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Article

Market Risk as a Determinant of Small Businesses Sustainability in Mogadishu, Somalia

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Abstract: This study examined the impact of market risk as a Determinant of Small businesses Sustainability in Mogadishu, Somalia, with particular emphasis on economic risk, competitive risk, and regulatory risk. A quantitative correlational research design was employed to investigate the relationships between market risk dimensions and small business sustainability. Data were collected from 310 respondents, including small business owners, managers, and employees, through a structured questionnaire using a simple random sampling technique. The data were analyzed using IBM SPSS statistics version 29, applying descriptive statistics and Pearson correlation analysis to examine the relationships among economic risk (ER), competitive risk (CR), regulatory risk (RR), and small business sustainability (SBS). The descriptive findings indicated that respondents generally agreed that fluctuations in economic conditions, intense market competition, and regulatory uncertainty significantly influence business sustainability. Pearson correlation analysis revealed statistically significant positive relationships between economic risk and small business sustainability ($r = 0.602$, $p < 0.01$), competitive risk and sustainability ($r = 0.593$, $p < 0.01$), and regulatory risk and sustainability ($r = 0.549$, $p < 0.01$). The analysis further showed strong positive associations among the three market risk dimensions, suggesting that they are closely interconnected within the business environment. The principal contribution of this study is the provision of empirical evidence that market risk dimensions collectively shape the sustainability of small businesses in Mogadishu. Overall, the findings highlight the importance of strengthening risk management practices, enhancing strategic planning, promoting innovation, and improving regulatory stability to increase business resilience and support the long-term sustainability of SMEs in Somalia.

Keywords: Market Risk; Economic Risk; Competitive Risk; Regulatory Risk; Small Business Sustainability

1. INTRODUCTION

Market risk refers to financial losses businesses face due to changes in market conditions, like fluctuations in commodity prices, exchange rates, interest rates, and stock prices. It affects both small and large businesses and is inherent in any business environment. Managing market risk is crucial for business sustainability and profitability. For small businesses with limited resources, the impact of market risk can be particularly harmful. Factors like changes in consumer demand, competition, and economic downturns contribute to market risk. Small businesses must adapt and innovate to remain profitable. In competitive industries, market saturation further increases risks. For example, a small restaurant may struggle if a larger chain opens nearby (Smith & Tan, 2019).

The most issue in Africa market risks are Africa's digital revolution is driving economic growth by transforming various sectors such as education, healthcare, agriculture, and telecommunications. E-Commerce and Digital Platforms where traditional retail infrastructure might be lacking, technology offers a lifeline. Ecommerce platforms can help market risk access wider markets, reducing the risk associated with local market fluctuations and helping them adapt to changing consumer preferences. The adoption of digital tools and technologies is empowering people and creating new opportunities for innovation and inclusive finance strategies (World Economic Forum, 2023).

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In Somalia, one of the major challenges small businesses face is the low consumer purchasing power, largely driven by the high poverty rate in the country. The poverty rate in Somalia is significant, with a large portion of the population living under the poverty line (World Bank, 2020). This directly influences the demand for goods and services, which in turn has a ripple effect on small businesses.

The issue of low consumer purchasing power in Somalia presents a major challenge for small businesses, limiting their ability to generate demand, maintain inventory, and remain profitable. Factors such as inflation, limited access to financing, poor infrastructure, and competition from informal markets compound the risks small businesses face. Addressing these challenges requires a concerted effort from both the government and private sectors to improve the overall economic conditions, enhance access to finance, and invest in infrastructure, Impact on Demand for Goods and Services due to low-income levels, many Somali consumers prioritize basic necessities like food, water, and healthcare over discretionary spending. As a result, small businesses that sell non-essential or luxury goods face reduced demand. This is particularly challenging for businesses in sectors like fashion, entertainment, and technology, where consumers are less likely to spend on higher-priced items. According to a report by the United Nations Development Program (UNDP, 2021), Somalia's limited economic growth and high unemployment rate contribute to a strained middle class. Without a stable consumer base with disposable income, businesses struggle to maintain regular sales volumes, which directly affects their sustainability.

2. LITERATURE REVIEW

2.1. Concepts of Market Risk

Market risk refers to the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets. This risk not only impacts individual investments but also poses challenges to the sustainability of small businesses, especially in volatile environments such as Bakaro Market in Mogadishu, Somalia (Hull, 2018). Market risk is often classified as systematic risk, meaning it affects all businesses in the market, unlike unsystematic risk which is specific to a company or sector. For small businesses in Bakaro Market, this systematic risk can stem from factors such as currency fluctuations, political instability, or changes in market demand, making effective risk management essential for their sustainability (Bodie, 2014).

Interest rate risk, foreign exchange risk, equity risk, and commodity price risk are widely recognized as the four primary components of market risk. For small businesses operating in Bakaro Market, fluctuations in interest rates can increase borrowing and financing costs, while foreign exchange volatility may raise the prices of imported goods. Likewise, changes in commodity prices and equity market conditions can significantly influence business profitability, cash flow, and overall operational stability. Effective management of these market risk exposures is therefore essential for ensuring the sustainability and competitiveness of SMEs in volatile economic environments (Bank for International Settlements [BIS], 2024).In this study emphasize on Modern Portfolio Theory (MPT), originally developed by Harry Markowitz, emphasizes diversification as a fundamental strategy for reducing market risk. Although the theory originated in the 1950s, recent studies continue to affirm its relevance in portfolio construction and risk management. According to MPT, combining assets with different risk and return characteristics can reduce overall portfolio risk because losses in some investments may be offset by gains in others. This principle is also applicable to small businesses in Bakaro Market, where diversification of products, suppliers, and sourcing strategies can help mitigate the adverse effects of market fluctuations, foreign exchange volatility, and commodity price changes, thereby enhancing business resilience and long-term sustainability (Kumar & Ghanbari, 2024)

2.1.1 Economic Risk that Influences Small Businesses Sustainability

2.1.1.1 Economic risk

Economic risk is a critical consideration for small businesses because fluctuations in macroeconomic conditions can significantly affect business performance, investment decisions, and long-term sustainability. By understanding different types of economic risks and applying theoretical frameworks such as the Capital Asset Pricing Model (CAPM), diversification, and real options theory, small businesses can better evaluate investment opportunities and improve their resilience to uncertain market conditions. CAPM explains that the expected return on an asset depends on its systematic risk relative to the overall market, providing a useful framework for assessing the relationship between risk and expected return. This enables small businesses to make more informed investment and financing decisions while enhancing long-term sustainability (Ma et al., 2024; Chambers et al., 2024).

