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WORKING CAPITAL MANAGEMENT AND FINANCIAL SUSTAINABILITY OF SMALL AND MEDIUM ENTERPRISES

Timinepere Ogele Court[1*] and Kingsley Binaebi Ogbolo[2]

[1&2]Department of Business Administration, University of Africa Toru-Orua, Nigeria.

[1]Email: timi2k2002@gmail.com; timinepere.court@gmail.com; timinepere.court@uat.edu.ng
Tel.: +123 8066933764

[2]Email: binaebi.ogbolo@uat.edu.ng

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ABSTRACT: *The study examined the nexus between working capital management and sustainability of small and medium enterprises (SMEs) in Bayelsa State. A quantitative design was adopted and the population of the study was 1256 SMEs and a sample of 303 SMEs was selected through a stratified sampling procedure. The data were collected through a structured questionnaire while content validity and Cronbach alpha was applied to determine the internal consistency of the measurement of the instruments. The data was analysed through structural equation modelling using a process-based approach of Smart PLS. The study found that account receivable management had a significant positive effect on financial sustainability of SMEs while cash management and inventory management had a positive but non-significant effect on the financial sustainability of SMEs in Bayelsa State. It was recommended that there should be a robust policy framework to promote effective receivable collection process and minimize bad debts. Further, managers should improve access to financing options for SMEs and facilitate cash inflows and inventory management. There should also be an integrative working capital management process to ensure financial sustainability of SMEs.*

KEYWORDS: Cash Management, Receivable Management, Inventory Management and Financial Sustainability, SMEs.

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INTRODUCTION

Small and Medium Enterprises (SMEs) are very important business structures that can affect the growth and development of nations worldwide (Rosyadah et. al., 2022). This phenomenon illustrates why it is important to keep developing SMEs as a highly productive firm to assist a nation's macro and microeconomic development. Many people rely on the business sector in SMEs for their living, and it can also lower poverty by employing low-skilled and educated workers. This is because due to their size, they are higher in number serving the needs of the people when compared to large organizations. SMEs are an easy reach for citizens to interact and do business with. They also reduce the load of unemployment in the society even as they can contribute to the gross domestic product of a nation. The issue with MSMEs is that the majority of them have plans to grow, but are forced to give up due to a lack of funding, particularly for working capital requirements. When all the requirements are considered, it is often the case that MSMEs struggle to get more funding from financial institutions because of these unfulfilled obligations.

Businesses need capital to buy assets, which are part of the inventory of the company; this usually requires capital to purchase them. Purchased assets may reduce the working capital of SMEs because it ties down funds that could have been used for immediate investment and for running the business. According to Brigham and Houston (2019), there is pressure to maintain working capital at a minimal level that is enough to enable seamless business operations. There is always a need to meet up with business obligations requiring funds. Scholarly works in different studies show that proportionate working capital management would help MSMEs become more sustainable and perform better financially. This implies that working capital can be better managed in small and medium enterprises by apportioning available funds to different functional area in the business. Yakubu et al. (2017) in their study examining the impact of working capital on financial performance expressed that this notion is acceptable to sustain the MSMEs financially. The survival and sustainability of SMEs goes beyond a proper working capital management even though it has a major impact; the aspect of financial management cannot be ignored in any way. Organizations are required to improve their financial knowledge as it is an indispensable factor in ensuring business survival (Aribawa, 2016). It was Dahmen and Rodriguez's (2014) idea that a company can improve its performance by seeking ways to improve its financial management skills that enable efficiency and effectiveness in managing business resources. This is a business function that can deliver productivity and growth. It can be noticed that a lot of SMEs have not shown enough concern on the necessity of a coordinated financial management that separates personal capital from business capital and this poses a serious negative effect on the business overall success. Financial literacy is the ability to fully comprehend the many facets of money and financial goods, enabling people to handle their finances with knowledge and confidence. Budgeting, saving, investing, managing credit, and comprehending financial goods like loans, insurance, and retirement plans are just a few of the subjects covered by this knowledge (Wise, 2013). People who use their financial literacy skills are better able to assess their financial status, make realistic financial objectives, and select the best financial tactics to reach those goals. People who take this proactive approach to personal finance management are better able to utilize their capital, make wise investment decisions, and create plans to stay out of typical financial traps. Therefore, in order to promote long-term financial stability and security, financial literacy is essential in lowering the probability of financial mismanagement and failure (Garg & Singh, 2018).

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This study specifically seeks to analyze the relationship between working capital management and financial sustainability of SMEs in Bayelsa State by identifying specific dimensions of working capital management such as cash management, account receivables management and inventory management, and studying empirically how they correlate with financial sustainability.

