participants (97.8%) are textile wholesaler and 2 participants (2.2%) are textile retailer. There were no any other business activities that participated in the survey.

Figure 4.6: Activities distribution of the respondents



4.2.2.2 Risk measurement and management policy

Table 4.7: Q2. Does your firm have risk measurement and management policy?

	Frequency	Percentage
Yes	22	24.45
No	67	74.45
I don't know	1	1.1
Total	90	100.00

In the table above, we used yes/no question to ask the respondents whether their firms have risk measurement and management policy. The results show that the amount of respondents chose yes were 22 (24.45%) and the amount chose no were 67 (74.45%) and only one respondent (1.1%) chose I don't know.

4.2.2.3 Modern mathematical risk measurement tools

Table 4.8: Q3. Does your firm use modern mathematical risk measurement tools like Value-at-risk (variance covariance method, simulation method, Monte Carlo method), expected shortfall, and volatility?

	Frequency	Percentage
Yes	2	2.2
No	86	95.6
I don't know	2	2.2
Total	90	100.00

This table shows the sample distribution of question two. 2 respondents (2.2%) told that their firm uses modern mathematical risk measurement tools, 86 respondents (95.6%) told that they don't use and 2 respondents (2.2%) told that they don't know whether to use or not.

4.2.2.4 The three most important factors in decision not to use modern mathematical risk measurement tools

Table 4.9: Q4. If no please indicate the three most important factors in your decision not to use modern mathematical risk measurement tools?

	Total (89)	City			
		Hargeisa (30)	Burao (19)	Wajale (30)	Berbera (10)
Owners, managers, and even employees do not have enough knowledge to use	63 (71%)	21 (70%)	15 (79%)	19 (63%)	8 (80%)
I don't think that risk can be measured	4 (4%)	2 (7%)	2 (11%)	0 (0%)	0 (0%)
It is increasing the cost	30 (34%)	7 (23%)	10 (53%)	13 (43%)	0 (0%)
It is only wasting of time	20 (22%)	7 (23%)	4 (21%)	6 (20%)	3 (30%)
These risk measurement tools are difficult to apply to the business	73 (82%)	28 (93%)	13 (68%)	23 (77%)	9 (90%)
Risk consequence cannot be changed	4 (4%)	1 (3%)	2 (11%)	1 (3%)	0 (0%)
We use other methods	73 (82%)	24 (80%)	11 (58%)	28 (93%)	10 (100%)

In the table above shows the most three affective factors of that the clothing stores of Somaliland do not use modern mathematical risk measurement tools are as follows, 73 (82%) of the participants marked that these modern mathematical risk measurement are difficult to apply the businesses, 63 (71%) of the participants marked that owners, managers, and even employees of their business don't have enough knowledge to use these tools, 73 (82%) of the participants marked that they use other methods.

4.2.2.5 Financial and strategic risk measurement methods

Table 4.10: Q5. How does your firm measure financial and strategic risks?

Method	Frequency	Percentage
Traditional method	74	82.2
Other methods	16	17.8
Total		100.00

In question 5 the respondents are asked how does their firm measure financial and strategic risk and we give them more options, but the answer became only two answers and 74 of the respondents (82.2%) responded that their firms use traditional methods, 16 respondents (17.8%) responded that their firms use other methods.

4.2.2.6 Responsible person of risk measurement and management

Table 4.11: Q6. Who is responsible for the risk measurement and management of your business?

	Frequency	Percentage
Owner	76	84.4
CEO	2	2.2
Finance manager	1	1.1
Accountant	10	11.1
Risk manager	1	1.1
Total	90	100.00

The sample distribution of question 6 “Who is responsible for the risk measurement and risk management of your business?” shows that 76 (84.4%) of the responsible persons of risk measurement and management persons are owners, 2 (2.2%) are CEO, 1 (1.1%) is finance manager, 10 (11.1%) are accountants, and 1 (1.1%) is risk manger.

4.2.2.7 Periodic reports

Table 4.12: Q7. Do the firm's periodic reports describe the major sources of risks?

	Frequency	Percentage
Yes	80	88.9
No	10	11.1
Total	90	100.00

Table 4.12 Show the percentage of yes/no question regarding “Do the firm’s periodic reports describe the major sources of risks?” 80 (88.9%) responded yes and 10 (11.1%) responded no.

4.2.2.8 Sources of risks

Table 4.13: Q8. What are the major risks that affect your business?

Risks	Frequency	Percentage
Financial risks	55	61.1
Strategic risks	29	32.2
Other risks	6	6.7
Total	90	100.00

Table 4.13 shows that 61.1% (55) of the major risks that affects the clothing stores of Somaliland are financial risks, 32.2% (29) are strategic risks and 6.7% (6) are other risks.

4.2.2.9 Impact of financial and strategic risks on the clothing stores in Somaliland

Table 4.14: Q 9. How do you expect each of the following financial and the strategic risks impact on the clothing stores in Somaliland? Please rate them.