Real options enable small businesses to delay investment decisions until more information is available, helping them make more informed choices during uncertain economic periods.Small businesses can manage economic risks by diversifying their product offerings, geographic markets, or customer base, thus reducing dependence on a single revenue stream.Real options provide a framework for managing uncertainty and making decisions with flexibility." (Dixit & Pindyck, 2016).

2.1.1.2 Inflation

Inflation amplifies various economic risks for small businesses by increasing production and operating costs, reducing consumers' purchasing power, raising financing expenses, and disrupting supply chains. These challenges can weaken profitability, cash flow, and overall business resilience. To maintain long-term sustainability, small businesses should adopt strategic measures such as flexible pricing, effective cost management, supplier diversification, and improved financial planning to mitigate the adverse effects of inflation. Furthermore, a significant decline in consumer demand can create serious challenges in sales performance, inventory management, and liquidity, increasing the likelihood of business failure if demand does not recover. Therefore, proactive adaptation to inflationary pressures is essential for enhancing the sustainability and competitiveness of small businesses in volatile economic environments (Organization for Economic Co-operation and Development [OECD], 2024; International Monetary Fund [IMF], 2024).

2.1.1.3 Unemployment Rate

High unemployment rates can significantly affect the sustainability of small businesses by creating both direct and indirect economic challenges. Rising unemployment reduces household income and consumer purchasing power, leading to lower demand for goods and services, which in turn decreases sales, profitability, and business growth. Prolonged weak demand may also create cash flow constraints, increase inventory holding costs, and limit investment opportunities, thereby threatening the long-term survival of small businesses. To remain sustainable, small businesses should adopt adaptive strategies such as market diversification, cost optimization, innovation, and customer-focused business models to mitigate the adverse effects of unemployment-driven economic downturns (International Labour Organization [ILO], 2025; International Monetary Fund [IMF], 2025).

Small businesses may also face difficulties in accessing skilled labor despite the availability of unemployed individuals, as skill mismatches often occur. Moreover, financial constraints can arise during periods of high unemployment, as lending institutions become more cautious, reducing funding opportunities for small enterprises (OECD, 2017). However, unemployment can also motivate individuals to start businesses out of necessity, fostering entrepreneurial activity. Governments may introduce supportive policies like grants and tax incentives to stimulate business activities during economic downturns, helping small businesses navigate these risks (World Bank, 2023). Effective strategies such as product diversification, operational efficiency improvements, and customer retention initiatives can help small businesses maintain resilience in the face of unemployment-driven market risks.

2.1.1.4 GDP rate

The Gross Domestic Product (GDP) rate significantly influences small business sustainability, acting as a barometer of overall economic health (World Bank, 2021). When GDP grows steadily, consumer purchasing power and business confidence often increase, fostering a favorable environment for small enterprises (Soininen et al., 2012).

Conversely, a declining or stagnating Gross Domestic Product (GDP) signals weaker economic activity, reduced consumer spending, and increased market uncertainty, all of which can negatively affect the sustainability of small businesses. Lower GDP growth often results in declining sales, reduced revenues, and a higher risk of business closure, particularly for enterprises with limited financial resilience. Economic slowdowns also restrict access to finance, as financial institutions typically adopt more cautious lending practices during periods of uncertainty, making it difficult for small businesses to secure the capital needed for operations and expansion. Conversely, sustained GDP growth promotes a stable business environment, strengthens consumer confidence, improves access to credit, and creates greater opportunities for business growth and long-term sustainability (International Monetary Fund [IMF], 2025; World Bank, 2024).

2.1.2 Competitive Risk That Influences on Small Business Sustainability

2.1.2.1 Competitive Risk

Competitive risks play a crucial role in the sustainability of small businesses. Intense competition, rapid technological innovation, pricing pressure, changing consumer preferences, barriers to market entry, and brand-related challenges can significantly undermine a firm's ability to remain profitable and achieve long-term growth. Small businesses often struggle to compete with larger firms that possess greater financial resources, stronger brand recognition, broader distribution networks, and economies of scale. As competition intensifies, small enterprises may experience declining market share, shrinking profit margins, and increasing pressure to innovate, improve product quality, or adopt competitive pricing strategies. Businesses that fail to differentiate their products or services, meet evolving customer expectations, or develop a unique value proposition are more likely to experience poor performance and face a higher risk of business failure (Organization for Economic Co-operation and Development [OECD], 2024; World Economic Forum [WEF], 2024).

2.1.2.2 Pricing Strategy

Pricing strategy plays a crucial role in the sustainability of small businesses, as it directly influences profitability, market positioning, and customer retention. An effective pricing strategy helps businesses balance costs, demand, and competition while ensuring long-term financial viability. According to Nagle and Müller (2017), a well-designed pricing approach can enhance revenue streams by aligning prices with customer value perception and market dynamics. Additionally, cost-based, value-based and competitive pricing strategies enable small businesses to adapt to market fluctuations and mitigate financial risks (Kotler & Keller, 2016). In the context of Somalia, small businesses.