THEORETICAL REVIEW

This research work is hinged on the Operating Cycle Theory (OCT). This theory explains the processes and days involved in inventory received, inventory sold, and the collection of money generated from the inventory that is sold as desired by the business. This is a continuous cycle that would determine business profitability and efficiency. Aminu and Zainudin (2015) explained that the average amount of time needed for a business to invest initial funds, manufacture items, sell them, and get paid in cash by customers is known as the operational cycle. Because of this, working capital is made up of two parts: inventory and accounts receivable. Prior to going into more depth, it is important to note that Park (1963) developed the concept of the "natural business year," which explained that, depending on the industry, an operating cycle might last longer or less than a year. This notion served as the basis for the operational cycle theory. For certain businesses, like food processing companies, this may take two or three months, while for other businesses, like ship processing companies, it could take one to three years. It was suggested that the phrase "natural business year" refers to the erratic nature of the conventional one year. The buying of inputs (stocks) and the receiving of funds from the company's debtors (accounts receivable) for completed items sold on credit start the operational cycle. Maswadeh (2015) asserted that the operational cycle approach to liquidity management is more dependable than the previous technique, which used liquidity ratios, most notably the acid test and current ratios, to show the liquidity situation of a corporation. Simply put, a lengthier operational cash cycle indicates that a company is delaying payment for products offered on credit. Again, this indicates that a significant portion of the company's funds are locked up in debt, which might impede its ability to develop and improve continuous production by preventing it from acquiring additional inputs (Nimalathasan & Rathika, 2012).

Cash Management and Financial Sustainability of SMEs in Bayelsa State

The term cash management is synonymous to financial management as it can be defined as the process of managing financial resources in an organization. Nkundabanyanga et al. (2017) holistically viewed financial management in their study as activities within the business organization that address cash management practices and it includes planning and controlling, accounting, cash flow management, capital budgeting or appraisal, and working capital management. In another study, Sa'eed et al. (2020) posited that when it has to do with financial accounting, budgeting and reporting, there is an acceptable standard that guarantees financial strength and other related tasks in order to increase a firm's technical efficiency. Academic writers have penned down several contributions relating to the essence of financial management with a view that it is to enable organizations to make better fund decisions and manage the limited financial resources in the organization (Dwangu & Mahlangu, 2021).

Attom (2013) explained that cash management involves the process of managing the finance available in the business in order to achieve solvency. It can be further explained that cash

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management is the act of making use of organization funds efficiently with prudence aimed at sustaining business operations. In view of this, it is important to stress that organizational cash management being efficient is a major contributing factor to the growth of the organization (Salas-Molina et. al., 2017) and it also ensures continuous availability of working capital with a view of maximizing profit (Tran, Abbott & Yap, 2017). Additionally, Attom (2013) showed how the cash management strategy in micro and small-scale enterprises can be administered. To ensure low cash investment in an efficient and effective operation, a business must maintain a good cash management system. Other benefits of maintaining such a system include accelerating the payment of debt obligations, increasing the business's profitability, sustainability, and future planning (Righetto, Morabito & Alem, 2016).

A business cannot be managed without running capital especially at the startup and development level. SMEs become very much dependent on the need for cash availability which is usually highly limited in supply, thereby making it a good cash management, a compulsory skill to have that will ensure sustainability (Michalski, Rutkowska-Podołowska & Sulich, 2018). The reason for this thoughtful approach is because cash is not easy to get all the time and a failed strategy could ultimately lead to liquidation (Attom, 2013). The likelihood that financial institutions would approve financial assistance is another important factor that is influenced by effective cash management. For company managers, comprehending cash management is the most important duty (Mungal & Garbharran, 2014). SMEs often feature a straightforward management structure in which the owner serves as both an employee and a manager (Mohamad, Zakaria & Hamid, 2016). Therefore, in order to thrive in the market, small- and medium-sized business owners must possess technical capabilities, such as accounting expertise, as well as managerial and business management abilities.

HO_1: *There is no significant relationship between cash management and financial sustainability of SMEs in Bayelsa State.*

Account Receivables Management and Financial Sustainability of SMEs in Bayelsa State

Different studies from scholars have explained with facts that inadequate accounts receivable procedures are the reason for the high failure rate of SMMEs (Sunday, 2011). Studies have furthermore revealed that the majority of small- and medium-sized enterprises (SMMEs) utilize inadequate cash-flow management techniques, impeding their capacity to finance critical expenditures or avoid avoidable interest payments. According to Nyabenge (2014), the majority of these enterprises are unable to track their cash flows on a real-time basis, complete bank reconciliations, or create cash budgets or estimates.

