Replacement Business Strategies and Financial Performance: Evidence from Companies in Puntland State of Somalia

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ABSTRACT

Firms in fragile economies face persistent challenges arising from institutional weaknesses, capital constraints, and market volatility, which often limit the effectiveness of conventional diversification strategies. In response, many organizations adopt replacement strategies renewing productive capacity, reselling non-core assets, and recycling existing resources as pragmatic approaches to sustain financial performance. This study investigates the impact of such strategies on the financial performance of companies in the Puntland State of Somalia. Anchored in the Resource-Based View (RBV) and guided by a positivist philosophy, the research employed a descriptive-explanatory design. Data was collected from 160 department heads across 53 firms in Puntland, representing telecommunications, banking, construction, manufacturing, trading, and accommodation sectors. Structured questionnaires on a five-point Likert scale were used to measure replacement strategies and financial performance, assessed through indicators including Return on Assets (ROA), revenue growth, liquidity, and cost efficiency. Analysis conducted using SPSS version 28, applying descriptive statistics, Pearson correlation, and multivariate regression, revealed that capacity renewal and resource recycling exert significant positive effects on profitability, asset utilization, and revenue growth. Conversely, asset resale strategies enhanced short-term liquidity but had limited influence on long-term profitability when applied in isolation. The study concludes that replacement strategies can meaningfully enhance firm performance in fragile economies when strategically aligned and supported by managerial capability. It recommends that firms prioritize capacity renewal and resource recycling, while policymakers strengthen institutional frameworks to maximize the effectiveness of these strategies.

Keywords: Financial performance; Renew capacity; Resale strategy; Recycling strategy; Resource-Based View and Return on Assets.

STUDY BACKGROUND

Global firms are increasingly confronted with structural disruptions arising from rapid technological change, market volatility, and the declining relevance of traditional business models (Hitt, Ireland, & Hoskisson, 2022). In response, diversification strategies have evolved beyond product or market expansion toward replacement business strategies**,** which emphasize renewing organizational capacity, reselling obsolete assets, and recycling existing resources into new value-creating activities. Evidence from developed economies demonstrates that firms reallocating internal resources rather than pursuing unrelated diversification achieve more sustainable outcomes, with capacity renewal initiatives improving return on assets and operating margins by 15–20% (Teece, 2018). These findings reflect a strategic shift toward internal efficiency, where accumulated capabilities are leveraged to stabilize revenues, reduce costs, and protect profitability in turbulent markets (Barney, 2021).

In developing and emerging economies, replacement strategies assume heightened importance due to capital constraints, institutional inefficiencies, and exposure to macroeconomic shocks (Khanna & Palepu, 2020). Limited access to external financing often renders large-scale acquisitions or unrelated diversification impractical, compelling firms to adopt incremental technological upgrades, asset resale, and resource recycling as pragmatic mechanisms for sustaining performance. Empirical studies from Brazil and Southeast Asia report

sales growth of 18–25% and liquidity improvements exceeding 12% among firms pursuing replacement-based diversification, particularly in manufacturing, logistics, and digital services (Silva & Costa, 2021). However, excessive reliance on resale strategies without complementary capacity renewal has been shown to erode long-term competitiveness and profitability (Tan & Wong, 2023).

Within Africa, replacement strategies have emerged as a dominant diversification pathway amid infrastructure gaps, regulatory uncertainty, and volatile demand (Moyo & Sibanda, 2022). Evidence from South Africa indicates that technology modernization yields profitability gains of approximately 14%, while recycling obsolete assets into export-oriented or digital operations reduces costs by over 10%. Conversely, resale strategies deliver mixed results, often improving short-term liquidity but failing to sustain long-term financial performance when not reinvested strategically (Naidoo & Pillay, 2024). These findings underscore that the effectiveness of replacement strategies depends on strategic alignment, managerial capability, and institutional context rather than asset disposal alone.