2.1.2.3 Market Share Volatility

Market share volatility significantly affects the sustainability of small businesses, as fluctuations in market position can disrupt revenue stability and long-term growth. Small businesses facing high market share volatility often struggle with inconsistent customer demand, increased competition, and changing economic conditions, which can threaten their survival (Kotler & Keller, 2016). According to Aaker (2011), firms that proactively manage market share risks through differentiation, customer loyalty programs, and competitive pricing strategies can enhance resilience and sustain their operations. Moreover, small businesses in volatile markets must adopt agile business 12 models that allow them to respond swiftly to industry trends and consumer behavior shifts (Grant, 2016).

2.1.3 Regulatory Risk That Influences on Small Business Sustainability

2.1.3.1 Regulatory Risk

Greatly affects the sustainability of small businesses, as changes in laws, policies, and compliance requirements can raise operational costs and create uncertainties in the market. Small businesses that do not adapt to evolving regulations may face fines, legal issues, or even closures (Kotler & Keller, 2016). Schaefer (2019) highlights that businesses managing regulatory risk with compliance strategies, legal awareness, and flexible business models have better chances of long-term success. Additionally, using approaches like lobbying, industry collaboration, and

regulatory impact assessments can help small businesses navigate complex legal environments (Reed &Bogardus, 2015).

2.1.3.2 Change in Tax Laws

To impact change in tax laws affecting small business sustainability, a strategic approach is necessary. Small business owners and industry groups should engage with lawmakers, presenting evidence on how tax reforms can improve business sustainability. For example, tax policies offering increased deductions for startup costs or credits for sustainable practices, like those in the Inflation Reduction Act of 2022, can ease the financial strain on small businesses (SBA, 2022). Such reforms help reduce operational costs, allowing small businesses to thrive and compete more effectively in the market. By actively participating in policy discussions, businesses can advocate for tax changes that support their long-term growth and sustainability.

2.1.3.3 Trade restrictions

The theory of Trade Restriction Impact on Small Business Sustainability suggests that trade barriers such as tariffs, import quotas, and restrictive regulations can significantly affect the growth and survival of small businesses. These barriers limit access to international markets and reduce competitiveness. According to the theory, small businesses are particularly vulnerable because they often lack the resources and bargaining power of larger corporations. The theory emphasizes the importance of advocacy and policy reforms, where small businesses and industry groups engage in discussions to influence trade policies that promote fairer, more accessible globaltrade. It also suggests that businesses can mitigate the impact of trade restrictions through strategies like diversification, local production, and government support programs. By adapting to these external factors and advocating for better policies, small businesses can sustain their growth and remain competitive in the global market. This theory aligns with the ideas proposed by trade economists and industry leaders, who argue for the importance of clear, flexible trade regulations in supporting small business development (SBA, 2021).

2.2 Concepts of Small Businesses Sustainability

Small business sustainability has become a major focus of contemporary research due to the increasing challenges posed by economic uncertainty, technological change, and competitive market environments. Among the theoretical perspectives explaining long-term business sustainability, the Resource-Based View (RBV) remains one of the most influential. RBV argues that firms achieve sustainable competitive advantage by effectively developing and utilizing internal resources and capabilities that are valuable, rare, inimitable, and non-substitutable (VRIN). Small businesses that possess these strategic resources—including skilled human capital, managerial capabilities, innovation, organizational knowledge, and strong customer relationships—are better positioned to enhance resilience, improve performance, and achieve long-term sustainability in dynamic business environments (Barney et al., 2024; Ferreira et al., 2024).

For small businesses, these resources might include specialized knowledge, skilled employees, and proprietary technologies. By effectively managing these resources, small businesses can better adapt to changing market conditions, mitigate risks, and create value for their stakeholders (Teece, 2009). Furthermore, Gupta et al. (2018) found that small businesses with strong resource bases tend to demonstrate greater resilience and long-term growth potential in competitive environments.

2.3 Empirical Review

2.3.1 Empirical Related to Market Risk and Small Business Sustainability

Abiola and Olanrewaju (2018) investigated how market risks, particularly price volatility and market demand fluctuations, affect small businesses in Nigeria. The study found that small businesses in the retail sector were particularly vulnerable to these risks, with many firms struggling to maintain profitability in the face of fluctuating prices of raw materials and goods. The research highlighted that small businesses that did not actively manage market risks, such as through price hedging or diversifying their products, were more likely to face sustainability challenges.

However, businesses that adopted flexible pricing strategies and diversified their customer base were better able to mitigate the impact of market risks, leading to enhanced resilience and sustainability.

Morrison et al. (2021) focused on the effects of competition-induced market risks on small business sustainability. Their research highlighted that small businesses in highly competitive markets often faced challenges related to pricing pressures, market saturation, and the inability to differentiate their products. They found that small businesses that engaged in innovation, branding, and customer loyalty programs were better able to navigate these competitive pressures. By offering unique value propositions and fostering strong customer relationships, these businesses were able to maintain customer loyalty and reduce their susceptibility to market risk, thus ensuring their long-term sustainability. In conclusion, the empirical literature underscores that small businesses are highly susceptible to market risks, but those that adopt proactive risk management strategies—such as diversification, innovation, customer relationship management, and market intelligence—are more likely to sustain themselves over the long term. While market risks present a major challenge, small businesses that adapt to these risks by being flexible, strategic, and resourceful can successfully navigate them and secure their future sustainability.