Risk	Very high	High	Moderate	Low	Very Low
Credit risk	65	18	7	0	0
Liquidity risk	1	59	28	2	0
Exchange rate risk	9	30	45	3	3
Interest rate risk	0	1	6	49	34
Cash flow risk	0	6	77	7	0
Government and economic risk	0	22	55	12	1
Technology risk	2	30	53	5	0
Competition risk	15	57	18		0
Customer risk	8	40	42	0	0

The above table shows that most of the participants of this survey marked that the most highly impact of risks on the clothing stores in Somaliland are credit risk which 83(92.2%) of the participants marked that it is very highly or highly effect, the second risk that impact the clothing stores of Somaliland is competition risks, 72 (80%) of the participants marked very high and high, the third risk, which mostly impact the clothing stores of Somaliland is the liquidity risks which 60 (75%) of the participants marked very high and high. The risks that less impact to the clothing stores of Somaliland are interest rate risk, government and economic risks, and cash follows risks as the participants marked.

4.2.2.10 The three most important factors that cause clothing store's profitability to decrease.

Table 4.15: Q10. What are the three most important factors that cause your firm's profitability to decrease?

	Total	Hargeisa	Burao	Wajale	Berbera
Foreign exchange rate movements.	32 (36%)	9 (30%)	4 (20%)	15(50%)	4 (40%)
Government regulations and taxes	18 (20%)	1 (3%)	5 (25%)	9 (30%)	3 (30%)
Sales decrease	66 (73%)	22 (73%)	11(55%)	26 (87%)	7 (70%)
Decrease of the social economy	40 (44%)	18 (60%)	9 (45%)	7 (23%)	6 (60%)
Bad debts (amount of money that is unlikely to be paid by the customer)	66 (73%)	29 (97%)	18(90%)	12 (40%)	7 (70%)
Interest rate fluctuations	0	0	0	0	0
Competition affects	47 (52%)	11 (37%)	12(60%)	21 (70%)	3 (30%)
Others	1 (1%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)

In the above table shows that the three most important factors that cause the profitability of the firms to decrease are as follows; most of the participants in the survey 66 (73%) marked that the sales decrease is one of the most important factors that cause their business profitability to decrease, as the same 66(73%) of the participants marked bad debts, the third factor is the competition 47 (52%).

In the 11th question, the participants were asked, how does your firm manage the following factors that cause your firm's profitability to decrease? So we have summarized the answers of the participants into three points, which most of the respondents mentioned. Approximately 50 (54.3%) of the respondents mentioned that the first step they take every morning before the sales is to know the exchange rate of the foreign currencies, because they mostly make sales in dollar and other foreign currencies like Ethiopian BIR, approximately 45 (50%) of the participants mentioned that they make price reduction and increasing of marketing, when the sales decrease, and approximately 60 (66.7%) of the participants mention that they make credit limit, collateral, and decrease of sales on credit to manage and prevent credit risks.

4.2.2.11 Anual loss from the credit risks

Table 4.16: Q12. In each year approximately how much money do you erase/delete from the firm's books/accounts?

	Frequency	Percentage
\$1000-5000	42	46.7
5000-10000	46	51.1
10000-15000	2	2.2
Other amount	0	0
Total	90	100.00

Table 4.16, shows the sample distribution of question12 “In each year approximately how much money do you erase/ delete from the firm’s books/accounts” is as follows, 42 participants (46.7%) told that they erase/delete from the firm’s books/accounts between \$1000-5000, 46 participants (51.1%) told that they erase/delete between \$5000-10,000, and 2 participants (2.2%) \$10,000-15000.

In the 13th question it was asked, “How do you think that credit risk can be managed?” So we have summarised the results of this question in to three points which most of the participants mentioned. Approximately 63 (70%) of the participants mentioned that they manage their credit risks by making, credit limits, approximately 58 (64.5%) of the participants mentioned that they manage credit risks by taking from the customers grantor or collateral. 35 (39%) of the participants wrote that they manage credit risks by decreasing sales on credit and making the sales on credit by a special price which is high the sales on cash.

4.2.2.12 Foreign exchange rate risk management

Table 4.17: Q14. How does your firm manage foreign exchange rate risk?

	Not at all	Least used	Moderately used	Highly used	Most used
Price adjustment	0	0	17	41	32
Forward covers Prepayment/advance payment	7	29	47	7	0
Buy and save currency in advance	10	19	49	12	0

In the table , the most and highly used methods to manage foreign exchange rate risks are price adjustments and buy and save the currency in advance and the least used one is the forward covers (prepayment and advance payment).

4.2.2.13 Capability of risk measurement and management of the clothing stores in Somaliland

Table 4.18: Q15. Is the firm's risk policy capable to identify and measure the liquidity risks related in your business activities?

	Frequency	Percentage
Yes	25	27.8
No	50	55.6
I don't know	15	16.6
Total	90	100.00

Table 4.18 we used yes/no question to ask the respondents whether their firm's risk policy capable to identify and measure the liquidity risks related in their business activities. The results show that the amount of respondents, who chose yes were 25 (27.8%), 50 (55.6%) of the respondents chose no, and 15 (16.6%) respondents chose I don't know.

4.2.2.14 Systems to measure and monitor liquidity risks

Table 4.19: Q16. Is there any system to measure and monitor liquidity risks in your business?

