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Evaluating The Relationship Between Expansionary Business Strategies And Financial Performance: Evidence From Selected Companies In Somalia

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Abstract
Background: *This study investigates the effects of expansionary business strategies on the financial performance of selected companies in Somalia. Expansion strategies—including market growth, product diversification, and capacity enhancement—are widely recognized for their potential to improve profitability, operational efficiency, and market share. Although firms increasingly adopt such strategies, no systematic study in Somalia has quantified their impact using inferential statistical techniques. Anchored in Profit Maximization Theory.*
Materials and Methods*: the study employed a descriptive–explanatory and correlational research design within a positivist paradigm to assess causal relationships between expansionary strategies and financial outcomes. The target population comprised 265 departmental heads across 53 companies in Puntland, with a sample size of 160 respondents determined using Slovin's formula. Data were collected through structured questionnaires, pretested for validity and reliability (Cronbach's $\alpha > 0.7$), and analyzed using SPSS version 22. Descriptive statistics (frequencies, percentages, means) and inferential statistics (Pearson correlation, univariate and multivariate regression) were applied to examine the relationships between expansion strategies and financial performance.*
Results: *Results revealed a moderate positive correlation ($R = 0.376$) between expansionary strategies and financial performance, with $R^2 = 0.141$, indicating that 14.1% of the variation in financial performance is explained by these strategies. The regression coefficient ($\beta = 0.453$) was statistically significant ($p < 0.05$), demonstrating that a unit increase in expansionary strategies leads to a 0.453 improvement in financial performance. The findings confirm that market expansion, product diversification, and capacity enhancement significantly improve profitability, revenue growth, and operational efficiency, even within Somalia's fragile business environment.*
Conclusion: *The study concludes that expansionary business strategies exert a statistically significant positive effect on financial performance and recommends that managers prioritize expansion initiatives, allocate resources effectively, and implement monitoring mechanisms, while policymakers create enabling environments to support sustainable business growth.*

Keywords: *Expansionary Business Strategies, Financial Performance, Market Expansion, Product Diversification, Capacity Growth.*

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I. Background

Business expansion strategies constitute critical mechanisms through which firms enhance operational scale, penetrate new markets, diversify product and service offerings, and strengthen overall performance. Expansion may take diverse forms, including concentric diversification—where new ventures are strategically related to existing operations—and conglomerate expansion, where new and existing business lines lack strategic fit (Gitman, 2017). The primary objectives of expansion are often linked to economies of scale, broader market coverage, improved resource utilization, and ultimately, shareholder wealth maximization (Thompson & Strickland, 2015). Nonetheless, expansion introduces inherent risks, such as exposure to unfamiliar competition, increased operational costs, and substantial asset investments, all of which contribute to uncertainty in firm performance.

Empirical evidence consistently associates expansionary strategies with improved firm performance across varied contexts. Farok et al. (2007), for example, examined 269 Indian service and manufacturing firms between 1997 and 2001, finding that service firms realized gains from international expansion more rapidly than manufacturing firms due to lower capital requirements and faster revenue generation. Similarly, Jung and Soyeon (2003), in their study of 500 U.S. service firms, observed that international expansion confers competitive advantages, though the relationship with financial performance is non-linear, suggesting an optimal threshold beyond which additional expansion yields diminishing returns. Chen et al. (2013), analyzing 606 small solar energy companies in China, highlighted that expansion outcomes are often constrained by technological deficiencies, weak resource integration, and operational inefficiencies, underscoring the importance of strategic and organizational capacity in achieving financial gains.

Expansion may also manifest through asset-based growth and product development. Inyiama, Oluchukwu, and Nnenna (2018) reported a significant positive association between non-current asset growth and profitability among 22 Nigerian manufacturing firms (2006–2015), while current asset growth exhibited only a weak relationship with profits. Alaaraj, Mohamed, and Bustamam (2018) further contend that market expansion enables firms to access untapped customer segments, improve sales conversion, and secure additional funding, thereby enhancing financial outcomes. Product expansion—whether through new product development or modification of existing offerings—has been shown to strengthen customer value, increase market share, and support long-term growth (Nwokah, Ugoji & Ofoegbu, 2009; Mbithi, Muturi & Rambo, 2015; Mohamed, 2005). Stock, Greis, and Fischer (2011) emphasize that product expansion not only sustains firm survival but also contributes to broader societal benefits, including employment creation and taxation.