Somalia provides a particularly compelling context for examining replacement strategies due to its fragile institutional environment, limited access to capital markets, and reliance on privately driven enterprise activity (World Bank, 2023). Despite prolonged instability, Somali firms in telecommunications, remittances, logistics, and trade have demonstrated resilience through digital capacity renewal, recycling competencies into mobile money and platform-based services, and selective asset resale. Industry reports show that firms investing in digital infrastructure renewal achieved annual revenue growth of 14–18% between 2017 and 2022, while recycling strategies strengthened liquidity and operational continuity in the absence of formal credit systems (Abdi & Mohamed, 2023). However, resale-driven diversification has yielded limited long-term profitability due to weak regulation, market fragmentation, and valuation challenges. This gap highlights the need for empirical investigation into how replacement strategies influence financial performance in Somalia's fragile economic environment.

Problem Statement

Although substantial empirical evidence from developed and emerging economies demonstrates that diversification strategies, particularly replacement approaches such as capacity renewal, asset resale, and resource recycling, can enhance financial performance, the applicability of these findings to fragile and institutionally weak economies remains uncertain (Hitt, Ireland, & Hoskisson, 2022). Studies in OECD countries report that firms adopting renewal and recycling strategies achieve 15–25% improvements in return on assets and operating margins, alongside notable cost reductions (Teece, 2018). However, these results are derived from contexts characterized by stable regulatory systems, deep capital markets, and transparent financial reporting. Consequently, they may not adequately reflect the realities of firms in fragile economies, where uncertainty, informality, and capital constraints dominate (Barney, 2021).

In Somalia, firms operate under markedly different economic and institutional conditions that potentially alter the effectiveness of replacement strategies. Over 80% of businesses rely on internally generated funds, while access to formal bank credit remains below 15%, severely constraining strategic investment options (World Bank, 2023). Although large firms in telecommunications, remittances, and trade have increasingly pursued digital capacity renewal, recycling competencies into mobile money and logistics services, and selective asset resale, empirical evidence linking these strategies to measurable financial performance outcomes is limited. Existing studies are largely descriptive, lack rigorous econometric analysis, or aggregate diversification strategies into composite indices, thereby obscuring the distinct financial effects of renewal, resale, and recycling (Abdi & Mohamed, 2023).

The absence of firm-level empirical evidence on the financial performance implications of replacement strategies in Somalia represents a critical gap in both theory and practice. Industry reports suggest that firms investing in digital capacity renewal achieved annual revenue growth of 14–18% between 2017 and 2022, while recycling strategies improved liquidity ratios by approximately 20% (World Bank, 2023). Yet, these outcomes have rarely been subjected to systematic academic scrutiny. Without isolating and quantitatively testing the individual effects of renewal, resale, and recycling strategies, policymakers and managers lack evidence-based guidance on which pathways yield sustainable financial returns in fragile economies.

Addressing this gap necessitates a rigorous empirical investigation into the impact of replacement business strategies on the financial performance of companies in Puntland State of Somalia.

Study Objective And Significance

Objective

The primary objective of this study is to examine the effect of replacement business strategies on the financial performance of selected companies in the Puntland State of Somalia. Specifically, the study seeks to assess how capacity renewal, asset resale, and resource recycling influence key performance indicators such as profitability, revenue growth, liquidity, and cost efficiency.

Contribution to Knowledge

This study contributes to knowledge in three key dimensions: First, at the theoretical level, it extends the Resource-Based View (RBV) by testing the applicability of replacement business strategies, capacity renewal, asset resale, and resource recycling in a fragile economic context. By isolating and empirically examining the distinct effects of these strategies, the study enriches existing theory, which has largely been developed in stable institutional environments. Second, at the practical level, the study provides firm-level evidence on the financial performance implications of replacement strategies in Somalia. The findings offer managers and entrepreneurs actionable insights into which strategies yield sustainable profitability, liquidity, and growth, thereby guiding resource allocation and strategic decision-making in environments characterized by capital constraints and market volatility.

Third, at the policy level, the study informs government agencies and business associations by highlighting the institutional conditions necessary for replacement strategies to succeed. The evidence can support the design of business-friendly policies, regulatory frameworks, and investment incentives that strengthen enterprise resilience and competitiveness in fragile economies. Collectively, these contributions advance scholarly understanding of diversification in resource-constrained settings, provide practical guidance for firms, and generate policy-relevant insights for institutional development in Somalia and comparable fragile economies.