Many micro businesses do not consider the importance of opening a bank account for the business. Ultimately, these businesses face liquidity difficulties that result in a close-down. Another notable issue captured by scholars that can be seen in SMEs is that some of them do not practice a sound credit policy (Sunday, 2011). Enow (2015) stressed that inadequate or total absence of modern computerized practices for monitoring account receivables in these small firms can lead to a high rate of bad debt. There is also a mix of other issues that can affect account receivable policy in SMEs which ranges from not imposing interest charges for late payments, ignoring and not placing emphasis on early payments by giving cash discounts and sending timely statements of accounts to debtors (Mitchelle et al., 2008).

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Accounts receivable management is a critical component of the financial performance of a business that directly affects the viability and profitability of small enterprises (Agha, 2014). Effective handling of the company's receivables guarantees a steady rise in profits. Because it has a significant impact on the profitability of the company and, consequently, its capacity to remain in the market, effective accounts receivable management is vital. According to Ramukumba (2014), there is a positive correlation between an owner's capital investment and the likelihood of the firm surviving.

HO_2: *There is no significant relationship between account receivables management and financial sustainability of SMEs in Bayelsa State.*

Inventory Management and Financial Sustainability of SMEs in Bayelsa State

Inventory management plays a crucial role in the financial sustainability of businesses. An efficient inventory management is crucial for optimizing business processes in SMEs. According to Feng, Mei, Li, McVay and Skaife (2014), companies that addressed fundamental shortcomings in inventory monitoring saw a notable boost in sales, gross profit, and operational cash flows. This illustrates the possible impact on financial sustainability and the clear relationship between inventory management and financial performance.

Furthermore, Lamoureux and Evans (2011) posited that the financial success of manufacturing companies is significantly impacted by their inventory management techniques. Streamlining inventory procedures helps businesses cut down on excess inventory and carry expenses, which boosts cash flow. Because resources are distributed more wisely as a result of this efficiency, returns on investment are increased. Additionally, well-managed inventory helps to prevent overstock and stockout scenarios, guaranteeing that production schedules are easily maintained and that customer requests are swiftly fulfilled. As a result of reduced operating expenses and improved sales performance, businesses see an improvement in profitability. This emphasizes how crucial it is to put strong inventory management methods into practice since doing so is essential for gaining a competitive edge and financial sustainability in the manufacturing industry. In addition to increasing revenue, effective inventory management helps businesses build a stronger, more solid financial base that allows them to prosper in a fast-paced marketplace (Lamoureux & Evans, 2011).

Increasing logistical efficiency is another act that can affect the usage of blockchain in the business to business (B2B) supply chain which has also been found to have an indirect influence on financial sustainability (Mousavi, Bahreininejad, Musa & Yusof, 2014). This implies that improvements in inventory management and technology may have a significant impact on supply chain operations' capacity to maintain a stable financial position. Furthermore, Landi, Iandolo, Renzi and Rey (2022) emphasized the noteworthy correlation between inventory management and small business financial performance, highlighting the possible influence of inventory management on financial sustainability, particularly for small organizations.

Even while the literature offers insightful information on the connection between financial sustainability and inventory management, there are still certain unanswered questions that demand more research. For example, a little study has been done on the precise processes by which inventory management affects financial sustainability in various corporate settings. Subsequent investigations may concentrate on pinpointing the precise inventory management

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techniques and approaches that yield the greatest benefits in augmenting financial sustainability in diverse sectors and scales of organizations.

The long-term impacts of inventory management on financial sustainability must also be investigated, as well as any moderating variables that could have an impact on this connection. Businesses looking to improve their financial sustainability through optimized inventory management practices can benefit greatly from an understanding of the sustainability implications of various inventory management approaches and technologies, such as blockchain in supply chain finance (Lahkani, Wang, Urbański & Egorova, 2020). Overall, the analysis of the literature shows that inventory management and financial sustainability are closely related, with possible consequences for the expansion and resilience of businesses. Accordingly, more study in this field can aid in the creation of practical plans for improving financial sustainability via the use of efficient inventory and financial management techniques (Bay-Cheng, Fitz, Alizaga & Zucker, 2015).

HO_3: *There is no significant relationship between inventory management and financial sustainability of SMEs in Bayelsa State.*

RESEARCH METHOD

The study examined the connectivity between working capital management and financial sustainability of SMEs in Bayelsa State. To realize the object of the study, quantitative analytical design was adopted in the study to collect data from SMEs that registered with Bayelsa State Mico-finance Bank and Development Agency. The target population was 1,256 SMEs while a sample of 303 SMEs was selected through simple random sampling procedure having determined the sample size required for the study through the application of Yamane sample size determination formula.