Market expansion strategies may further encompass geographic, demographic, and psychographic dimensions (Filatotchev & Bruton, 2017; Bang & Joshi, 2010). Such approaches are often adopted to counter market saturation, diversify revenue streams, and maintain competitive advantage. Successful expansion enhances operational efficiency, strengthens brand recognition, and improves access to financial and human capital resources, thereby positioning firms for higher profitability and long-term sustainability in competitive environments.

In the Somali context, expansionary strategies assume particular relevance given the country's recovering yet fragile economy. Somalia's private sector is dominated by small and medium enterprises, constrained by limited access to formal financing, infrastructural deficits, and highly informal market structures. Despite these challenges, Somali firms increasingly pursue expansionary strategies, including entry into new urban markets, product diversification, and leveraging diaspora networks for capital mobilization and supply chain support (World Bank, 2022). While such strategies hold potential to enhance financial performance through increased sales, market share, and economies of scale, empirical evidence on their effectiveness remains scarce. Consequently, examining the impact of expansionary business strategies on the financial performance of selected Somali companies is essential to generate evidence-based insights that inform managerial practice and policy interventions in this under-researched environment.

II. Study Rationale

Business expansion is widely recognized as a strategic pathway for enhancing firm performance through market growth, product diversification, and increased operational capacity. Empirical evidence demonstrates measurable financial benefits, though outcomes are often context-specific. For instance, Vishal et al. (2007) found that U.S. retail firms with higher sales growth achieved inventory turnover improvements of 15–20%, while larger firms faced decreasing returns to scale ($\beta < 0$, $p < 0.05$). Similarly, Sajid et al. (2015) reported profitability gains of 10–25% among Malaysian firms investing in new product development, with a significant positive relationship ($\beta = 0.42$, $p < 0.05$) between innovation and financial performance.

African studies further highlight the potential of expansionary strategies. Inyiama, Oluchukwu, and Nnenna (2018) showed that non-current asset growth significantly correlated with profitability in Nigerian manufacturing firms, while current asset growth had weaker effects. Nwokah, Ugoji, and Ofoegbu (2009) found that product expansion in Nigerian breweries increased sales by 12–17%, though profitability outcomes were mixed. These findings suggest that expansion can improve financial performance, but results depend on sectoral dynamics, asset structures, and organizational capacity.

Despite such insights, empirical evidence in fragile economies like Somalia remains scarce. Somalia's private sector is dominated by SMEs constrained by limited access to credit, weak infrastructure, and high exposure to political and economic risks (World Bank, 2022). While anecdotal evidence points to growing adoption of market expansion, product diversification, and capacity growth strategies, no prior study has systematically quantified their relationship with financial indicators such as profitability, return on assets, and revenue growth. Existing literature largely emphasizes developed economies (e.g., U.S., Malaysia, China) or relatively stable emerging markets (e.g., Nigeria, India), often focusing on single forms of expansion such as innovation or market entry (Chen et al., 2013; Luvusi & Muthoni, 2019).

Given Somalia's fragile economic environment, high market volatility, and informal competition, findings from other contexts may not be directly transferable. Recent evidence underscores the urgency of context-specific research: Somalia's 2023 Financial Governance Report highlights persistent challenges in resource mobilization, institutional capacity, and private sector resilience, reinforcing the need for empirical studies that link expansionary strategies to firm-level financial outcomes (World Bank, 2023).

Therefore, this study seeks to fill empirical, contextual, and methodological gaps by examining how multiple forms of expansion—market growth, product diversification, and capacity expansion—affect the financial performance of Somali firms. The findings will provide evidence-based guidance for managers, investors, and policymakers seeking to enhance profitability, sustainability, and economic recovery in fragile economies.

III. Objective And Significance Of The Study

This study seeks to analyze the relationship between expansionary business strategies and financial performance in selected Somali companies, addressing a critical gap in empirical research within fragile economic contexts. This study is significant for several reasons. For managers and corporate decision-makers, it offers empirical evidence on how expansionary business strategies influence financial performance, thereby equipping them with insights to make informed choices on investment, resource allocation, and strategic planning aimed at improving profitability and operational efficiency. For policymakers and regulatory authorities, the findings provide guidance in designing supportive policies, institutional frameworks, and incentive structures that encourage effective expansion and sustainable private sector growth.