LITERATURE REVIEW

Theoretical Review

Resource- Based View (RBV)

This study adopts the Resource-Based View (RBV) as its guiding theoretical framework for examining the effect of replacement business strategies on the financial performance of selected companies in Puntland State of Somalia. RBV, originally articulated by Barney (1991), posits that firms achieve sustainable competitive advantage and superior performance by developing and exploiting resources that are valuable, rare, inimitable, and non-substitutable (VRIN). Internal resources such as technological capabilities, skilled human capital, and operational competencies can generate above-average returns when strategically deployed (Wernerfelt, 1984; Peteraf, 1993).

Replacement business strategies including capacity renewal, asset resale, and resource recycling align with RBV principles because they emphasize leveraging internal strengths to enhance efficiency, profitability, and long-term resilience (Barney, 1991; Grant, 2019). For example:

- Capacity renewal reflects investment in upgrading technological and operational resources, thereby sustaining competitive advantage.
- Asset resale enables firms to reallocate underutilized resources, improving liquidity and efficiency.
- Resource recycling allows firms to redeploy existing capabilities into new contexts, enhancing productivity and reducing waste.

Despite its theoretical appeal, RBV has faced criticism for privileging internal resources while underemphasizing environmental dynamics and competitive pressures (Priem & Butler, 2001; Newbert, 2007). In fragile and emerging economies such as Somalia, firms encounter institutional weaknesses, limited access to finance, and heightened market volatility, which may constrain their ability to fully exploit internal resources (World Bank, 2023). Moreover, RBV assumes resource heterogeneity and immobility, conditions that may not fully hold in informal and highly networked markets (Peteraf, 1993).

To address these limitations, scholars have extended RBV through the dynamic capabilities perspective (Teece et al., 1997), which emphasizes the ability of firms to reconfigure and redeploy resources in response to environmental changes. This extension is particularly relevant in Somalia's fragile economy, where firms must adapt replacement strategies to volatile market conditions.

Hypothesis Development:

Drawing on RBV, this study hypothesizes that:

- **H1:** Capacity renewal has a positive and significant effect on financial performance.
- **H2:** Asset resale has a positive and significant effect on financial performance.
- **H3:** Resource recycling has a positive and significant effect on financial performance.

These hypotheses operationalize RBV by linking specific replacement strategies to measurable financial outcomes.

Return on Assets (ROA) as a Measure of Financial Performance

Return on Assets (ROA) is a widely recognized indicator of financial performance, reflecting a firm's ability to efficiently utilize its total assets to generate profit. Defined as the ratio of net income to total assets, ROA provides insight into how effectively management deploys organizational resources to achieve profitability (Barney, 2021). High ROA values signal effective asset utilization, while low values may indicate inefficiencies or underperformance.

ROA is extensively applied in both developed and developing economies to assess operational effectiveness, benchmark firms within industries, and evaluate the impact of strategic investments such as replacement business strategies (Barney, 1991; Teece, 2018). Empirical evidence demonstrates that firms adopting capacity renewal strategies often achieve ROA improvements of 15–20%, while recycling strategies contribute incremental gains by reducing idle resources and enhancing operational efficiency (Silva & Costa, 2021).

In fragile economies such as Somalia, ROA serves as a practical indicator for evaluating the financial impact of replacement strategies in contexts characterized by limited formal financing and high operational volatility (Abdi & Mohamed, 2023). Firms investing in digital capacity renewal or recycling operational assets tend to achieve higher asset productivity, translating into improved ROA, even when resale strategies primarily enhance short-term liquidity. Preliminary industry reports indicate that Somali firms in telecommunications, logistics, and trade adopting structured replacement strategies recorded annual ROA ranging from 12% to 18% between 2017 and 2022, reflecting efficient resource utilization under challenging conditions (World Bank, 2023).

Hypothesis Development: Based on ROA as the dependent variable, this study hypothesizes that:

- H4: Replacement business strategies (capacity renewal, asset resale, and resource recycling) collectively have a positive and significant effect on ROA.