The data collection instrument was a structured questionnaire designed on a 5-point Likert scale of strongly agree to strongly disagree. The instrument was validated using a content validity approach while the reliability of the instrument was determined through Cronbach alpha for the various dimensions of the dependent and independent variables of the study. The coefficients for the various constructs range from 0.70 to 0.75 which are above the minimum threshold, indicating that the measurement instruments attained internal consistency ranging from 0.70 to 0.75 coefficients. The reliability index for each construct is presented in the table below.

Table 1: Reliability Test of Dimensions of Working Capital Management and Financial Sustainability of SMEs

Variables/Constucts	Cronbach's alpha
Account Receivables Management	0.754
Cash Management	0.743
Financial Sustainability	0.710
Inventory Management	0.703

Sources: *Output from Process Based Output from Smart PLS version 4.*

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Data for the study were collected by self-administration and retrieval from the research subjects who were managers of the selected SMEs. The data collected were analysed with the current generation statistical tool, a Process Based approach which involves two steps. Accordingly, Partial Least Square Regression (Smart PLS version 4) was employed and the hypotheses postulated were tested with Bootstrapping, a non-parametric tool in line with the review of literature.

DATA ANALYSIS AND RESULTS

The results of the data analysis demonstrated that there was a relationship between working capital management and financial sustainability of SMEs in Bayelsa State. With an adjusted R square of ($R = 0.162$, $t = 3.242$, $p < 0.05$), 16% variance in financial sustainability of SMEs is accounted for working capital management. In view of the t-test and p-values, the result further indicated on a general note that there is a significant relationship between working capital management and financial sustainability, indicating that the model has a good fit. For the specific hypotheses, account receivable management had a significant positive effect on financial sustainability ($\beta = 0.195$, $t = 2.27$, $p < 0.05$), cash management had a positive but non-significant effect on financial sustainability ($\beta = 0.093$, $t = 1.41$, $p > 0.05$), and inventory management had a non-significant positive effect on financial sustainability (($\beta = 0.111$, $t = 1.45$, $p > 0.05$). Furthermore, the path diagram shows the path analysis of the latent constructs of the independent and the dependent variables. The diagram clearly shows the coefficients and the p-values of working capital management and financial sustainability of SMEs.

Table 2: Adjusted R-Square of Working Capital Management and Sustainability of SMEs

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Financial Sustainability	0.162	0.176	0.056	2.898	0.004

Table 3: Bootstrapping for the Relationship between Working Capital Management and Sustainability of SMEs

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Account Rev Mgt -> Financial Sustainability	0.195	0.196	0.086	2.271	0.023
Cash Mgt -> Financial Sustainability	0.095	0.097	0.067	1.418	0.156

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Inventory Mgt -> Financial Sustainability	0.111	0.108	0.077	1.456	0.146