Academically, the study contributes to the literature on strategic management in fragile and emerging economies by addressing a notable gap in understanding the impact of expansionary strategies on firm performance in Somalia. By integrating multiple forms of expansion—market growth, product diversification, and capacity expansion—the research advances theoretical perspectives on how strategic choices translate into financial outcomes under conditions of volatility and institutional weakness.

The study also holds practical relevance for investors and development partners, offering evidence-based insights to identify profitable opportunities, assess risks, and support firms in implementing growth strategies that enhance financial stability and resilience. In doing so, it not only benefits individual enterprises but also contributes to broader economic recovery and sustainable development in Somalia.

IV. Literature Review

Profit Maximization Theory, rooted in neoclassical economics, posits that firms make rational decisions to maximize the difference between total revenue and total cost by adjusting output, pricing, and investment until marginal revenue equals marginal cost (Varian, 2019; Nicholson & Snyder, 2017). It provides a foundational framework for analyzing firm behavior, resource allocation, and strategic choices, particularly in competitive and developing-market contexts where financial sustainability is critical (Pindyck & Rubinfeld, 2020). Modern corporate finance scholars, such as Jensen and Meckling (1976), extended the theory by linking profit maximization to shareholder wealth and agency theory, reinforcing its relevance in managerial decision-making (Brealey, Myers, & Allen, 2020).

Although influential, the theory faces criticism for assuming perfect rationality and singular profit objectives, overlooking alternative goals such as market share, survival, or social responsibility (Cyert & March, 1963; Freeman, 2010; Kahneman, 2011). In fragile economies, institutional weaknesses and market imperfections may further constrain firms' ability to strictly maximize profits (Peng, 2021). Nevertheless, the theory remains a valuable lens for examining expansionary strategies—such as market entry, diversification, and capacity growth—since these are typically justified by their potential to enhance profitability and long-term financial performance (Ansoff et al., 2019; Peng, 2021). In Somalia's challenging business environment, profit maximization offers a coherent framework for linking expansionary decisions to measurable financial outcomes.

V. Conceptual Framework

Conceptual framework provides a relationship between independent variable and dependent variable (Mugenda, & Mugenda, 2003). In this researcher's expansionary business strategies is the study's independent variable whereas financial performance of selected Companies in Somalia is the dependent variable.

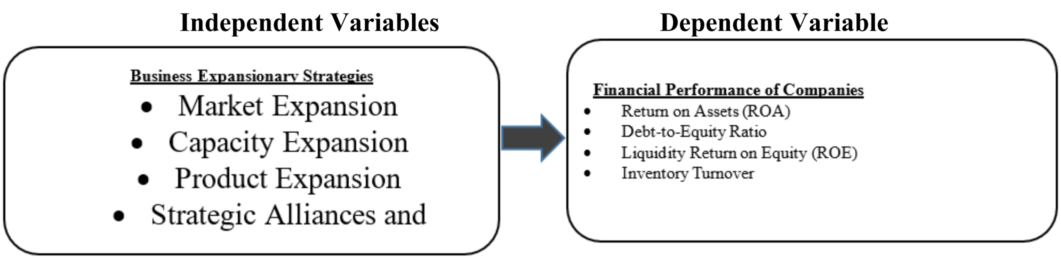

Figure 2.1: Conceptual framework ***Researcher (2025)***

In the conceptual framework illustrated in Figure 2.1 (Researcher, 2025), the independent variables represent the factors that are presumed to influence the outcomes of interest, while the dependent variable reflects the measurable effect or result of these influences. Specifically, the independent variables in this study such as product diversification, workforce diversification, and geographical diversification are strategic business actions undertaken by companies to enhance performance, manage risk, and explore new opportunities. The dependent variable, financial performance, captures the outcomes of these strategic choices, including profitability, revenue growth, and return on assets. The framework thus provides a structured approach to examine how variations in diversification strategies are associated with changes in financial performance, guiding the formulation of hypotheses and the selection of appropriate analytical methods.