Integration of theory and empirical testing - By combining RBV with ROA, the study establishes a clear theoretical-to-empirical link:

- RBV explains why replacement strategies should enhance performance (through resource leverage and redeployment).
- ROA provides the how a measurable financial outcome that captures the efficiency of resource utilization.

This integration ensures that the theoretical framework is not merely descriptive but directly informs hypothesis development, operationalization, and empirical testing.

Empirical Reviews

Empirical studies across diverse contexts highlight the role of replacement business strategies, capacity renewal, asset resale, and resource recycling in shaping firm performance. Firms reallocating internal resources in developed economies achieve more sustainable outcomes than unrelated diversification. Capacity renewal initiatives in OECD countries improved ROA and operating margins by 15–25% while reducing costs (Teece, 2018). Recycling underutilized resources into adjacent markets enhanced efficiency and profitability (Silva & Costa, 2021).

Replacement-based diversification for emerging economies for instance Brazil and Southeast Asia yielded sales growth of 18–25% and liquidity gains above 12%, particularly in manufacturing and digital services (Silva & Costa, 2021). However, excessive reliance on asset resale without renewal weakened competitiveness (Tan & Wong, 2023).

Technology modernization in South Africa improved profitability by 14%, while recycling obsolete assets reduced costs by over 10% (Moyo & Sibanda, 2022). Conversely, resale strategies boosted short-term liquidity but failed to sustain profitability when not reinvested strategically (Naidoo & Pillay, 2024).

Limited evidence suggests similar patterns in Somalia. Firms investing in digital infrastructure renewal achieved revenue growth of 14–18% between 2017–2022, while recycling improved liquidity and continuity in the absence of formal credit systems (Abdi & Mohamed, 2023; World Bank, 2023). Resale-driven diversification, however, yielded limited long-term profitability due to weak regulation and market fragmentation. Existing studies remain largely descriptive and lack rigorous econometric analysis.

Across contexts, replacement strategies enhance financial performance when strategically aligned and supported by managerial capability. In Somalia, firm-level evidence on the distinct impacts of renewal, resale, and recycling remains scarce, presenting a critical empirical gap.

Conceptual Review

The conceptual framework guiding this study positions replacement business strategies, capacity renewal, asset resale, and resource recycling as the primary independent variables influencing firm-level financial performance in Somalia. Consistent with Mugenda and Mugenda (2003), a conceptual framework illustrates the hypothesized relationships between independent and dependent variables, thereby shaping the research design and analytical approach. In this study, replacement strategies are operationalized as follows:

Capacity Renewal: Investments in upgrading productive assets, technology, and infrastructure to improve efficiency and competitiveness.

Asset Resale: Disposal of non-core or obsolete assets to generate liquidity and reduce financial strain.

Resource Recycling: Redeployment of underutilized resources into new or adjacent activities to create additional value.

These strategies constitute the independent variables, while financial performance serves as the dependent variable, measured through indicators such as Return on Assets (ROA) and Return on Investment (ROI). ROA

captures the efficiency of asset utilization, while ROI reflects the profitability of investments relative to their cost. Together, these measures provide a comprehensive assessment of firm performance outcomes.

The framework is anchored in the Resource-Based View (RBV), which posits that firms achieve sustainable competitive advantage by strategically managing internal resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Replacement strategies embody this logic by enabling firms to renew, redeploy, and recycle internal capabilities to enhance profitability, liquidity, and growth.

Furthermore, the framework acknowledges the role of moderating variables, notably market volatility, institutional constraints, and capital scarcity, that may influence the strength or direction of the relationship between replacement strategies and financial performance. In fragile economies such as Somalia, these external factors can either amplify or weaken the effectiveness of replacement strategies, underscoring the importance of contextual alignment.

In summary, the conceptual framework hypothesizes that:

- **H_{01}:** Capacity renewal does not have a positive or significant effect on firms' financial performance.
- **H_{02}:** Resource recycling does not have a positive or significant effect on firms' financial performance.
- **H_{03}:** Asset resale does not significantly improve short-term liquidity nor affect long-term profitability when implemented in isolation.

This framework provides the analytical foundation for empirically testing the distinct effects of replacement strategies on firm performance in Somalia, thereby addressing a critical gap in both theory and practice.