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2.3.1.1 Economic Risk and Small Business Sustainability

Economic risk significantly impacts the sustainability of small and medium-sized enterprises (SMEs), influencing their ability to survive and thrive in dynamic environments. Empirical studies have identified several key factors that contribute to this relationship Addressing economic risks through improved access to finance; Empirical evidence underscores the importance of these factors in fostering resilient and sustainable small businesses. Pacheco, D.F., Dean, T.J., & Payne, D.S. (2010). Managerial competence and strategic planning play critical roles in enabling SMEs to mitigate risks and ensure sustainability. According to a study by Gherghina et al. (2020), SMEs with strong governance structures and well-developed risk management practices are more likely to withstand economic shocks and maintain long-term growth. The development of internal capabilities, such as financial literacy, digital transformation, and operational flexibility, enhances SME resilience. Furthermore, owner-manager characteristics—such as experience and risk tolerance—have been empirically linked to the adoption of proactive strategies that reduce exposure to economic risk (Sangboon&Schjoedt, 2024).

Sustainability in SMEs also depends on their ability to innovate and adapt to external pressures such as market demands and regulatory changes. Empirical research has shown that businesses adopting sustainability-oriented practices— especially technological innovations—tend to achieve better economic and environmental outcomes (Al Malki, 2023). However, adoption is often constrained by perceived high costs, lack of expertise, and fear of uncertain returns. As such, policymakers are encouraged to create enabling environments for SMEs by providing targeted financial instruments, advisory support, and simplified regulations to foster economic resilience and sustainability (Pacheco et al., 2010).

2.3.1.2 Competitive Risk and Small Business Sustainability

Competitive risk is a critical factor affecting the performance and longevity of small and medium-sized enterprises (SMEs). According to Olayemi and Aderemi (2020), implementing Enterprise Risk Management (ERM) strategies significantly enhances the survival prospects of SMEs in Nigeria. Their empirical study revealed that businesses with structured risk management frameworks were better equipped to respond to competitive pressures and market uncertainties. This demonstrates the necessity for SMEs to prioritize strategic risk assessment and control mechanisms to maintain a competitive edge in dynamic market environments. In many emerging economies, SMEs encounter difficulties in effectively managing competitive risks due to resource constraints and limited managerial expertise.

According to Chinyamurindi and Mjoli (2021) found that South African SMEs often lack the necessary tools and training to adopt comprehensive risk management strategies. Their research highlighted a strong correlation between poor management practices and increased vulnerability to competitive threats. These findings emphasize the importance of capacity-building programs and institutional support to help SMEs improve their resilience and adaptability in competitive markets. Furthermore, the personal risk appetite of SME owners plays a significant role in determining business outcomes. In related to Njoroge and Muchemi (2016) conducted a study in Kenya, revealing that SMEs led by risk-averse managers tend to underperform compared to those embracing calculated risks. Their results suggest that encouraging entrepreneurial risk-taking—supported by data-driven decision-making—can enhance competitiveness and drive business growth. Thus, fostering a culture that balances risk awareness with innovation is essential for SMEs to thrive in competitive landscapes.

2.3.1.3 Regulatory risk and small business sustainability

Regulatory risk refers to the potential for changes in laws, regulations, or government policies that can negatively impact business operations. For small businesses, regulatory risk can be particularly burdensome due to limited financial and human resources to comply with complex and evolving legal requirements. These businesses often lack dedicated compliance departments, making it harder to adapt to new regulations swiftly. For instance, changes in tax codes, labor laws, or environmental regulations can increase operational costs and reduce profitability (OECD, 2017). As a result, regulatory risk poses a significant threat to the sustainability of small enterprises. Small businesses are especially vulnerable in heavily regulated sectors such as food, health, or financial services, where non-compliance can lead to hefty fines or even closure. Unlike larger corporations, small firms may struggle to absorb the costs associated with legal compliance or to advocate for more favorable policy environments. This often results in a compliance gap, where small businesses either unintentionally violate rules or spend disproportionately high resources trying to meet regulatory demands (World Bank, 2020).

Consequently, regulatory uncertainty not only stifles innovation but also discourages new entrants, thereby affecting the overall dynamism of the small business ecosystem. To enhance small business sustainability, governments and regulatory agencies need to adopt a more inclusive approach to policymaking. This could involve simplifying compliance procedures, offering tax incentives, or establishing advisory services tailored to small enterprises. Furthermore, involving small business representatives in legislative consultations can ensure that policies are both effective and manageable for smaller players (European Commission, 2019). By mitigating regulatory risk through proactive governance, societies can foster a more resilient and equitable environment for small business growth.

2.4 Research Gap in Existing Literature

Despite the growing body of literature on market risk and small business sustainability, significant research gaps remain, particularly within the Somali context. Previous studies have extensively examined different dimensions of market risk, including economic risk, competitive risk, and regulatory risk, but most have investigated these factors independently rather than as an integrated framework. International studies have primarily focused on specific aspects of market risk, such as inflation, unemployment, GDP fluctuations, competition, taxation, and trade restrictions, demonstrating their individual effects on business performance and sustainability. While these studies provide valuable theoretical and empirical insights, they offer limited evidence regarding the combined influence of multiple

market risk dimensions on the sustainability of small businesses, particularly in developing and fragile economies (Organisation for Economic Co-operation and Development [OECD], 2024; International Monetary Fund [IMF], 2025; World Bank, 2024).

Existing empirical studies on small businesses in Somalia have largely concentrated on isolated business challenges, including access to finance, digital financial services, strategic planning, entrepreneurial orientation, and organizational performance (World Bank, 2020; United Nations Development Programme [UNDP], 2021). Although these studies have significantly contributed to understanding SME development in Somalia, they have generally overlooked market risk as a multidimensional construct. Moreover, most previous studies have examined only one or two dimensions of market risk, providing insufficient empirical evidence on how economic risk, competitive risk, and regulatory risk simultaneously influence the sustainability of small businesses operating in Somalia. Furthermore, no empirical study has comprehensively examined small businesses in Mogadishu by integrating the three major dimensions of market risk—economic risk (inflation, unemployment, and GDP fluctuations), competitive risk (pricing strategy, market share volatility, and competitive pressure), and regulatory risk (regulatory changes, changes in tax laws, and trade restrictions)—within a single conceptual framework. Previous studies conducted in other countries may not adequately reflect the Somali business environment, which is characterized by economic instability, weak institutional support, regulatory uncertainty, dependence on imported goods, exchange rate volatility, and rapidly evolving market conditions (World Bank, 2024; World Economic Forum [WEF], 2024). Consequently, there remains limited empirical evidence explaining how these interconnected market risks collectively affect the long-term sustainability of small businesses in Mogadishu.

