

Working Capital Management and SMES Performance in Ibadan, Nigeria

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Certification

This is to certify that Olufunmilayo Olanrewaju **ABIDOGUN** with the matriculation number **LCU/PG/002331** carried out this research work titled: **Working Capital Management and SMEs performance in Ibadan, Nigeria** in the Department of Management and Accounting Lead City University, Ibadan, Nigeria for the award of Masters Degree (M.Sc.) in Business Administration and this has not been previously submitted.

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Dedication

This work is dedicated to God Almighty and my supportive family.

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Acknowledgment

The researcher is grateful to the institution - Lead City University, Ibadan, Oyo State librarian that gave me the access to information I used in this research work.

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“Even though the above-mentioned institutions and persons have assisted in the completion of this research work, I alone stand responsible for the errors, if any, found in the work”.

Abstract

This study aims to investigate the impact of working capital management on SME performance in selected SMEs in Ibadan, Oyo State. It specifically focuses on determining working capital management efficiency, the effects of cash management and account receivable management on SME performance. The study is guided by resource-based theory and operating cycle theory. The research design outlines the overall approach, with a sample of 287 SMEs chosen from the total population of One thousand and eighteen (1018). Data analysis involved using tables to present simple percentages, frequency count, mean, and standard deviation. Hypotheses were tested through linear regressions at a significance level of 0.05. The analysis revealed a significant association between working capital management efficiency and profitability in SMEs ($F = 61.758$ and $p < 0.001$). Similarly, the impact of cash management on profitability showed a significant effect ($F = 136.182$ and $p < 0.001$). Account receivable's effect on return on investment was also found to have a significant relationship ($F = 4.361$ and $p < 0.003$). Furthermore, inventory management was shown to have a significant influence on customer satisfaction ($F = 56.988$ and $p < 0.001$). The study confirmed that the efficient and effective management of these working capital measures significantly influences the financial performance of SMEs. These findings provided strong evidence of the correlation between working capital management efficiency, cash management, account receivable management, inventory management, and their respective impacts on profitability and customer satisfaction. The significant p-values highlight the importance of these variables in influencing SMEs' financial performance and customer satisfaction levels. The study recommended that SMEs should focus on improving their working capital management by implementing robust account receivable and payable management practices, along with effective inventory control techniques.

Keywords: Account Receivable Management, Cash Management, Performance, Small and Medium Enterprises (SMEs), Working Capital Management, Performance, Working Capital Management Efficiency,

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Chapter One

Introduction

1.1 Background to the Study

Globally, the economic growth and development of any nation is predicated on the business activities that take place in the economy of such country. These business activities have been identified as human operations that help nations to arrange and actualise their economic efforts thereby contributing to the economy of the country. In global business organisations, managing the financial needs and operations of business is very critical and germane to the bottom line of the organisation. This is because it has effect on both the profit and liquid assets of such business. As resources available to business organisations are scarce, it is presumed that the management of the organisation's working capital has a pivotal role to play in the enhancement of corporate performance. The working capital management of business establishments is an integral part of the overall corporate strategy to create the needed shareholder's value and achievement of optimum performance.

The Small and Medium Enterprises (SMEs) are responsible for a number of opportunity for the society in which they are situated in, which includes contribution to the gross domestic product (GDP), provision of employment, income making, and community economic movement¹. This suggests that governments all over the world have come to realise the importance of Small and Medium Enterprises (SMEs). Nigeria as a country is not left alone in the race, as government has developed an encouraging posture to create

the enabling environment for Small and Medium Enterprises (SMEs) to thrive in the country.

The Small and Medium Enterprises (SMEs) are an integral part of the economy which helps to fight against poverty and unemployment both in the developed and the underdeveloped economies². They have been identified as a means of speeding up sustained growth and economic transformation in advanced and less advanced nation. The World Bank states that SMEs provide an effective means of motivating home-grown enterprises, improving greater employment opportunities per unit of capital invested and supporting the development of local technology³. All these have come to show the level of importance SMEs have to a country's economic development. However, without effective working capital management practices, SMEs will do little good to any nation where they operate. Effective management of working capital helps SMEs to manage their operations through making cash available to pay for short term debts and the maturity of long term debt as well as expenses resulting from daily operations. Thus, it is vital for any firm to manage its working capital successful to ensure continuity⁴.

Performance is a multi-dimensional concept which has both quantitative and qualitative connotation. As such, the performance metrics of Small and medium enterprises (SMEs) are key factors that determine the economic success of such type of organisation. It is pertinent to state that the proper management of the working capital of SMEs will determine how they will perform in terms of profitability, returns on investments and stakeholder commitments. It has also been discovered that there exists a trade-off in working capital management between a firm's profitability and risk and hence makes

working capital management a task of optimization. For instance, high pressure collection techniques might restrict potential customers and lead to loss of sales, keeping high inventory with low risks stock-outs, not being able to respond to sales peaks or special customer needs, and a bad reputation among customers. Furthermore, a firm cannot delay payments indefinitely, because it would risk good relationships with suppliers, creditworthiness (restricted access to bank credits) and legal consequences.

Working capital management is an essential part of corporate finance that deals with the management of a company's short-term financing and investment choices. It is defined as current assets minus current liabilities where current assets relate to assets that may be turned into cash in less than a year⁵. Cash and cash equivalents, accounts receivables, inventories, marketable securities, and prepaid costs are all examples of such assets⁶. While current liabilities, on the other hand, are the balance sheet items that equal all money owing by the firm that is due within a year. Accounts payables or current debt are other terms for current obligations. In another definition, working capital is a short-term funding for operating expenditures incurred during the course of a firm (this definition is limited in value, thus defining it as net working capital is suggested⁷. Net working capital is calculated by subtracting net fixed assets from long-term financing from a company's ongoing operating expenditures).

The two major objectives of working capital management are capital optimization and performance optimization⁷. These two goals enable companies to ensure financial stability by promoting growth-oriented investments and financing arrangements. As a result, working capital is the connection between a company's short-term assets and

short-term obligations. Hence, working capital management is primarily concerned with ensuring the organization's capacity to meet both maturing short-term debt and impending operating costs⁸. Invariably, this implies that working capital management of working capital involves managing inventories, accounts receivable and payable and cash. Furthermore, working capital was a crucial asset of a commercial organization, and the company should guarantee that its usage is optimal in order to be successful as this was important to the organization's success. This was further expounded by scholars, who claimed that if a company has enough cash, it should be managed in order to maximize profits. The author went on to say that one approach to manage money is to use techniques like dynamic discounting. It has been noted that if a company is in debt, it is critical to avoid paying high interest rates. In this case, excess working capital causes operating inefficiencies for businesses. This means that money in the form of inventory or money owed by debtors cannot be utilized to pay off any of the company's debts. The growth in working capital was shown to be a good indicator of a company's operational efficiency. This may be noticed by comparing working capital from one period to the next; slow collection may indicate an underlying problem in the company's operations, as the fundamental aim of capital management is to keep each of the working capital components in the best possible balance⁹. Excessive liquidity can limit the cash available to support long-term projects, while a liquidity deficit might put an enterprise's operations on hold¹⁰. As a result, financial managers have the problem of striking a balance between liquidity and profitability in order to maintain the smooth and profitable operation of the company.

Due to fact that SMEs have limited access to financial markets and rely heavily on short-term cash, effective working capital management is critical to their survival, development, and performance. This will help them to operate in a profitable way, generate a very good return on investment margin and create and improve stakeholder commitments.

1.2 Statement of the Problem

One major problem that has beset SMEs in Nigeria has been lack of access to funds and loans to help them grow their business. Where SMEs have access to cash, mismanagement and lack of accountability has been found to be a common problem that hinders the growth of SMEs. Financial mismanagement and poor working capital management has been identified as a leading cause of small business failure. These problems have been traced to the fact that most SME owners are unaware of their working capital status, pay little attention to it, do not even have a conventional credit policy, and they do not care about their financial situation, preferring to focus on cash receipts and bank account balance¹¹. As such, SMEs are often synonymous with low capital spending and fixed assets but the exit and loss ratio are seemly very high. The amount of funds available for acquisition and financing options for small and medium sized (SMEs) are not necessarily appropriate and sufficient¹². Scholars have however been interested in understanding the influence of working capital components and SME performance and have found that these components have had both positive and negative influence on SME performance indices namely profitability, returns on investment and stakeholder commitments^{12, 13, 14}. However, it has been observed that

little attention has been paid by scholars to the influence of working capital management on the performance (profitability, returns on investment and stakeholder commitments) etc of SMEs in the Nigerian market. No known research in this area of study has been carried out in Oyo State. Therefore, this study seeks to investigate the awareness of how working capital management influence the performance (profitability, returns on investment, customer satisfaction) of SMEs in Ibadan.

1.3 Aim and Objectives of the study

The aim of this study is to investigate the effect of working capital management on the performance of SMEs in selected SMEs in Ibadan, Oyo State, while specific objectives are to:

1. explore the effect of working capital management efficiency on the profitability of SMEs in Ibadan.
2. examine the effect of cash management on the profitability of the selected SMEs in Ibadan.
3. investigate the effect of account receivable on the returns on investment (ROI) of the selected SMEs in Ibadan.
4. examine the effect of inventory management on customer satisfaction of the selected SMEs in Ibadan.

1.4 Research Questions

The study will answer the following research questions

- i. What is the effect of working capital management efficiency on the profitability of SMEs in Ibadan?
- ii. What are the effects of cash management on the probability of SMEs in Ibadan?
- iii. What are the effects of account receivable on the return on investment (ROI) of SMEs in Ibadan?
- iv. What are the effects of Inventory management on customer satisfaction in SMEs in Ibadan?

1.5 Hypotheses

The study will seek to confirm the following hypothesis formulated in null form

H₀₁: There is no significant relationship between working capital management efficiency and profitability of SMEs in Ibadan.

H₀₂: There is no significant relationship between cash management and profitability of SMEs in Ibadan.

H₀₃: There is no significant relationship between Accounts Receivable and Return on Investment of SMEs in Ibadan.

H₀₄: There is no significant relationship between working capital management and customer satisfaction of SMEs in Ibadan.

1.6 Significance of the Study

First, it will provide important evidence on the development of working capital in the business firms.

This study will add to what is already known about working capital management and performance assessment of SMEs in Ibadan, Oyo State. There exist only a few studies investigating the impact of working capital management on SME performance in Nigeria as a whole and Oyo state specifically. Therefore, this research is expected to benefit society and contribute to the literature, notably on the impact of working capital management on the performance of small and medium scale businesses. This research is important for SMEs' management and other stakeholders. Small businesses will benefit from this research since it will provide them with more accurate scientific metrics and perspectives for defining and assessing how working capital impacts on their performance. This study will provide an alternative point of view in decision making for stakeholders such as lenders and other financial institutions, and will assist lenders in understanding and predicting the future profitability of SMEs in order to access their liquidity and provide them with additional funding.

1.7 Scope of the Study

The study focuses on the components of working capital management, i.e. days account receivable (DAR); inventory turnover in days (ITID); days account payable (DAP) and cash conversion cycle (CCC) and their effects on return on asset (ROA); net operating profit (NOP) and return on equity (ROE). The study also focused on performance matrix of SMEs such as profitability, returns on investment and stakeholders' commitment. This study is limited to SMEs operating in Ibadan, Oyo State.

1.8 Operational Definition of terms

Working capital: Is defined as current assets minus current liabilities, where current assets relate to assets that may be turned into cash in less than a year.

Working capital management: Is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to their most effective use.

Small and Medium Enterprise: These are enterprises with small capital outlay and limited number of employees of not more than 200 in the operations. They are private initiatives aimed at developing resources on small scale within an economy and in the process earn profits.

SMEs' Performance: Is defined by using the value added (VA) by SMEs, as a percent of the total value added by enterprises.

Profitability: Is a measure of an organisation's profit relative to its expenses. Organisations that are more efficient will realize more profit as a percentage of its expenses than a less efficient organisation, which must spend more to generate the same profit is measured with income and expenses.

ROI (Return on investment): Is a performance measure used to evaluate the efficiency of an investment or compare the efficiency. The return is the profit made as a result of firm investment.

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Chapter Two

Literature Review

This chapter reviews the existing literature by previous researchers pertinent and relevant to this study. The review covers the conceptual, theoretical, and empirical review, conceptual framework and the synthesis of gaps in the literature.

2.1 Conceptual Review

2.1.1 Performance

The performance of an organization is used to gauge where it stands in the marketplace. Operational, production, social responsibility, and financial metrics can all be used to assess an organization's performance. It is a factor that promotes operational efficiency, supports business expansion, and enables an organization to respond to opportunities and dangers given by the environment in which it operates². It can be measured in terms of profitability, growth, market value, total return on shareholder, economic value added, and customer satisfaction, based on the stakeholder's expectations². This is because it is only through performance that organisations are able to experience development and make progress: Consequently, assessing and measuring business performance is of paramount importance, since companies are constantly seeking effective and efficient results.

Effective resource management is a key component of a business or firm's ability to operate well, which reinforces the effectiveness of the entity in pursuing its goals. Thus, the degree of achievement for the entity or process can be used to gauge the performance

of an individual firm, a group of participants, or even a process³. Performance is attributed to how well a company's assets perform. Poorly performing business assets are a direct reflection of the company's overall performance. As a result of the underperforming asset, strategic mistakes that may have been made earlier on during asset acquisition may eventually lead to low performance in an enterprise⁴. An excellent example is when newly acquired assets in the business don't work in harmony with the existing assets of a company that has bought the business, especially if the acquiring company had unreasonable expectations that the new asset would work in harmony with the existing ones. Such an acquisition will inevitably result in bad asset performance, which will eventually cause the entire business to record poor performance⁴. Corporate performance has been found to be significantly influenced by characteristics that are specific to the industry and the company. A firm can develop and put into action methods that increase its efficiency and effectiveness thanks to the characteristics of its physical, human, and organizational capital. High performance demonstrates managerial competence and efficiency in utilizing firm resources, which in turn supports the overall economy of the nation⁵.

As a result, analyzing organizational performance has long been of interest to management teams and scholars. When evaluating business performance, sales, firm size, efficiency, and effectiveness are all taken into account. The complete meaning is then conveyed. Thus, when considering all aspects of company performance, they include sales, firm size, efficiency, and effectiveness. Finally, the completion of a specific work is assessed against established predefined criteria of accuracy, cost, completeness, and speed.. Profits, return on investment, and return on asset are indicators of performance, which is the dependent variable in this research.

2.1.1.1 Profitability

Profitability is a term commonly used in finance to describe the success of an investment and seen as a major indicator of an organization's overall performance. It is linked to a company's capacity to create money that exceeds exploration and financing costs, or to the notion of measuring business efficiency, linking the concept of profitability with the ability to deliver outcomes¹⁹. Profitability refers to an organization's, company's, firm's, or enterprise's capacity to profit from all of its commercial operations. It demonstrates how effectively management may benefit by utilizing all available market resources. Many scientists have their own idea of profitability. Scholars defined profitability as a particular investment's capacity to make a return on its usage²⁰. As such is an organization's ability to create revenue, whereas failure to generate income is a loss¹⁹. If the money generated exceeds the input cost, the business is profitable; nevertheless, if the income is less than the input cost, the business may perform poorly. As a result, it can be

inferred that any firm must produce adequate profits in order to exist and develop over time.

Every company is worried about its profitability. Profitability measures how successfully an enterprise's management creates earnings by utilizing the resources at its disposal. In other terms, profitability refers to the capacity to generate a profit²¹. Furthermore, profitability is a crucial instrument for every enterprise's efficient functioning. Profitability is a gauge of efficiency and is used as a measure of efficiency as well as a management guide to increased efficiency. Profitability refers to an entity's ability to "create" profit. Profitability in the firm after taxes is required not only to cover all expenditures, but also to ensure expanded reproduction and prosperity^{19&21}. As a result, all of these researchers affirm the validity of many economists in stating that profitability is an essential signal for the efficient functioning of a business.

Furthermore, some writers see a profitability ratio as both a net outcome and a class of financial measurements. According to one research, profitability is the net consequence of different policies and managerial actions, and profit rates are the net operational result of the combined impacts of liquidity, asset management, and debt management²⁰. It is the only metric that any economic entity need²⁰. Thus, theoretical literature considers profitability to be one of the most significant goals of financial management since the primary goal of financial management is to maximize the wealth of the owners.

Profitability is a vital prerequisite for an economic entity's commercial performance, and it is determined by attaining positive outcomes after comparing the financial consequences with the financial effort required²⁰. To be successful, a firm must be

lucrative in the long run. Almost everything a profit-oriented organization does, according to the experts, may be classified as a finance activity, an investment activity, or an operational activity. An organization that excels in these three areas will excel overall¹⁹. Profitability has a significant influence on the survival and development of businesses; it is especially crucial to increase company profitability in order to gain profits, minimize costs, and prevent risk.

Profitability is one of the primary issues in the whole business management process, and several measures, such as the Price Earnings Ratio, market value, and financial indices, may be used to quantify it. A research identified a number of characteristics that influence the profitability of publicly traded corporations, including profits per share, dividend per share, and interest rate^{19, 20, 21, & 22}.

The Profitability indicators assist managers and investors in providing information on the company's economic and financial status in a specific period, comparing the evolution of the business, and comparing data acquired over a long period. Return on Assets (ROA), Return on Equity (ROE), Return on Sales (ROS), Asset Rotation (AR), Gross Margin (GM) ratio, and Economic Value Added (EVA) are the most often used metrics in the literature^{20, 22}. However, profitability indices have inherent limits. Financial figures are important for understanding the company's short-term success, but they do not represent the medium and long-term goals. Economic and financial information, on the other hand, can be controlled and altered, as well as contain inaccuracies, resulting in indicators that do not represent a genuine image²².

2.1.1.2 Return on Investment

Investments are a method of protecting the company's medium and long-term growth. Many authors have defined the term "investment" over the years. It is worth noting that investments are defined as "resources spent in the aim of obtaining rewards over a lengthy period of time." A successful investment initiative must meet its objectives. An investment has several goals: raising profit, enhancing customer happiness, growing the share market, and so on. Profits made on assets employed play an essential part in evaluating management effectiveness. By comparing earnings to assets, we may see how much profit generates a sufficient return on invested money. Return on Investment is one of the most often used measures for calculating the return on invested capital (ROI). It is a performance term that applies to any type of investment. The ultimate purpose of the firm is stated in ROI for shareholders. ROI is a metric that indicates how much profit a certain firm generates from the use of capital. It demonstrates how much of the money invested in a specific action is returned as profit or loss. As a consequence, it permits an assessment of the efficiency of an amount invested, or, in other words, ROI allows assessing the outcome in proportion to the methods employed to get it. Return on investment (ROI) is a financial metric that has long been used in industry to track success²³. It is a straightforward computation. It can be calculated by dividing the benefit (return) of an investment by its cost; the result is reported as a percentage or a ratio."

2.1.1.3 Customer Satisfaction

Customer satisfaction is a key concept in business that refers to the extent to which customers are pleased with the products, services, and overall experience provided by a company²⁵. It is a critical factor that influences customer loyalty, repeat purchases, positive word-of-mouth, and ultimately, the financial performance of businesses, including small and medium-sized enterprises (SMEs)..

Customer satisfaction is a multifaceted concept that encompasses various dimensions, such as product quality, service quality, price, convenience, reliability, and responsiveness²⁶. It represents the customer's perception of meeting or exceeding their expectations regarding a company's offerings. Satisfied customers are more likely to become loyal patrons, recommend the business to others, and maintain long-term relationships, leading to increased sales and revenue.

The literature on customer satisfaction provides substantial evidence of its significance for business success. Customer satisfaction positively influences customer loyalty and profitability²⁵. Additionally, a meta-analysis and concluded that customer satisfaction has a strong positive impact on financial performance measures, including market share, return on assets, and return on investment²⁶. In the context of SMEs, customer satisfaction plays a vital role in determining their performance and competitiveness. SMEs often rely heavily on building and maintaining strong relationships with their customer base due to their relatively smaller size and market presence. Several studies have investigated the relationship between customer satisfaction and SME performance. In the context SMEs, they found a positive relationship between customer satisfaction

and financial performance measures, including sales growth and return on assets²⁶. Similarly, in the research conducted higher levels of customer satisfaction were associated with improved business performance and competitiveness²⁷.

Furthermore, customer satisfaction has been found to have a significant impact on SMEs' innovation and long-term survival. Customer satisfaction positively affects innovation capabilities and the ability to adapt to changing market conditions, enhancing SMEs' long-term viability and growth potential²¹. The importance of customer satisfaction for SME performance. Satisfied customers contribute to increased sales, customer loyalty, positive word-of-mouth, and improved financial indicators. SMEs that prioritize customer satisfaction as a strategic objective are more likely to achieve sustainable growth, gain a competitive advantage, and enhance their overall performance.

2.1.2 Working Capital Management

Working capital management, entails the administration of current assets and current liabilities, which entails maximizing the level of current assets in a partial equilibrium environment³⁵. Working capital management is concerned with the link between a company's short-term assets and short-term obligations. Working capital is also defined as the regulation, modification, and management of the current asset balance²⁴. Working capital management provides an acceptable connection between business components in order to create an efficient mix that ensures capital sufficiency. As a result, working capital management must ensure that the desired amounts of each component of working capital are accessible for management.