MATERIALS AND METHODS

Research Design and Sampling

This study adopted a descriptive explanatory research design to investigate the effect of replacement business strategies on the financial performance of selected companies in Puntland State of Somalia. The descriptive component provided insights into current practices without manipulation, while the explanatory component established causal relationships between the independent variables (capacity renewal, asset resale, and resource recycling) and the dependent variable (financial performance). This dual approach enabled a structured analysis of both existing practices and their impact on profitability, liquidity, and growth, thereby ensuring that the study objectives were addressed coherently and systematically (Creswell & Creswell, 2018). To strengthen validity, the study incorporated methodological triangulation by complementing survey data with secondary financial records (e.g., audited statements and annual reports where available). This reduced sole reliance on self-reported data and mitigated risks of response bias.

Research Philosophy

The study was guided by a positivist research philosophy, which emphasizes observable and measurable phenomena (Bryman & Cramer, 2012). Positivism enables hypotheses to be tested using empirical data and statistical analysis, ensuring objectivity, replicability, and rigor. This orientation was appropriate given the study's reliance on quantifiable financial metrics and measurable strategic interventions. To further enhance rigor, the study acknowledged the limitations of self-reported data and employed cross-validation with secondary sources to strengthen causal inferences.

Target Population

The target population comprised 265 department heads drawn from 53 companies operating in Puntland across diverse sectors, including accommodation, banking, construction, manufacturing, general trading, and telecommunications (Wilson, 2010). The unit of analysis included heads of finance, marketing, ICT, procurement, and operations departments, as these individuals are directly responsible for strategic decision-

making and the implementation of replacement strategies. Targeting this population ensured the collection of relevant and contextually accurate data.

Sample Size and Sampling Technique

A sample of 160 respondents (60.37% of the target population) was determined using Slovin's formula at a 95% confidence level and a 5% margin of error. To ensure representativeness, proportionate stratified random sampling was employed, allowing each sector to be adequately represented relative to its population size (Bhattacherjee, 2012). This technique enhanced reliability, minimized bias, and facilitated generalization of findings across diverse sectors, while accounting for differences in company size and operational scope. To further reduce sampling bias, non-response analysis was conducted to compare early and late respondents, ensuring that missing data did not systematically distort results.

Data Collection Instruments

Data were collected using structured questionnaires comprising closed-ended items measured on a five-point Likert scale (Bryman & Cramer, 2012). The questionnaires captured indicators of replacement strategies (capacity renewal, asset resale, and resource recycling) and financial performance (ROA, revenue growth, liquidity, and cost efficiency). To mitigate response bias, several measures were adopted:

- Anonymity assurance was provided to respondents to encourage honest reporting.
- Neutral wording of items was ensured to avoid leading questions.
- Triangulation was applied by cross-checking questionnaire responses with available company records and industry reports.
- Pilot testing involving 16 respondents was conducted to refine the instrument, ensuring clarity, validity, and reliability (Creswell & Creswell, 2018).

The drop-off and pick-up (DOPU) method was employed to maximize response rates despite geographical dispersion.

Data Analysis

Data analysis combined descriptive statistics, including mean, frequency, standard deviation, and percentages, with inferential statistics such as Pearson correlation and regression analysis. The primary hypothesis tested whether replacement business strategies significantly influence financial performance. Regression analysis provided coefficients, t-values, F-tests, and R^2 values to facilitate interpretation of relationships. All statistical analyses were conducted using SPSS version 28 to ensure accuracy, consistency, and robustness of results (Sahu, 2013).

The predictive model is expressed as: Financial Performance = $\boldsymbol{\beta 0+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+\varepsilon}$

where X1= Capacity Renewal, X_2= Resource Recycling, X_3 = Asset Resale, β0 =Intercept, β1, β2,β3 are the Regression coefficients for the predictors and ε = Error term

RESULTS

Descriptive Results on Replacement Business Strategies

Replacement business strategies among firms in Puntland were assessed across three dimensions: capacity renewal, asset resale, and resource recycling. Data were collected using a structured questionnaire with items measured on a five-point Likert scale, ranging from strongly agree (1) to strongly disagree (5). The responses were analyzed using means, standard deviations, and coefficients of variation to capture central tendencies and dispersion.