	Frequency	Percentage
Yes	28	31.1
No	59	65.6
I don't know	3	3.3
Total	90	100.00

The distribution of the sample according to question 16 “Is there any system to measure and monitor liquidity risks in your business?” is as follows 28 participants (31.1%) ticked yes, 59 participants (65.5%) ticked no, and 3 participants (3.3%) ticked we don’t know.

4.2.2.15 Ability of the tools used to measure liquidity risk

Table 4.20: Q17. Are the tools used for liquidity risk measurement adequate with the respect to the size, nature and complexity of your business?

	Frequency	Percentage
Yes	22	24.4
No	54	60
I don’t know	14	15.6
Total	90	100.00

The sample distribution of question 17 “Are there tools used for liquidity risk measurement adequate with respect to the size, nature and complexity of your business” is as follows, the amount of respondents who chose yes are 22 (24.4%) participants, amount chose no are 54 (60%) participants and 14 (15.6%) participants chose I don’t know.

4.2.2.16 Days it takes for the stores to change goods into cash

Table 4.21: Q18. How many days it takes for your business to change goods into cash?

	Frequency	Percentage
1-10days	8	8.9
10-20 days	4	4.4
20-30 days	1	1.1
1-3 months	57	63.3
3-6 months	20	22.2
More than 6 months	0	0
Total	90.0	100.00

The sample distribution of question 18 “How many days it takes to your business to change goods into cash” is as follows, 8 (8.9%) of the participants chose 1-10days, 4 (4.4%) of the participants chose 10-20days, 1 (1.1%) of the participants chose 20-30days, 57 (63.3%) of the participants chose 1-3months, 20 (22.2%) of the participants chose 3-6months, and no more participants who chose more than 6 months.

4.2.2.17 Cash flow movement

Table 4.22: Q19. If there is a low cash flow movement in your business would these have an adverse impact to the reputation of your business?

	Frequency	Percentage
Yes	80	88.9
No	7	7.8
I don't know	3	3.3
Total	90	100.00

Sample distribution of question 19 “If there is a low cash flow movement in your business would these have an adverse impact to the reputation of your business” is as follows 80 (88.9%) of the participants chose yes, 7 (7.8%) of the participants chose no, and 3 (3.3%) of the participants chose I don't know.

4.2.2.18 Management of cash flow risks

Table 4.23: Q 20. How do you manage your firm's cash flow risks?

	Frequency	Percentage
Price reduction	21	23.3
Taking loans	17	18.9
Increasing sales	41	45.6
Decreasing cash outflows	8	8.9
Others	3	3.3
Total	90	100.0

In this question we would like to know how the businesses manage their cash flow risks. In this question the respondents could choose more than one answer. The results shows 21 (23.3%) of the respondents chose the option of a price reduction, 17 (18.9%) of the respondents chose the option of taking loans, most of the respondents 41 (45.6%) chose increasing of sales, 8 (8.9%) of the respondents chose decreasing cash out flows, and 3 (3.3%) of the respondents chose other options.

In the 21ths, it was asked, If you need emergency cash how would you find? The summary of their answers is as follows; approximately 38 (42.2%) of participants answered we take loans either from a bank or from relatives, approximately 35(38.9%) of the participants answered we sale other properties like houses, land or cars to invest, approximately 17 (18.9%) of the participants answered, it is difficult for us to find an emergency cash when needed.

4.2.2.19 Technological risk management

Table 4.24: Q22. Have the following IT protective measures, like; (passwords, PCs, firewalls, networks, external hard discs, antivirus software, different usernames, and backups, updates), have been put in place to protect the organization's information assets (data integrity, confidentiality, and availability)?

	Frequency	Percentage
Yes	78	86.7
No	6	6.7
I don't know	6	6.7
Total	90	100.00

In the table following shows the responses of the survey participants of question 20, and the results are that 78 (86.7%) of the participants replied that their business has IT protection programs and 6 (6.7%) of the participants replied that they don't have, and 6 (6.7%) of the participants replied that they don't know whether there are IT protection programs in their business or not.

4.2.2.20 Management of IT problems

Table 4.25: Q23. Who solves your firm's IT problems?

	Frequency	Percentage
IT technician in the firm	61	68.5
IT technician out of the firm	28	31.1
	89	98.9

The sampling distribution of question 23 is as follows; 61 (68.5%) of the participants picked that their IT problems are solved by IT technicians in the firm, and 28 (31.1%) of the participants picked that their It problems are solved by IT technicians out of the firm.

4.2.2.21 Organization's explicit focus of managing strategic risks

Table 4.26: Q24. Does your organization have an explicit focus on managing strategic risks?

	Frequency	Percentage
Yes	26	28.9
No	48	53.3
I don't know	16	17.8
Total	90	100.00

The sample distribution of question 24, "Does your organization have an explicit focus on managing strategic risks" is as follows; 26 (28.9%) of the participants ticked yes, 48 (53.3%) of the participants ticked no, and 16 (17.8%) of the participants ticked I don't know.

4.2.2.22 Prediction of the potential risks of the business environment

Table 4.27: Q25. Can you predict the potential risks in your business environment like customer changes, competition changes, legal changes, and technological changes?