Working capital management is determined endogenously by firm-specific variables such as size, age, profitability, market share (power), sales growth, operating risk and operating cash flow. On the other hand, it is determined exogenously by macroeconomic factors such as GDP, interest rate and task rate.

Working capital management which is one of the key functions of financial management is particularly important to firms of all size. A study observed that working capital management is one of the most imperative and crucial aspect of short-term financial matters of an organization⁵. He further added that firms of all size demonstrate sensitivity of their profit performance to efficient management of their working capital. Studies pointed out that, efficient working capital management tries to maintain a balance between liquidity and profitability within the realm of business operations and that the impact of efficiency of working capital management on corporate profitability have been a central focus of most empirical research for quite a number of years^{11,12}.

Working Capital Management directly affects the firms long term growth and survival. Unfortunately, however, many small- scale enterprises (SSEs) operate their businesses without monitoring the employment and utilization of their working capital. In reality, owners of SSEs simply cannot afford to disregard the process of working capital management²⁶.

2.1.1 Working Capital

The importance of efficient working capital management is not new to the finance literature. The efficient management of working capital is more vital in small and

medium enterprises than it is for large organizations particularly as they are not likely to have access to financial expertise like the large enterprises³¹. Different people use the term „ working capital ` differently, it was argue that there are two concepts of working capital; gross and net^{1,11}. The term gross capital also referred to as working capital means the total current assets of a business. The term net working capital can be defined in two ways (1) net working capital (NWC) is the difference between current assets and current liabilities; (ii) that portion of current assets which is financed with long- term funds. Working capital is usually defined as the current assets less current liabilities. The major elements of current assets are inventories, accounts receivables and cash (in hand and at bank) while that of current liabilities are accounts payable and bank overdrafts. Working capital represents a net investment in short term assets¹³. These assets which are continually flowing (circulating) into and out of the business are essential for day-to day operations. In recent years there have been many arguments about the precise definition of working capital although in balance sheet terms it has generally been considered to be made up of the difference between current assets and current liabilities³³. The difference between current assets and current liabilities is termed net working capital which indicates the liquidity of the firms and the extent to which working needs may be financed by permanent sources of funds.

The term Working Capital refers to the quantity of capital that is readily available to a business or company and is required for financings short-term or current assets such as cash, marketable securities, debtors, and inventories. Hence, funds which are invested in current assets keep revolving fast and are constantly converted into cash and this cash

flow out again in exchange for other current assets. Working Capital is also known as revolving or circulating capital or short term capital. Working Capital is a measure of both a company's efficiency and its short-term financial health. It is basically the difference between the current assets and the current liabilities; hence it is also known as net Working Capital. It can be calculated as: $\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$. The Working Capital ratio ($\text{Current Assets}/\text{Current Liabilities}$) indicates whether a company has enough short term assets to cover its short-term debt. Anything below 1 indicates negative Working Capital. While anything over 2 means that the company is not investing excess assets. Most managers believe that a ratio between 1.2 and 2.0 is sufficient.

It has been often observed that the shortage of working capital leads to the failure of a business. A number of companies for the past few years have been finding it difficult to solve the increasing problems of adopting seriously the management of working capital. A firm may exist without making profits but cannot survive without liquidity¹⁴. The function of working capital management in an organization is similar to that of the heart in a human body. Also it is an important function of financial management. The financial manager must determine the satisfactory level of working capital funds and also the optimum mix of current assets and current liabilities. The appropriate sources of funds are used to finance working capital and should also see that short term obligation of the business are met well in time.

Working capital is the capital invested in different items of current assets needed for the business, that is, inventory, debtors, cash and other current assets such as loans and

advances to third parties¹³. These current assets are essential for smooth business operations and proper utilization of fixed assets. Net working capital (NWC) technically, is the difference between current assets and current liabilities, while Gross Working Capital (GWC) refers to the sum of all current assets²¹. NWC concept is qualitative in nature the former is primarily quantitative. The extensive literature on the subject reveals the component of working capital as consisting of current assets less current liabilities.

The working capital is affected by a number of factors, including the nature of the business, credit policy, conditions of supply, price level changes. A company must be able to generate sufficient cash to be able to meet its immediate obligations and therefore continue trading. Inadequate working capital decisions and accounting information have been referenced consistently as causes of small and medium enterprises failure.

There is enough evidence which point to small and medium enterprises being inefficient users of working capital²³. As he puts it, „the smaller they are, the less efficient they tend to be. Writing on working capital management that very little research has been done on the SMEs sector, but it is likely that the following differences in working capital management practices will exist; - Greater reliance on trade credit and bank overdrafts for short-term financing. - A willingness to grant over-generous credit terms to obtain business, particularly from large companies. - Relatively weak control procedures and lack of a clear policy on working capital management. Writing on the importance of working capital, a study argues that working capital constitutes a large portion of firms' total assets. Although the level of working capital varies widely among different

industries, firms in manufacturing and retailing often keep more than half of their total assets as current assets.

In the case of SMEs many of whom have no long term assets such as building and vehicle of their own, the percentage is even higher since the business current assets are held in inventory, accounts receivables and bank and cash balances. This is due to the fact that higher levels of working capital are needed to support sales growth or production. There are two types of working capital viz .quantitative and qualitative²¹. Some people also define the two concepts as gross concept and net concept. Quantitative working capital involves the amount of working capital which is referred 'total of current assets'. Current assets are considered to be gross working capital in this concept. The qualitative working capital gives an idea regarding source of financing capital. It is the amount of working capital which is referred to as "excess of current assets over current liabilities." The excess of current assets over current liabilities is termed as 'Net working capital'. In this concept "Net working capital" represents the amount of current assets which would remain if all current liabilities were paid.

Both types of working capital have their own points of importance. "If the objectives is to measure the size and extent to which current assets are being used, 'Gross concept' is useful; whereas in evaluating the liquidity position of an undertaking 'Net concept' becomes pertinent and preferable²¹. It is necessary to understand the meaning of current assets and current liabilities for learning the meaning of working capital, which is explained below.

Current assets – It is rightly observed that “Current assets have a short life span. These types of assets are engaged in current operation of a business and normally used for short term operations of the firm during an accounting period i.e. within twelve months. The two important characteristics of such assets are, (i) short life span, and (ii) swift transformation into other form of assets. Cash balance may be held idle for a week or two; account receivable may have a life span of 30 to 60 days, and inventories may be held for 30 to 100 days.

Current liabilities – The firm creates a Current Liability towards creditors (sellers) from whom it has purchased raw materials on credit. This liability is also known as accounts payable and shown in the balance sheet till the payment has been made to the creditors. The claims or obligations which are normally expected to mature for payment within an accounting cycle (1 year) are known as current liabilities. These can be defined as “those liabilities where liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current assets, or the creation of other current liabilities.

The term “working capital” is derived from an old Yankee travelling merchant who loaded goods onto his cart and was on the way to sell them. These commodities were referred to as “working capital” as he had to circulate them in order to make a profit. The cart and horse were his fixed assets. The merchant owned the cart and the horse, so they were financed with equity. However, he had to borrow funds to buy the goods that he wanted to sell. These were called working-capital loans and had to be paid off after each trip to prove the merchant’s creditworthiness. When the merchant was able to pay off the

loan, the bank was willing to give him another. The example of this definition clearly shows that working-capital management includes a number of key elements related to company finances, i.e., short-term receivables, inventories, cash, and short-term liabilities. There are many definitions of net working capital in the literature. It is often referred to as working capital, net working capital (NWC), or circulating capital. In the literature, the concept of working capital is most often considered in net or gross terms. On the other hand, gross working capital is current assets used in the normal operating cycle.

Authors usually present current assets and liabilities as two basic elements that influence the level of net working capital. Apart from current assets and current liabilities, profits that generate sales revenue are the third most important element that significantly influences the level of net working capital. Several studies showed that the length of the production process and other technological characteristics are important determinants of working-capital demand. However, current assets are the most relevant areas that affect the level of working capital. The entire current asset management process generally focuses on two elements, i.e., inventories and receivables from customers. Inventories are the component of current assets that generates high costs. By analysing small and medium-sized enterprises in this area, one can find many places where unnecessary costs are incurred. Therefore, in order to create an optimal working-capital management strategy, it is necessary to introduce various methods, inventory-management tools derived from logistics, which optimize the level of inventories and the costs of their management.

In turn, receivables from customers are a component that directly impacts creating a policy of managing liabilities towards suppliers. Establishing a receivables-management strategy very often determines the policy of managing liabilities towards suppliers. Decisions made by managers in the area of current assets should aim at determining the appropriate levels and structure of individual elements that make up the current assets. Inventories and short-term receivables are such elements of current assets in the case that the selection of an appropriate management strategy determines the level of costs incurred by an enterprise. Is it high or low cost? The prerequisite for effective management in this place is a continuous control of the risks associated with holding assets. The second area that strongly influences working capital is the management of current liabilities. Managing this area mainly involves managing liabilities towards suppliers whose share in the structure of short-term liabilities is generally very high.

Working Capital is a key indicator of the health of the business. It can demonstrate whether or not the company can meet all of its short-term debts, such as salaries and supplier invoices, when they become due. The requirement for Working Capital which a business needs is unique to each one – it can depend on the type of business and its industry, for example; retail companies usually have a greater need for Working Capital, as the purchase of stock ties up their money until the stock is sold which can take time. It can be more difficult for smaller businesses to raise finance quickly than larger businesses, so in order to operate a small business, it's important to maintain positive Working Capital. The conservative strategy involves low risk and low profitability. With this approach, the permanent and the variable Working Capital are financed from the

long-term sources, which eases the cost capital. While the risks of interest rate fluctuations are significantly lower, there is an increase in cost capital.

By taking higher risks, the main goal of an aggressive strategy is to maximize profits.

With this approach, all of the variable Working Capital, part or all of the permanent Working Capital and occasionally even the fixed assets are funded from short-term sources. An aggressive effort to maximize profit results in lower cost capital and significantly higher risks. A moderate strategy, sometimes referred to as hedging, involves moderate risks and moderate profitability. With this approach, the fixed assets and the permanent Working Capital are financed from long-term sources while the variable Working Capital is sourced from the short-term sources.

Companies must measure risk, then develop and implement strategies for maintaining a positive cash flow. This strategy is called a Working Capital management strategy. The goal of an efficient Working Capital management strategy is to balance current assets against current liabilities so a company may meet its short-term obligations and maintain operating expenses. The major components of a Working Capital management strategy are discussed below.

Current Assets: Current assets are items that can be turned into cash quickly. Examples of current assets are cash on hand, short-term investments, inventory, and accounts receivable. Accounts receivable must be collected in a timely manner. The sooner you receive money owed, the sooner it can be reinvested to earn a profit. Effective inventory management is also essential. The goal is to have enough inventories to complete orders

but not an excess. Excess inventory creates additional costs such as paying for storage space and inventory spoilage.

Current Liabilities: A company normally incurs liabilities during the operating period to meet its operations budget. Examples of current liabilities are inventory purchases, employee wages, taxes and accounts payable. Unearned revenue is also considered a current liability, meaning you've been paid for goods or services but have not yet delivered the product. Generally, current liabilities are expected to be paid during a one-year time period.

Positive Cash Flow: Positive cash flow is the basis investors and owners use to measure a company's cash management strategy. A positive cash flow in simple terms means more money is coming in than going out. Current assets must outweigh current liabilities to maintain a positive cash flow. Controlling inventory, a current asset, is an important means of controlling a company's cash flow position. Short-term notes payable, a current liability, also has an effect on a company's positive cash flow. The money should be allowed to remain invested and draw interest until needed to pay notes payable is an important means of improving cash flow.

Analysis: Regular analysis of a company's current assets and liabilities is necessary to maintain an effective Working Capital management strategy. An effective Working Capital management strategy will take into account unforeseen events such as changes in the market and competitor activities. Finding ways of increasing sales income and collecting on accounts receivable will also improve a company's Working Capital.

Companies with a positive cash flow can take advantage of expansion opportunities as they arise without having to rely on external financing.

Working Capital frequently changes its form and is sometimes also referred to as circulating capital. It can transition from cash to inventories and/or receivables and then back to cash. Working Capital is the capital/funds required for day to day operations of the business. Working Capital is invested usually in all types of inventories such as raw materials, spares, finished goods and credit extension to debtors and cash in hand. It is divided into various types namely; operating cycle view and balance sheet view. Operating cycle view is basically the time which is required to convert the raw materials into cash. Balance sheet view divides the Working Capital into gross Working Capital and net Working Capital while the operating cycle view divides the Working Capital into permanent and temporary Working Capital. Permanent Working Capital is further divided into seasonal and special Working Capital whereas temporary Working Capital into reserve and regular Working Capital.

Gross Working Capital: All the current assets in the balance sheet of a company are known as gross Working Capital. Current assets are those short term assets which can be converted into cash within a period of one year. The grey area in the management of current assets or gross Working Capital is its unpredictability i.e. it is very difficult to ascertain the exact time of conversion of such assets. It is because the liabilities occur at their time and do not wait for the current asset to realize. This mismatch or the gap creates a need for arranging Working Capital financing.

Net Working Capital: This is a very frequently used term. There are two ways to understand net Working Capital. One says it is simply the difference between current assets and the current liabilities on the balance sheet of a business. The other understanding discloses little deeper or hidden meaning of the term. As per that, Net Working Capital is that part of current assets which are indirectly financed by long-term assets. Compared to gross Working Capital, net Working Capital is considered more relevant for effective Working Capital financing and management.

Permanent Working Capital: This is the minimum amount of Working Capital that must always remain invested. It is typically a combination of cash, stock and account receivables that is always locked in. Necessary for daily operations and the existence of the business, these funds are drawn from long-term sources. It is sometimes also referred to as fixed Working Capital or hardcore Working Capital. Permanent Working Capital implies that the base investment amount in all types of current resources which is respected at all times to carry on business activities. The value of current assets has been increased or decreased over a period of time. Even though, there is a need of having a minimum level of current assets at all times in order to carry on the business activities effectively. The basic features of Permanent Working Capital are as follows³²:

The gross value of permanent Working Capital remains constant but the value of components of current assets is differing from each other, there is a positive correlation between the size of the business and the amount of permanent Working Capital, only long term sources of funds are used for permanent Working Capital, temporary Working Capital: It fluctuates frequently due to various factors and requirements of the business.

These funds are drawn from short-term sources. It is also known as Fluctuating or Variable Working Capital. There is a close relationship prevailing between temporary Working Capital and the level of production and sales. There is no uniform production and sales throughout the year. If the heavy order is received for production and there are a lot of credit sales, there is a need of more amount of temporary Working Capital. At the same time, if production is carried on in anticipation of demand in near future, temporary Working Capital is required. In a nutshell, temporary Working Capital is an extra Working Capital required to support the changing production and sales activities. In simple terms, it is the difference between net Working Capital and permanent Working Capital. The main characteristic which can be made out of the example is —fluctuation. The temporary Working Capital can therefore not be forecasted.

Negative Working Capital: Sometimes, the value of current assets is less than the current liabilities, it shows negative Working Capital. If such type of situation arises, the firm is going to meet the financial crisis very shortly.

Reserve Working Capital: It is otherwise called as Cushion Working Capital. It refers to the short-term financial arrangement made by the business units to meet uncertain changes or to meet uncertainties. A firm is always working with the expectation of some risks which may be controllable or uncontrollable. The reserve Working Capital can be used in order to meet the uncontrollable risks and sustain in the business world. It is the Working Capital available over and above the regular Working Capital. It is kept for contingencies which may arise due to unexpected situations.

Regular Working Capital: The minimum amount of Working Capital to be maintained in normal condition is called Regular Working Capital. It is the permanent Working Capital which is normally required in the normal course of business for the Working Capital cycle to flow smoothly.

Seasonal Working Capital: Some products have seasonal demand. Seasonal demand arises due to the festival. In this way, seasonal Working Capital means an amount of Working Capital maintained to meet the seasonal demand of the product. Seasonal Working Capital is that temporary increase in Working Capital which is caused due to some relevant season for the business. It is applicable to businesses having the impact of seasons, for example, the manufacturer of sweaters for whom relevant season is the winters. Normally, their Working Capital requirement would increase in that season due to higher sales in that period and then go down as the collection from debtors is more than sales.

Special Working Capital: Special programs may be conducted for business development. The programs may be advertisement campaign, sales promotion activities, product development activities, marketing research activities, launching new products, expansion of markets and the like. Therefore, special Working Capital means an amount of Working Capital maintained to meet the expenses of special programs of the company. Special Working Capital is that rise in the temporary Working Capital which occurs due to a special event which otherwise normally does not take place. It has no basis to forecast and has rare occurrence normally. For example, a country where Olympic Games are held, all the business requires extra Working Capital due to a sudden rise in business

activity. It was all about the types of Working Capital. It needs to be managed with several Working Capital techniques so as to have the effective Working Capital management.

The current assets of a typical manufacturing firm account for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm realizing a substandard return on investment. However, firms with too few current assets may incur shortage and difficulties in maintaining smooth operations. For small companies, current liabilities are the principal source of external financing. These do not have access to the longer term capital markets, other than to acquire a mortgage on a building. The fast-growing but larger company also makes use of current liability financing. For these reasons, the financial manager and staff devote a considerable portion of their time to Working Capital matters. The management of cash, marketable securities, accounts receivable, accounts payable, accruals, and other means of short-term financing is the direct responsibility of the financial manager; only the management of inventories is not. Moreover, these management responsibilities require continuous day-to-day supervision. Unlike dividend and capital structure decisions, it is not easy to study the issue, reach a decision and set the matter aside for many months to come. Thus, Working Capital management is important, if for no other reason than the proportion of the financial manager must be devoted to it, to study effect that Working Capital decisions have on the company's risk, return, and share price.

Working capital is an important metric for all businesses, regardless of their size. It is a signal of a company's operating liquidity. To have enough Working Capital means that the company should be able to pay for all of its short-term expenses and liabilities. The term operating liquidity can be defined as the ability of a company or individual to quickly convert assets into cash for the purpose of paying operating expenses. Working Capital is important for large companies' ability to borrow, increase their share price, pay expenses and short-term debts. Working Capital is important for small companies that cannot access financial markets to borrow, and for start-ups that need to survive until they break even. Working Capital cannot guarantee whether a company is financially sound, but it gives some insight.

Large companies pay attention to Working Capital for the same reason as small ones do: Working Capital is a measure of liquidity, and thus is a measure of their future credit-worthiness. Companies who want to borrow by issuing bonds or purchasing commercial paper (a market of large, short-term loans for big companies) will find it more expensive if they do not have enough Working Capital. If they are a public company, their stock price may fall if the market doesn't believe they have adequate Working Capital. For small businesses and start-ups, which are unable to access financial markets for borrowing, Working Capital has more dire implications. Working Capital can also be described as the amount of money that a small business or start-up needs to stay in operation. Start-ups need to pay attention to their Working Capital because it is the amount of money they need to keep the business running until they break-even (start earning a net profit). On one hand, Working Capital is important too because it is a

measure of a company's ability to pay off short-term expenses or debts. On the other hand, too much Working Capital means that some assets are not being invested for the long-term, so they are not being put to good use in helping the company grow as much as possible.

Working Capital is only one measure of a company's operating liquidity. It is not the only measure, and it is certainly not a guarantee of a company's ability to pay. A company may have positive Working Capital, but not enough cash to pay an expense tomorrow. Similarly, a company may have negative Working Capital but may be able to adjust some of their debt into long-term debt in order to reduce their current liabilities. Working Capital is an important metric, but it is not the whole story of a company's financial health, hence certain aspects must be kept under strict observation such as: In a typical manufacturing firm, current assets exceed one-half of total assets; excessive levels can result in a substandard Return on Investment (ROI); current liabilities are the principal source of external financing for small firms; requires continuous, day-to-day managerial supervision; working capital management affects the company's risk, return, and share price.

Working Capital cycle

The term Working Capital cycle is the amount of time it takes to turn the net current assets and current liabilities into cash. The longer the cycle is, the longer a business is tying up capital in its Working Capital without earning a return on it. Therefore, companies strive to reduce their Working Capital cycle by collecting receivables quicker or sometimes stretching accounts payable. A positive Working Capital cycle balances

incoming and outgoing payments to minimize net Working Capital and maximize free cash flow. For example, a company that pays its suppliers in 30 days but takes 60 days to collect its receivables has a Working Capital cycle of 30 days. This 30-day cycle usually needs to be funded through a bank operating line, and the interest on this financing is a carrying cost that reduces the company's profitability. Growing businesses require cash, and being able to free up cash by shortening the Working Capital cycle is the most inexpensive way to grow. Sophisticated buyers review closely a target's Working Capital cycle because it provides them with an idea of the management's effectiveness at managing their balance sheet and generating free cash flows.

Maintaining the Working Capital operating cycle and its smooth operation is vital for a business to function. The operating cycle or lifecycle of a business goes from the acquisition of the raw material to the seamless production and delivery of the end products. This is one of the main objectives of Working Capital management. Keeping the cost of capital to a minimum level is also an important objective that Working Capital management strives to achieve. The cost of capital is what is spent on maintaining the Working Capital. It is imperative that the cost of maintaining healthy Working Capital are carefully monitored, negotiated and managed. The other main objective is to maximize ROI or return on current asset investments. The ROI on currently invested assets should be more than the weighted average cost of the capital. This ensures wealth maximization.