To address these gaps, the present study investigates the combined effects of economic risk, competitive risk, and regulatory risk on the sustainability of small businesses in Mogadishu, Somalia. Specifically, the study examines the influence of inflation, unemployment, GDP rate, pricing strategy, market share volatility, competitive risk, regulatory risk, changes in tax laws, and trade restrictions on small business sustainability. By integrating these market risk dimensions into a single conceptual framework, this study is expected to provide comprehensive empirical evidence that will contribute to the existing body of knowledge and assist policy makers, government institutions, financial institutions, business support organizations, researchers, and small business owners in developing effective strategies to strengthen the resilience, competitiveness, and long-term sustainability of small businesses in Somalia (OECD, 2024; WEF, 2024; IMF, 2025).

3. METHOD AND MATERIALS

This study employed a quantitative descriptive cross-sectional research design to examine the impact of market risk on the sustainability of small businesses in Mogadishu, Somalia. The quantitative approach was considered appropriate because it enables the collection and analysis of numerical data to examine relationships between the dependent variable, small business sustainability, and the independent variables, namely economic risk, competitive risk, and regulatory risk. A cross-sectional survey design was adopted because data were collected from respondents at a single point in time, making the study cost-effective, time-efficient, and suitable for investigating the current market risk conditions affecting small businesses.

The research was conducted in Mogadishu, Somalia, particularly in the major commercial centers of Bakaaro, XamarWeyne, and Suuq-Bacaad, where small businesses play a significant role in employment creation and economic development. The target population comprised approximately 48,000 Small and Medium Enterprises (SMEs) operating in Mogadishu, representing nearly 28% of all SMEs in Somalia (SIBEC, 2024). The study focused on SMEs engaged in the sale of clothing, electronics, cosmetics, restaurants and cafeterias, and pharmaceutical products (pharmacies). Using Cochran's sample size determination formula, a sample of 310 respondents was obtained. Respondents were selected through simple random sampling, ensuring that every eligible SME owner or manager had an equal opportunity to participate in the study, thereby minimizing selection bias and improving the representativeness of the sample.

Data were collected using a structured self-administered questionnaire developed from previous empirical studies on market risk and small business sustainability. The questionnaire consisted of two sections. The first section collected respondents' demographic information, while the second measured the study variables using a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. The independent variables included Economic Risk (inflation, unemployment rate, and GDP rate), Competitive Risk (pricing strategy, market share volatility, and competitive pressure), and Regulatory Risk (regulatory risk, changes in tax laws, and trade restrictions), whereas the dependent variable was Small Business Sustainability. Before the main survey, the questionnaire was reviewed to ensure clarity, relevance, and appropriateness of the measurement items. During data collection, respondents were informed that participation was voluntary and that all responses would remain confidential and be used solely for academic purposes.

The validity and reliability of the research instrument were carefully assessed before conducting the final analysis. Content validity was established through expert review to ensure that all questionnaire items adequately represented the study constructs and aligned with the existing literature on market risk and business sustainability. The reliability of the instrument was evaluated using Cronbach's Alpha, with a coefficient of 0.70 or above considered acceptable for internal consistency (Creswell, 2014). Ethical approval was obtained from the Faculty of Economics and Management Studies at Jazeera University before data collection commenced. Respondents provided informed consent, participation was entirely voluntary, and anonymity and confidentiality were maintained throughout the research process.

The collected data were coded and analyzed using IBM SPSS Statistics Version 20. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize respondents' demographic characteristics and describe the study variables. To examine the relationships between economic risk, competitive risk, regulatory risk, and small business sustainability, inferential statistical techniques, including Pearson correlation analysis and multiple linear regression analysis, were employed. All statistical analyses were conducted at a 95% confidence level, with statistical significance determined at $p < 0.05$, enabling the study to provide reliable empirical evidence on the impact of market risk on the sustainability of small businesses in Mogadishu, Somalia.

4. RESULTS

Table 4.1 Demographic Profile of the respondents

Gender	*Male*	*164*	*52.9*
	Female	*146*	*47.1*
Age	*Under 25 years*	*59*	*19.0*
	25 - 34 years	*114*	*36.8*
	35 - 44 years	*59*	*19.0*
	45 - 54 years	*30*	*9.7*
	55 - 64 years	*26*	*8.4*
	Above 65 years	*22*	*7.1*
Role in Business	*Business Owner*	*117*	*37.7*
	Manager	*71*	*22.9*
	Employee	*75*	*24.2*
Number of Employees in business	*1 - 5*	*135*	*43.5*
	6 - 10	*101*	*32.6*
	11 - 20	*47*	*15.2*
	Above 20	*27*	*8.7*
Years of operation	*Less than 1 years*	*53*	*17.1*
	1 - 3 years	*87*	*28.1*
	4 - 7 years	*97*	*31.3*
	8 - 10 years	*27*	*8.7*
	More than 10 years	*46*	*14.8*
Business Sector	*Service*	*62*	*20.0*
	Food & Beverage	*67*	*21.6*
	Technology	*39*	*12.6*
	Other	*44*	*14.2*
Educational level	*No formal education*	*48*	*15.5*
	High School	*83*	*26.8*
	Technical/Vocational	*33*	*10.6*
	Bachelor's degree	*99*	*31.9*
	Master/ higher	*47*	*15.2*
Start-up Capital	*Less than $5,000*	*81*	*26.1*
	$5,000 - $10,000	*102*	*32.9*
	$10,000 - $15,000	*67*	*21.6*
	More than $15,000	*60*	*19.4*