VI. Empirical Literature Review

Vishal et al. (2007) employed rigorous inferential techniques, including panel regression analysis on data from 353 publicly listed U.S. retail firms between 1985 and 2003. Their results revealed a statistically significant negative coefficient for firm size ($\beta < 0$, $p < 0.05$), indicating decreasing returns to scale, while sales growth rate exhibited a positive and significant relationship with inventory turnover ($\beta > 0$, $p < 0.01$), with efficiency improvements ranging from 15% to 20%. These findings strongly support expansion through sales growth in developed retail markets characterized by efficient logistics and capital access. However, a contextual gap emerges, as similar inferential relationships have not been tested within Somalia's fragile business environment, where market inefficiencies may alter both the strength and direction of these effects.

Sajid et al. (2015) reported statistically significant relationships between innovation-driven expansion and organizational performance in Malaysia. Using structural equation modeling, they found positive path coefficients ($\beta = 0.42$, $p < 0.05$) between new product development and profitability, with financial performance improvements ranging from 10% to 25% among firms actively investing in innovation. While robust, the study conceptualizes expansion almost exclusively through innovation, omitting other strategies such as market penetration or capacity expansion. This creates a theoretical gap, as the absence of an integrated model limits understanding of how multiple expansionary strategies jointly influence financial performance, particularly in fragile contexts like Somalia where innovation alone may not be the dominant growth mechanism.

Luvusi and Muthoni (2019) argue that market expansion generates economies of scale and profit margin improvements of up to 15–20%. However, their analysis relies primarily on descriptive reasoning rather than inferential statistical testing. The absence of regression models, hypothesis testing, or significance measures (e.g., p-values, confidence intervals) undermines the robustness of their conclusions. Without empirical testing of causal relationships between market expansion and financial performance, the proposed benefits remain speculative. This highlights a methodological gap, underscoring the need for inferential approaches such as multiple regression or panel data models to quantify the financial impact of expansionary strategies among Somali firms.

Ogohi (2018) applied inferential statistics, including correlation and regression analysis, to examine the effects of marketing strategies on organizational performance in Nigeria's beverage sector. Findings revealed statistically significant relationships between promotion and sales growth ($r = 0.61$, $p < 0.01$), with regression estimates showing that marketing strategy implementation accounted for 18% of the variance in sales performance ($R^2 = 0.18$). While methodologically sound, the study's narrow scope—limited to a single firm—restricts generalizability. This points to a contextual gap, as similar inferential analyses have not been extended to multiple firms and sectors in Somalia to validate whether expansionary strategies yield comparable financial outcomes.

Nwokah, Ugoji, and Ofoegbu (2009) employed chi-square tests and regression analysis to establish statistically significant associations between product expansion and corporate performance (χ^2, $p < 0.05$). Their results indicated sales growth increases of approximately 12–17%, though some profitability relationships were statistically insignificant ($p > 0.05$). The study's limited sample size of 32 managerial respondents from four breweries, coupled with its sector-specific focus, constrains the reliability of policy recommendations. This reveals a policy gap, as there is insufficient statistically grounded evidence to guide managerial and policy decisions on expansionary strategies in fragile economies such as Somalia.

VII. Materials And Methods

This study employed a descriptive–explanatory and correlational research design to comprehensively address the research problem. The descriptive component facilitated systematic observation and documentation of variables without manipulation, thereby providing a clear profile of expansionary business strategies as practiced by firms in Puntland. The explanatory dimension enabled the investigation of causal relationships between independent variables—namely expansion, diversification, and independent investment strategies—and the dependent variable, financial performance. By integrating correlational analysis, the study was able to measure the strength and direction of associations among these variables, ensuring that the effects of expansionary strategies on firm performance were analyzed in a rigorous and systematic manner (Singpurwalla, 2013).

The research was grounded in a positivist philosophy, which emphasizes objectivity, quantifiable observations, and statistical testing to establish causal relationships. Positivism provided a robust framework for hypothesis testing and ensured that conclusions were derived from observable facts and logical reasoning. This philosophical orientation was particularly appropriate for examining measurable constructs such as investment decisions and financial performance indicators—including revenue growth, return on assets, and profitability—within the Somali business context (Bryman & Cramer, 2012; Russell, 2013).