As an absolute rule of funders, each of them wants to see a positive Working Capital. Such situation gives them the possibility to think that your company has more than

enough current assets to cover financial obligations. Though, the same can't be said about the negative Working Capital. A large number of funders believe that businesses can't be sustainable with a negative Working Capital, which is a wrong way of thinking, as many big companies such as like McDonald's, Amazon, Dell, General Electric and Wal-Mart are using negative Working Capital. In order to run a sustainable business with a negative Working Capital, it's essential to understand some key components.. Approach the suppliers and persuade them to let business purchase the inventory on 1-2 month credit terms, but keep one should keep in mind that they must sell the purchased goods, to consumers, for money and effectively monitor the inventory management and make sure that it's often refilled and with the help of the supplier, back up the warehouse.

2.1.2.1 Working Capital Efficiency

Working capital efficiency is a measure that indicates how a firm balances the amount of capital blocked in receivables and inventories with its payables on purchase of inventories. To be more specific, this measure differentiates the firms of similar nature (e.g. similar size, nature of business etc.) based on the portion of the funds mobilized to meet their day-to-day operating requirements³⁶. Besides, working capital efficiency of a firm denotes the firm's creditworthiness and creates an investor's opinion on the firm's financial health. The firm with high working capital efficiency minimizes the need for borrowed capital in the short-run and thus helps the business to plan for long-term borrowing while expanding or investing in new projects.

Working capital efficiency is a measure of how well a company balances money it is owed by customers on sales and money invested in inventoried goods against money it owes for acquiring the inventory. This relationship of paying for goods, owing for goods and waiting to be paid for goods is called the cash conversion cycle. The more efficient a company is at navigating the cash conversion cycle, the higher is its level of working capital efficiency.

Almost all businesses must have cash on hand to fund short-term liquidity needs³⁴. This cash on hand is known as working capital. The amount of working capital a business has in relation to the need for it will affect the firm's creditworthiness in the eyes of lenders and, if it is a public company, affect investors' opinions of the company's financial health. If a company's working capital efficiency is high, that is if its business practices minimize the need for borrowed funds for short-term operational needs, it can make it easier for the business to borrow when necessary.

Maintaining a desired level of working capital efficiency drives firm managers to take timely decisions relating to investment in current assets and short-term financing. Such decisions are important features of working capital management (WCM)³⁹. WCM has become one of the non-trivial issues in organizations, where many finance managers find it difficult to distinguish the important drivers of working capital and to decide on the optimal level of working capital⁴⁰. Most of the studies have focused on working capital practices of firms belonging to developed countries and very few studies reflect the same of firms operating in emerging economies, such as India⁴¹.

Measuring a company's cash conversion cycle is the first step in determining its working capital efficiency. This is calculated by adding the average number of days between placing a product in inventory and selling it to the average number of days between selling a product and receiving money for the transaction. The corporation then subtracts the average number of days between purchasing a product and paying for it. This is the cash conversion cycle for the firm. The cash conversion cycle (CCC) is the most extensively used and popular indicator of working capital efficiency. It is the sum of days' inventory, days' receivables, and days' payables less days' payables. The higher the working capital investment, the longer the CCC^{25,28}.

The lower the working capital efficiency rating, the larger the cash conversion cycle, that is, the average number of days to convert inventory to sales less the average number of days to pay cost of sales. Working capital is a cost to the business since it is either stock in the company that cannot be put to other purposes if the organization is inefficient or debt, which becomes more expensive the longer it is owing. A objective for practically every firm is to urge managers at every stage of the sales process to work with an eye toward capital efficiency. The shorter the time things are in inventory, the quicker sales payments are received — the longer payments to suppliers may be postponed, the better. It is critical to identify a relevant and novel performance (outcome) measure that clearly and immediately communicates the effect of organizations' working capital efficiency. There are now a lot of studies that have reported the influence of CCC on company profitability^{26,28,32}.

2.1.2.1 Cash Management

Cash refers to a company's liquid assets. Cheques, money orders, and bank drafts are all examples. Cash management includes the effective collecting and distribution of cash, as well as any temporary investment of cash. Cash management is the process of maintaining an optimal amount of cash in an organization⁴¹. The goal of cash management is to meet cash disbursement as per payment schedule, meet cash collection as per payment schedule, and minimize funds locked up as cash balance by maintaining optimum cash balance, while the motives for holding cash are transactional, speculative, and precautionary⁴².

Cash Management is the process of planning and regulating cash flows into and out of the company, cash movements within the firm, and cash balances maintained by a business at a moment in time³⁴. Cash is critical in any firm for its survival and success. Cash denotes the most liquid assets, such as demand deposits, money market accounts, and currency holdings⁴³. The major components of cash management include cash forecasting, balance management, cash receipts and disbursements administration, and internal control (i.e. bank reconciliation).

Effective cash management may have a significant influence on total working capital management. It is objectively used to manage and establish the ideal quantity of cash necessary for company operations, which is then invested in marketable securities that are appropriate for the nature of the business operating cycle⁴⁴. Cash management include planning for cash inflows and outflows as well as identifying the ideal balances of cash and near-cash accounts such as marketable securities. Marketable securities are short-

term interest-earning financial claims that can be exchanged to cash rapidly and without considerable loss of value.

Efficient cash management entails determining the optimal cash to hold by taking into account the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little cash, careful planning and monitoring of cash flows over time are required to determine the optimal cash to hold⁴⁵. A cash balance strategy enables sensible financial planning and excess cash investment⁴⁶. This conclusion is consistent with the findings that cash budgeting is effective in planning for cash shortages and surpluses and has an impact on business financial performance.

The cash conversion cycle (CCC), which is the time lag between the expenditure for raw material purchases and the collection of sales of finished goods, is a popular measure of WCM. The greater the time gap, the greater the working capital investment. A longer cash conversion cycle boosts profitability by increasing sales. However, corporate profitability decreases with the cash conversion cycle if the costs of increased working capital investment outweigh the benefits of holding more inventories and/or granting more trade credit to customers⁴⁶.

2.1.2.2 Inventory Management

Inventory denotes Tangible property held for sale in the ordinary course of business or in the process of production (WIP) for sale or consumption in the production of goods and services that will be used for sale in the ordinary course of business, while inventory management refers to an optimum investment in inventories striking a balance between

adequate stock and that too while keeping investment at a minimum level (Optimum level of inventory)⁴⁷. Inventory management's goal is to turn over inventory as soon as possible without losing revenue due to stock-outs. Because inventories do not generate income, it is a crucial part of working capital management. Keeping either too little or too much inventory costs money. Inventory is typically composed of three components: raw materials, work-in-progress (WIP), and completed items^{42,48,49}.

Inventory management relies heavily on material requirement planning (MRP) and the perpetual inventory control (PIC) system. Most businesses accept cash discounts, but their yearly cost of working capital funds is significant, ranging between 15% and 20%. Firms may have an ideal working capital level that optimizes their worth. On the one hand, strong sales may result from a vast inventory and a favorable trade credit policy⁴⁹. A larger inventory decreases the possibility of a stock out. Offering credit to their clients, suppliers may have considerable cost benefits over financial institutions; it may also be a low-cost source of credit for consumers⁵⁰.

Effective inventory management procedures should provide answers to the following questions: how much should be ordered? And when should you order it? These questions are related to the problem of determining the economic order quantity, and the problem can be answered by analyzing the costs of maintaining certain levels of inventory, as there are costs associated with holding too much stock as well as costs associated with holding too little stock, thus the need to implement an effective stock management system to ensure reliable sales forecasts to be used in stock ordering purposes⁵¹.

One technique to establishing the ideal inventory level that takes into consideration inventory carrying costs, inventory shortage costs, and overall costs aids in selecting the proper inventory levels to retain. They further noted that keeping adequate inventory levels lowers the cost of any disruptions in the manufacturing process or loss of revenue due to product scarcity, lowers supplier costs, and protects against price changes. A study discovered that inventory levels had a significant impact on working capital management and emphasized the need of handling inventory carefully⁵².

The inventory conversion phase has a detrimental impact on a company's performance. For example, reducing the inventory conversion time may raise inventory stock out expenses, resulting in lost sales opportunities and poor performance⁵³. Firm managers should therefore keep their inventory at an optimal level, as mismanagement of inventory will result in excess capital being tied up at the expense of profitable operations. Inventory investment is determined by the cost of holding such inventory, storage, obsolescence, opportunity cost of inventory investments, and the rate of return on other equivalent-risk investment opportunities⁵³. The higher the cost of holding inventory, the less inventory a company will keep. Discounts on bulk purchases influence the amount of inventory held by a company. The advantages of stockpiling include reduced stock-outs for production and sales, as well as the associated costs⁵⁵.

Excessive working capital, leads to inventory mishandling, wastage, and theft; a higher incidence of bad debts; complacency of management inefficiency; increasing speculative profit from accumulated inventories and consequent loss of profits. Inadequate working capital, he added, causes stagnation in growth due to insufficient investment capital,

increased operating inefficiencies, and increased inefficiencies in the utilization of fixed assets, making the implementation of operating plans difficult and reducing profitability³³.

2.1.2.3 Accounts Receivable Management

Credit sales are an almost unavoidable need in today's corporate environment. There can be no company without selling items on credit. Accounts receivables are the credit that a company extends to its customers when selling goods or services, which can be either trade credit that the company extends to other companies or consumer credit that the company extends to its ultimate consumers who have not yet made payment, and thus the effectiveness of the company's credit policies can have a significant impact on its overall performance⁵⁸. They also said that the major goal of its management is to reduce the time lag between the completion of sales and the acceptance of money, as well as to improve profit by growing sales to attract new consumers and keep existing ones. They went on to say that by consistently expanding sales and profits, a company carves out a larger market niche and enhances its position among rivals.

Receivables come from the supply of products or the execution of services on credit. Receivables are claims against others for future payment of money, commodities, or services, the value of which is determined by the volume of credit sales and the strategy for collecting such credits. Corporations might have the greatest potential quantity of working capital, resulting in their value maximization⁵⁹. He went on to say that, on the other side, keeping a large inventory, easily extending credit to clients, and being prepared to wait a longer period of time for payment may result in increased sales. A

study observes that in determining an optimal credit extension policy, a company's financial managers must consider a number of major controllable variables that can be used to alter the level of receivables, which include credit standards, credit terms, and collection effort⁶⁰. Credit standards are the criteria that a firm employs to evaluate applicants in order to decide which of its customers should be granted credit and how much credit they should be granted. The act of establishing credit standards enables organizations to exert some control over the "quality" of accounts approved. The quality of credit offered to consumers is a multidimensional notion that includes the time it takes a client to return a credit obligation, as well as the likelihood that a customer would fail to repay the credit granted to them.

A method of classifying consumers for the purpose of authorizing or rejecting credit to them when creating credit criteria⁶¹. This allows the company to avoid assessing the creditworthiness of consumers who have been rejected credit. As a foundation for extending credit to individuals who qualify, he advises comparing the estimated cost of credit extension against the projected profit lost in the absence of credit.

A company should have a reason for collecting receivables. Collection policies may be strict, resulting in improved collection, fewer instances of bad debt, but expensive collection expenses. Customers may be irritated as a result, and some may migrate to rivals. A study contend that a permissive collection policy would have the opposite impact and that the collection effort consists of the means a firm utilizes in seeking to recover payment on past-due accounts⁶³. They also stated that some commonly used methods include sending notices or letters informing customers of the account's past-due

status and requesting payment, calling and/or visiting customers in an attempt to obtain payment, hiring a collection agency, and taking legal action against the customers.

The credit policy literature is fairly substantial. In the general interest of the company, that it is critical for enterprises to lay out clearly and exactly the credit policy guidelines in writing⁶⁴. The credit policy will be an addition to and reinforcement of the company's marketing strategy. The selection is determined based on the alternative with the lowest cost. This strategy is excellent for a company that depends heavily on information gleaned from its own consumers. A key discovery in the management of accounts receivable about the effect of chronic inflation on accounts receivable. Buyers may postpone payment beyond the regular credit term during an inflationary time, when interest rates are high and financing requirements are high. As a result, the selling firm's investment in account receivables rises, increasing their financing need. As a result of this situation, credit and collection policies play an important role in the broader scope of receivable management.

Businesses typically use trade credit as a marketing strategy to expand or maintain sales, and that efficient receivables management, augmented by a shortened creditor's collection period, low levels of bad debts, and a sound credit policy, often improves the businesses' ability to attract new customers and thus increase financial performance, highlighting the importance of a sound credit policy⁶⁶. Costs of cash discounts, bad debt losses, credit management costs, and credit collection costs constitute the carrying costs associated with granting credit, which increase as the amount of receivables granted increases, while lost sales due to not granting credit constitute the opportunity cost,

which decreases as the amount of receivables increases⁶⁷. Firms with effective receivables management should establish their ideal credit, which reduces the overall costs of loan issuing. Ross and colleagues a growth in the quantity of accounts receivable in a business increases receivables, which both contribute to a decline in the firm's worth.

2.1.2.4 Accounts Payable Management

Accounts payable are one of the most important sources of unsecured short-term financing, so maximizing the value of the payee relationship is a sound goal that should be highlighted as important as maintaining an optimal level of inventories. As a result, a strong alliance between the company and its suppliers strategically improves production lines and strengthens credit record for future expansion. The goal of Accounts Payable Management is to pay creditors as slowly as feasible while maintaining the company's credit rating⁶⁸. Accounts payable and accruals are the two most common spontaneous liability sources of short-term funding for a normal corporation, as well as the most common unsecured source of short-term financing for business. They are the consequence of transactions in which goods (inventory) are bought.

Suppliers may provide credit terms in addition to discounts to purchasers; thus, organizations must have procedures governing who authorizes buying and how purchasing is tailored to demand, which may lead to efficient administration of accounts payable. According to a study that discovered that accounts payable is more deferrable since the average payment might be prolonged by administrative choice⁶⁹. This

deferability, however, is restricted to an unknown level; ultimately, suppliers would refuse to seal organizations who repeatedly postpone payment.

2.1.2.5 Free Cash Flow

Cash flow is critical to a company's financial stability. In most organizations, cash flows in two directions: input and outflow. The distinction between these two ideas results in cash flow. Organizational finance managers make it a priority to guarantee that cash outflow does not outweigh cash inflow. Net positive cash flow indicates that cash is being managed prudently throughout the organization's three operations, namely operating, investing, and financing. Before making an investment choice, most investors take a quick look at each of these activities⁷⁰. Similarly, cash flow from each of these activities has the potential to influence the performance of publicly traded companies over time. Excess cash outflows over inflows, for example, may suggest bad expenditure, debtors, inventory, cash management, poor investment skills/management, and the incapacity of finance managers to critically participate in optimum financing decisions for a time.

A study argued that the company might be paid to the investment unneeded when there is a lot of free cash flow in our hands and forecasts negative NPV⁷¹. Furthermore, the theory predicts that larger levels of free cash flows would result in increased administrative waste and inefficiency. Free cash flow (FCF) is defined as net operating income before depreciation expenditures, less tax expenses, interest payments, and stock dividends, scaled by net sales⁷². The link between free cash flow and performance was investigated

in the early 1990s. Free cash flow is the cash flow from operations plus the cash flow from financial investments⁷³. Free cash flow is made up of resources that are accessible for investment but may also be allocated to shareholders.

Internally, managers must be aware of the firm's present financial situation (performance and difficulties); ongoing problems; and control functions⁷⁴. Suppliers, for example, are interested in the businesses' liquidity since their rights are often on a short-term basis, and the company's capacity to pay is best indicated by the liquidity indicators in this scenario. A company's cash flow is a critical aspect that improves its operations⁷⁵. An organization's cash flows are the pools of capital that the corporation commits to its fixed assets.

2.1.3 Small and Medium Enterprises

The notion of small and medium enterprises (SME) was introduced into the development landscape as early as the late 1940s, and the primary aim was to improve trade and industrialization in the present developed nations. The definitions of SME are usually derived in each country, based on the role of SME in the economy, policies and programs designed by particular agencies or institutions empowered to develop SME. For instance, a small business in the developed economies of countries like Japan, Germany and United States of America (USA), may be a medium or large-scaled business in a developing economy like Nigeria. Moreover, the definition of SME also varies overtime from agencies or developing institutions to another, depending on their policy focus. The above variation notwithstanding, SME can be defined based on certain criteria including,

turnover, number of employees, profit, capital employed, available finance, market share and relative size within the industry. The definition can be based on either some quantitative or qualitative variables. Quantitative definitions mainly express the size of enterprises, mainly in monetary terms such as turnover, asset value, profit, as well as quantitative index like number of employees. As examples, the 1975 companies Act in the United Kingdom stated that an enterprise with a turnover of less than £1.4 million was small, those with turnover between £1.4 and £5.7million were medium, while those enterprises having turnover above £5.7 million were large. It also went further to classify the enterprises based on number of employees – those with fewer than 50 workers being small, between 50 and 250 workers being medium and those employing above 250 workers were described as being large. Similarly, the European Union (EU) in 1995, defined SME as any enterprise employing less than 250 employees, and went further to break down the SME into micro (less than 10 employees, small (from 10 to 49 employees) and medium (between 50 to 249 employees).

In the modern world of business, small and medium enterprise has been identified as the mainstay of economic development of any nation. Since nations of the world have been divided into two main categories along the lines of economic development which includes the economically developed countries and the economically less developed countries, while these countries are miles apart economically, it is imperative to mention that there is a unifying factor that brings these two set of countries together and that is the SME. Small and medium enterprises (SMEs) make a very important input to economic growth and development. They offer a country numerous advantages like represent a pool

of entrepreneurial skills and innovation, contribute to job creation, and are referred to as the foundation on which the global economy stands.

Defining the term SMEs has been a very tedious task for business scholars and this has allowed a crop of definitions to arise from different countries. This is because SMEs all over the have come to mean different thing in different countries according to the socio-economic reality that is obtainable in such country. Countries all over that world have through Acts of Parliament set a definition for what constitutes SMEs. Rizal, Mawardi and Kholid while observing the Indonesian business scene stated that SMEs have been defined by the Indonesian government using the Law No.20 of 2008 on Micro Small and Medium Enterprises has provided a clear definition of each business. They go further to state that the Act describes what a SME should look like by stating who will carry out the business, capital limitations, and annual sales results. It is also explained that a micro business refers to a productive business conducted by an individual and/or business entity (enterprises) in accordance with the criteria of micro business as regulated in the Law. However, some have faulted this definition by asserting that small businesses are stand-alone economic enterprises and not subsidiaries or branches of medium-sized or large-scale business. They are done by an individual and/or business entity. Furthermore, medium-sized businesses are independent economic enterprises, not subsidiaries or branches of companies and not cooperating with small or large business entities with the total assets and turnovers as stipulated in the Law. According to Quartey, Turkson, Abor and Iddrisu, the SMEs sector in West Africa has been observed to be a mixture of self-

employment outlets and dynamic enterprises that are involved in an array of activities mainly concentrated in urban areas. This means that entrepreneurial skills

In the Nigerian context, SMEs are supposed to be the driving force behind the country's industrialization and overall growth. The Nigeria Chamber of Commerce, Industry, Mines and Agriculture argue that small and medium enterprises are the engine that propels every country's rapid industrialization and growth. SME has thus been described in terms of its characteristics

Micro Small and Medium Enterprises (SMEs) can be defined as follows: Micro Enterprise: Any enterprise employing between one to nine people and having a capital base from one naira to ₦5 million excluding cost of land. Small Enterprise: Those that employ between 10 and 49 employees and having a capital base from ₦5 million to ₦50 million so once a business is within that confine, it is running a small enterprise. Medium Enterprise: Any enterprise that employs from 50 to 199 employees and having a capital base from ₦50 million to ₦500 million. If a company falls below that range, it is classified as a medium enterprise; if it exceeds that, it is classified as a major enterprise or a multinational, depending on the situation.

In the United States, the SME sector is said to account for 67 percent of jobs and 61 percent of manufacturing production. Over 30 million SMEs live in Korea, accounting for over 90% of all companies and over 80% of the labour force. Similarly, SMEs account for more than 90% of African sector activities and contribute more than half of the continent's workforce and GDP. SMEs in Nigeria account for about 75 percent of formal manufacturing production, 70 percent of industrial employment, and about half of

the country's GDP. It is important to note that the majority of SMEs in Nigeria are actually micro enterprises (MEs). This is because the majority of SMEs in Nigeria have less than ten workers and properties (excluding land and buildings) of less than 5 million naira.

Small firms are frequently synonymous with low capital spending, few fixed assets, a high degree of localization in the field of service, and an inexperienced management structure. Some claimed that small companies, on the other hand, are those that are actively run by their owners, highly personalized, largely local in their activities, of relatively small scale within the market, and reliant on internal sources of capital to fund their growth. It is really simple to start one because it does not require complicated plans or a large amount of money. Similarly, the exit and loss ratios are very high. Small companies tend to expand the supply of products and services on the market, resulting in reduced costs. Small to medium companies exist to cover the void created by big corporations, and they exist to do the stuff that large corporations refuse or cannot do. There are also several companies whose full activity and size necessitate a limited scale. Food and associated items, like furniture and fixtures, tailoring, comfort spots, local crafts, and indigenous medicine are examples of these. Since the deciding process is not complicated and the owner-manager does not require anyone's approval to adapt to change, SMEs are known for their ability to adapt to changes. They're also known for making more use of local raw materials, maintaining simpler records, and having strong relationships with customers and employees.