Source: Field Survey, 2026

The above Table 4.1 presents the demographic characteristics of the 310 respondents who participated in the study. Regarding gender, 164 respondents (52.9%) were male, while 146 (47.1%) were female, indicating a relatively balanced gender distribution with a slight predominance of males. In terms of age, the majority of respondents were between 25–34 years (36.8%), followed by those under 25 years and 35–44 years, each accounting for 19.0%. Respondents aged 45–54 years represented 9.7%, those aged 55–64 years accounted for 8.4%, while only 7.1% were above 65 years, suggesting that the study largely involved young and middle-aged individuals who are actively engaged in business activities. Concerning respondents' roles, business owners constituted the largest group (37.7%), followed by employees (24.2%) and managers (22.9%), indicating that the findings reflect perspectives from individuals directly involved in managing and operating small businesses.

Regarding business characteristics, most enterprises employed between 1–5 employees (43.5%), followed by those with 6–10 employees (32.6%), confirming that the majority of surveyed firms were small-scale businesses. In terms of years of operation, most businesses had operated for 4–7 years (31.3%), while 28.1% had been in operation

for 1–3 years, demonstrating that many businesses had acquired moderate market experience. The largest proportion of businesses operated in the Food and Beverage sector (21.6%), followed by the Service sector (20.0%), and while Technology businesses accounted for 12.6% and other sectors represented 14.2%. With respect to educational attainment, respondents holding a bachelor's degree formed the largest group (31.9%), followed by those with a high school education (26.8%), indicating a relatively educated entrepreneurial population. Finally, the majority of respondents reported start-up capital ranging between $5,000 and $10,000 (32.9%), followed by less than $5,000 (26.1%), while 21.6%started with$10,000–$15,000 and 19.4% with more than $15,000, suggesting that most SMEs were established with relatively modest financial resources.

4.2 To evaluate the impact of Economic risk on small business sustainability in Mogadishu, Somalia.

This objective examines the impact of economic risk on the sustainability of small businesses in Mogadishu, Somalia. It specifically evaluates how inflation, unemployment, economic performance, and overall economic instability influence business operations, profitability, and the long-term sustainability of small enterprises.

Table 2: Economic risk on Small Business Sustainability

S/N	Statement	SD %	D %	N %	A %	SA %	Mean	Std. Dev.
1.	Inflation has significantly increased my business operating costs.	13.5	10.3	7.1	63.5	5.5	3.37	1.20
2.	High unemployment reduces customer demand for my products/services.	7.7	17.1	14.2	44.5	16.5	3.45	1.18
3.	Changes in the country's economic performance affect my business sales.	12.3	20.0	4.5	42.9	20.3	3.39	1.34
4.	Economic instability threatens the sustainability of my business.	12.3	11.9	9.7	49.7	16.5	3.46	1.25

Source, SPSS Output (2026)

According to Table 2, the findings present a consistent pattern indicating that economic risk has a considerable impact on the sustainability of small businesses in Mogadishu, Somalia, with mean scores ranging from 3.37 to 3.46. The results suggest that inflation, unemployment, fluctuations in economic performance, and overall economic instability all influence business operations and long-term sustainability. The highest-rated statement was that economic instability threatens the sustainability of businesses (Mean = 3.46, SD = 1.25), indicating that respondents perceive unstable economic conditions as a major challenge to maintaining business continuity. Similarly, respondents agreed that high unemployment reduces customer demand for their products and services (Mean = 3.45, SD = 1.18), demonstrating the negative effect of reduced purchasing power on business performance. The findings further show that changes in the country's economic performance affect business sales (Mean = 3.39, SD = 1.34), while inflation has significantly increased business operating costs (Mean = 3.37, SD = 1.20). Overall, these findings imply that economic risk represents a significant threat to the sustainability of small businesses in Mogadishu, as unfavorable economic conditions reduce profitability, increase operational costs, and weaken the long-term resilience of enterprises.

4.3 To assess the impact of competitive risk on small business sustainability in Mogadishu, Somali.

This objective examines the impact of competitive risk on the sustainability of small businesses in Mogadishu, Somalia. It assesses how price competition, customer retention challenges, market share fluctuations, and competitive pressure influence business performance, profitability, and long-term sustainability.

Table 3: Competitive Risk on Small Business Sustainability

S/N	Statement	SD %	D %	N %	A %	SA %	Mean	Std. Dev.
1	Price competition reduces my business profitability.	10.3	12.9	9.7	48.4	18.7	3.52	1.24
2	Strong competition makes it difficult to retain customers.	8.4	15.5	11.6	46.8	17.7	3.50	1.20
3	Frequent changes in market share affect my business performance.	11.0	14.8	10.3	45.2	18.7	3.46	1.27
4	Competition forces my business to constantly improve products or services.	6.8	9.0	7.7	51.0	25.5	3.80	1.12

Source, SPSS Output (2026)

According to Table 3, the findings present a consistent pattern indicating that competitive risk has a significant impact on the sustainability of small businesses in Mogadishu, Somalia, with mean scores ranging from 3.46 to 3.80. The results suggest that price competition, customer retention challenges, market share fluctuations, and competitive pressure all influence business performance and long-term sustainability. The highest-rated statement was that competition forces businesses to constantly improve their products or services (Mean = 3.80, SD = 1.12), indicating that respondents perceive competitive pressure as a major driver of innovation and continuous improvement. Respondents also agreed that price competition reduces business profitability (Mean = 3.52, SD = 1.24), highlighting the financial challenges associated with maintaining competitive prices. Similarly, strong competition was found to make it difficult to retain customers (Mean = 3.50, SD = 1.20), reflecting the challenges businesses face in sustaining customer loyalty. Furthermore, frequent changes in market share were perceived to affect business performance (Mean = 3.46, SD = 1.27), demonstrating the influence of competitive dynamics on organizational stability. Overall, these findings imply that competitive risk is an important factor affecting the sustainability of small businesses in Mogadishu, as increasing market competition influences profitability, customer retention, business performance, and the need for continuous innovation.

