INTERNATIONAL JOURNAL OF: SOCIAL SCIENCE RESEARCH AND ANTHROPOLOGY

TIMBOU-AFRICA ACADEMIC PUBLICATIONS
INTERNATIONAL JOURNAL, AUGUST, 2022 EDITIONS
VOL. 10 NO. 6 ISSN: 2977-5745

IMPACT OF WORKING CAPITAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM MANUFACTURING ENTERPRISES IN NIGERIA

SUNUSI FATE

Department of Banking and Finance, School of Management Studies, Abubakar Tatari Ali Polytechnic Bauchi, Bauchi state, Nigeria

ABSTRACT

The working capital management deals with the management of current assets and current liabilities, the purpose of the study is to determine the impact of working capital management practices on financial performance of small and medium manufacturing enterprises in Nigeria. The target population will be 176 SMEs from manufacturing sector. The study applied both probability and non probability sampling procedures to obtain a sample of 121 SMEs required for the study. To achieve the objective of the assessment, primary data was gathered using questionnaires. Secondary data will be gathered from past

Introduction

Working capital management plays an important role of overall corporate strategy in order to create shareholder value (Cox, 2010). Working capital is regarded as the result of the time lag between the expenditure for the purchase of raw material and the collection for the sale of the finished good. The main purpose of any firm is to maximize the profit (Shah, 2010). Maintaining liquidity of the firm also is an important objective. The problem is that increasing profits at the cost of liquidity can bring serious problems to the firm. Thus, strategy of firm must be a balance between these two objectives of the firms. Because the importance of profit and liquidity are the same so, one objective should not be at cost of the other. If we ignore about profit, we cannot survive for a longer period (Shah, 2010). .The working capital management deals with the management of current assets and current liabilities (Ross, 2010). According to Van Horne and Wachowicz (2010), excessive levels of current assets can easily result in a firm realizing a substandard return on investment. At the same time, too few current assets may incur shortages and difficulties in maintaining smooth operations of a firm. Rao (2011) observed that managers spend considerable time on day-to-day problems that involve working capital decisions.

According to the Economic Survey of 2006, small scale enterprises contributed over 50 percent of new jobs created in the year 2005 and over 20 percent to the Gross Domestic Product (GDP) of the country. In recognition of this indispensable role, the Government of Kenya has instituted enterprise support programmes including the

published scholarly articles explaining theoretical and empirical information on the influence of working capital management on the financial performance of SMEs growth in manufacturing sector. Inferential statistics such as Pearson correlation coefficient will be use to analyze quantitative data. Pearson correlation coefficient will be use to determine the relationship between working capital management and financial performance. Based on the results, findings and conclusions the following recommendations have been deciphered. It is therefore recommended that the management of manufacturing companies to consider putting in place the recommended steps seen as probable ways of ensuring that their financial management practices are improved for better financial performance. For instance, the manufacturing companies should enhance the process of managing premium arrears as this could be a key to increased gross premium for respective companies

***KEYWORDS:**, Quality training, employee performance, human resource strategies*

introduction of Women and Youth Enterprise Funds in the years 2006 and 2007 respectively to fuel the development of these enterprises (GoK, 2010). Micro finance institutions have joined the foray in providing them with microcredit hence, seeing their access to microcredit increase from 7.5 percent in 2006 to 17.9 percent in 2009 (FSD Kenya, 2009).

Small and Medium enterprises are new and growing business which (for any number of reasons) do not grow beyond a certain size (Thomson & Martin 2005). The Kenya Bureau of Statistical (KBS) consider firms with fewer than ten employees as small -scale enterprises and their counterparts with more than ten employees as medium and large sized enterprises. The KBS in its national accounts considered companies with up to 9 employees as SMEs