Yes/No	Frequency	Percentage
Yes	36	40
No	40	44.4
I don't know	14	15.6
Total	90	100.00

The sample distribution of question 25, is as follows, 36 (40%) of the participants ticked yes, 40 (44.4%) of the participants ticked no and 14 (15.6%) of the participants ticked I don't know.

In question twenty sixth, it was asked, how do you think that the risks from the customer changes and customer demand change can be managed? The answers from the participants are summarised as following; approximately 65 (72.2%) of the participants think that customer risks can be prevented and managed by making more analysis before the ordering the goods (clothes), 47 (52.2%) of the participants think that customer risks can be managed and prevented by making more customer care programs, 38 (42.2%) of the participants think that customer risks can be managed and prevented by taking customer satisfaction as the first priority thing of the business. They included that customer satisfaction can be increased and maintained by importing of goods with good quality and acceptable price.

4.2.3 Cross Tabulation Analysis of Significant Tables

Cross-tabulation analysis involves analyzing the percentages in the table. The table allows the researcher to assess the evidence of the original hypothesis or the idea about the relationship between independent and dependent variables (Matthew, 2004: 298).

In this research there are 130 cross-tables in the total as a result of evaluating each of the 5 demographic characteristics with each of the 26 questions. However, just 8 of them have significant results which have to be mentioned. Significant cross tables are shown below.

4.2.3.1 The effect of education level on usage of the modern mathematical risk measurement tools?

The distribution of the sample according to the education X question 3 cross-table is shown in table 4.28.

Table 4.28: Education level* Question 3 cross-table

Education	Modern mathematical risk measurement tools			Total
	Yes	No	I don't know	
Intermediate	1	18	0	19
Secondary	1	31	1	33
Undergraduate	0	32	1	33
Graduate	0	5	0	5
Total	2	86	2	90

The effect of educational level on question 3 “Does your use firm modern mathematical risk measurement tools” is as follows; Only 1 (1.1%) intermediate graduate, and 1 (1.1%) secondary graduates of the participants marked Yes we use modern mathematical risk measurement tools, no other participants who chose yes, we use. 18 (20%) of intermediate, 31 (34.4%) of secondary, 32 (35.6%) of undergraduate and 5 (5.6%) of graduates of the participants marked No we don't use modern mathematical risk measurement tools. 1 (1.1%) of secondary and 1 (1.1%) of undergraduate marked we don't know.

4.2.3.2 The effect of city on the major risks

The following cross-tabulation table shows the results of city on the answers of the question: “What are the major risks that affect your business mostly?”

Table 4.29: City X question 8. Cross-table

City	What are the major risks that affect your business mostly			Total
	Financial risk	Strategic risks	Other risks	
Hargeisa	20	5	5	30
Burao	14	6	0	20
Wajale	13	16	1	30
Berbera	8	2	0	10
Total	55	29	6	90

The sample distribution of the city X question 8, cross-table is shown 4.29. The effect of the city on question8, is as follows; 55 (61.1%) of the participants mentioned the major risks that affect their business are financial risks [20 (22.2%) live in Hargeisa, 14 (15.6%) in Burao, 13 (14.4%) in Wajale, 8 (8.9%) in Berbera].

In the table 4.29, 29 (32.2%) of the participants mentioned that the major risks that affect their business are strategic risk, so that the table shows us in the different places that these people live [5 (5.6%) live in Hargeisa, 6 (6.7%) live in Burao, 16 (17.8) live in Wajale, and 2 (2.2%) live in Berbera]. Other risks have less impact to the clothing stores of Somaliland, and only 5 participants in Hargeisa and one participant in Wajale marked that the major risks that affect their business neither financial nor strategic risks but other risks.

4.2.3.3 The effect of gender on the estimation of annual credit loss

The distribution of the gender* question 12 is shown in table 4.30.

Table 4.30: Gender* Question 12 Cross table

Gender	In each year, approximately how much money do you erase/delete from the firm's books/ accounts			Total
	\$1000-5000	\$5000-10000	\$10000-15000	
Male	27	34	1	62
Female	15	12	1	28
Total	42	46	2	90

This table shows the effect of gender on the question “in each year approximately how much money does your firm erase/delete from the firm's credit books/accounts” results are as follows;

Male participants 27 (30%) marked to erase/delete \$1000-5000, 34 (37.8%) marked to erase/delete \$5000-10000, and 1 (1.1%) marked to erase/delete \$10000-15000.

Female participants 15 (16.7%) marked to erase/delete \$1000-5000, 12 (13.3%) marked to erase/delete \$5000-10000, and 1 (1.1%) marked to erase/delete \$10000-15000.