The target population consisted of 265 departmental heads drawn from sales, marketing, ICT, finance, procurement, and operations units across 53 companies in Puntland. These firms represented diverse sectors, including accommodation, banking, construction, manufacturing, general trading, and telecommunications, thereby ensuring sectoral heterogeneity in the analysis. To determine the appropriate sample size, Slovin's formula ($n = N / [1 + N(E^2)]$) was applied with a 5% margin of error, yielding a sample of 160 respondents, equivalent to 60.37% of the population. Stratified random sampling with proportionate allocation was employed to guarantee adequate representation of all company categories and to minimize sampling bias. This approach enhanced the reliability and generalizability of the findings by ensuring that the perspectives of different industries were systematically incorporated into the study (Bhattacherjee, 2012; Wilson, 2010).

Data for the study were collected using structured questionnaires comprising close-ended items measured on a 5-point Likert scale. To maximize response rates across geographically dispersed firms, the drop-off-pick-up (DOPU) method was employed for questionnaire distribution and retrieval. A pilot test was conducted with 16 respondents, representing 10% of the sample, drawn from companies in other Somali states to evaluate both validity and reliability. Face and content validity were strengthened through expert review and the refinement of ambiguous items, ensuring clarity and relevance of the instrument. Reliability was assessed using Cronbach's alpha, with all constructs achieving coefficients above the recommended threshold of 0.7, thereby confirming satisfactory internal consistency (Creswell, 2014; Russell, 2013).

Data analysis was conducted using SPSS version 22, employing both descriptive and inferential statistical techniques. Descriptive statistics were used to summarize participants' demographic characteristics and responses, presenting results in terms of frequencies, percentages, means, and standard deviations. Inferential statistics were applied to examine relationships among variables and to test the study's hypotheses. Specifically, Pearson correlation analysis was used to assess the strength and direction of associations, while univariate and multivariate regression models were employed to evaluate causal effects. The univariate regression model assessing expansionary strategies was specified as:

[$Y=\beta 0+\beta 1X1+\varepsilon$]; where (Y) represents financial performance, (X_1) denotes expansionary strategies, ($\beta 0$) is the constant, ($\beta 1$) the regression coefficient, and (ε) the error term. This model generated key outputs including the coefficient of determination (R^2), F-statistics, t-tests, and regression coefficients, thereby enabling a rigorous assessment of the effects of expansionary business strategies on the financial performance of selected companies in Puntland.

VIII. Results

The study sought to describe expansionary business strategies of the firms, which is measured by use of market expansions, product expansion capacity and asset expansion. The departmental heads were to point out the extent in which they agreed that the statements on the items of expansionary business strategies described their firms. Each item had five point Likert- scales, starting from 'strongly disagree' (5) to 'strongly agree' (1). Responses obtained were then analyzed by use of mean scores, standard deviations as well as coefficient of variation. Moreover, higher mean scores denoted strong disagreement on the item while lower mean score implied strong agreement with the statements. Table 1 presents the results obtained from the analysis.

Table 1: Expansionary Strategies

Statement	N	Mean	Standard Deviation
Investment into new market enhances performance of companies in Puntland	142	2.18	1.119
Investment in new products creates value for companies in Puntland.	142	1.68	0.667
Investment in new assets contribute to growth of companies in Puntland	142	1.77	1.070
Many companies have proper policies to implement new investments	142	2.50	1.030
Poor expansion decisions are detrimental to the performance of the firms.	142	1.90	0.756
Companies in Puntland do not get investment waivers form the government.	142	2.75	1.223
Grand Mean	**142**	**2.13**	**0.978**

Source: Research Data (2025)

As shown by mean of 2.75 (SD = 1.223), the respondents were neutral that companies in Puntland do not get investment waivers form the government. As indicated by Vishal *et al.* (2007), governments all over the world offer investments waivers and tax exemptions for new equipment and assets.

With mean of 2.50 (SD = 1.030), respondents were also neutral that many companies have proper policies to implement new investments. Richard, Jonathan, and Sharon (2014) highlight the importance of having proper polices before investing in new products and new assets, which helps in making sure that the new investments will improve efficiency and profitability of a firm.

Nevertheless, the participants agreed with the statement indicating that investment in new products enhances performance of companies in Puntland as shown by a mean of 2.18 (SD = 1.119). These findings concur with Hung et al. (2007) observation that investment in new products has a significant effect on organizational performance.