In reference to the global perspective, it is apparent that since the government introduced the series of economic reforms, the private sector has rapidly grown in terms of the number of businesses, capital and employees (Barr, 2011). In the United States of America (USA), SMEs provide approximately 75 per cent of the net jobs added to the economy and employ around 50 per cent of the private sector workforce, representing 99.7 percent of all employers (Sabato, 2010). In Australia, the SMEs manufacturing sector employs 45 percent of the workforce, and generates 55 percent of sales (Barnes, 2010). From the base of zero in 1991, the number of private businesses and limited companies had quickly risen to 28,811 SMEs in 2010 (Meredith, 2011). Meredith further observed that SMEs have contributed considerably to growing GDP and creating jobs for labourage people. Conceptually, cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross et al, 2008). Atrill (2010) stressed that there is need for careful planning and monitoring of cash flows over time so as to determine the optimal cash to hold. Inventory management should be undertaken to maximize the value of the firm (Macharia, 2012). The firm should therefore, consider costs, returns and risk factors in establishing i ventory policy. Inventories represent a significant investment for SMEs in manufacturing sector. Hussain (2010) also states that the aim of inventory management is to avoid excessive and inadequate

TIJSSRA
ISSN: 2977-5745

levels of inventories and at the same time maintain sufficient inventory for the smooth production and sales operations.

Accounts receivables in a firm increases both the net working capital and the costs of holding and managing accounts receivables and both lead to a decrease in the value of the firm (Michalski, 2007). A study by Juan and Martinez (2002) emphasized that firms can create value by reducing their number of days of accounts receivable, thus confirmed the finding of Deloof (2008) who established that the length of receivables collection period has a negative effect on a firm"s performance. Financial performance can be determined through profitability, return on assets and return in equity (Mureithi, 2009). Income statements are very useful in measuring financial performance where many kinds of ratio analysis can be calculated (Madura 2008).Based on this background, this study is designed to determine the role of working capital management on the financial performance of SMEs in manufacturing sector in Nigeria.

Problem statement:

According to the Economic Survey of 2006, small scale enterprises contributed over 50 percent of new jobs created in the year 2005 and over 20 percent to the Gross Domestic Product (GDP) of the country. In recognition of this indispensable role, the Government of Nigeria has instituted enterprise support programmes including the introduction of Women and Youth Enterprise Funds in the years 2006 and 2007 respectively to fuel the development of these enterprises (GoK, 2010). Micro finance institutions have joined the foray in providing them with microcredit hence, seeing their access to microcredit increase from 7.5 percent in 2006 to 17.9 percent in 2009.

Thus, there is a glaring gap in literature with respect to Nigeria which this study sought to fill. Hence, lack of proper research study on the area gives a chance for Nigerian SMEs managers to have limited awareness in understanding the nexus between working capital management and SMEs financial performance. Therefore, by keeping the above problem in mind, the study will try to find out the impact of working capital management on the financial performance of SMEs in manufacturing sector in Nigeria.

Objective of the study:

The general objective of the study is to determine the impact of working capital management practices on financial performance of Small and Medium manufacturing Enterprises in Nigeria.

Specific Objectives

i. To establish the impact of accounts receivable management practice on financial performance of Small and Medium manufacturing Enterprises in Nigeria**.**

ii. Determine the impact of inventory management practice on financial performance of Small and Medium manufacturing Enterprises in Nigeria.

iii. Establish the impact of account payable management practice on financial performance of Small and Medium manufacturing Enterprises in Nigeria

Research Question

1. Does working capital management practices influence financial performance of Small and Medium manufacturing Enterprises in Nigeria?

TIJSSRA
ISSN: 2977-5745

Research Hypothesis

H_{01} working capital management practices has no significant influence on financial performance of Small and Medium manufacturing enterprises in Nigeria

H_0 working capital management practices has significant influence on financial performance of Small and Medium manufacturing enterprises in Nigeria

Justification of the study

The study seeks to examine the impact of working capital management practices on financial performance of small and medium enterprises in Nigeria. It is hoped that the findings obtained through this study will be used by Nigeria to improve on financial policy formulation and their operational procedures as they work to improve SMEs performance. Other government agencies could benefit from the findings. Working capital management practices are significant facets of financial management. The study of working capital management practices and financial performance of SMEs provides insights into the feasible and desirable growth pattern. Since SMEs dominate industrial scene in developing countries, their profitability understanding is very significant to the government, entrepreneurs, research institutions and the community (Namusonge, 2008). Knowledge of working capital management like cash management, inventory management, account payable and account receivable management are of great value to policy makers. For example, policy interventions and international development aid intended for growth oriented enterprises could be targeted if the practices are known. The information obtained from this study can be use by economic planners who require knowledge of financial management practices. This knowledge can be use to identify their needs for training, finance and technical assistance.