4.2.3.4 Effect of occupation on the using for liquidity risk management

The following cross-tabulation table shows the results of the occupation in question 17 of the financial and strategic risk measurement and management question and the results are as follows:

Table 4.31: occupation X question 17 cross tabulation

Occupation	Are the tools used for liquidity risk measurement adequate with the respect to size, nature and complexity of your business			Total
	Yes	No	I don't know	
Owner	11	25	4	40
CEO	3	8	3	14
Finance manager	2	3	3	8
Accountant	1	6	2	9
Risk manager	1	1	2	4
Others	4	11	0	15
Total	22	54	14	90

22 (24.4%) of the participants marked Yes, the tools used for liquidity risk management of our business are adequate according to size, nature and complexity of the business. These participants composed of (11 manager, 3 CEO, 2 Finance manager, 1 accountant, 1 risk manager, and 4 other fields).

54 (60%) of the participants marked, No, the tools used for liquidity risk management of our business is not adequate according to the size, nature and complexity of the business. These participants composed of (25 managers, 8 CEO, 3 finance managers, 1 accountant, 1 risk manager, 11 of other fields). 14 participants marked that don't know whether their system is adequate or not.

4.2.3.5 Comparing gender and an adverse impact to the reputation of business because of low cash flow movement

The following cross-tabulation table shows the results of gender on the answers of question: "If there is a low cash flow movement in your business, would these have an adverse impact to the reputation of your business?".

Table 4.32: gender X question 19 Cross tabulation

Gender	If there is a low cash flow movement in your business, would these have an adverse impact to the reputation of your business			Total
	Yes	No	I don't know	
Male	54	7	1	62
Female	26	0	2	28
Total	80	7	3	90

The sample distribution of gender on question 19, is shown in table 4.32. As shown in the table above, the participants are asked, "If there is a low cash flow movement in their business would these have an adverse impact to the reputation of their business". The results shown that 54 (60%) of the male participants chose yes, it has adverse impact to the reputation of the business, and also 26 (29%) of the female participants chose too. So this is identifying how the cash flow movement and liquidity is essential to the clothing stores in Somaliland.

4.2.3.6 The effect of age on the management of the cash flow risks

The following cross-tabulation table shows the results of age on the answers of the question: How do you manage your firm's cash flow risk

Table 4.33: Age X question 20 cross tabulation.

Age	How do you manage your firm's cash flow risk					Total
	Price reduction	Taking loans	Increase sales	Decreasing cash outflows	Others	
20-30	9	2	9	1	2	23
30-40	6	9	18	6	1	40
40-50	5	4	11	0	0	20
50-60	0	2	3	1	0	6
60 and over	1	0	0	0	0	1
Total	21	17	41	8	3	90

The sample distribution according to age X question 20 is shown in table 4.33. The effect of age on the question “How do you manage your firm’s cash flow risk?” is as follows:

21 (23.3%) of participants with ages between [9 (10%) 20-30, 6 (6.7%) 30-40, 5 (5.6%) 40-50, and 1 (1.1%) 60 and over] selected that they use price reduction to manage their firm’s cash flow risks.

17 (18.9%) of the participants with ages between [2 (2.2%) 20-30, 9 (10%) 30-40, 4 (4.4%) 40-50 and 2 (2.2%) 50-60] marked, that they take loans to manage their firm’s cash flow risks.

41 (45.6%) of the participants with ages between [18 (20%) 20-30. 11 (12.2%) 30-40, and 3 (3.3%) 40-50] marked, that they increase sales to manage their firm’s cash flow risks.

8 (8.9%) of the participants with ages between [1 (1.1%) 20-30, 6 (6.7%) 30-40, and 1 (1.1%) 50-60] marked, that decrease cash outflows, to manage their cash flow risks.

4.2.3.7 The effect of the city on the having an explicit focus on managing strategic risks

The following cross-tabulation table shows the results of city on the answers of the question: “Does your firm has an explicit focus on managing strategic risks?”

Table 4.34: City X question 24 Cross tabulation

City	Does your firm has an explicit focus on managing strategic risks			Total
	Yes	No	I don't know	
Hargeisa	9	15	6	30
Burao	4	9	7	20
Wajale	8	19	3	30
Berbera	5	5	0	10
Total	26	48	16	90

Sample distribution of city X question24 is shown table 4.34. The table above shows the effect of the city on the question “Does your firm has an explicit focus on managing strategic risks?” is as follows:

26 (28.9%) of the participant who lives these different places marked Yes [9 (10%) live in Hargeisa, 4 (4.4%) live in Burao, 8 (8.9%) live in Wajale and 5 (5.6%) live in Berbera].

48 (53.3%) of the participants who live these different places marked No [15 (16.7%) live in Hargeisa, 9 (10%) live in Burao, 19 (21.1%) live in Wajale and 5 (5.6%) live in Berbera], 16 of the participants marked I don't know, who live 6 Hargeisa, 7 Burao, and 3 Wajale.

4.2.3.8 Effect of gender on the predicting the potential risks in business environment

The following cross-tabulation table shows the results of gender on the answers of the question: “Can you predict the potential risks in your business environment like customer changes, competition changes, legal changes and technological changes?”

Table 4.34: Gender X Question 25 Cross tabulation

Gender	Can you predict the potential risks in your business environment like customer changes, competition changes, legal changes and technological changes			Total
	Yes	No	I don't know	
Male	29	25	8	62
Female	7	15	6	28
Total	36	40	14	90

Sample distribution of gender on question 25, is shown in table 4.34. 29 of male participants (32.2%) chose “Yes”, 25 (27.8%) chose “No” and 8 (8.9%) chose “I don't know”.