Problems of Small and Medium Enterprises (SMEs) in Nigeria. A number of problems beset SMEs and they include:

2.2.3.1 Limited Financing: According to a recent survey of SMEs undertaken by the National Bureau of Statistics (NBS) and SMEDAN, financing is the highest priority of assistance needed by SMEs. Furthermore, only 4.2 percent of the 17.2 million SMEs have been able to obtain loans or overdrafts from financial institutions, and potential entrants or start-ups find it almost difficult to obtain funds from banks. The amount of funds available for acquisition and financing options for small and medium-sized businesses are not necessarily appropriate and sufficient. Personal deposits, donations, or borrowing from associates can be used by the company. This might not be adequate, which is why companies look to financial and related institutions for funding. Before lending money to anyone or any organization, financial firms often require collateral, which is followed by strict requirements that must be met. Until lending money, banks usually need financial and legal paperwork as well as appropriate collateral. Small to medium-sized businesses also find it impossible to satisfy these standards. Government has done a lot to ensure that small businesses are adequately funded by developing Industry and Commerce Banks, Agricultural Banks, loan schemes, and more recently, Community Banks are being repositioned to Microfinance Banks in order to extend financial infrastructures and make funds accessible to small and medium-sized businesses in Nigeria.

2.2.3.2 Inefficient Management Capacity: SMEs, on the whole, don't need as many specialized or strategic management capabilities as big corporations. The failure of the

owner-manager to schedule, organise, lead, arrange, and monitor all material and human capital in the company to produce results is the fundamental issue of small businesses. This is because, by their very existence, SMEs are focused on the owner-manager, who likes to monitor his funds and make decisions that impact the whole company. He doesn't have much time to learn new skills or retrain in order to run a successful company. Most founders often are hesitant to use key managers because they fear they can no longer recognize the nitty-gritty of the company or losing sight of such important decisions. Some say that they are reluctant to afford the wage the desired workers require. Opportunities and risks can be exploited in such a manner that the organization can achieve optimal results. Effective considerations are management, communications and financial expertise. Any of these qualifications are gained through preparation and practice.

2.2.3.3 Limited Range of Products: The two reasons listed above have culminated in a small variety of products and services. In Nigeria, there is a lack of funds for growth and new product creation, but small and medium companies prefer to market the same old goods to their consumers. A big corporation may have ten or so separate goods on the market, with some of them being profit centred. Some products within an organization can become or expand into Strategic Business Units (SBUs), with revenues, personnel, management, and marketing strategies focused on each product.

2.2.3.4 Little or No Research: Another critical issue that small and medium companies face is their failure to do larger-scale studies. Small to medium-sized companies will have access to inadequate or inaccurate evidence for decision-making, which may result in

catastrophic market results. SMEs need sufficient knowledge to succeed, but they lack the funds and qualified resources to perform marketing and other related analysis from primary or secondary sources in Nigeria, where evidence is classified, proprietary, or trade secrets. Information is treated more as a product than a common good. As a result, reliable data aims to provide useful data for policy formulation, strategy, plan execution and reporting, forecasting, and other decision-making processes impacting customers and businesses. As a result, access to reliable and sufficient data is critical to small and medium enterprises' willingness and capacity to overcome undergrowth and a lack of creativity. It aids the company in determining the market's size, profitability, and success. Related data is needed for an organization to consider its rivals' strengths, consumer demands and desires, and the type of product it offers customers and the type of market to direct its efforts.

2.2.3.5 Longevity: The death of the owners of most small/medium-sized companies could mean the end of the group. The explanation is simple: the owner(s) are still in charge of organizing, managing, and running the company. He seldom recruits outsiders and refuses anyone substantive influence over the business. He holds all of his company's secrets to himself, including his debtors and supply sources.

2.2.3.6 Lack of Adequate Infrastructures: One of the government's initiatives is to create an atmosphere that encourages business growth. These include tarred roads, power, piped water, and medical care in the hinterland, as well as industrial estates where developers can apply for plots to start their businesses. For most cases, the above infrastructure can only be seen in newspapers and over the airwaves. Small businesses

use energy to propel their devices and to provide a safe working atmosphere for their employees. Energy is used to power networking infrastructures such as broadcasting companies, the internet, and computers. GSM businesses rely on generators and backup facilities, which are expensive and often unaffordable for customers. Electricity is necessary for SMEs such as barbershops, tailoring, restaurants, and processing plants to function. Power supply is currently intermittent and unpredictable (approximately 4000 megawatts), resulting in low-shading, making it difficult, if not unlikely, for these organizations to function effectively. Any of our major thoroughfares are impassable due to potholes, tight curves, and twisting corners. Small companies are the ones that lose the most from used cars and vans. Small businesses find it impossible to function efficiently due to a lack of infrastructure.

Inconsistent Government Policies: The Federal Government's goal in fostering small business growth was to create jobs, mobilize local capital, reduce rural-urban migration, and disperse industrial enterprises throughout Nigeria. Overall, the goal was to help emerging indigenous investors develop themselves and gradually expand into potential manufacturing behemoths. This is due to the fact that the majority of Nigerian investors are small business owners with little resources and entrepreneurial experience. These goals were to be fulfilled by providing financial and technological support to ensure their development and utility to the state. Due to political unpredictability, government macroeconomic strategies have been largely contradictory. In terms of money, there has been a rise in lendable funds to small and medium-sized enterprises, loans to rural borrowers, more loans to agriculture, and a lowering of the lending rate to below 21%,

but these commendable policy decisions have been blocked during execution. The loans are often directed to the wrong outlets, and the terms are set in such a manner that the small-scale farmer or company owner may be unable to reach them. Most elected leaders are unethical and disregard the rule of law. Fiscal policies such as personal income tax reductions, tax relief for exporting firms, the creation of Export Processing Zones (EPZ), and other mining, agricultural, and commercial promotion policies are all examples of this. In lieu of the Nigerian Enterprises Promotion Decree, which prohibited foreign participation in certain facets of our economy, the government enacted the Nigerian Investment Promotion Commission Act to promote foreign investment inflow. Despite the fact that the government subsidized fertilizer procurement for farmers, they rarely see the fertilizers at the government-approved prices. No significant results have been reported. The federal government has founded the Ministry of Solid Minerals "to encourage diversification of export revenue earnings and optimum use of our natural resources," as well as the Ministry of Women Affairs "to manage women's activities in the nation's growth". Overall, this industry has been growing at a snail's rate. It is hoped that the government will concentrate its resources on the successful execution of the above measures, and that any cog in the wheel of change will be avoided.

Marketing Problems of SMEs: Any business (large or small) requires marketing to succeed, because marketing's job is to recognize and meet customers' needs, which is the true business of all businesses. Entrepreneurs may use marketing to assess market size, target market(s), focus, and develop strategies to serve the chosen markets or segments. The marketer's job is to figure out who the actual consumers are and what they actually

want. These characteristics aren't necessarily found in SMEs. Many small-business owners are unaware of the value of marketing analysis, and some also consider it a waste of time. The perspective on research is supported by Kotler and Armstrong, who claim that small business owners frequently believe that marketing research should only be conducted by professionals in bigger organizations with massive research budgets. They suggest that small-business owners can get good marketing insights by studying what is going on around them and doing surveys of small convenience samples. Bad product design, poor product quality, lack of product standardization, lack of brand experience, and strong competition from well-established local and international rivals are some of the other marketing issues that SMEs face. In a recent study, Small businesses avoid advertising their products and do not provide credit or home delivery services to their customers; and Scarborough claims that "in so many small businesses, prices are determined by vague, poorly defined techniques or even hunches," and that "small business owners often use the manufacturer's hunches"⁶⁵. Nigerians' preference for international goods is one of the major challenges facing SMEs, and it has been found that this prejudice towards Nigerian products is mostly due to subjective prejudices, rather than factual dominance of our local products. It is proposed that in order for SMEs to solve these issues and become competitive, they must strengthen all facets of their marketing campaigns and operations.

2.2 Theoretical Review

Two theories will be used in this study. They are resource-based theory and operating cycle theory. The two theory will be used to complement one another as SMEs financial performance will be anchored on resources based theory while working capital will be anchored on operating cycle theory. In overall, the study will be anchored on operating cycle theory.

2.2.1 Resource-Based Theory

For this study Resource-Based Theory which was proposed by Barney, 1991, hinged on SMEs performance. Resources are the basis of business survival and corporate profitability. The resources could either be human or material. When taking stock of a firm's resources, a distinction needs to be made between resources and capabilities. Resources are inputs into the production process-they are considered as the fundamental unit of analysis. The resources of a firm include items such as capital equipment, patents, brand names, the skill associated with individual employees, finance and so on. Independently, fewer resources are productive. Any productive activity must require the coordination and cooperation of teams of resources, while a capability is viewed as the ability or capacity of a team of resources to perform certain activity or task. Therefore, by implication resources are the sources of a given firm's capability. The Link: Resource-based theory is used in this context to include the cognitive ability of individual managers of businesses as to ensure effective management of the short-term asset of the business (working capital). This therefore connotes that managers have individual-specific

resources that facilitates and ensures the recognition of new opportunities, effective assembling of resources, as well as the psyche of making payments, and recovering of receivables as and when due to ensure effective management of working capital and ultimately the firm's profitability.

For the application of resource-based theory, it hinges on SME performance. This goes down to two concepts to explain the application of resource-based theory to SME performance. The first concept is capacity and second is competitive advantages capability as it is defined as the ability of a firm to use its resources "to affect the desired end"⁷⁵. In other words, capabilities are those attributes of a firm that enable it to exploit its resources in implementing strategies. Capability is similar to an intermediate good produced by the firm using organizational resources and processes to provide "enhanced productivity to its resources"⁷⁵. In other words, capabilities are "invisible assets", tangible or intangible organizational processes developed by a firm over a period of time that cannot be easily bought; they must be built⁷⁶. RBV argues that firms will have different nature of resources and varying levels of capabilities. The firms that use those resources and capabilities efficiently would have better performance over other firms.

competitive advantage can be expressed in terms of the ability to create relatively more economic value. Economic value is the difference between the perceived benefits gained by the purchasers of the good and the services provided by an enterprise and the economic cost to the enterprise. To create more value than its rivals, a firm must either produce greater benefits with same cost or same benefits with lower cost. Thus, when the firm is efficient, it means it has a competitive advantage and a superior performance over

its rivals⁷⁵. There are two major explanations about why some firms perform better than others in the literature^{75,76}.

The first explanation is “Industrial Organization-Based Strategy (IOBS)” articulated by Porter (1980), which draws heavily on the structure – conduct – performance (SCP) paradigm in industrial organization economics⁷⁵. In IOBS, it is argued that the industry structure and market power are the key determinants of firm performance. The second explanation about why some firms perform better than other firms focuses more on the differential ability of some firms to effectively and efficiently use its resources and capabilities to respond to customer needs⁷⁶. The RBV suggests that the resources possessed by a firm are the primary determinants of its performance and those resources may contribute to a sustainable competitive advantage of the firm⁷⁶. If it is costly for efficient and effective firms to copy more efficient and effective firms, latter firms could have superior performance.

Thus, SME performance and survival depends on its ability to create new resources, to build on its capabilities platform, and to make the capabilities more inimitable to achieve competitive advantage. Thus, sole possession of superior resources cannot provide competitive advantage to the firm, but how a firm deploys its scarce resources, put its capabilities to best use, invests and complements its existing capabilities grants competitive advantage⁷⁵. In other words, firms can achieve competitive advantage by not only having superior resources but also creating synergistic effects to combine all those resources by its capabilities⁷⁶.

RBV expounds that how an association sustain or gain competitive advantage to enhance firm's efficiency. study that how resource value, innovation and imitation cost influence performance and sustain competitive advantage while a study examine the interaction between rivalry restraint and competitive advantage effects on profit⁷⁷. Competitive advantage is just as superior value creation. For instance, a firm has competitive advantage only when it created superior economic value then rivalry⁷⁷. RBV focused on middle level outcomes like generating superior value, innovations and maybe short term performance resultant, gives temporary competitive advantage. A researcher studied to recognize profit variation by focusing on internal sources which may not only cause of temporary competitive advantage⁷⁷.

2.2.2 The Operating Cycle Theory

Richards and Laughlin in 1980 propounded by the operating cycle theory is one of the very important theories in working capital management. Operating cycle is one of the measures of efficiency of working capital management. It takes into cognizance the receivables and inventories related to working capital. The cycle traditionally commences from the receipt of raw materials to the collection of receivables from debtors of the stock sales produced from those raw materials.

The traditional approach of relying on current or acid-test ratios as solvency indicators is quite defective compared to the operating cycle approach of relying on current or compared to the operating cycle approach where accounts receivables and inventory turnover measures are incorporated as useful in liquidity management. This is quite clear

because Average Collection Period (ACP) as a proxy for firms average receivables investment is converted to cash. One critical aspect to note is that changes in collection and credit policy have a direct effect on the balance of accounts receivable outstanding, in relation to annual firm's sales. According to operating cycle theory when firms grants more liberal credit terms to its customers there is a higher tendency of having a bigger, but ultimately less liquid investment in cycle (that is, the inventory turnover) shows the number of times with which business firms converts the totality of their raw materials stock, their work-in-progress and ultimately the finished goods into product sales.

This theory is applicable for the use for working capital management of SME on the basis that growth opportunities of SME lies on its ability to effectively manage it working capital. However, growth opportunities could also affect the firm's working capital management, as has been shown in various empirical studies⁷⁸. This variable might affect trade credit granted and received by firms, as well as their investment in inventories. Future sales growth of SMEs has a positive influence on a firm's Cash Conversion Cycle, and they suggest that firms might build up inventories in anticipation of future sales growth. Following this suggestion, a study showed that inventories were positively related to expected sales⁷⁸. However, companies with higher growth options might have smaller Cash Conversion Cycle for two reasons. First, high growth firms tend to use more trade credit as a source of financing for their growth, because they have more difficulty in accessing other forms of finance. Second, companies might extend more credit to their customers to increase their sales in periods of low demand. These two theories are⁷⁸. Therefore, since these different considerations lead to opposite conclusions

on the expected effect of growth options on investment in working capital, the expected relationship is not clear.

SME's growth opportunities (GROWTH) were measured by the ratio $(\text{sales}_1 - \text{sales}_0) / \text{sales}_0$. This measure was used because SMEs do not usually have market prices. This ratio measures past growth, and the assumption is that, firms that have grown well so far are better prepared to continue to grow in the future.

2.3 Review of the Empirical Studies

2.3.1 Working Capital Management Efficiency and Profitability

A negative effect of working capital management on SME profitability was reported in Istanbul⁸⁰. Similarly, a negative relationship between working capital management and performance of SME was reported in Pakistan⁸¹. In a similar development, Jose et al.⁸² found a negative effect of aggressive working capital management on profitability of US firms with a particular focus on Cash Conversion Cycle (CCC). They found that CCC has negative relationship with return on investment as proxy for the firm's profitability. On the contrary, a positive link between working capital management and the performance of SMEs was found in Norway⁸³. Also, the same was reported in a similar study in Portuguese and Vietnam respectively^{84&85}.

Other studies have established a positive link between some aspect of working capital management and SME profitability. For instance, a study was conducted to measure the impact of working capital management and the performance of Malaysian listed companies⁸⁶. They found that current assets to total asset ratio have a positive effect on

the firm performance based on ROI and ROA. So also, a positive link between conversion cycle, account receivables, inventory period and performance listed firms was reported in Nigeria for the period 1999 to 2007 while account payable is negatively related to profitability⁸⁷.

Negative relationship was found between working capital management and SMEs performance in Pakistan. Specifically, the spelled out that inventory conversion period and receivable collection period are negatively correlated with operating profit. Furthermore, Gulet al., found that a number of day's accounts payable (APP) has a positive relationship with profitability while average collection period (ACP), cash conversion cycle (CCC), inventory turnover (INV) and debt ratio (DR) have a negative relationship with profitability in a SMEs in Pakistan. A positive relationship between a number of day's accounts payable and ROA of SMEs in Ethiopia was reported. While the number of day's accounts receivable, cash conversion cycle and a number of days inventory have a negative effect on ROA. It was argued that an increase of day's accounts payable causes increases the ROA and also increase in the number of day's accounts receivable, a number of days inventory and cash conversion cycle relates to a decrease of the ROA level. To conclude, based on the review above, it is clear that there are mixed findings exist across countries due to the differentiation in the nature of research and context. Hence, this study was set to empirically examine the effect of working capital management on SMEs profitability particularly in the context of SMEs in Nigeria.

A study averred that financial management is the process of planning, directing and coordinating the activities involve in the sourcing and application of funds by individuals, groups or business concern¹². Among these activities as include financial decisions like the best way to finance a firm so as to ensure maximum returns to its owners, investment decisions such as the selection of most profitable investment portfolio that would reduce risk to the barest minimum the risk of finance and ensure maximum return to the business, deciding dividend policy of the firm and working capital management including cash, debtors, creditors, stock, short-term loans and accruals to ensure financial control.

There has previously been some work done on the relationship between working capital and its influence on company profitability¹¹. He also stated that many researchers have recognized the effect of prudent corporate performance management. Probably among the first to link the efficiency of working capital management and corporate profitability¹³. In their study on the efficiency of working capital management and corporate profitability, they investigated whether the cash conversion cycle (as measured by the net trade cycle) had any potential impact on the profitability of a sample of firms listed on the New York Stock Exchange between 1974 and 1994. They discovered that reducing the Cash Conversion Cycle by a reasonable amount could lead to an increase in the firm's profitability¹².

Cash conversion cycle and firm size: Managerial finance," cited in a study in their study 'Relationship of Cash Conversion Cycle with Firm Size," revealed that firm size has a significant negative relationship with CCC, i.e. larger the firm size, shorter the CCC and vice versa¹⁴. They also discovered a significant positive relationship between CCC length

and current and quick ratios. In empirical studies conducted to investigate the liquidity profitability tradeoff, a significant negative relationship between profitability and length of CCC was discovered^{13,15}. A positive relationship between shorter CCC and higher profitability in a study of 22,000 public limited companies. The Cash Conversion Cycle was also shown to have a favorable relationship with the Return on Assets ratio. A research on Pakistani listed firms discovered that company profitability is adversely connected to day's inventory outstanding, day's payments outstanding, and CCC. A substantial inverse relationship between CCC and gross. This conclusion means that if the cash conversion cycle is decreased, profit will improve as well, as ^{15,17}.

The Relationship between Corporate Profitability and Working Capital Management" for Athens Stock Exchange-listed enterprises¹⁸. They discovered a statistically significant link between profitability as assessed by gross operating profit and the Cash Conversion Cycle. Furthermore, managers may generate profit by properly managing the separate components of working capital. The cash conversion cycle and net trade cycle are simple and effective tools for assessing working capital management efficiency. Firms must aim to keep these numbers of days to a minimal in order to create shareholder value¹.

An experimental study on the Effects of WCM on the Profitability of Small and Medium-Sized Enterprises (SMEs)¹⁷. In their study, "Effects of Working Capital Management on SME Profitability," they used a sample of 8,872 small and medium-sized Spanish enterprises from 1996 to 2002 to build an empirical association between WCM and profitability. Their correlation analysis revealed a very substantial negative association between Return on Assets and the number of days accounts receivable, inventory, and

accounts payable. The negative association between the cash conversion cycle and the profitability indicator was statistically significant. As a result, the authors reasoned that reducing the (CCC) would boost profitability.

Research on the association between cash conversion cycle and business size and profitability" of 166 companies listed on the Istanbul Stock Exchange (ISE) in 2007 was conducted by¹⁸. Total assets and sales revenue are used to calculate firm size, whereas return on assets and return on equity are used to calculate profitability. According to the study, the retail/wholesale business has a shorter CCC than the manufacturing industry. The research is also significant since the textile sector has the longest CCC. There is a considerable inverse relationship between CCC length and business size. As a result, smaller enterprises have longer CCC. Finally, a substantial negative association was shown between the duration of CCC and profitability.

Effect of Different Variables of Working Capital Management on the net operational profitability of Pakistani enterprises, including average collection period, inventory turnover in days, average payment period, cash conversion cycle, and current ratio¹⁹. They studied 94 Pakistani enterprises registered on the Karachi Stock Exchange for six years, from 1999 to 2004, and discovered a substantial negative association between factors of working capital management and company profitability. They discovered that as the cash conversion cycle lengthens, the firm's profitability decreases, and managers may produce positive value for shareholders by lowering the cash conversion period to a bare minimum.

Also, a study investigated the association between WCM and profitability using data from non-financial enterprises registered on the Istanbul Stock Exchange over a five-year period. A total of 635 observations were obtained from a balanced panel sample of 127 firms²⁰. WCM was measured using CCC, while profitability was measured using ROA. The results demonstrated that effective CCC management yielded higher yields. A study conducted a one-of-a-kind analysis of the Greek Food Industry to identify the link between the Cash Conversion Cycle and standard liquidity measures such as the Current Ratio and the Quick Ratio¹⁶. The findings revealed a considerable positive relationship between contemporary and traditional liquidity signifiers. The Cash Conversion Cycle was also shown to have a favorable relationship with the Return on Assets ratio.

The association between working capital management and firm profitability on the Istanbul Stock Exchange. They evaluate profitability using the return on assets and working capital management using the cash conversion cycle. The results suggest that a reduction in the cash cycle has a beneficial influence on asset return. They discovered that the current assets to total asset ratio has a positive significant link with Tobin Q, ROA, and ROI using correlations and multiple regression analyses. Tobin Q, ROA, and ROIC all have negative significant relationships with the cash conversion cycle, current asset to current liabilities ratio, and current liabilities to total assets ratio²¹.