4.4 To evaluate the impact of Regulatory risk on small business sustainability in Mogadishu, Somalia

This objective examines the impact of regulatory risk on the sustainability of small businesses in Mogadishu, Somalia. It evaluates how government regulatory changes, tax policy changes, trade restrictions, and regulatory uncertainty influence business operations, financial performance, and the long-term sustainability of small businesses.

Table 4: Regulatory Risk on Small Business Sustainability

S/N	Statement	SD %	D %	N %	A %	SA %	Mean	Std. Dev.
1	Changes in government regulations affect my business operations.	9.7	13.5	10.0	47.1	19.7	3.54	1.23
2	Frequent tax policy changes increase business costs.	8.7	11.9	9.4	49.0	21.0	3.62	1.18
3	Trade restrictions negatively affect my business activities.	10.6	15.2	11.0	44.2	19.0	3.46	1.26
4	Regulatory uncertainty threatens the sustainability of my business.	9.0	10.3	8.7	48.4	23.6	3.68	1.17

Source: *SPSS Output (2026)*

According to Table 4, the findings present a consistent pattern indicating that regulatory risk has a significant impact on the sustainability of small businesses in Mogadishu, Somalia, with mean scores ranging from 3.46 to 3.68. The results suggest that changes in government regulations, tax policy adjustments, trade restrictions, and regulatory uncertainty all influence business operations, financial performance, and long-term sustainability. The highest-rated statement was that regulatory uncertainty threatens the sustainability of businesses (Mean = 3.68, SD = 1.17), indicating that respondents perceive uncertainty in the regulatory environment as a major challenge to business continuity and future growth. Respondents also agreed that frequent tax policy changes increase business costs (Mean = 3.62, SD = 1.18), highlighting the financial burden associated with changing taxation policies. Similarly, changes in government regulations were found to affect business operations (Mean = 3.54, SD = 1.23), reflecting the operational challenges businesses experience when adapting to new regulatory requirements. Furthermore, trade restrictions were perceived to negatively affect business activities (Mean = 3.46, SD = 1.26), demonstrating that limitations on trade can reduce business performance and market opportunities. Overall, these findings imply that regulatory risk is a significant factor affecting the sustainability of small businesses in Mogadishu, as an unpredictable regulatory environment, changing tax policies, and trade-related constraints increase operational costs, create uncertainty, and weaken long-term business sustainability.

4.5 Correlational Analysis

Table 5: Correlation Analysis

	Variable		**1**	**2**	**3**	**4**
1.	Economic Risk	Pearson Correlation	1			
		Sig. (2-tailed)				
		N	310			
2.	Competitive Risk	Pearson Correlation	.904**	1		
		Sig. (2-tailed)	.000			
		N	310	310		
3.	Regulatory Risk	Pearson Correlation	.881**	.947**	1	
		Sig. (2-tailed)	.000	.000		
		N	310	310	310	
4.	Small Business Sustainability	Pearson Correlation	**.602****	**.593****	**.549****	1
		Sig. (2-tailed)	.000	.000	.000	
		N	310	310	310	310

****. Correlation is significant at the 0.01 level (2-tailed).**

Source: SPSS Output (2026)

The Pearson correlation analysis presented in Table 5 indicates significant positive relationships among economic risk, competitive risk, regulatory risk, and small businesses sustainability in Mogadishu, Somalia. Economic risk is positively correlated with small business sustainability ($r = 0.602$, $p < 0.01$). This finding indicates that economic conditions are significantly associated with business sustainability. Competitive risk also shows a significant positive correlation with small business sustainability ($r = 0.593$, $p < 0.01$). This suggests that competitive pressures influence the sustainability of small businesses. Regulatory risk is likewise positively correlated with small business sustainability ($r = 0.549$, $p < 0.01$). This demonstrates that regulatory conditions are significantly related to business sustainability outcomes. The analysis also reveals strong relationships among the independent variables. Economic risk is strongly correlated with competitive risk ($r = 0.904$, $p < 0.01$). Economic risk is also strongly associated with

regulatory risk ($r = 0.881$, $p < 0.01$). Competitive risk has the strongest relationship with regulatory risk ($r = 0.947$, $p < 0.01$). All reported correlations are statistically significant at the 0.01 level. This confirms that the observed relationships are unlikely to have occurred by chance. The findings suggest that different forms of business risk tend to occur simultaneously. Businesses facing one type of risk are likely to experience other forms of risk as well. These interconnected risks collectively influence business operations and long-term sustainability. Overall, the results demonstrate that economic, competitive, and regulatory risks are significantly associated with the sustainability of small businesses in Mogadishu, Somalia.

5. DISCUSSION

The findings of this study provide empirical evidence that market risk significantly influences the sustainability of small businesses in Mogadishu, Somalia. The results indicate that economic risk, competitive risk, and regulatory risk are important factors affecting business performance and long-term sustainability. Respondents agreed that inflation, unemployment, fluctuations in economic performance, and economic instability increase operating costs, reduce customer purchasing power, and weaken business resilience. Among the economic risk indicators, economic instability was perceived as the greatest challenge to sustaining business operations. The findings further reveal that competitive risk affects profitability, customer retention, market share, and business performance. Businesses reported that increasing competition compels them to continuously improve their products and services in order to remain competitive. Similarly, regulatory uncertainty, tax policy changes, government regulations, and trade restrictions were found to negatively affect business operations and increase compliance costs. These findings are consistent with previous studies which concluded that unstable economic conditions, intense market competition, and uncertain regulatory environments significantly reduce SME sustainability, particularly in developing economies (International Monetary Fund [IMF], 2025; Organization for Economic Co-operation and Development [OECD], 2024). The findings also support the Resource-Based View, which argues that businesses with stronger internal capabilities and adaptive strategies are more capable of managing external risks and sustaining competitive advantage (Barney et al., 2024; Ferreira et al., 2024). Overall, the descriptive findings demonstrate that effective risk management is essential for improving the long-term sustainability of small businesses in Mogadishu.