Female participants 7 (7.8%) chose “Yes”, 15 (16.7%) chose “No”, and 6 (6.7%) chose “I don't know”.

4.3 Results of the reaserch

This qualitative research was collected from four cities, 30 (33.3%) from Hargaisa, 30 (33.3%) from Wajale, 20 (22.2%) from Burao, and 10 (11.1%) from Berbera. There are 62 male and 28 female participants. Most of the participants are between 20-30 (26.7%) and 30-40 (44.4%) of ages. Approximately half of the participants are owners, because these are small businesses and mostly the owners are also the managers, accountants and risk managers of their businesses, as we can see in question six 84.4% of the risk measurement and management responsible personnel are become owners. The educational levels of the participants were mostly secondary and undergraduate, (36.7% and 36.7%).

Risk measurement and management begins with having a clear policy that guides the people, so the participants are asked, whether their business has risk measurement and management policy and 67 (74.45%) of the participants marked no, 22 (24.45%) of the participants marked yes and 1 (1.1%) of the participants marked I don't know. This means there is weak or no risk measurement and management policy for most of the clothing stores in Somaliland.

In question three the participants are asked, does your firm use modern mathematical risk measurement tools, 86 (95.5%) of the respondents chose no, and in question four it was asked the reasons they don't use and 63 (71%) of the participants chose that "owners, managers and even employees do not have enough knowledge to use, 73 (82%) of the participants also selected that these risk measurement tools are difficult to apply the business,73 (82%) of the participants mentioned that they use other methods to measure their risks. The other methods that clothing stores use are the traditional methods as it can be understood from question five which 74 (82.2%) of the participants selected that they use traditional methods to measure their financial and strategic risks. These traditional risk measurement methods are not capable to identify and measure the risks of the clothing stores in Somaliland, as the results of question 15 shows us: 55.6% of participants marked that their risk measurement methods are not capable to identify their business risks. These traditional risk measurements are not based on any mathematical methods, doesn't have accurate guidelines to calculate and no system to measure the potential risks as it can be understood from question 16, where 65.6% of the participants chose No. when it was asked "Is there any system to measure and monitor liquidity risks in your business?".

To know the major risks that affect the clothing stores in Somaliland we asked the participants; do the firm's periodic reports describe the major sources of risks. 80% of

participants marked yes. In the next question we asked, what are the major risks that affect your business mostly? The response became 55 (61.1%) financial risks, 29 (32.2%) strategic and 6(6.7%) other risks; to make sure the financial and strategic risks that especially affect these businesses it was requested the participants to rate how the financial and strategic risks affects; 82 (91.1%) of the participants agreed together that credit risk is the most highly affected risk of clothing stores in Somaliland, 60 (66.7%) of the participants chose that liquidity risk is high, 72 (80%) of the participants chose that competition risk is also high, the other important risks that participants mentioned are customer risks which 48 (53.3%) of the participants chose high. In the 10th question it has become clear that financial risks are the most dangerous risks that influence the clothing stores in Somaliland, because 66 (73%) of the participants chose that bad debts are one of the three most important factors that cause their firm's profitability to decrease, bad debts is the amount of money that is unlikely to be paid by the customer. The next second and third risks are risks from sales decrease and decrease of the social economy. These last risks has a direct relation to the liquidity and cash flow movement of the business, this means any problem that arise from these two sources can cause a financial risks. All of these results showing us that some of the of the financial risks like, credit risk, liquidity risk, and exchange rate risk, and also some strategic risks like, competition risk, customer risk and technology risk are the most effective risks that affect the clothing stores in Somaliland.

Risk management has become a main area of development for the businesses. Most of the world businesses emphasized that effective risk management procedures are essential. The objective of risk management is to maximize the potential of success and minimize the probability of future losses (Anderson, K and Terp A. 2006: 27-46), so that one of the objective of this survey is to know the risk management approaches of clothing stores in Somaliland. In the above question we learnt the major financial and strategic risks of clothing industry in Somaliland, so know we are going to know the risk management methods and how they use to manage their financial and strategic risks. So the results of the questions emphasizing on the risk management indicating that there is a poor risk management in the clothing stores of Somaliland. Because the risk measurement and management policy is not exist or is poor as we can understand in question two where most of the participants chose No risk measurement and management policy. In the 17th question participants are asked whether the tools for liquidity risk management of their business is adequate according to the size, nature and complexity of their business; 60% of the participants marked that it is not adequate; so this is an another evidence of poor risk management. In the 24th question indicates that there

is no explicit focus of managing strategic risks; this is another evidence of poor risk management; because good management practice consists of process of analyzing, forecasting and predicting the future event. As such in the 25th question approximately half of the participants mention that they cannot predict the potential risks in their business environment; this is because of the poor risk measurement methods and poor risk management approaches of their business.