In interpreting the results, lower mean scores indicated stronger agreement with the statements, while higher mean scores reflected stronger disagreement. This analytical approach provided a clear understanding of the extent to which firms in Puntland adopt and implement replacement strategies, as well as the variability of responses across different sectors

Table 1: Replacement Business Strategies

Statement	**N**	**Mean**	**Standard Deviation**
Companies in Puntland do not have a replacement policy in place	142	2.30	1.016
Renewed assets do not have high production capacity	142	2.37	1.241
Use of recycled assets has contributed to the decline in performance of companies in Puntland	142	2.04	0.985
Replacement strategies are given priority over recycling existing assets	142	1.92	0.705
Companies in Puntland do not resell their old assets	142	1.50	0.580
Proceeds from the disposed assets are not reported in financial reports	142	2.53	0.980
Replacement strategies are made by top management only	142	1.61	0.683
Replacement of old equipment has enhanced the efficiency and effectiveness of companies in Puntland	142	2.21	0.713
Aggregate Mean	**142**	**2.06**	**0.863**

The analysis revealed mixed perceptions regarding replacement business strategies among firms in Puntland. Respondents were **moderate** on the statement that proceeds from disposed assets are not reported in financial reports, as indicated by a mean of 2.53 (SD = 0.980). This finding contrasts with Keller et al. (2023), who emphasize that for sound financial management and accounting compliance, organizations should consistently report proceeds from asset disposals in their financial statements.

Respondents **agreed** with the statement that renewed assets do not exhibit high production capacity, reflected in a mean of 2.37 (SD = 1.241). Similarly, participants agreed that most companies in Puntland lack formal replacement policies, with a mean of 2.30 (SD = 1.016). These results are consistent with René, Ursula, and Mariëlle (2010), who found that firms in many developing economies have not institutionalized asset and equipment replacement policies.

The findings further showed agreement with the statement that replacing old equipment has enhanced efficiency and effectiveness, as evidenced by a mean of 2.21 (SD = 0.713). This aligns with Silva and Costa (2021), who argue that replacement investments made when assets become unproductive improve operational efficiency and organizational effectiveness.

In contrast, respondents agreed that reliance on recycled assets has contributed to declining performance, with a mean of 2.04 (SD = 0.985). This supports James (2015), who observed that recycled assets often lack efficiency, and their continued use can negatively affect organizational performance.

Finally, participants strongly agreed that replacement strategies are prioritized over recycling existing assets, as shown by a mean of 1.92 (SD = 0.705). This finding concurs with Tan and Wong (2023), who note that organizations typically prioritize replacing non-performing assets after comprehensive evaluations, since underperformance often stems from neglect of resources or inadequate attention.

Financial Performance of Selected Companies in Puntland State of Somalia

The study sought to assess the financial performance of firms operating in Puntland, measured through key indicators including profit after tax, return on assets (ROA), and return on equity (ROE). Respondents were asked to evaluate how their firms' performance compared with that of other companies in the region. Each item was measured using a five-point Likert scale, ranging from Strongly Agree (1) to Strongly Disagree (5). This approach provided quantifiable insights into the relative financial standing of firms and allowed for systematic comparison across sectors.

Table 2: Financial Performance of Selected Companies in Puntland State of Somalia

Statement	N	Mean	Standard Dev
Informed strategically Investment enhances the performance of companies in Puntland	142	1.89	0.905
Fear to undertake more risk investments declines performance	142	1.86	0.591
Lack of investment in new projects affects performance	142	1.35	0.508
Use of differentiation of products and services offered by companies in Puntland has enhanced performance.	142	1.70	0.702
Involvement of all stakeholders in decision-making has contributed to high performance	142	2.47	0.750
Lack of diversification has led to a decline in performance.	142	1.27	0.448
Aggregate Mean	**142**	**1.757**	**0.651**

Responses were analyzed using mean scores and standard deviations, with lower mean values indicating stronger agreement and higher mean values reflecting disagreement. Table 3 presents the results of the analysis. The findings show that respondents agreed that involvement of all stakeholders in decision-making contributes to improved performance in terms of profit after tax, ROA, and ROE (M = 2.47, SD = 0.750). This result supports Naidoo and Pillay (2024), who argue that stakeholder participation facilitates the effective implementation of business strategies and helps anticipate potential challenges prior to execution.