The correlation analysis further demonstrates significant positive relationships between economic risk, competitive risk, regulatory risk, and small business sustainability. Economic risk showed the strongest relationship with sustainability, followed closely by competitive risk and regulatory risk, indicating that all three dimensions are closely associated with business sustainability. The analysis also revealed very strong positive relationships among the independent variables themselves, suggesting that economic, competitive, and regulatory risks tend to occur simultaneously within the same business environment. This finding implies that SMEs rarely experience one form of market risk in isolation, but instead face multiple interconnected risks that collectively influence business performance. These results are consistent with integrated risk management theory, which emphasizes that organizations should manage different categories of risk simultaneously rather than independently. The findings also agree with the World Economic Forum (2024), which argues that business resilience depends on an organization's ability to adapt to rapidly changing economic, competitive, and regulatory conditions. Consequently, SMEs should strengthen financial planning, innovation, market intelligence, and regulatory compliance to improve long-term sustainability. This study contributes to the existing literature by providing empirical evidence from Mogadishu, where limited research has simultaneously examined the combined effects of economic, competitive, and regulatory risks on SME sustainability. However, the findings should be interpreted cautiously because the study relied on self-reported data and a cross-sectional research design, which does not establish causal relationships. Future research should employ longitudinal designs and include SMEs from different regions of Somalia to provide broader evidence regarding market risk and business sustainability.

5.1 Conclusion

This study examined the impact of market risk as a Determinant of Small Businesses Sustainability in Mogadishu, Somalia by focusing on economic risk, competitive risk, and regulatory risk. The findings revealed that

all three dimensions of market risk significantly influence the sustainability of small businesses. Economic risks such as inflation, unemployment, and economic instability were found to increase operating costs and reduce business performance. Competitive risks were shown to affect profitability, customer retention, and business growth while encouraging continuous innovation. Regulatory risks, including regulatory uncertainty, tax policy changes, and trade restrictions, were also found to negatively affect business sustainability. The correlation analysis demonstrated significant positive relationships between economic risk, competitive risk, regulatory risk, and small business sustainability. The findings further indicate that these market risks are interconnected and tend to occur simultaneously within the same business environment. The study contributes to the existing literature by providing empirical evidence on the combined effects of multiple market risk dimensions on SMEs in Mogadishu. The findings suggest that strengthening risk management, innovation, financial planning, and regulatory compliance is essential for improving business resilience and long-term sustainability. Future research should employ longitudinal and mixed-methods approaches and include SMEs from different regions of Somalia to provide broader evidence on market risk and business sustainability.

5.2 Recommendation

According to the findings, it is recommended that policymakers and relevant stakeholders in Mogadishu develop comprehensive policies that reduce the impact of economic, competitive, and regulatory risks on small businesses. The government should maintain stable economic policies that control inflation, reduce unemployment, and create a predictable business environment for SMEs. Financial institutions should improve access to affordable credit and flexible financing to help small businesses withstand economic uncertainty. Small business owners should strengthen financial planning, cost management, and product diversification to enhance business resilience. SMEs should also invest in innovation, market research, customer relationship management, and digital technologies to improve competitiveness and long-term sustainability. Government agencies should establish transparent and consistent regulatory frameworks while simplifying tax and compliance procedures for small businesses. Business support organizations should provide continuous training on risk management, financial literacy, and regulatory compliance to strengthen SME capacity. Collaboration among government, financial institutions, private sector organizations, and development partners should be strengthened to create a supportive business ecosystem. Overall, interventions should focus on improving economic stability, strengthening competitiveness, enhancing regulatory efficiency, and promoting effective market risk management to ensure the long-term sustainability of small businesses in Mogadishu, Somalia.

5.3 CONTRIBUTIONS OF THE STUDY

5.3.1 Theoretical Contribution

This study contributes to the existing body of knowledge by extending the understanding of market risk and small business sustainability within the context of a fragile economy. It demonstrates that economic risk, competitive risk, and regulatory risk are interconnected dimensions that collectively influence the sustainability of small businesses in Mogadishu. The findings also support the Resource-Based View (RBV) by emphasizing that the ability of SMEs to effectively manage external market risks is essential for achieving long-term sustainability and competitive advantage.

5.3.2 Empirical Contribution

This study provides empirical evidence from 310 small business owners, managers, and employees operating in Mogadishu, Somalia, regarding the impact of market risk on business sustainability. The descriptive and Pearson correlation analyses confirm significant positive relationships between economic risk, competitive risk, regulatory risk, and small business sustainability. These findings provide a useful empirical foundation that can be replicated and extended by future researchers investigating market risk and SME sustainability in Somalia and other developing economies.

5.3.3 Practical Contribution

The findings offer practical insights for policymakers, financial institutions, business support organizations, and small business owners by identifying the major market risks affecting SME sustainability. The study highlights the importance of strengthening economic stability, improving access to finance, enhancing business competitiveness, and establishing consistent regulatory frameworks to support SME growth. The findings can assist stakeholders in designing effective risk management strategies, business support programs, and policy interventions that enhance the resilience and long-term sustainability of small businesses in Mogadishu, Somalia.

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Potential Conflicts of Interest

The authors declare that there are no potential conflicts of interest with respect to the investigation, authorship, or publication of this article.

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