CHAPTER 5 CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Small and medium sized enterprises (SMEs) are the cornerstone of the global economy, in both developed and developing countries. SMEs of clothing industry has great effect on the economic development, employment, and social stabilization of Somaliland, but this important sector faces a large number of uncertainty conditions and risks. For that reason the researcher is decided to make a research about the financial and strategic risk measurement and management methods of clothing stores in Somaliland. The researcher believes that effective risk measurement and management can increase the business success.

The management of risk is an integral part of good management practice. By carrying out risk management in a more consistent and structured way, management becomes more effective. Starting or developing a business always requires taking risks. (Van Scoy 1992), there is also a direct relationship between risk and opportunity in all business activities, and as such, business management needs to be able to identify, measure and manage its risks in order to be able to capitalize on those opportunities and achieve its goals and objectives.

To have a good understanding of this topic in the introduction of this research, we have defined "Risk", explained the concept of risk, and we also deeply discussed risk categories. In the literature we have deeply discussed financial and strategic risks, risk measurement and risk management methods.

This study, was conducted to know the most effective financial and strategic risks that affect the clothing stores in Somaliland, and also to know the risk measurement methods and risk management methods of clothing stores in Somaliland. Then we needed to collect data to answer our research questions. Self-completion questionnaire, was used to collect the data. The questionnaire was sent to 130 of potential samples of clothing stores in Somaliland. We were received 115, and then we took 90 of them, which were completely answered questionnaires. The data were analyzed by using SPSS program and the findings and results of the data answers our research questions. In the findings and results of this research, we found that financial and strategic risks are the most important risks that affects the clothing stores in Somaliland, especially credit risks, liquidity risks, exchange rate risk and also competition risk, customer risk and

technological risks. We also found that risk measurement and management methods of clothing stores in Somaliland are both poor and traditional.

5.2 Recommendation

The most important objective to use risk management is to maximize profit and minimize the future losses (Wariya Phuenngam 2009: 12). For that reason the researcher chooses this topic to warn and to show the owners and managers of the clothing stores in Somaliland to avoid the factors that are decreasing their profitability both at the moment and in the future.

The clothing stores are recommending having the following:

- To make clear and written risk measurement and management policy. The policy must be a complete process of analyzing assessing, reporting, mitigating, preventing, monitoring and controlling of risks.
- Especial attention must be given risks arising from credit, liquidity, foreign exchange rates and also those arising from competitions, customers and technologies.
- The researcher is encouraging the owners and managers of the clothing stores to make and support efforts of making insurance companies.

This study described the financial and strategic risk measurement and management procedures from step to step for supporting the audience to have a good understanding of the subject. It provides figures, tables that easy to interpret, but this study was only intended to search the financial and strategic risks and their measurement and management methods of clothing stores in Somaliland. So in the next research I would recommend to make a full risk analysis of this sector and other business sectors in Somaliland. And it must be given a high attention to the other risks. With a bigger sample size and higher response rate is also needed for deeper analysis. I also recommend for the next time to choose a large scale of research methodologies (qualitative and quantitative) and large research designs like interviews, case studies and observations. Targeted groups were top level management who understand the risk management topics. Even though the questionnaire was conducted in English version, but all respondents well understood since the questionnaire was tested to confirm it with easily understand, but in the next survey it is recommended to be Somali language.

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Appendix

Overview of Somaliland

Somaliland is an unrecognized country located in the horn of Africa. Somaliland is bordered Ethiopia in the south and west, Djibouti on the northwest, Gulf of Aden in the north, and Somalia in the east. The area of Somaliland is 137600km². It has a population of around 3.5 million. Its capital is Hargaisa. Other large cities are Burao, Berbera, Erigavo, Borama and Las'anod. Somali language is the official language of Somaliland. Somaliland people are 100% Muslim (Sunni- shafi'i). Culture of Somaliland is based on the Islamic religion. The land of Somaliland consists of mainly plateaus, plains and highlands, hot conditions prevail year around along with periodic Manson winds and irregular rainfall. It is good for agriculture and also for animal rearing.

Somaliland was an important center for trade in the ancient world, according to the most of east African scholars; and several powerful Somali empires ruled the regional trade. In the late of the 19th century British gained control over a part of the coast and established British Somaliland. In the interior Mohamed Abdullah Hassan (dervish state) successfully repelled the British Empire four times and forced it to retreat to the coastal regions. But the dervish state was finally defeated in 1920 by British air power. Finally Somaliland became a British protectorate, and gained its full independence on June, 26, 1960. Meanwhile, thirty five countries of the world's states recognized Somaliland immediately after the independence; hence only five days later, the new government of Somaliland opted to join with Somalia, which was becoming independent on July, 1, 1960. (Government of Somalia formed). Unfortunately the union turned into a disappointment for the people of Somaliland because it ushered in two decades of political subjugation and ten years of armed struggle against southern dominations. 18 May 1991 Somaliland has announced its independence from Somalia, but yet, any country was not recognized. In Somaliland there is a well working democratic government, which has its own military, flag, money, population and territory. Every 5 years, it happens democratic elections.