Respondents also agreed that strategic investment decisions enhance firm performance, as indicated by a mean of 1.89 (SD = 0.905). This aligns with Mokoena and Dlamini (2022), who emphasize that investment decisions are critical in determining whether current capital allocations will generate sufficient future revenues to cover costs, thereby influencing profitability.

Similarly, respondents agreed that risk aversion negatively affects financial performance, with a mean of 1.86 (SD = 0.591). This finding is consistent with Fratianni and Savona (2017), who note that risk-taking is a defining characteristic of entrepreneurship, though risky investments may sometimes lead to losses. Handley and Limao (2015) further highlight that poor investment decisions can result in severe financial setbacks, while Brigham and Ehrhardt (2013) observe that riskier investments tend to yield higher returns, whether positive or negative, compared to low-risk investments, which typically generate modest returns.

The results also indicate agreement that product and service differentiation enhances performance, with a mean of 1.70 (SD = 0.702). This finding supports Barney (2021), who identifies diversification as a critical strategic decision for management, and Hitt, Ireland, and Hoskisson (2022), who argue that entry into new markets and product diversification, often involving significant capital outflows, can have far-reaching effects on organizational performance.

Respondents further agreed that lack of investment in new projects undermines profitability and asset returns, as shown by a mean of 1.35 (SD = 0.508). This concurs with Francois, Manchin, Norberg, Pindyuk, and Tomberger (2015), who emphasize that investment in new projects is essential for firms to remain competitive, survive, and achieve sustained profitability.

Finally, respondents strongly agreed that lack of diversification leads to declining performance, with a mean of 1.27 (SD = 0.448). This finding is consistent with Teece (2007), who argues that diversification enables firms to achieve economies of scope and scale by diffusing capacity and sharing resources; without it, firms risk experiencing performance decline.

Regression Test for Replacement Business Strategies and Financial Performance

The regression test was conducted to examine the effect of replacement business strategies on the financial performance of companies in Puntland State of Somalia. Specifically, the study assessed the impact of capacity renewal, resource recycling, and asset resale on firm financial outcomes. The results provide insight into which strategies significantly contribute to improving both short-term liquidity and long-term profitability

Table 3: Regression Test Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.394	.155	.137	.321

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.374	3	.791	8.440	.004
	Residual	12.944	138	.094		
	Total	15.318	141			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	–.864	.214		–4.037	.000
	Capacity Renewal	.418	.102	.362	4.098	.000
	Resource Recycling	.376	.094	.331	4.000	.000
	Asset Resale	.315	.088	.281	3.580	.001

Financial Performance = −0.864 + 0.418(Capacity Renewal) + 0.376(Resource Recycling) + 0.315(Asset Resale) + ε

Model Summary

The model summary indicates a moderate but meaningful relationship between replacement business strategies and financial performance of companies. The correlation coefficient (R = 0.394) suggests a weak to moderate

positive relationship, implying that improvements in capacity renewal, resource recycling, and asset resale are generally associated with better financial performance. The R-squared value of 0.155 shows that approximately 15.5% of the variation in financial performance is explained by the three strategies, while the remaining 84.5% is attributable to other factors not included in the model, such as managerial capability, market conditions, or institutional environment.

Analysis of variance

The **ANOVA results** indicate that the overall regression model is statistically significant ($F = 8.440$, $p = 0.004 < 0.05$), confirming that the independent variables collectively have a significant effect on financial performance. This implies that the model is a good fit for the data and can be used to predict how replacement business strategies influence financial outcomes in companies operating in Puntland State of Somalia. The significant F-value strengthens confidence in the model despite the relatively low R-squared, demonstrating that the independent variables are meaningful predictors.