Furthermore, the efficiency of working capital management in the telecommunications equipment business by considering many working capital statistics such as Net Operating Profitability, Debt Ratio, Current Assets to Total Assets Ratio, Cash Conversion Cycle, Inventory Turnover, Average Payment Period, Current Ratio, and Natural Logarithm of

Sales. It was proposed that profitability and working capital management are inversely connected²². The influence of several forms of working capital management strategies on the financial performance of enterprises in various industries. From 1998 to 2003, they utilized a sample of 263 non-financial enterprises from 17 different industries listed on the KSE. Secondary data was gathered from selected firms' financial records as well as State Bank of Pakistan publications. Working capital management policies are classified into two types: aggressive working capital management policies and cautious working capital management policies.

According to a study on the influence of several working capital management factors, such as current ratio and collection days, on the Gross profit movement co-efficient²³. The findings revealed a negative connection (-0.67) between current ratio and profitability. This indicates that when the current ratio falls, the firm's profitability rises. Collection days, on the other hand, were regressed against ROCE, revealing a negative correlation (0.43) between collection days and ROCE. This implies that when collection days are shortened, profitability will grow. To increase profitability, the company should be proactive in managing its working capital. The Inventory Turnover ratio, Debtors Turnover ratio, and Working Capital Turnover were all positively associated to the Return on Investment, a statistic used to calculate a company's profitability³. The "effect of Working Capital management on company performance" for non-financial institutions listed on the Karachi Stock Exchange (KSE-30) Index. For the years 2001 to 2010, panel data was examined using Canonical correlation. Inventory turnover in days was shown to

have a negative association with Return on Assets and Return on Equity, implying that organizations' performance may be improved by lowering inventory in days¹³.

Another effort was undertaken by to investigate "The Relationship between the Variables of Working Capital Management and Profitability"²². Their study was based on a sample of 2123 Japanese non-financial enterprises registered on the Tokyo Stock Exchange from 1990 to 2004. After reviewing the findings, the authors proposed that Japanese enterprises concentrate on reducing their Receivable Collection Period, Inventory Conversion Period, and Cash Conversion Cycle to improve profitability. They contended that extending the Payable Deferral Period may boost profitability. They believed that increasing the Payable Deferral Period was similarly dangerous since it may impair the firm's trust and credit reputation in the long term.

A research was undertaken to investigate the "Relationship between Working Capital Management and Profitability." Using multiple regression analyses on a sample of manufacturing firms listed on the Istanbul stock exchange from 1998 to 2007, they discovered that the accounts receivable cycle and inventory conversion period have a negative impact on profitability, implying that shorter cycles of these variables result in increased profitability²⁴. For starters, there is a negative link between the time it takes to collect cash from clients and the firm's productivity. This means that organizations that are more lucrative have less time to collect money from consumers than those that are less successful¹⁷. However, working capital efficiency and corporate profitability of 22 listed businesses on the Nigerian Stock Exchange," and the findings reveal that working capital inventory costs surpass returns on working capital investments, hurting

profitability²⁶. To correct this anomaly and improve net returns and corporate profitability from working capital use, listed firms in Nigeria should optimize working capital investments to avoid overinvestment with its attendant inventory costs, lost returns on excess cash holdings and receivables, and underinvestment with its attendant stock-out, illiquidity, and bad debt costs.

Firms with effective receivables management should establish their ideal credit, which reduces the overall costs of loan issuing. A growth in the quantity of accounts receivable in a business increases receivables, which both contribute to a decline in the firm's worth²⁶. Firms can create value by reducing their number of days of accounts receivable, confirming a study's finding that the length of receivables collection period has a negative effect on a firm's performance²⁷. Implementing a sound credit policy ensures proper debt collection procedures and is critical in improving efficiency in receivables management and thus firm performance.

Impact of Working Capital Management on Profitability of SMEs in Nigeria revealed that managers may generate value by lowering their firm's number of day's accounts receivable and also that shortening cash conversion cycle boosts profitability²⁸. The majority of empirical research has underlined the relevance of working capital management for the survival and development of commercial businesses. The "Impact of Working Capital Management on Firm Performance" for non-financial institutions listed on the Karachi Stock Exchange (KSE-30) Index. For the years 2001 to 2010, panel data were examined using Canonical correlation. APP is observed to have a substantial positive relationship with ROA and ROE, showing that increasing the time period for

supplier payment enhances overall firm performance. CCC and NTC have a substantial negative relationship with ROA and ROE, indicating that businesses' performance may be improved by reducing the size of both of them²⁹. another effort in their research to investigate the "Relationship between the factors of Working Capital Management and Profitability." Their study was based on a sample of 2123 Japanese non-financial enterprises registered on the Tokyo Stock Exchange from 1990 to 2004. After reviewing the findings, the authors proposed that Japanese enterprises concentrate on reducing their Receivable Collection Period, Inventory Conversion Period, and Cash Conversion Cycle to improve profitability. They contended that extending the Payable Deferral Period may boost profitability. They believed that increasing the Payable Deferral Period was similarly dangerous since it may impair the firm's trust and credit reputation in the long term.

The "effect of different components of working capital on firm profitability and market value." By employing many working capital components for this purpose, including cash conversion cycles (CCC), debt ratios (DR), current assets to total assets ratios (CATAR), current liabilities to total assets ratios (CLTAR), and current ratios (CR),. To assess the impact of these working capital components on financial performance, they employed Tobin's Q (TQ), return on invested capital (ROIC), and return on assets (ROA) as measures of the chosen enterprises' financial performance. They employed correlations and multiple regression analyses to arrive at their conclusions. The findings revealed an adverse link between several working capital components and business performance³⁰.

Efficient working capital management," measuring the efficacy of working capital in the chosen organizations using standard working capital measures. The businesses chosen exhibit characteristics of overtrading and illiquidity, with a focus on profit maximization rather than debt payment. The companies have a poor debt recovery rate when it comes to credit payments. It is advised that in order for SMEs to thrive in the Nigerian economy, they develop a standard credit strategy and maintain a competent financial reporting and management system. They must pay close attention to the management of their working capital in order to assure continuity and growth.

2.3.2 Cash Management and Profitability

Small companies are critical to economic growth and job creation. Implementing solid cash management strategies is critical to ensuring profitability. The study's goal was to determine the effect of cash management on profitability. The correlational research design was used in this study. While conducting research, the purposeful sampling approach was used. During the data collection process, 80 samples were considered. Kirtipur Municipality small and medium manufacturing businesses comprised the sample structure. Owners of such businesses were chosen as a sample because they have a better understanding of cash management. Questionnaires with a five-point Likert scale were used to collect data. Mean, correlation, and regression models were used to analyze the data. According to the study, cash management has a minor but positive impact on profitability. It clarifies that the conversion cycle, cash flow, and inventory all have positive effects on profitability, but only marginally.

It is critical to analyze an enterprise's profitability in order to understand how it operates and how to improve its performance on the economic market. Several researchers have made significant contributions to the field of profitability analysis research. The specialist literature recognizes the relevance of profitability analysis at the firm level. Firm-level profitability analysis is thought to have two major goals: determining the degree of profitability and establishing profit margins.

A positive link has been established between working capital management and profitability of the larger manufacturing companies, for example a positive significant relationship between working capital management and profitability in relation to the manufacturing sectors. However, the discussion on working capital management in the context of Small and Medium Enterprises (SMEs) is ongoing in the literature. The greater part of SMEs does not have long-term assets, like, vehicles, office equipment or building. Therefore, the proportion of current resources over aggregate total assets is very high as majority of the assets comprise of stock, cash balances and account receivable. Previous researchers in the area of working capital management and SME profitability has come out with mixed findings, though the context in terms of nature of businesses and location of research differs. A study reported that working capital management has a positive link with SMEs profitability in Portuguese and Spain respectively⁶. So also, a study found a significant positive effect of the components of working capital management on SMEs' profitability in the United Kingdom⁷. On the contrary a found a negative relationship between working capital management profitability of Spanish SMEs in a different study. So also, found a similar result in Spain, Istanbul, and Thailand respectively. The

inconsistencies in the findings make the research on working capital management and profitability of SMEs inconclusive.

Size is another variable that affects working capital management, according to empirical evidence. It has been shown that there is a positive relationship between size and Cash Conversion Cycle for US corporations, also demonstrated that the working capital requirement increased with size. This may be because the cost of the funds used to invest in current assets decreases with the size of the firm, since smaller firms have greater information asymmetries, greater informational opacity and are less followed by analysts. Moreover, according to the trade-off theory, they have a higher likelihood of bankruptcy, since larger companies tend to be more diversified and fail less often^{7,8}. This might affect the trade credit granted, because, firms with better access to capital markets extend more trade credit. In fact, the latter showed that the size of the firm positively affects trade credit extended^{7,8}.

Studies showed that smaller firms also face greater financial constraints, which also can increase their trade credit received, because they used this form of credit when other forms were unavailable or had already been exhausted^{7,8,9}. In short, the cost of funds invested in current assets is higher for smaller companies, so they might have lower accounts receivable and inventories. In addition, as has already been noted, these firms use more trade credit from their suppliers. Hence, it is expected that, as in previous research, size will positively influence the Cash Conversion Cycle maintained by companies.

In order to understand the financial performance of SMEs it is pertinent to understand what is meant by financial Management and working capital management as put forward by scholar/researchers define FM is the study of fund management and the directing of these funds in order to achieve its particular objective¹⁰. The particular objective of financial management (FM) is to maximize returns that associate with minimizing financial risks simultaneously. The business dictionary defined financial management as the planning, directing, monitoring, organizing and controlling of resources of an organization.

The success of every company endeavor is determined on how well management plans and controls cash flows. Cash shortages affect the normal running of the company and might even lead to bankruptcy. Excessive cash will bind needlessly long-term capital, resulting in a poor return on capital utilized. As a result, cash management is more crucial than other current assets since cash is the most significant asset that a company has. However, a review of the literature indicated that just a few research have looked into the link between cash management and profitability in Nigeria. As a result, the purpose of this research was to investigate the link between cash management and profitability in Nigerian manufacturing enterprises. Correlation and regression analyses were conducted. On the one hand, the findings show a positive and substantial association between CCC and ROE, and on the other, a non-significant negative relationship between CCC and ROA. According to the study's findings, future researchers should broaden the scope of their research to encompass many sectors of the economy.

Small and medium-sized companies (SMEs) are vital in Zimbabwe because they contribute significantly to employment generation. To ensure the success of SMEs via profitability and sustainability, sound cash management procedures must be applied. The goal of this research was to categorize the cash flow management strategies presently used by Zimbabwean SMEs and to attempt to determine the implications of these practices on the profitability and sustainability of SMEs. This study included both qualitative and quantitative research methods. The target audience consisted of 14 small enterprises in Harare and Gweru, for a total of 55 participants. The Yamane method was used to compute the sample size, which resulted in 50 responders. The data gathering techniques employed included surveys and interviews, and the findings were presented in tables, graphs, and pie charts. These findings were analyzed and evaluated using the chi square test technique, which demonstrated that most cash management strategies used by SMEs had a substantial impact on their profitability and sustainability. The findings also found that most SMEs are hesitant to implement good cash management techniques, leading them to fail.

2.3.3 Account Receivable and Return on Investment

. This research looks at the influence of Accounts Receivable on the Return on Assets of selected Nigerian enterprises from 2000 to 2009. The obtained data was used to perform cross-sectional and time series regression. Accounts Receivable had a substantial negative association with Return on Assets, which indicated profitability, according to the findings. This means that a reduction in debt collection from debtors often leads to a

rise in profitability, and managers may generate value for shareholders by reducing receivables and inventories. Size and growth, which were employed as control factors, also had a favorable link with profitability. Samuel Manyo Takon is the sole owner of this work. This is an open access article licensed under the Creative Commons Attribution License, which allows for free use, distribution, and reproduction in any form as long as the original work is properly noted.

In this research, the financial performance of the Embu Water and Sanitation Company limited, in Embu County, Kenya, was examined in relation to the consequences of accounts receivable management. Examining the impacts of inventory turnover period, average payment period, cash conversion period, and average collection period on the financial performance of Embu Water and Sanitation Company limited, Embu County, Kenya, served as the particular goals that served as the basis for this research. Operational motivations theory, transactions cost theory, and currency conversion cycle theory served as the study's guiding theories. To investigate the study's association factors, descriptive research was used in this study. The accounting and finance departments provided the secondary data for the investigation. The data were analyzed using descriptive statistics and inferential statistical methods, and then they were presented in tables. The research found a negative association between inventory turnover in days and return on equity, indicating that a company's financial performance might be improved by decreasing inventory in days. Indicating that if the length of the debtor's payment period is extended, the overall financial performance of Embu Water and Sanitation Company Limited in Embu County, Kenya, also improves, the average collection period and

current ratio were found to have a significant positive association with Return on Equities. In order to enhance its financial performance, the research suggested that Embu Water and Sanitation Company Limited boost its average collection duration, inventory turnover time, and cash conversion period. The report also suggests that a business implement an effective inventory management system to prevent overstocking of goods, which would reduce investment efficiency, and to improve relationships with suppliers who provide extended credit terms and consumers who accept short payment terms.

A crucial component of working capital management is receivables management. In this essay, the impact of accounts receivable management on the bottom line of manufacturing companies listed on the NSE is examined. Data were gathered as part of the study's descriptive research approach in order to determine the population's present state. 147 finance and accounting employees from all the manufacturing companies listed on the NSE for the six (6) month research period, from April to October 2016, made up the study's population. Self-administered questionnaires were used to gather the data, which was then subjected to both descriptive and inferential data analysis. The study found a substantial association between credit extension policies and further found that financing receivables and the duration of time it takes to collect them both have a major impact on the firm's financial performance. The study's findings revealed a value of $R^2=0.889(p=0.01)$, indicating that the independent factors account for a total of 88.9% of the dependent variable. The research found a strong link between accounts receivable management and the manufacturing firm's financial success. According to the research, because managing accounts receivables has a substantial impact on a company's financial

performance, management of manufacturing enterprises should have clear rules about credit extension policy, financing receivables, and receivable collection time.

The management of cash raises similar issues to those relating to the management of stocks. There are costs involved both in holding too much or too little cash. In view of that, there is a need for careful planning and monitoring of cash flows over time³⁶. A study found that 63% of the respondents prepared cash budget³². It was also found that cash balance were generally proportionately higher for SMEs than for large businesses. Again more than half of those SMEs in the survey held surplus cash balances on regular basis. Although the problem of finance and for that matter working capital has been identified as one of the major constraints to growth of small businesses, existing literature does not provide the specific issues or details of the challenges confronting entrepreneurs in the management of working capital. Most of the research works on working capital have been based on large firms.

A study many SSEs do not keep accounting records on their operations. Thus, in the absence of proper accounting records and information, the SSEs in Ghana face the problem of differentiating clearly between their working capital and profits. Due to this problem, SSEs tend to collapse few years after they have been established. The objective of working capital management is to maintain the level of net capital that maximizes the wealth of the firm's owner³⁶. Other importance of working capital management, includes the following; - There exists a direct relationship between working capital management and the firm's liquidity. Effective working capital management provides the firm with

adequate liquidity both to pay its maturing short – term obligations as they come due and to conduct the firm’s normal day to day operations.

There are cases where firms fail because they do not maintain sufficient liquidity, even though they have growing sales. - There exist a direct relationship between profitability and working capital management. The level of the firm’s capital influences its profitability and working capital because of the cost involved in financing the firm’s current assets. - there is evidence that many SMEs are not very good at managing their working capital and this has been cited as a major cause of high failure rate compared with that of large businesses.

Small and medium scale enterprises often lack the resources to manage their trade debtors (receivables) effectively. It is not unusual for SMEs to operate without credit control department. The results being that both expertise and the information required to make sound judgement concerning terms of sales and so on, may not be available. SMEs also lack proper debt procedures, such as prompt invoicing and sending out regular statements. This tends to increase the risks of late payment and defaulting debtors. These risks probably tend to increase where there is an exclusive concern for growth. In an attempt to increase sales SME’s may be too willing to extend credit to customers that are of poor credit risks. While this kind of problem can occur in businesses of all sizes, SMEs seems particularly susceptible.(ibid)

Another problem, faced by SMEs is lack of market power³⁷. Thus SMEs will often find themselves in weak position when negotiating credit terms with large business. Moreover, when a large customer exceeds the terms of credits, the small supplier may feel inhibited

from pressing the customer for payment in case future sales are lost. It seems that SMEs have a much greater proportion of overdue debts than large businesses. An evidence of this was shown by a survey conducted by a Credit Management Research Centre (CMRC) during April and June 2003 which indicated that SMEs with annual sales turnover of less than \$5million , are likely to have to wait an average of 60 days for their trade debtors to pay (Sunday Telegraphic , 2003). The reason for the delay suffered by SMEs probably relates to bargaining power of the customers. Thus the customers of SMEs may well be large ones ,who can use threat, such as withdrawing custom , to force SMEs to accept late trade debtor settlement. In addition, a major survey conducted by the Insolvency Practitioners Society, (CIMA,1994) indicates that 20% of UK corporate failures (the vast majority of which are SMEs) were due to bad debts or poor credit management³⁸. The financial working capital management practices in SMEs sector could be improved significantly, then fewer firms would fail and economic welfare would be increased substantially.

Some of the most internal problems of SMEs that need to be identified are cash flow management and stock control³⁸. A study argues that lack of financial management skills within SMEs often creates problems in managing stock in an efficient and effective way³⁶. The owners or managers of SMEs are not always aware that there are costs involved in holding too much stock and that there are also costs involved in holding too little. As an effective stock management system is good planning and budgeting systems, there should be a reliable sales forecasts, or budgets, available for stock ordering purposes. A survey conducted on SMEs in UK indicated that 75% of the respondents prepare sales budgets.

Stock management can also benefit from good reporting systems and the application of quantitative techniques for example the economic order quantity methods, to try to optimize stock levels³⁹. However, the survey also found that more than one third of the SMEs relied on manual methods of stock control, and the majority did not use stock optimisation techniques.

2.3.4 Inventory Management and Customer Satisfaction

Over the years, it appeared that firms failed to subject short-term investments to proper management thereby leading to either excessive or inadequate working capital which in turn affected their profitability. To empirically satisfy this, this paper examined working capital management and firms' profitability in Nigeria quoted firms on Nigerian Stock Exchange (NSE). A panel data methodology was used with different regression estimators to analyze this relationship based on a balanced panel of 10 listed firms during the period 2008-2017. It was discovered that cash collection period and cash payment period exerted a negative impact on return on assets, though the impact was only significant for cash payment period on the ground of -0.064 ($p = 0.000 < 0.05$), as against the estimate for cash collection period that stood at -0.032 ($p = 0.077 > 0.05$). Also discovered was that both the current ratio and inventory period exerted a positive impact on return on assets, though the impact was only significant for current ratio on the ground of 8.172 ($p = 0.000 < 0.05$), as against the estimate for inventory period that stood at 0.045 ($p = 0.438 > 0.05$). The study concluded that working capital management affected firms' profitability in Nigeria. Therefore, it was recommended that while the

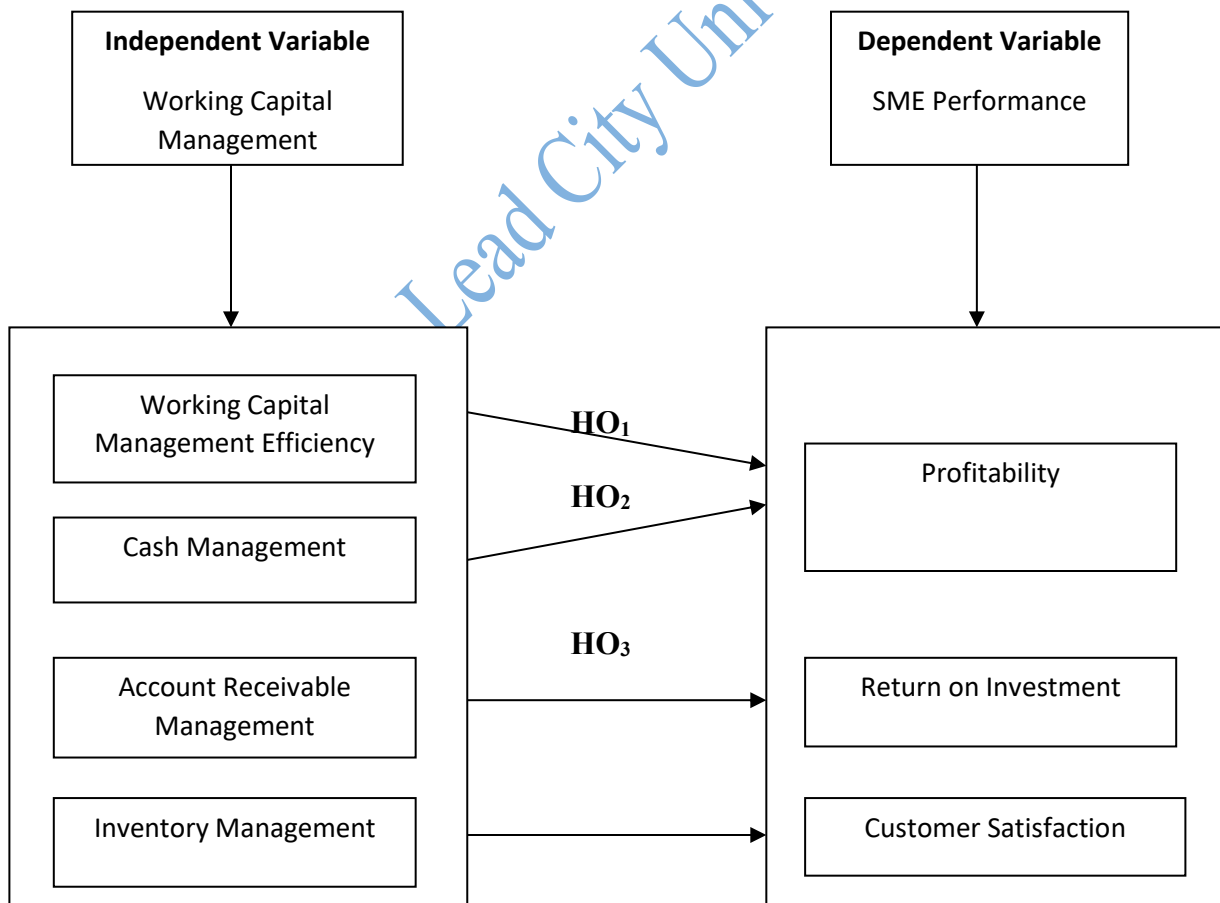
shorter collection was maintained, payment to creditors should not be elongated so as to enjoy cash discount (if any) and that firms should be proactive in the management of raw materials in order to avoid idle resources that might negatively impact their financial performance.