Economy of Somaliland: after 20 years of war with Somalia. Somaliland has able to maintain a healthy economy largely based on livestock. The strong business industries in Somaliland are; telecommunication, food industry, clothing industry, and remittances. There are an increasing number of manufacturing industries in Somaliland. Somaliland has business relations with; Saudi Arabia, China, UAE, Yemen, India, Brazil, Turkey, Ethiopia, Somalia, and Thailand. Somaliland has a high level of petrol as many researches of petrol companies declared but was not produced yet.

Questionnaire of financial and strategic risk measurement and management of clothing stores of Somaliland

The purpose of this questionnaire is to know the most effective financial and strategic risk that affect the clothing stores of Somaliland and also to know the relation between risk measurement methods and risk management methods of clothing stores of Somaliland. This questionnaire is a part of master thesis at the Çanakkale Onsekiz Mart University, Turkey.

This questionnaire consists of 26 questions, and should take no more than 10 minutes to complete. Your answers are completely anonymous.

If you have any queries concerning the questionnaire please contact:

4435641/3625467.

Mubarak2008@hotmail.com.

General information:

City: Hargeisa Burao Wajale Berbera

Age: 20----30 30----40 40----50 50----60 60 and over

Gender: Male Female

Occupation: Owner CEO Finance manager Accountant Risk manager
 Others

Education: Intermediate Secondary Undergraduate

Graduate Postgraduate

Please complete the questionnaire by answering the following questions.

1. What is the field of activities of your business?

Textile wholesaler Textile retailer Construction

Services Manufacturing Other.....

2. Does your firm have risk measurement and management policy?

Yes No I don't know

3. Does your firm use modern mathematical risk measurement tools like Value - at -risk (variance covariance method, simulation method, Monte Carlo method), expected shortfall, and volatility?

Yes No I don't know

4. If no please indicate the three most important factors in your decision not to use modern mathematical risk measurement tools?

Owners/managers and even employees do not have enough knowledge to use.

- I don't think that risk can be measured.
- It is increasing the cost.
- It is only wasting of time.
- These risk measurement tools are difficult to apply the business.
- Risk consequence cannot be changed.
- We use other methods.

5. How does your firm measure financial and strategic risks?

Using Value -at -risk method

Volatility method

Expected shortfall method

Traditional method

Others.....

6. Who is responsible for the risk measurement and management of your business?

Owner CEO Finance manager

Accountant Risk manager Others.....

7. Do the firm's periodic reports describe the major sources of risk?

Yes No

8. What are the major risks that affect your business mostly?

Financial risks Strategic risks Others.....

9. How do you expect each of the following financial and strategic risks impact on the clothing stores in Somaliland? Please rate them.

Risk	Very high	High	Moderate	Low	VeryLow
Credit risk					
Liquidity risk					
Exchange rate risk					
Interest rate risk					
Cash flow risk					
Government and economic risk					
Technology risk					
Competition risk					
Customer risk					

10. What are the three most important factors that cause your firm's profitability to decrease?

- Increase of foreign exchange rate.
- Government regulations and taxes.
- Sales decrease.
- Decrease of the social economy.
- Bad debt (amounts of money that is unlikely to be paid by the customer).
- Interest rate fluctuations.
- Competition affects.
- Others.....

11. How does your firm manage the above factors that cause your firm's profitability to decrease?

.....

.....

.....

.....

12. In each year approximately how much money do you erase/delete from the firm's credit books/ accounts?

- \$1000 to 5000
- \$5000 to 10,000
- \$10,000 to 15,000
- Others.....

13. How do you think that credit risk can be managed?

.....

.....

.....

.....

14. How does your firm manage foreign exchange rate risk?

	Not at all	Least used	Moderately used	Highly used	Most used
Price adjustment					
Forward covers					
Prepayment/advance payment					
Buy and save currency in advance					

15. Is the firm's risk policy capable to identify and measure the liquidity risks related in your business activities?

- Yes
- No
- I don't know

16. Is there any system to measure and monitor liquidity risk in your business?

- Yes
- No
- I don't know

17. Are the tools used for liquidity risk management adequate with respect to size, nature and complexity of your business?

- Yes
- No
- I don't know

18. How many days it takes to you, to change your product into cash?

- 1---10 days
- 10—20 days
- 20....30days
- 1----- 3 months
- 3 up to 6months
- More than 6 months

19. If there is a low cash inflow movement in your business would these have an adverse impact to the reputation of your business?

- Yes
- No
- I don't know

20. How do you manage your firm's cash flow risk?

- Price reduction
- Taking loans
- Increasing sales
- Decreasing cash out flows
- Others.....

21. If your business needs an emergence cash how do you find?

.....

.....

.....

22. Have the following protection measures like; (passwords, PCs, firewall, network, external hard discs, antivirus soft ware, different usernames, backups and updates) been put in place to protect the organization's information asset (data integrity, confidentiality, availability)?

- Yes
- No
- I don't know

23. Who solves your firm's IT problems?

- IT technician in the firm
- IT technician out of the firm

24. Does your organization have an explicit focus on managing strategic risks?

- Yes
- No
- I don't know

25. Can you predict the potential risks in your business environment like customer changes, competition changes, legal changes, and technological changes?

- Yes
- No
- I don't know

26. How do you think that the risks from the customer changes and customer demand change can be managed?

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Thank you very much.