The respondents further agreed with mean of 1.90 (SD=0.756) that poor expansion decisions are detrimental to the performance of the firms. Thompson and Strickland (2015) indicate that business expansion is disposed to a myriad of risks because of firms being exposed to new competition, costs, assets investment and also new markets that create a lot of uncertainty in the operating environment.

Further, respondents agreed with mean of 1.77 (SD=1.070) that investment in new assets contribute to growth of companies in Puntland. These findings agree with Kumar (2008) findings that business expansion through introduction of new assets should result in the success of any business operation and has many factors which drive businesses towards it because of the resultant system efficiencies it affords them.

As shown by mean of 1.68 (SD = 0.667), respondents agreed with statement indicating that investment in new products creates value for companies in Puntland. These findings agree with Gitman (2017) findings that business expansion through introduction of new products signifies expansion which is a major goal to a firm in wealth maximization and the attainment of its overall set goals and objectives.

Inferential statistics: A univariate analysis was conducted to assess the influence of expansion strategies and companies' financial performance in Puntland. The hypothesis H_0: *Expansionary strategies have insignificant effect on financial performance of selected companies in Somalia* was tested using regression analysis.

Table 2: Regression Results for Expansionary Strategies and Financial Performance

			Model summary	
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.376[a]	.141	.132	.66497
a. Predictors:(Constant), Expansion strategies				

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.12.602	1	6.301	14.429	.000[b]
	Residual	76.499	140	.442		
	Total	89.101	141			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Expansion strategies

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.407	.161		14.930	.000
	Business Expansionary strategies	.453	.093	.347	4.872	.000

Source: Research Data (2025)

The **R value (0.376)** represents the **correlation coefficient** between expansionary strategies and financial performance of selected companies in Puntland. This positive value indicates a moderate positive relationship, suggesting that as firms implement more expansionary strategies, their financial performance tends to improve, though the relationship is not very strong. The model produced an R^2 of 0.141, indicating that expansionary strategies explain 14.1% of the variation in financial performance, while 85.9% is influenced by other factors.

The F-statistic was 14.429, exceeding the F-critical value of 3.9201, and the p-value was 0.000, which is below the 0.05 significance level, indicating that the model is statistically significant. The regression coefficient (β_1) for expansionary strategies was 0.453, showing that a unit increase in expansionary strategies results in a 0.453 increase in financial performance. Given that the p-value is less than 0.05, the null hypothesis was rejected, confirming that expansionary strategies have a statistically significant positive effect on financial performance of selected companies in Somalia, consistent with findings from other African contexts where market and product expansion improved profitability and operational efficiency. These findings are consistent with empirical evidence from other African contexts. For example, Mutuma and Wangui (2013) found that product line extension and process innovation significantly improved financial performance in the Kenyan banking sector. Similarly, Nzula and Omondi (2017) reported that market expansion and penetration positively influenced commercial banks' performance.

IX. Conclusion

Drawing from the results, the study concludes that expansionary business strategies have a statistically significant positive effect on the financial performance of selected companies in Somalia. Regression results revealed that a unit increase in expansionary strategies leads to a 0.453 improvement in financial performance, while the model explained 14.1% of the variation in financial outcomes, indicating that other contextual factors also play a role. The findings confirm that strategies such as market expansion, product diversification, and capacity enhancement are critical drivers of profitability, revenue growth, and operational efficiency in Somali firms. These results align with empirical evidence from other African contexts, demonstrating that well-planned expansion strategies can enhance organizational performance even in fragile and informal market environments. This conclusion poses the following recommendations;

a. Managers in Somali companies should prioritize the implementation of expansionary strategies, including entering new markets, diversifying product lines, and increasing operational capacity, to enhance financial performance.
b. Firms should allocate resources effectively to support expansion initiatives, including workforce training, technology adoption, and supply chain strengthening, to maximize returns.
c. Policymakers should create enabling environments for business growth, including access to financing, infrastructure improvements, and regulatory support, to facilitate successful expansion.
d. Companies should regularly monitor the performance of expansion initiatives using financial metrics such as profitability, revenue growth, and return on assets to ensure that strategies are generating the expected outcomes.

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