During this recent period of time, the world has witnessed a severe financial crisis that has affected many international companies and economies that had planned their production rates on the basis of marketing forecasts that were prepared just before the global crisis. This study explores the relationship between inventory control and the financial performance of a particular company through the use of a case study approach. It also examines factors that draw back the process of inventory control. The results showed that the profitability of a company has a significant relationship with inventory management, and this suggests that if the management of inventory is done effectively, it ensures more profitability, while poor management translates to a poor financial performance.

The objective of this research was to experimentally investigate how inventory management practices affect organizational performance and company competitiveness. 188 micro and small businesses (MSEs) in the manufacturing sub-sector provided data for the research, and structural equation modeling was used to examine the links and hypotheses stated in the conceptual framework (SEM). According to the findings, better organizational performance and a stronger competitive advantage may arise from greater levels of inventory management practice. Additionally, competitive advantage may directly and favorably affect how well a company performs. As a result, it is advised that

policymakers, academic institutions, nongovernmental organizations, and any other interested parties working to support MSEs focus on supplying the necessary training and resources to promote the inventory management practice of MSEs, which will increase their competitiveness and organizational performance. That would increase their contribution to the nation's economic growth. Because this study's conclusions are only from the perspectives of MSEs in the manufacturing subsector, they may not be generalized to large and medium-sized businesses or to other industries.

2.4 Conceptual Model



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Fig 2.1: Conceptual Framework of the Working Capital Management and SMEs Performance

The management of working capital, including cash, inventory, receivables, and payables, plays a crucial role in the financial performance of small and medium-sized enterprises (SMEs). These components of working capital are interconnected and impact various financial performance indicators, such as profitability, return on investment (ROI), and customer satisfaction.

Firstly, cash is the lifeblood of any business, and efficient cash management is vital for the financial health of SMEs. Adequate cash reserves enable businesses to meet their short-term obligations, such as paying suppliers and employees, while also seizing investment opportunities. Insufficient cash can lead to liquidity problems, hampering the ability to fulfill financial commitments and affecting profitability. Additionally, effective cash management ensures a smooth cash flow cycle, reducing the need for costly external financing and enhancing ROI.

Inventory management is another critical aspect of working capital. SMEs must strike a balance between maintaining sufficient inventory levels to meet customer demand and avoiding excessive holding costs. Efficient inventory management minimizes carrying

costs, reduces the risk of obsolescence or spoilage, and improves cash flow. By optimizing inventory levels, SMEs can enhance profitability by reducing storage costs and preventing stockouts that could lead to lost sales and dissatisfied customers.

Receivables management involves monitoring and collecting outstanding payments from customers. Delayed or non-payment by customers can negatively impact cash flow and profitability. Efficient credit policies, timely invoicing, and proactive collection strategies are crucial in ensuring prompt payment from customers. By reducing the average collection period, SMEs can improve cash flow, reduce bad debt expenses, and enhance profitability.

On the other hand, payables management involves managing the company's payment obligations to suppliers. SMEs can negotiate favorable payment terms with suppliers, such as extended payment periods or discounts for early payment, which can positively impact cash flow and profitability. However, delaying payments excessively may strain supplier relationships and affect the availability of necessary inputs, potentially leading to a decline in customer satisfaction. Striking a balance between managing payables and maintaining strong supplier relationships is crucial for SMEs.

The interplay between these components of working capital directly affects financial performance indicators. Effective working capital management helps SMEs improve profitability by reducing costs, enhancing cash flow, and optimizing resource allocation. It also enhances ROI by minimizing the need for external financing and improving operational efficiency. Furthermore, by ensuring sufficient cash reserves, managing inventory levels, timely collection of receivables, and maintaining healthy supplier

relationships, SMEs can provide better customer service, leading to higher customer satisfaction levels.

The conceptual link between working capital components, namely cash, inventory, receivables, and payables, and financial performance indicators in SMEs is evident. Efficient management of these elements is crucial for enhancing profitability, maximizing ROI, and ensuring customer satisfaction. SMEs that prioritize effective working capital management are better positioned to achieve sustainable growth and long-term success in today's competitive business environment.

2.5 Summary of the Gaps in the Literature Reviewed

The research has shown inconsistent findings on the connection impact between working capital management and the various performance metrics of SME enterprises in diverse settings, with a somewhat comparable number of positive and negative relationships amongst studies. (profitability, return on assets, return on equity, sales growth, and company size) of enterprises from various nations For example, while the studies conducted all investigated the effects of working capital management on profitability, return on assets (ROA), sales growth, firm size, and return on equity (ROA) of firms^{26,27,28,56}.

However, it was discovered from the reviewed literature and their findings that the majority of the studies were conducted using variables that were tested several times against a single dependent variable at different times, and the results were inferred to the

overall performance of SMEs^{31,34,58}. Effects of WCM on profitability, effects of WCM on sale, effects of WCM on ROA, effects of inventory turnover days on ROA and ROE are examples. Furthermore, the majority of these studies were undertaken in rich economies, with just a handful conducted in underdeveloped economies, mainly African ones.

The terrible performance of Small and Medium Enterprises (SMEs) in Nigeria, as noticed, has also shown a lack of government support and dedication to encouraging SMEs. Managers tend to lack the necessary knowledge and skills to efficiently and effectively manage their resources, as noted that some managers utilize poorly developed models for financial decisions, which adversely affects their performance⁶⁸. This study addressed this gap by examining the effects of all components of working capital management at the same time, namely cash, accounts payable, accounts receivable, and inventory (independent variables) and testing them with multiple (dependent variables) including profitability, sales growth, return on assets, and return on equity, which are some of the performance indicators, in contrast to most previous research, which treated these variables in isolation.

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Chapter Three

Methodology

This chapter outlines the method by which the researcher will be able to carry out the study. It includes the research design, population of the study, sample and sampling technique, description of research instrument, validity and reliability of data gathering instrument, method of data collection and the method of data analysis.

3.1 Research Design

The research design is the overall of the research and it contains an outline of what the researchers intend to do. This is to ensure that the data collected are accurate. The purpose of this study is to investigate the effect of working capital management on the performance of selected SMEs in Ibadan. Therefore, the descriptive research design was used in this study. This method of research involves the use of quantitative research instrument for data gathering. Questionnaire was used to collect the data needed from the respondents. In addition to secondary data that was extracted from the SMEs records. A descriptive study may also try to generalise the findings from a representative sample to a larger target population¹. It will also help to vividly describe the situation and facilitate a credible assessment of the effect of working capital management in SMEs performance.

3.2 Population of the Study

The total population of the study consists of all the employees in the SME in Ibadan. Ibadan is in Oyo Central Senatorial District which consists of eleven (11) Local Government Areas. Three (3) Local Governments were purposively selected because

they have the largest concentrations of SMEs manufacturing organizations. These were: Akinyele, Ibadan South West and Ibadan South East Local Government Areas. Nine SMEs were purposively selected, three from each of the Local Government Areas. The SMEs were: Nigeria Eagle Flour Mills (145 staff), Top Feeds Nigeria Limited (123 staff), BevPack Nigeria Limited (115 staff), Black Horse Plastics (153 staff), Gulflink Technical Limited Company (110 staff), Frigoglass Industries Nigeria Limited (99 staff), Cashew Nut Production Company (86 Staff), Montab Nigeria Limited (105 staff), and Siegwark West Africa (82 staff). From the employee registers of these SMEs, the total population was One thousand and eighteen, (1018).

3.3 Sample and Sampling Technique

The sample size for the study was 287 using Taro Yemane formula for sample size

determination

$$n = \frac{N}{1 + N(e)^2}$$

.....(formula 1)

Where n is the sample size, N is the population size, and e is the level of precision. The level of precision is also the level of significance which is 0.05.

The sample size was calculated thus:

$$\text{Sample size formula} = n = \frac{N}{1 + N(e)^2}$$

n is sample size

N is total number of population (1018)

e² is precision level (0.05)²

$$n = \frac{1018}{1+1018(0.05)^2} = 287.165$$

Hence, the 287 SMEs were used as sample for the study

However, based on the nature of the study, the study sample mainly focused on the Account and Finance department of the selected SMEs. The accountant, finance manager, auditor and owner of the SMEs were purposively selected. The reason for choosing the Accounting Officers, Finance Managers, Auditors or owners of SMEs is because they are the major decision makers in SMEs operational activities. Quota sampling technique was used to select ten (10) respondents each from the nine (9) purposively selected SMEs.

3.4 Description of the Research Instrument

For this study, an adapted modified structured questionnaire was developed using various scales from previous studies that were relevant to the variables used in this study. The questionnaire comprises of two sections. The first section of the questionnaire elicits information on the socio-demographic characteristics manufacturing firms. Section B addressed information with respect to working capital management (working capital efficiency, cash, account receivable and inventory management) and the SMEs performance in terms of profitability, return on assets and returns on equity. The rating technique was based on the four point Likert type with alternative choices as follows:

Strongly Agree (SA) – 4 points

Agree (A) – 3 points

Disagree (D) – 2points

Strongly Disagree (SD) – 1 point

Respondents were asked to register their degree of concurrencies to the alternative choices provided to capture their answers.

3.5 Validity of Research Instrument

The validity of the instrument, which refers to the extent to which the instrument measures what it was designed to measure, was assessed using content validity index (CVI). The questionnaire was assessed by the supervisor of this research work. The supervisor determined the validity and the internal consistency of the instrument to measure the variables that the study set out to measure.

3.6 Reliability of the Research Instrument

An instrument is reliable if it measures under the same circumstances consistently what it was designed to measure. Therefore, for that purpose, a pilot study was carried out using a small proportion from the actual population of the study which was intentionally exempted from the actual population of the study. Cronbch Alpha Coefficient and KMO were used to analyse the result of instrument's reliability which is as follows.

KMO Reliability Results

Scale	No of Items	Meaning Bartlett	KMO	Eigen value of the principal component	% of the Variance	α of Cronbach
Working Capital Efficiency	7	p = .000 (significant)	0.707	2.67	71.23%	0.71
CashManagement account Receivable Management	4	p = .000 (significant)	0.790	2.90	73.18%	0.79
Investory Management	5	p = .000 (significant)	0.77	2.75	81.21%	0.75
SMEs Performance	5	p = .000 (significant)	0.78	2.95	71.98%	0.77
			0.80	3.12	89.16%	0.78

Source: Researcher, 2023

3.6 Method of Data Collection

This study was based on the use of both primary and secondary data which was collected from the purposively selected head of Account department and other concerned staff member of finance department. The primary data was collected using self administered copies of the adapted questionnaire to the target respondents. Secondary data was extracted from the selected SMEs records and publications to complement the information that was collected through the structured questionnaire.

3.7 Method of Data Analysis

The completed questionnaire was collated, coded and analyzed using both the descriptive and inferential statistics. Also, data from the questionnaire will be expressed in tables of simple percentages, frequency count, mean and standard deviation. Secondly, the formulated hypotheses were tested using inferential statistics of multiple regressions at 0.05 (level of significance).

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Endnotes

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Chapter Four

Result and Discussion of Findings

In this chapter, we present and analyze field data findings in the context of our research questions. We utilize frequency and percentage tables, mean values, and standard deviations for result representation. Research hypotheses are tested through Research Analysis, and we systematically address research questions aligned with our study objectives, culminating in interpretations and discussions of our discoveries.

4.1 Presentation of Data

Table 4.1: Demographic Distribution

Variables	Frequency	Percentage
Gender		
Male	180	51.43%
Female	170	48.57%
Age		
20-25	80	22.86%
26-30	70	20.00%
31-35	60	17.14%
36-40	50	14.29%
41-45	40	11.43%
45 and above	50	14.29%
Years of Operation		
2-5 years	80	22.86%
6-10 years	70	20.00%
11-20 years	60	17.14%
21-30 years	50	14.29%
Above 30 years	90	25.71%
Position		
Junior Cadre	140	40.00%
Middle level Cadre	110	31.43%
Management Level Cadre	100	28.57%

Source: Field Survey Report, 2023

Table 4.1 showcases the distribution of demographic data among the participants, presenting insights into various key variables such as Gender, Age, Years of Operation, and Position. The gender distribution reveals that 51.43% of participants are male, while 48.57% are female. This indicates a relatively balanced representation of both genders within the study. Examining age distribution, the largest group, constituting 22.86% of participants, falls in the 20-25 age range. Additionally, 20.00% are aged 26-30, 17.14% fall within the 31-35 range, and 14.29% fall into both the 36-40 and 45 and above age categories. This distribution highlights a diverse age range among the participants. Turning to years of operation, the data reveals that 22.86% of participants have been operational for 2-5 years, while 20.00% have operated for 6-10 years. Moreover, 17.14% have experience spanning 11-20 years, 14.29% have 21-30 years of operation, and the largest segment, accounting for 25.71%, have accumulated more than 30 years of operational experience. This variation indicates a broad spectrum of experience levels.

Analyzing position distribution, the breakdown shows that 40.00% of participants occupy Junior Cadre positions, 31.43% are in the Middle level Cadre, and 28.57% hold Management Level Cadre roles. This distribution underscores the diversity of roles across hierarchical levels.

Table 4.2 Correlation Analysis of the Working Capital indices and Performance of SMEs

	Profit	ROI	CS	WCE	CM	ARM	IM
Profit	1						
ROI	-.744**	1					
CS	-.418**	.547**	1				
WCE	.289**	.416**	.257**	1			
CM	.245**	.404**	.297**	.219**	1		
ARM	.272**	.368**	.119*	.429**	.175**	1	
IM	.280**	.335**	.122	.225**	.246**	.499**	1

Profit = Profitability, ROI = Return on Investment, CS = Customer Satisfaction, WCE = Working Capital Management Efficiency, CM = Cash Management, ARM = Account Receivable Management & IM = Inventory Management

Source: Field Survey Report, 2023

The results, presented in the table 4.2, provide correlation coefficients between the variables under study. Let's delve into the interpretation of these findings:

When examining Profitability (Profit) in relation to other variables, there is a weak negative correlation between Profitability and Working Capital Management Efficiency (WCE) with a correlation coefficient of 0.289**. This implies that as Profitability increases, Working Capital Management Efficiency tends to increase. On the other hand, there are weak positive correlations between Profitability and Cash Management (CM), Account Receivable Management (ARM), and Inventory Management (IM), with

correlation coefficients of 0.245**, 0.272**, and 0.280** respectively. These indicate that as Profitability increases, Cash Management, Account Receivable Management, and Inventory Management tend to increase as well.

Turning to Return on Investment (ROI), we found a strong positive correlation between ROI and Customer Satisfaction (CS) with a correlation coefficient of 0.547**. This suggests that as ROI increases, Customer Satisfaction tends to increase. Furthermore, there are moderate positive correlations between ROI and Working Capital Management Efficiency (WCE), Cash Management (CM), and Account Receivable Management (ARM), with correlation coefficients of 0.416**, 0.404**, and 0.368** respectively. These indicate that as ROI increases, Working Capital Management Efficiency, Cash Management, and Account Receivable Management tend to increase. Similarly, there is a moderate positive correlation between ROI and Inventory Management (IM) with a correlation coefficient of 0.335**, indicating that as ROI increases, Inventory Management tends to increase.

Moving on to Customer Satisfaction (CS), we found weak positive correlations with Working Capital Management Efficiency (WCE) and Cash Management (CM), with correlation coefficients of 0.257** and 0.297** respectively. These suggest that as Customer Satisfaction increases, Working Capital Management Efficiency and Cash Management tend to increase. Additionally, there is a weak positive correlation between CS and Account Receivable Management (ARM) with a correlation coefficient of 0.119*. This implies that as Customer Satisfaction increases, Account Receivable Management tends to increase. Furthermore, there is a weak positive correlation between CS and

Inventory Management (IM) with a correlation coefficient of 0.122. This suggests that as Customer Satisfaction increases, Inventory Management tends to increase as well.

However, Profitability shows both negative and positive correlations with different variables, indicating the complex interplay between financial performance and various aspects of working capital management. Return on Investment (ROI) demonstrates positive correlations with Customer Satisfaction and different dimensions of working capital management, suggesting the potential synergy between financial returns and effective management of working capital. Customer Satisfaction, in turn, exhibits positive correlations with certain components of working capital management. These findings provide valuable insights into the relationships between these variables, paving the way for further investigation and understanding of the factors influencing SME performance

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4.2 Analysis of Research Questions

Research Question One: What are the effects of working capital management efficiency on the profitability of SMEs in Ibadan?

Table 4.3 Effects of Working Capital Management Efficiency on The Profitability of SMEs in Ibadan

Statement	Strongly Agreed	Agreed	Disagreed	Strongly Disagreed	Mean	Remarks
The efficient management of working capital positively impacts the profitability of SMEs.	152 (42.86%)	99 (28.57%)	51 (14.29%)	50 (14.29%)	3.0	Agree
Effective working capital management leads to increased profitability for SMEs.	123 (34.30%)	111 (31.41%)	40 (11.43%)	76 (22.86%)	2.7	Agree
Good working capital management negatively affects the profitability of SMEs.	62 (17.14%)	80 (22.86%)	120 (34.29%)	88 (25.71%)	2.3	Disagree
SMEs in Ibadan with better working capital management tend to be more profitable.	100 (28.57%)	83 (22.86%)	67 (20.00%)	100 (28.57%)	2.51	Agree
There is a direct relationship between working capital management efficiency and SME profitability in Ibadan.	70 (20.00%)	123 (34.31%)	87 (25.69%)	70 (20.00%)	2.54	Agree

The table 4.3 presents the results of a survey that aimed to assess the relationship between working capital management and the profitability of Small and Medium Enterprises (SMEs) in Ibadan. The respondents were asked to indicate their level of agreement with

five statements related to working capital management and SME profitability. For the statement "The efficient management of working capital positively impacts the profitability of SMEs," the majority of respondents strongly agreed (42.86%) and agreed (28.57%), resulting in an overall mean of 3.0. This indicates a high level of agreement, suggesting that the efficient management of working capital is perceived as positively influencing SME profitability. Similarly, for the statement "Effective working capital management leads to increased profitability for SMEs," a significant proportion of respondents agreed (34.30%) and strongly agreed (31.41%), yielding a mean of 2.7. This indicates a general agreement among respondents that effective working capital management contributes to higher profitability for SMEs. On the other hand, for the statement "Good working capital management negatively affects the profitability of SMEs," the responses were more divided. While a considerable number of respondents disagreed (34.29%) or strongly disagreed (25.71%), the mean score of 2.3 suggests a slightly leaning towards disagreement. This implies that there might be differing opinions on whether good working capital management has a negative impact on SME profitability. Regarding the statement "SMEs in Ibadan with better working capital management tend to be more profitable," a majority of respondents agreed (28.57%) or strongly agreed (22.86%), resulting in a mean of 2.51. This indicates that respondents generally believe that SMEs with improved working capital management tend to achieve higher profitability. Finally, for the statement "There is a direct relationship between working capital management efficiency and SME profitability in Ibadan," a significant number of respondents agreed (34.31%) or strongly agreed (20.00%), leading to a mean

score of 2.54. This suggests a consensus among respondents that there is indeed a direct relationship between working capital management efficiency and SME profitability in Ibadan. Thus, the findings indicate a general agreement among the respondents regarding the positive impact of efficient and effective working capital management on SME profitability.

Research Question Two: What are the effects of cash management on the profitability of SMEs in Ibadan?