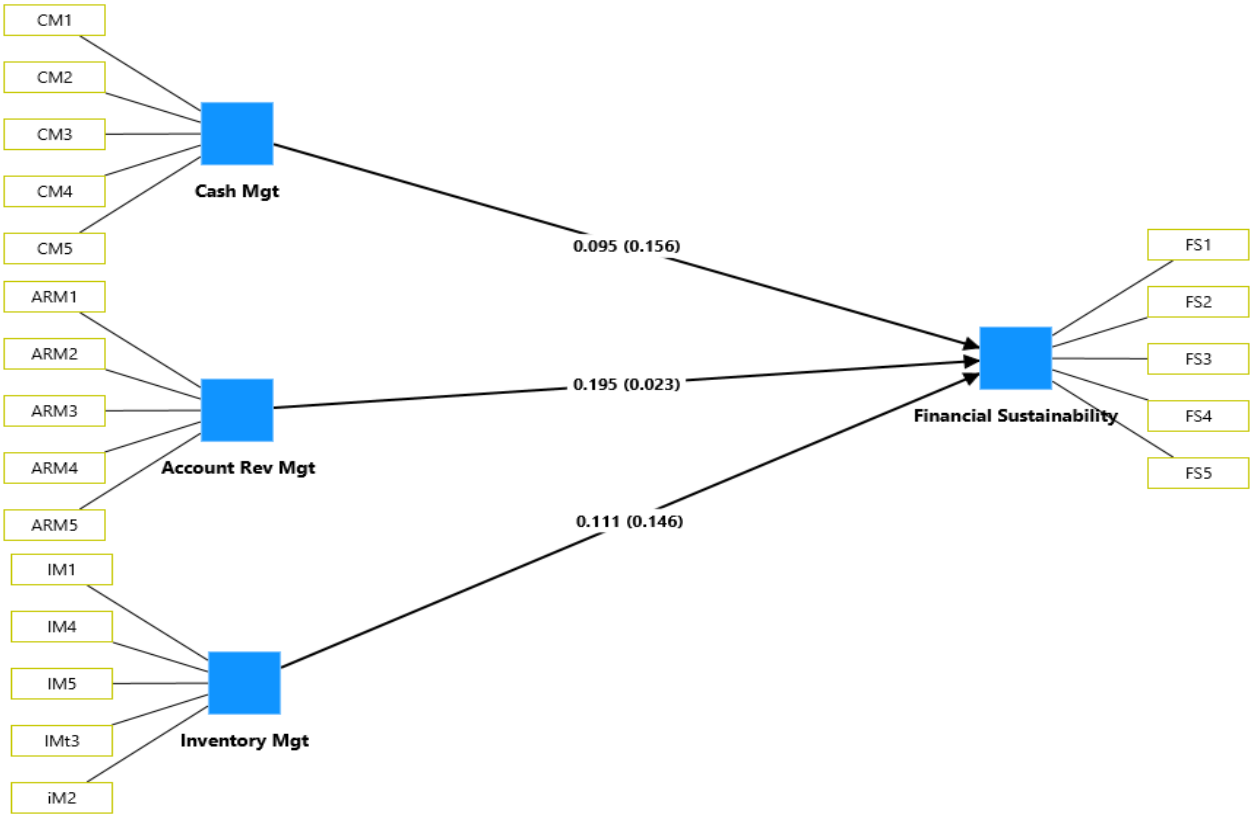

Figure 1: Bootstrapping for Working Capital Management and Sustainability of SMEs

DISCUSSION OF FINDINGS

The study explored the links between working capital management and financial sustainability of SMEs in Bayelsa State. The findings indicated that working capital management accounted for 16% variance of financial sustainability of SMEs in Nigeria. The finding is underpinned by the prior scholarship of Deloof (2003) and García-Teruel and Martínez-Solano (2007) whose findings demonstrated that effective working capital management enhanced the financial performance of firms. They further asserted that effective working capital management facilitated the maintenance of optimum liquidity and sustenance of firms.

In the examination of the specific hypotheses formulated for the study, the finding demonstrated that there was a significant positive relationship between account receivables management and financial sustainability of SMEs in Bayelsa State. The finding implied that sound management of accounts receivables is crucial to the financial sustainability of SMEs, in tandem with prior study of Padach (2006) who underscored the fundamental nature of timely collection of receivables in sustaining cash flows and preventing bad debts. Accordingly, effective account receivable management enhances the operational efficiency and liquidity position of SMEs to meet short-term obligations

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The second finding of the study revealed a positive but non-significant relationship between cash management and financial sustainability of SMEs. The finding of the current study runs counter to the prior work of Afza and Nazir (2007) who contended that the attainment of financial stability is largely due to effective cash management of SMEs. The variation in the finding may arise owing to contextual scenarios of limited cash flows and erratic cash and revenue streams and business cycles.

Aside, a similar finding of the current study is the positive but non-significant relationship between inventory management and financial sustainability of SMEs. Prior findings from the study of Gentry, Vaidyanathan and Lee (2000) indicated that sound inventory control contributed substantially to the bottom line of firms as the holding costs associated with inventory management were reduced to some extent. Some other factors like the operational scale of SMEs may have played a key role in the discrepancy in the findings. Nonetheless, inventory management is a principal determinant of financial sustainability.

POLICY IMPLICATIONS

In line with the finding that account receivable management was responsible for sustainability of SMEs, managers need to formulate robust policy framework to promote effective receivable collection process and minimize bad debts. Further, managers are to improve access to financing options for SMEs and facilitate cash inflows and inventory management. There should be an integrative working capital management process to ensure financial sustainability of SMEs.

LIMITATIONS AND DIRECTION FOR FUTURE STUDIES

The study has some constraints as the study was conducted in Bayelsa State without the inclusion of other states in Nigeria and these to some extent affect the generalization of the findings. The study employed questionnaires only for data collection; further studies should employ a mixed methodology by focus group discussions to collect qualitative data, giving rise to more robust findings.

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Declaration Conflicts of Interest

The authors have no conflicts regarding the publication of this manuscript.

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