Coefficients

The regression coefficient for capacity renewal ($B = 0.418$) is positive and statistically significant ($t = 4.098$, $p < 0.001$), indicating that initiatives such as renewing production capacity, upgrading machinery, and enhancing operational capabilities meaningfully improve the financial performance of companies in Puntland State of Somalia. Based on the t-value and associated p-value, the first null hypothesis (H_{01}), which stated that ***capacity renewal does not have a positive or significant effect on firms' financial performance***, is rejected in favor of the alternative. Recent strategic literature by Abdi and Mohamed (2023), highlights that circular economy practices particularly those that strengthen dynamic capabilities like capacity renewal are linked to better firm outcomes, as they increase flexibility, resilience, and competitiveness in dynamic business environments

Similarly, the regression coefficient for resource recycling ($B = 0.376$,) is positive and statistically significant ($t = 4.000$, $p < 0.001$), demonstrating that firms implementing practices such as reusing materials, minimizing waste, and improving resource efficiency tend to achieve better financial outcomes. Consequently, the second null hypothesis (H_{02}), which suggested that ***resource recycling does not have a positive or significant effect on financial performance***, is rejected. This finding aligns with Silva & Costa, (2021) showing that circular economy practices, including recycling and material circulation, are positively associated with improved financial and operational performance outcomes for firms across sectors.

For asset resale, the coefficient ($B = 0.315$,) is positive and statistically significant ($t = 3.580$, $p = 0.001$), indicating that although its effect is smaller compared to capacity renewal and resource recycling, resale activities still contribute positively to financial performance. Accordingly, the third null hypothesis (H_{03}), which posited that ***asset resale does not significantly improve short-term liquidity nor affect long-term profitability when implemented in isolation***, is rejected. Contemporary circular economy literature also suggests that strategies facilitating asset reuse, resale, and secondary markets can improve firm performance by retaining value within the productive system and enhancing financial flexibility when integrated into broader strategic packages (Moyo & Sibanda, 2022).

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the effect of replacement business strategies, capacity renewal, asset resale, and resource recycling on the financial performance of selected companies in Puntland State of Somalia. Guided by the Resource-Based View (RBV), the findings reveal that capacity renewal ($B = 0.418$, $t = 4.098$, $p < 0.001$) and resource recycling ($B = 0.376$, $t = 4.000$, $p < 0.001$) exert statistically significant positive effects on profitability, asset utilization, and revenue growth. Asset resale ($B = 0.315$, $t = 3.580$, $p = 0.001$), while improving short-term liquidity, demonstrated a relatively smaller influence on long-term profitability when implemented in isolation. Overall regression analysis indicated a significant association between replacement strategies and firm performance (Beta = 0.217, $p = 0.004$), confirming that strategic deployment of internal

resources meaningfully enhances financial outcomes. These results underscore that even in fragile economies characterized by institutional weaknesses and capital constraints, Somali firms can achieve financial resilience by adopting replacement strategies. The study extends RBV theory into a fragile economic context, highlighting that resource heterogeneity and managerial capability are crucial for sustaining competitiveness. In conclusion, replacement strategies in Puntland are not merely reactive measures but serve as strategic pathways for stabilizing revenues, improving operational efficiency, and sustaining growth despite institutional fragility.

Recommendations

Managerial Recommendations

- Firms should prioritize capacity renewal and resource recycling, as these strategies demonstrated the strongest positive effects on financial performance.
- Proceeds from asset resale should be strategically reinvested into renewal and recycling initiatives to ensure long-term competitiveness.
- Managers should strengthen decision-making capabilities in resource allocation, risk management, and strategic planning to maximize the benefits of replacement strategies.

Policy Recommendations

- Policymakers should enhance institutional support by creating regulatory frameworks and incentives that encourage technological modernization and recycling initiatives.
- Access to finance should be expanded through tailored credit mechanisms that enable firms to invest in replacement strategies despite capital constraints.
- Regulatory bodies should enforce transparency in financial reporting, requiring firms to disclose proceeds from asset disposals and replacement investments to improve accountability.

Scholarly Recommendations

- Future research should isolate and test the individual effects of renewal, resale, and recycling strategies across different sectors and fragile economies.
- Scholars should further refine RBV by integrating contextual dynamics such as institutional weaknesses, market volatility, and capital scarcity.
- Comparative studies across fragile and emerging economies would enrich understanding of the transferability and limitations of replacement strategies in diverse contexts.

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