Table 4.4 Effects of Cash Management on The Profitability of SMEs in Ibadan

Statement	Strongly Agreed	Agreed	Disagreed	Strongly Disagreed	Mean	Remarks
Effective cash management practices contribute to the profitability of SMEs in Ibadan.	124 (34.31%)	120 (34.29%)	46 (14.27%)	60 (17.14%)	2.9	Agree
Proper cash management leads to improved profitability for SMEs in Ibadan.	110 (31.43%)	100 (28.57%)	40 (11.43%)	100 (28.57%)	2.6	Agree
Adequate cash management negatively impacts the profitability of SMEs in Ibadan.	61 (17.14%)	80 (22.86%)	110 (31.43%)	101 (28.57%)	2.28	Disagree
SMEs in Ibadan that prioritize cash management are more likely to be profitable.	100 (28.57%)	71 (20.00%)	79 (22.86%)	100 (28.57%)	2.54	Agree
There is a significant correlation between cash management and the profitability of SMEs in Ibadan.	85 (22.82%)	120 (34.29%)	55 (17.10%)	90 (25.71%)	2.54	Agree

Table 4.4 in the study presents findings from an investigation into the impact of cash management on the profitability of Small and Medium Enterprises (SMEs) in Ibadan. The researchers aimed to explore the link between cash management practices and SME profitability based on survey responses. The majority of participants either strongly agreed (34.31%) or agreed (34.29%) that effective cash management practices enhance SME profitability, resulting in a mean score of 2.9, indicating strong consensus. Similarly, regarding the statement that "Proper cash management leads to improved profitability for SMEs in Ibadan," a significant proportion agreed (31.43%) or strongly agreed (28.57%), supported by a mean score of 2.6. However, opinions varied for the statement "Adequate cash management negatively impacts SME profitability," with a mean score of 2.28, suggesting slight disagreement. In contrast, the majority agreed (28.57%) or strongly agreed (20.00%) that SMEs prioritizing cash management are more likely to be profitable, with a mean score of 2.54, indicating general consensus. Lastly, for the statement on the correlation between cash management and SME profitability, respondents generally agreed (34.29% agreed, 22.82% strongly agreed), with a mean score of 2.54, suggesting a consensus on the existence of a significant correlation.

Research Question Three: What are the effects of account receivable on the return on investment (ROI) of SMEs in Ibadan?

Table 4.5 Effects of Account Receivable on the Return On Investment (ROI) of SMEs in Ibadan

Statement	Strongly Agreed	Agreed	Disagreed	Strongly Disagreed	Mean	Remarks
Efficient management of accounts receivable positively affects the ROI of SMEs in Ibadan.	130 (37.14%)	100 (28.57%)	50 (14.29%)	70 (20.00%)	2.79	Agree
Timely collection of accounts receivable leads to improved ROI for SMEs in Ibadan.	121 (34.29%)	111 (31.43%)	34 (11.38%)	84 (22.89%)	2.73	Agree
Poor accounts receivable management hampers the ROI of SMEs in Ibadan.	60 (17.14%)	80 (22.86%)	110 (31.43%)	100 (28.57%)	1.91	Disagree
SMEs in Ibadan with effective accounts receivable management have higher ROI.	98 (28.51%)	102 (28.57%)	80 (22.86%)	70 (20.00%)	2.67	Agree
There is a relationship between accounts receivable management and the ROI of SMEs in Ibadan.	86 (22.91%)	120 (34.29%)	51 (17.01%)	93 (25.74%)	2.66	Agree

Table 4.5 summarizes the findings of a study investigating the influence of accounts receivable management on the Return on Investment (ROI) of Small and Medium Enterprises (SMEs) in Ibadan. The majority of respondents (65.71%) agreed that efficient accounts receivable management positively affects ROI, with a mean score of 2.79.

Additionally, a significant portion (65.72%) believed that timely collection of accounts receivable contributes to improved ROI, supported by a mean score of 2.73. Conversely, opinions were mixed on the impact of poor accounts receivable management, with a mean score of 1.91 indicating disagreement. Participants generally agreed (57.08%) that effective accounts receivable management leads to higher ROI, supported by a mean score of 2.67. Lastly, there was a general consensus (57.20%) on the existence of a relationship between accounts receivable management and ROI, with a mean score of 2.66. In summary, the study suggests that efficient and timely accounts receivable management practices are perceived to have a positive impact on SME ROI in Ibadan.

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Research Question Four: What are the effects of inventory management on customer satisfaction of SMEs in Ibadan?

Table 4.6 Effects of Inventory Management On Customer Satisfaction of SMEs in Ibadan

Statement	Strongly Agreed	Agreed	Disagreed	Strongly Disagreed	Mean	Remarks
Efficient management of accounts receivable positively affects the ROI of SMEs in Ibadan.	112 (31.41%)	104 (28.61%)	64 (19.95%)	70 (20.00%)	2.77	Agree
Efficient inventory management enhances customer satisfaction for SMEs in Ibadan.	120 (34.29%)	139 (37.22%)	41 (14.21%)	50 (14.29%)	2.94	Agree
Proper inventory management leads to higher levels of customer satisfaction for SMEs in Ibadan.	109 (28.97%)	120 (34.29%)	70 (20.00%)	51 (17.07%)	2.67	Agree
Adequate inventory management negatively impacts customer satisfaction for SMEs in Ibadan.	62 (17.16%)	81 (22.86%)	119 (34.29%)	88 (25.70%)	1.89	Disagree
SMEs in Ibadan that prioritize inventory management tend to have more satisfied customers.	100 (28.57%)	90 (25.71%)	80 (22.86%)	80 (22.86%)	2.59	Agree
There is a direct link between inventory management and customer satisfaction for SMEs in Ibadan.	80 (22.86%)	126 (34.52%)	90 (25.71%)	54 (17.01%)	2.66	Agree
					2.86	Lesse

Table 4.6 presents the results of a study examining the effects of inventory management on customer satisfaction for Small and Medium Enterprises (SMEs) in Ibadan. The researchers aimed to investigate the relationship between inventory management practices and customer satisfaction based on the responses of the surveyed participants. According to the findings, the efficient management of inventory was perceived to have a positive impact on customer satisfaction for SMEs in Ibadan. A significant proportion of respondents strongly agreed (31.41%) or agreed (28.61%) with this statement, resulting in a mean score of 2.77. This indicates a high level of agreement among the participants that efficient inventory management positively affects customer satisfaction. Similarly, for the statement "Efficient inventory management enhances customer satisfaction for SMEs in Ibadan," the majority of respondents agreed (34.29%) or strongly agreed (37.22%). The mean score of 2.94 further supports the agreement among the participants, indicating that efficient inventory management is perceived to enhance customer satisfaction. Furthermore, the statement "Proper inventory management leads to higher levels of customer satisfaction for SMEs in Ibadan" received agreement from a significant number of respondents. This includes those who agreed (34.29%) and strongly agreed (28.97%), resulting in a mean score of 2.67. This suggests that participants believe that proper inventory management contributes to higher levels of customer satisfaction. On the other hand, the statement "Adequate inventory management negatively impacts customer satisfaction for SMEs in Ibadan" received mixed responses. While some respondents disagreed (34.29%) or strongly disagreed (25.70%), others agreed (17.16%)

or strongly agreed (22.86%) with the statement. The mean score of 1.89 suggests a slight disagreement overall, indicating that there are differing opinions regarding the impact of adequate inventory management on customer satisfaction. Regarding the statement "SMEs in Ibadan that prioritize inventory management tend to have more satisfied customers," the majority of respondents agreed (28.57%) or strongly agreed (25.71%). This agreement is further supported by the mean score of 2.59, indicating that participants perceive a positive relationship between prioritizing inventory management and customer satisfaction. Lastly, the statement "There is a direct link between inventory management and customer satisfaction for SMEs in Ibadan" received agreement from a significant number of respondents. This includes those who agreed (34.52%) and strongly agreed (22.86%), resulting in a mean score of 2.66. This suggests that participants believe in the existence of a direct link between inventory management and customer satisfaction for SMEs in Ibadan. In conclusion, the findings from this study suggest that efficient and proper inventory management practices are perceived to have a positive impact on customer satisfaction for SMEs in Ibadan.

4.2 Testing of Hypotheses

Hypothesis One: -

H₀₁: There will be no significant effect of working capital management efficiency on the profitability of SMEs in Ibadan.

Table 4.7 Working Capital Management Efficiency and Profitability of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.834 ^a	.696	.685	14.974

a. Predictors: (Constant), Efficiency

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13847.437	1	13847.437	61.758	.000 ^b
	Residual	6054.012	348	224.223		
	Total	19901.448	349			

a. Dependent Variable: Profit

b. Predictors: (Constant), Efficiency

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	86.721	3.757		23.080	.000
	Efficiency	2.190	.279	.834	7.859	.000

a. Dependent Variable: Profit

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Table 4.7 presents the findings concerning working capital efficiency and the profitability of SMEs. The outcomes of the regression analysis reveal that the calculated R-squared value of 0.696 implies that approximately 69.6% of the observed variations in the profitability of SMEs in Ibadan can be ascribed to changes in the predictor variable "Working Capital Efficiency." This underscores a substantial level of explanatory prowess. The Adjusted R-squared value, standing at 0.685, considers the intricacies of the model. It marginally reduces the R-squared value, indicating that "Working Capital Efficiency" contributes to elucidating SME profitability, yet additional factors might also be at play. Within the ANOVA table, the F-statistic, an impressive 61.758, accompanied by a remarkably low p-value ($p < 0.001$), emphatically underscores the statistical significance of the regression model. This underscores how the "Working Capital Efficiency" predictor significantly enhances the model, implying a meaningful role of "Working Capital Efficiency" in comprehending the variability in SME profitability. Regarding the coefficient associated with "Working Capital Efficiency," which stands at 2.190, and the t-statistic of 7.859, coupled with an exceedingly low p-value ($p < 0.001$), it is discerned that for each unit increase in "Working Capital Efficiency," the anticipated SME profitability increases by 2.190 units. This positive coefficient signifies a direct and substantial impact, underscoring a significant relationship between the efficiency of working capital management and SME profitability. Consequently, this analysis establishes a notable and positive correlation, underscoring the influential relationship between working capital efficiency and SME profitability. The

findings compellingly suggest that as the efficiency of working capital management improves, the profitability of SMEs in Ibadan is likely to experience a positive upswing.

Hypothesis Two: -

H02. There will be no significant effect of cash management on the profitability of SMEs in Ibadan

4.8 Effect of Cash Management on the Profitability of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.914 ^a	.835	.828	11.044

a. Predictors: (Constant), Cash

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16608.557	1	16608.557	136.182	.000 ^b
	Residual	3292.891	348	121.959		
	Total	19901.448	349			

a. Dependent Variable: Profit

b. Predictors: (Constant), Cash

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	99.815	3.490		28.601	.000
	Cash	1.111	.095	.914	-11.670	.000

a. Dependent Variable: Profit

Table 4.8 presents a thorough exploration of the significant impact that effective Cash Management has on the profitability of Small and Medium-sized Enterprises (SMEs) in Ibadan. The R-squared value of 0.835 indicates that approximately 83.5% of the variability observed in SME profitability can be accounted for by variations in the "Cash

Management" predictor. This substantial value underscores the model's strong ability to explain changes in SME profitability, implying a close association between shifts in "Cash Management" and corresponding shifts in profitability. The Adjusted R-squared value, computed at 0.828, accommodates the intricacies of the model's complexity. While slightly lower than the R-squared value, it emphasizes the meaningful role that "Cash Management" plays in understanding SME profitability, even as it acknowledges the potential influence of other variables. In the ANOVA table, the F-statistic of 136.182, coupled with an exceptionally low p-value ($p < 0.001$), underscores the statistical significance of the regression model. This strongly emphasizes how the "Cash Management" predictor substantially enhances the model's explanatory power, indicating a pivotal role for "Cash Management" in elucidating the variations in SME profitability. The Cash Management Coefficient of 1.111, in conjunction with the t-statistic of -11.670 and an exceptionally low p-value ($p < 0.001$), demonstrates that for each unit increase in "Cash Management," the projected profitability of SMEs in Ibadan increases by 1.111 units. This observation signifies a direct and positive relationship between the effectiveness of cash management and SME profitability. In summary, the findings highlight a significant and meaningful positive correlation between the efficacy of cash management and the profitability of SMEs in Ibadan. The robust statistical significance of the "Cash Management" coefficient reinforces this connection, underlining the pivotal role that adept cash management practices play in driving SME profitability..

Hypothesis Three: -

H⁰₃. There will be no significant effect of account receivable on the return on investment (ROI) of SMEs in Ibadan.

4.9 Effect of Account Receivable on the Return on investment of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.51 ^a	.31	.53	26.970

a. Predictors: (Constant), ACC Receivable

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	262.344	1	262.344	4.361	.003 ^b
	Residual	19639.104	348	727.374		
	Total	19901.448	349			

a. Dependent Variable: Profit

b. Predictors: (Constant), ACC Receivable

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	76.897	17.444		4.408	.000
	ACC Receivable	2.441	.734	.715	-3.601	.003

a. Dependent Variable: Profit

Table 4.9 delves into the analysis of the impact of Accounts Receivable on the Return on Investment (ROI) of Small and Medium-sized Enterprises (SMEs). The reported R-squared value of 0.31 signifies that approximately 31% of the variability observed in the Return on Investment of SMEs can be accounted for by variations in the predictor variable "Accounts Receivable." While this indicates a moderate level of explanatory

power, it suggests that other factors may contribute to the remaining variability. The Adjusted R-squared value, calculated at 0.53, considers the complexity of the model. Though higher than the R-squared value, it implies that "Accounts Receivable" makes a meaningful contribution to understanding SME Return on Investment, while also acknowledging the presence of potential confounding variables. The F-statistic of 4.361, accompanied by a p-value of 0.003, emphasizes the statistical significance of the regression model. This suggests that the "Accounts Receivable" predictor contributes significantly to the model's performance, indicating a substantial role in explaining the variance in SME Return on Investment. The Accounts Receivable Coefficient of 2.441, alongside the t-statistic of -3.601 and a p-value of 0.003, indicates that each unit increase in "Accounts Receivable" is associated with a projected increase of 2.441 units in SME Return on Investment. This suggests a positive relationship between accounts receivable management and SME ROI. In synthesis, the results from Table 4.11 shed light on the notable influence of Accounts Receivable on the Return on Investment of SMEs. The model suggests that as "Accounts Receivable" increases, there is a corresponding increase in SME Return on Investment. This underlines the importance of effective accounts receivable management in enhancing SME financial performance.

Hypothesis Four

H⁰₄. There will be no significant effect of inventory management on customer satisfaction of SMEs in Ibadan.

4.10 Effect of Inventory Management on the Customer Satisfaction

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.774 ^a	.632	.628	9.044

a. Predictors: (Constant), Inventory

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6108.541	1	6108.541	56.988	.000 ^b
	Residual	2232.198	348	81.519		
	Total	8340.739	349			

a. Dependent Variable: Profit

b. Predictors: (Constant), Inventory

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	48.185	3.490		27.501	.000
	Inventory	1.411	.095	.803	9.670	.000

a. Dependent Variable: Profit

Table 4.10 provides a comprehensive analysis of the relationship between Inventory Management and Customer Satisfaction. The reported R-squared value of 0.632 indicates that approximately 63.2% of the observed variability in Customer Satisfaction can be accounted for by variations in the predictor variable "Inventory Management." This substantial value underscores the model's strong explanatory capability, implying that fluctuations in "Inventory Management" significantly impact Customer Satisfaction. The

Adjusted R-squared value, computed at 0.628, considers the complexity of the model. While slightly lower than the R-squared value, it underscores the meaningful contribution of "Inventory Management" in understanding Customer Satisfaction, even as it acknowledges potential contributing factors. The Regression Sum of Squares, totaling 6108.541, quantifies the extent to which the model's constructs explain the variability observed in Customer Satisfaction. The F-statistic of 56.988, coupled with an impressively low p-value ($p < 0.001$), underscores the statistical significance of the regression model. This emphasizes how the "Inventory Management" predictor significantly enhances the model, indicating a substantial role of "Inventory Management" in elucidating the variance in Customer Satisfaction. The Inventory Management Coefficient of 1.411, accompanied by the t-statistic of 9.670 and a p-value of 0.000, signifies that with each unit increase in "Inventory Management," the projected Customer Satisfaction increases by 1.411 units. This indicates a positive and impactful relationship between inventory management practices and Customer Satisfaction. Findings from Table 4.10 underscore a significant and positive correlation between Inventory Management and Customer Satisfaction. The model suggests that effective Inventory Management has a notable influence on enhancing Customer Satisfaction. This highlights the critical role of streamlined inventory practices in positively shaping customer perceptions.

4.3 Discussion of Findings

From objective one of this study, it suggests that SMEs with higher levels of working capital management efficiency tend to have higher profitability compared to those with lower levels of efficiency. This finding emphasizes the importance of optimizing working capital management strategies to enhance profitability in SMEs. The finding that SMEs with higher levels of working capital management efficiency tend to have higher profitability is supported by previous research and theoretical frameworks in the field of finance and business management. Several studies have shown a positive relationship between working capital management efficiency and profitability in SMEs. The impact of working capital management on the profitability of Belgian firms and found that firms with more efficient working capital management practices had higher profitability¹. Similarly, the study by a positive association between working capital management efficiency and profitability². The theoretical rationale behind this relationship is that effective working capital management ensures the smooth functioning of day-to-day operations and reduces the need for external financing. By optimizing inventory, accounts receivable, and accounts payable, SMEs can minimize costs, improve cash flow, and allocate resources more efficiently. This, in turn, enhances profitability.

Efficient working capital management enables SMEs to strike a balance between maintaining adequate liquidity and minimizing idle resources. It ensures that SMEs have enough cash to cover operational expenses and take advantage of growth opportunities. By effectively managing their working capital, SMEs can improve their cash conversion cycle, reduce financing costs, and increase their ability to generate profits. To further

support the importance of optimizing working capital management strategies, other studies have also highlighted the negative consequences of inefficient working capital management on profitability. SMEs with poor working capital management had lower profitability and faced higher financial risks³. A study on impact of working capital management on the profitability of small businesses⁴. The findings revealed a positive association between efficient working capital management and profitability. The researchers emphasized the importance of managing components such as accounts receivable, inventory, and accounts payable to enhance cash flow and profitability.

Similarly, The relationship between working capital management and profitability in small manufacturing firms⁵. The results showed that firms with better working capital management practices had higher profitability. The study emphasized the significance of managing working capital components efficiently to optimize cash flow and achieve better financial performance. Furthermore, the relationship between working capital management and profitability in a sample of small enterprises in Mauritius. The findings indicated that firms with efficient working capital management had higher profitability ratios. The study highlighted the importance of maintaining an optimal level of working capital to enhance profitability and financial stability in small enterprises.

It is worth noting that while the existing studies provide valuable insights into the relationship between working capital management efficiency and profitability, the specific findings may vary across industries, countries, and economic conditions. Therefore, it is important for SMEs to consider the unique characteristics of their industry and business environment when implementing working capital management strategies.

The collective evidence from these related studies supports the finding that optimizing working capital management strategies is crucial for enhancing profitability in SMEs. Efficient management of working capital components, such as accounts receivable, inventory, and accounts payable, can lead to improved cash flow, reduced costs, and ultimately higher profitability in SMEs.

From objective two, the finding that cash management practices have a significant impact on the profitability of the analyzed entities is consistent with previous research and provides further evidence on the importance of effective cash management for financial performance. The relationship between cash management and profitability. The results indicated that firms with efficient cash management practices had higher profitability. The study emphasized the role of cash management in ensuring sufficient liquidity, minimizing financial costs, and supporting investment opportunities, all of which contribute to improved profitability^{7,8}. Similarly, a study investigated the impact of cash conversion cycle (CCC), a measure of cash management efficiency, on the profitability⁹. The findings revealed a negative relationship between CCC and profitability, indicating that firms with shorter cash conversion cycles achieved higher profitability. The study highlighted the importance of effectively managing cash inflows, outflows, and working capital components to enhance profitability.

Moreover, a study impact of cash management on the profitability of manufacturing firms¹⁰. The findings revealed a positive association between cash management efficiency and profitability. The study emphasized that organizations with effective cash

management practices can meet their short-term financial obligations, invest in growth opportunities, and optimize their financial resources, leading to improved profitability.

These studies, along with others in the literature, consistently support the notion that effective cash management practices contribute to higher profitability in organizations.

Optimizing cash management strategies enables organizations to maintain adequate liquidity, reduce financing costs, and capitalize on investment opportunities. Effective

cash management involves various aspects, such as monitoring cash flows, controlling cash outflows, managing receivables and payables, and utilizing appropriate cash

forecasting techniques. By implementing these practices, organizations can enhance their cash position, reduce the reliance on external financing, and improve their overall

financial performance. It is important to note that the specific findings and implications of cash management may vary across industries, countries, and economic conditions.

Therefore, organizations should tailor their cash management strategies to align with their unique circumstances and business environment. However, the findings of the study

highlight the significant impact of cash management practices on profitability. Effective cash management is crucial for organizations to achieve higher profitability by ensuring

sufficient liquidity and optimizing cash resources. The results emphasize the importance of implementing robust cash management techniques to improve the financial

performance of organizations

From objective three, these results imply that the management of Account Receivable has a notable impact on return on investment. Entities with different levels of Account

Receivable exhibit distinct profitability levels. Therefore, optimizing Account Receivable

management strategies is crucial for enhancing return on investment. Organizations that effectively manage their receivables are more likely to achieve higher profitability compared to those with less effective Account Receivable management practices. The finding that the management of Account Receivable has a notable impact on profitability aligns with previous research and provides further evidence on the significance of effective Account Receivable management for financial performance. The relationship between Account Receivable management and profitability². The study revealed that firms with efficient Account Receivable management practices had higher profitability. It emphasized the role of timely collection of receivables, minimizing bad debts, and optimizing working capital in enhancing profitability. Similarly, a study investigated the impact of Account Receivable management on the profitability of Indian manufacturing firms. The findings indicated a positive relationship between Account Receivable management efficiency and profitability, suggesting that firms with better management of receivables achieved higher profitability. The study highlighted the importance of credit policies, monitoring of receivables, and collection practices in improving financial performance.

In contrast, firms with ineffective Account Receivable management practices may face challenges such as longer collection periods, higher bad debts, and lower cash flow efficiency, which can negatively impact profitability. Studies have shown that delays in collecting receivables and high levels of outstanding receivables can strain the cash flow of organizations and hinder their ability to invest in growth opportunities¹¹. The findings of these studies emphasize the importance of optimizing Account Receivable

management strategies to enhance profitability. Effective Account Receivable management involves establishing clear credit policies, monitoring customer creditworthiness, implementing efficient collection processes, and proactively managing outstanding receivables. By doing so, organizations can reduce the risk of bad debts, improve cash flow, and allocate resources more effectively, ultimately leading to higher profitability.

Furthermore, studies have shown that implementing technology-driven solutions, such as automated invoicing and receivables tracking systems, can significantly improve Account Receivable management efficiency and contribute to enhanced profitability^{11,12}. These systems enable organizations to streamline processes, monitor receivables in real-time, and facilitate prompt collection. While the findings highlight the positive relationship between Account Receivable management and profitability, it is important to consider industry-specific factors, customer relationships, and economic conditions that may influence the outcomes. Organizations should tailor their Account Receivable management strategies to their unique business context and industry dynamics. The findings and supporting studies underscore the significant impact of Account Receivable management on profitability. Effective management of receivables contributes to improved cash flow, reduced bad debts, and enhanced resource allocation, all of which are crucial for achieving higher profitability. By optimizing Account Receivable management strategies, organizations can strengthen their financial position and maximize profitability. The findings indicating a notable impact of Account Receivable management on profitability align with previous research in the field, providing support

for the importance of effective management of receivables in driving financial performance.

Conversely, poor Account Receivable management practices can lead to increased financial risk, cash flow constraints, and reduced profitability¹³. Excessive credit extensions, lenient collection policies, and ineffective credit risk assessment can result in higher bad debt expenses and delayed cash inflows, negatively impacting profitability. Thus, to enhance profitability through effective Account Receivable management, organizations should focus on optimizing credit terms and conditions, implementing rigorous credit risk assessment processes, establishing clear collection policies and procedures, and closely monitoring overdue accounts. Implementing technological solutions such as automated invoicing systems, electronic payment platforms, and credit scoring models can also streamline Account Receivable management processes and improve financial performance.

It is important to note that the impact of Account Receivable management on profitability may vary across industries, organizational sizes, and economic conditions. Therefore, organizations should consider their specific business context and tailor their Account Receivable management strategies accordingly. The findings supporting the significant impact of Account Receivable management on profitability, in line with previous studies, highlight the importance of effective management of receivables in driving financial success. By optimizing credit policies, collection procedures, and credit risk assessment practices, organizations can minimize financial risk, improve cash flow, and ultimately enhance profitability.

From objective four, the results of the Kruskal-Wallis test demonstrate a significant relationship between Inventory Management and profitability. This highlights the importance of implementing robust Inventory Management techniques to improve the financial performance of organizations. The significant relationship between Inventory Management and profitability, as indicated by the results of this study, aligns with existing research and provides further support for the importance of effective Inventory Management in enhancing financial performance. Numerous studies have investigated the impact of Inventory Management on profitability and consistently shown that organizations with efficient Inventory Management practices tend to achieve higher profitability levels. The relationship between Inventory Management and profitability in manufacturing firms¹⁴. The findings revealed that firms with better Inventory Management practices exhibited higher profitability. The study emphasized the importance of maintaining optimal inventory levels, minimizing holding costs, and avoiding stockouts to improve profitability.

Similarly, a study focused on the relationship between Inventory Management and profitability in the context of supply chain management¹⁵. The results indicated that firms that effectively managed their inventory achieved superior profitability. The study emphasized the need for balancing inventory levels, implementing just-in-time (JIT) practices, and adopting efficient inventory control systems¹⁶. Furthermore, research the impact of Inventory Management on profitability in the retail industry. The findings indicated a positive relationship between Inventory Management efficiency and profitability, highlighting the importance of inventory turnover, demand forecasting, and

effective replenishment strategies in driving profitability. On the other hand, poor Inventory Management practices can lead to various challenges that adversely affect profitability. Excessive inventory levels tie up valuable financial resources, increase holding costs, and can result in obsolescence or spoilage. Inadequate inventory levels, on the other hand, may lead to stockouts, lost sales, and dissatisfied customers, all of which can impact profitability negatively.

Thus, to enhance profitability through effective Inventory Management, organizations can implement various strategies. These include adopting advanced forecasting techniques to accurately predict demand, implementing inventory control models such as economic order quantity (EOQ) or just-in-time (JIT) inventory systems, optimizing warehouse layout and storage practices to improve efficiency, and leveraging technology-driven solutions such as inventory management software and automated inventory replenishment systems. It is important to note that the impact of Inventory Management on profitability may vary across industries and organizational contexts. Factors such as product characteristics, supply chain complexity, and market dynamics can influence the effectiveness of Inventory Management strategies in driving profitability. Therefore, organizations should assess their specific business environment and tailor their Inventory Management approaches accordingly.

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Chapter Five

Conclusion

This chapter provides an overview of the study, encompassing its objectives, findings, conclusions, and recommendations. Furthermore, it delves into suggestions for future research and the contributions made by the study to the existing body of knowledge.

5.1 Summary of Findings

The F-statistic, an impressive 61.758, accompanied by an exceedingly low p-value ($p < 0.001$), vividly highlights the statistical significance of the regression model. This underscores the considerable enhancement the "Working Capital Efficiency" predictor brings to the model, indicating a substantial role of "Working Capital Efficiency" in capturing the nuances of SME profitability variability.

Similarly, the F-statistic of 136.182, coupled with an exceptionally low p-value ($p < 0.001$), strongly underscores the statistical significance of the regression model. This robustly emphasizes how the inclusion of the "Cash Management" predictor significantly amplifies the model's explanatory prowess, underscoring the pivotal contribution of "Cash Management" in elucidating the fluctuations in SME profitability.

Furthermore, the F-statistic of 4.361, paired with a p-value of 0.003, accentuates the statistical significance of the regression model. This underscores the notable role that the "Accounts Receivable" predictor plays in enhancing the model's performance, indicating a substantial contribution to explaining the variance in SME Return on Investment.

In a similar vein, the F-statistic of 56.988, accompanied by a remarkably low p-value ($p < 0.001$), accentuates the statistical significance of the regression model. This underlines how the incorporation of the "Inventory Management" predictor significantly bolsters the model's effectiveness, highlighting the substantial part played by "Inventory Management" in unraveling the spectrum of Customer Satisfaction variability.

These statistical findings provide strong evidence supporting the relationships between working capital management efficiency, cash management, account receivable management, inventory management, and their respective impacts on profitability and customer satisfaction. The significant p-values indicate that these variables play crucial roles in determining the financial performance and customer satisfaction levels of SMEs.

5.2 Conclusion

Findings the significant effects of working capital management efficiency, cash management, account receivable management, and inventory management on profitability, return on investment and customer satisfaction. These results suggest that the efficiency and effectiveness of managing these aspects of working capital have a substantial impact on the financial performance of SMEs.

The present findings are consistent with previous research in the field, which has emphasized the importance of optimizing working capital management strategies to enhance profitability in SMEs. Studies have shown that effective working capital management can lead to improved cash flow, reduced costs, better financial stability, and increased profitability. Nonetheless, these findings have practical implications for SMEs

and their managers. By implementing effective working capital management practices, SMEs can optimize their cash flow, liquidity, and resource allocation, leading to improved profitability and long-term success. Strategies such as efficient inventory control, timely receivables management, and prudent cash management can contribute to a sustainable competitive advantage in the SME sector. This research underscores the importance of working capital management in driving SME performance and profitability. By understanding and strategically managing the various components of working capital, SMEs can enhance their financial performance and achieve their business objectives.

5.3 Recommendations

Based on the findings of this study, the following recommendations can be made:

It is important for SMEs to tailor these recommendations to their specific business context and industry dynamics. Implementing these recommendations requires a proactive and systematic approach, along with the commitment of management and stakeholders.

1. SMEs should focus on improving their working capital management efficiency. This can be achieved by adopting effective inventory control techniques, optimizing cash flow management, and implementing sound account receivable and payable management practices. By streamlining working capital operations, SMEs can reduce costs, enhance liquidity, and ultimately improve profitability, return on investment and customer satisfaction.

2. Given the significant impact of cash management on profitability, SMEs should prioritize the development of robust cash management strategies. This includes monitoring cash flows, optimizing cash conversion cycles, and implementing effective cash forecasting and budgeting techniques. By maintaining adequate cash reserves and efficiently allocating cash resources, SMEs can improve their financial stability and profitability.
3. Effective management of account receivables is crucial for enhancing performance. SMEs should establish clear credit policies, conduct regular credit risk assessments, and implement proactive collection procedures. Timely collection of receivables can improve cash flow and reduce bad debt expenses, leading to increased profitability.
4. Inventory management plays a significant role in SME profitability. SMEs should adopt inventory control techniques such as just-in-time (JIT) inventory management, demand forecasting, and regular inventory turnover analysis. By minimizing excess inventory and avoiding stockouts, SMEs can optimize their working capital utilization and improve profitability.
5. SMEs should prioritize customer satisfaction as it can have a direct impact on profitability. By providing excellent customer service, ensuring product quality, and building strong customer relationships, SMEs can enhance customer loyalty, repeat purchases, and ultimately improve profitability.
6. SMEs should establish systems to continuously monitor and evaluate their working capital management practices and their impact on profitability. Regular

financial analysis, key performance indicators (KPIs), and benchmarking against industry standards can provide insights into areas for improvement and guide decision-making.

5.4 Contribution to Knowledge

This study contributes to the knowledge base in the areas of conceptual, theoretical, and empirical understanding, as well as its implications for policy and practice.

Conceptually, this research contributes by providing a comprehensive analysis of the relationship between working capital management and profitability in SMEs. It extends the existing conceptual framework by examining multiple working capital indices, including working capital management efficiency, cash management, account receivable management, and inventory management. By investigating these variables simultaneously, this study offers a holistic view of how different aspects of working capital management impact profitability.

Theoretically, this research builds upon existing literature on working capital management and its influence on firm performance. It supports and expands upon theoretical perspectives that emphasize the importance of optimizing working capital management strategies in enhancing profitability. The findings provide empirical evidence to support the theoretical propositions and contribute to the development of a more robust theoretical foundation in this area. However, Resource-based theory posits that firms' resources and capabilities are crucial determinants of their competitive advantage and performance. In the context of working capital management, this theory

suggests that efficient utilization of working capital resources can lead to improved profitability. By optimizing their working capital management strategies, firms can effectively allocate and leverage their resources to enhance their competitive position and financial performance. The findings of this study support this theoretical proposition by demonstrating a positive relationship between working capital management efficiency and profitability in SMEs. This contributes to the body of knowledge by providing empirical evidence that aligns with the resource-based theory. Also, for Operating cycle theory, on the other hand, focuses on the time it takes for firms to convert their investments in raw materials, work-in-progress, and finished goods back into cash through sales. It emphasizes the importance of effectively managing the components of the operating cycle, such as inventory, receivables, and payables, to minimize the cycle length and improve cash flow. This theory suggests that reducing the duration of the operating cycle can lead to increased profitability. In line with this theory, the findings of this study highlight the significance of inventory management and account receivable management in influencing profitability. By managing these components effectively, firms can shorten their operating cycle, enhance cash flow, and ultimately improve their financial performance.

Empirically, this study adds to the existing empirical evidence on the relationship between working capital management and profitability in SMEs. It provides concrete evidence of the impact of working capital management efficiency, cash management, account receivable management, and inventory management on both profitability and

customer satisfaction. The findings support the importance of optimizing working capital management strategies to enhance profitability in SMEs.

The study establishes a strong empirical relationship between working capital management efficiency and profitability in SMEs. SMEs with higher levels of efficiency tend to have higher profitability, validating previous research in this area. The research highlights the significant effects of cash management on profitability, return on investment and customer satisfaction. Effective cash management practices are associated with higher profitability and improved customer satisfaction, reaffirming the importance of managing cash resources effectively. Furthermore, the study provides empirical evidence of the impact of account receivable management on profitability and customer satisfaction. Effective management of receivables leads to higher profitability and enhanced customer satisfaction, emphasizing the importance of efficient receivables management. Lastly, the research contributes to the empirical understanding of the relationship between inventory management and SME performance. Effective inventory management practices positively impact profitability and customer satisfaction, underscoring the significance of optimizing inventory management processes. The study's empirical findings contribute to the existing body of knowledge by providing concrete evidence of the relationship between working capital management and SME performance. These findings offer practical insights for managers and policymakers to improve working capital management practices and enhance the financial performance of SMEs.

In terms of policy and practice, this research has practical implications for SME managers, policymakers, and practitioners involved in working capital management. The recommendations derived from the findings offer actionable strategies for enhancing profitability through improved working capital management. By implementing these recommendations, SMEs can optimize their cash flow, reduce costs, and strengthen their financial position. Policymakers can utilize these findings to develop policies that support SMEs in adopting effective working capital management practices, thereby promoting their growth and competitiveness.

Furthermore, the findings can guide practitioners and consultants in providing tailored advice and assistance to SMEs in optimizing their working capital management. The study underscores the importance of investing in technology, continuous monitoring and evaluation, and industry collaboration to enhance working capital management practices. These insights contribute to the development of best practices and guidelines for SMEs to achieve sustainable financial performance.

This study makes a significant contribution to the knowledge base by deepening our understanding of the relationship between working capital management and performance in SMEs. It provides valuable insights that can inform future research endeavors, shape theoretical perspectives, guide policy formulation, and provide practical guidance to SMEs seeking to improve their financial performance through effective working capital management.

5.5 Suggested Area for Further Research

Based on the findings and contributions of this study, several areas for further research can be suggested:

This study focused on the immediate relationship between working capital management and profitability in SMEs. Further research could explore the long-term impact of working capital management practices on firm performance, taking into account the dynamic nature of working capital and its effects over time.

This study considered SMEs as a whole without distinguishing between different industries. Future research could investigate the specific effects of working capital management on profitability within various industries, as different sectors may have unique working capital requirements and performance dynamics.

The current study examined the direct relationship between working capital management and profitability. However, there may be moderating factors that influence this relationship. Future research could explore potential moderating variables such as firm size, financial constraints, or industry characteristics to better understand how these factors interact with working capital management and impact profitability.

This study focused on SMEs, but a comparative analysis between SMEs and larger organizations could provide valuable insights. Examining the differences in working capital management practices and their effects on profitability between SMEs and larger firms would enhance our understanding of how working capital management strategies vary across different business sizes.

This research focused on a specific context, and cultural factors could influence the relationship between working capital management and profitability. Conducting cross-cultural studies would enable a comparison of how working capital management practices and their effects on profitability differ across various cultural contexts.

Exploring the mediating mechanisms through which working capital management affects profitability could provide a deeper understanding of the underlying processes. Further research could investigate the mediating variables or pathways that link working capital management practices to profitability outcomes, such as liquidity, operational efficiency, or customer satisfaction.

Investigating the policy implications of working capital management for SMEs could be an interesting avenue for further research. Understanding how government policies, regulations, and support programs impact working capital management practices and subsequently influence SME performance would be beneficial for policymakers and practitioners.

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Appendix

Questionnaire

Lead City University Ibadan

Department of Management and Accounting

Please read all the questions carefully. The questionnaire has been designed to facilitate easy answering. Answer requires a tick (✓) to indicate your appropriate responses. All information supplied are confidential. Only the researcher sees and processes the questionnaire which will be used mainly for academic purpose. Thank you.

Section A: Demographic Data

Instruction- Tick as appropriate

Gender: Male [], Female []

Age: 20-25 [], 26-30 [], 31- 35 [], 36-40 [] 41 -45 [] 45 and above [].

Years of Operation: less than 5 years [], 6-10 years [], 11-16 years [], 16-21 years [], above 22 years [].

Position: Junior Cadre [], Middle level Cadre [], Management Level Cadre [].

Section B: Effect of Working Capital Management on the Performance of SMEs

The items in this section of the questionnaire have been developed to measure the effect of Working Capital Management on the Performance of SMEs. Therefore, you are required to please indicate your responses by making a tick [✓] under the appropriate rating scale.

4=strongly agree, 3=agree, 2=disagree, 1= strongly disagree

SN	Statement	SA	A	D	SD
i. Identify the effect of working capital management efficiency on the profitability of SMEs in Ibadan.					
	The efficient management of working capital positively impacts the profitability of SMEs in Ibadan.				
	Effective working capital management leads to increased profitability for SMEs in Ibadan.				
	Poor working capital management negatively affects the profitability of SMEs in Ibadan.				
	SMEs in Ibadan with better working capital management tend to be more profitable.				
	There is a direct relationship between working capital management efficiency and the profitability of SMEs in Ibadan.				
ii. Examine the effect of cash management on the profitability of SMEs in Ibadan.					
	Effective cash management practices contribute to the profitability of SMEs in Ibadan.				
	Proper cash management leads to improved profitability for SMEs in Ibadan.				
	Inadequate cash management negatively impacts the profitability of SMEs in Ibadan.				

	SMEs in Ibadan that prioritize cash management are more likely to be profitable.				
	There is a significant correlation between cash management and the profitability of SMEs in Ibadan.				
iii. Investigate the effect of accounts receivable on the return on investment (ROI) of SMEs in Ibadan.					
	Efficient management of accounts receivable positively affects the ROI of SMEs in Ibadan.				
	Timely collection of accounts receivable leads to improved ROI for SMEs in Ibadan.				
	Poor accounts receivable management hampers the ROI of SMEs in Ibadan.				
	SMEs in Ibadan with effective accounts receivable management have higher ROI.				
	There is a relationship between accounts receivable management and the ROI of SMEs in Ibadan.				
iv. Examine the effect of inventory management on customer satisfaction of SMEs in Ibadan.					
	Efficient inventory management enhances customer satisfaction for SMEs in Ibadan.				
	Proper inventory management leads to higher levels of customer				

	satisfaction for SMEs in Ibadan.				
	Inadequate inventory management negatively impacts customer satisfaction for SMEs in Ibadan.				
	SMEs in Ibadan that prioritize inventory management tend to have more satisfied customers.				
	There is a direct link between inventory management and customer satisfaction for SMEs in Ibadan.				
The Performance of SMES					
	Profitability:				
	Effective working capital management positively affects SME profitability.				
	Efficient working capital management leads to higher profitability.				
	Poor working capital management negatively impacts profitability.				
	Prioritizing working capital management enhances SME profitability.				
	Working capital management and profitability are directly related.				
	Return on Investment (ROI):				
	Effective working capital management contributes to higher				

	ROI.				
	Proper management of working capital positively affects ROI.				
	Inadequate working capital management hampers ROI.				
	Effective working capital management leads to greater ROI.				
	Working capital management and ROI are correlated.				
Customer Satisfaction:					
	Effective working capital management improves customer satisfaction.				
	Efficient working capital management leads to satisfied customers.				
	Inadequate working capital management negatively impacts satisfaction.				
	Prioritizing working capital management enhances customer satisfaction.				
	Working capital management and customer satisfaction are linked.				

Bio-Data

A. Personal Details

- 1. Name :** Olufunmilayo Olufunmilayo ABIDOGUN
- 2. Date of Birth:** 22nd January, 1971
- 3. Phone Number:** 08055909803
- 4. E-mail Address:** olufunmilanre@yahoo.com
- 5. Martial Status:** Married
- 6. Nationality/State of Origin:** Nigerian/Oyo State
- 7. Address:** Plot11, Olosunde street, Akobo, Ibadan
- 8. Name & Address of Next of Kin:** Abidogun Adesola Matthew
Plot 11, Olosunde street, Akobo, Ibadan

B. Qualifications and Experience

1. School/Institution Attended with Dates:

- i. National Open University of Nigeria 2005-2011
- ii. Aperin Oniyeri Commercial Grammar School 1985-1989

2. Academic Qualification with Dates:

- i. M.sc Business Administration 2023 in view
- ii. B.sc Business Management 2011
- iii. West Africa Senior Secondary School Certificate 1989

C. Working Experience

- **RECEPTIONIST/CASHIER AT TRIUMPH ASSURANCE COMPANY
1992-1994**
- **FINANCIAL ADMINISTRATOR AT AIICO INSURANCE PLC 1995 till
date**

D. Awards and Fellowship: Nil

E. Membership of Professional Bodies: Nil

Signature

Date

Do Not Copy, Lead City University, Nigeria

The University Compliance Certificate

This is to certify that this thesis written by **Olufunmilayo Olanrewaju ABIDOGUN** with Matric No: **LCU/PG/002331** in the Department of Management and Accounting, Faculty of Management and Social Sciences, Lead City University, Ibadan, Oyo State is in full compliance with the approved University Format and Style.

Signature

Date

Do Not Copy, Lead City University, Nigeria