LITERATURE REVIEW

Concept of working capital management practices

Working capital is define as the result of the time lag between the expenditure for the purchase of raw material and the collection for the sale of the finished good. The main purpose of any firm is to maximize the profit (Shah, 2010). Maintaining liquidity of the firm also is an important objective. The problem is that increasing profits at the cost of liquidity can bring serious problems to the firm. Thus, strategy of firm must be a balance between these two objectives of the firms. Because the importance of profit and liquidity are the same so, one objective should not be at cost of the other. Working capital management is found in both private sector and public sector as it is an important activity in the management and sustainability of an institution. The definition of working capital management depends on the type of institute on and varies depending on whether it is a donor, the government or the private sector. However, the majority for the activities and the objectives of financial management appear to cut across all organizations. According to Lee, Lee and Lee (2009), there are two possible approaches in defining working capital management, a descriptive one; and an analytical and operational one. From a descriptive standpoint, financial management is composed of three of the major policies of a firm: its investment, financing, and dividend policies. However, from an operational standpoint, financial management includes both short term financial management and long term financial management. Short term financial management includes the management of working capital items such as cash management, inventory management, accounts receivable management and the like (Lee et al , 2009). On the other hand, long term financial management is defined as financial management that encompasses essentially all decision making that has an impact over a period of one year or more (Lee et al, 2009). Managing cash is becoming ever more sophisticated in the global and electronic age of the 1990s as financial managers try to squeeze the last dollar of profit out of their cash management strategies (Block & Hirt 1992).According to Mclaney (2000) cash is much more than just one element of working capital. As the medium of exchange and store of value, cash provides the linkage between all financial aspects of the firm. More specifically it links short and long-term financing decisions with one another, with decision involving investment both in fixed assets and working capital. Clearly, cash management is one of the key roles in any organisation of any size description. Meyer, et al (1992) observes that cash and marketable securities are the most liquid of the company‟s assets. Cash is the sum of currency a company has on hand and the funds on deposit in bank checking accounts. Cash is the medium of exchange that permits management to carry on the various functions of the business organisations.

From economic theory, several writers have theorized in support of Keynes‟ that the motives for holding cash are merely, transactionary, precautionary and speculative. According to Keynes (1973), companies hold cash in order to bridge the interval between the time of incurring business cost and that of the receipt of the sale-proceeds. In other words, companies hold a certain amount of cash in order to meet the regular expenses of their activity. Therefore, the higher the firm‟s ability to schedule its cash flows (depending on their predictability) the weaker the „transactions-motive‟ for holding cash will be. The transaction motive illustrates the cash holding of firms and therefore more applicable to SME‟s.

A study by Kwame (2008) established that the setting of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agree with the findings by Kotut (2009) who established that cash budgeting is useful in planning for shortage and surplus of cash and has an effect on the financial performance of the firms. The assertion by Ross et al. (2008) that reducing the time cash is tied up in the operating cycle improves a business‟s profitability and market value furthers the significance of efficient cash management practices in improving business performance. Provision of trade credit is normally used by businesses as a marketing strategy to expand or maintain sales (Pandey, 2009).

SMEs Financial Performance

The concept of SMEs performance has been interpreted variously. In applied studies, it is common to associate improvements in firm performance with increased profitability, higher efficiency and increased output (Teruel, 2008). Assessing managerial performance is a difficult task. Typically, the capital market only has the current profit statement and other public disclosures with which to assess performance. These are inadequate measures of managerial quality since they ignore "soft issues" and strategic off-the balance sheet items in such as human resource development, expansion of production capacity and Research and Development whose return can only be realized in subsequent accounting periods (Star, 2008).

Extant research addressing SMEs performance has relied on accounting-based financial indicators (Vuong, 2008; Van, 2010), market-based indicators as well as combinations of both (Waweru, 2009). The nature of a given financial performance indicator may be fundamental, as there is some disagreement regarding the extent to which any board or executive decisions might impact accounting versus market-based measures of financial performance.

According to Waweru (2009), reliance on financial accounting measures has been frequently criticized. It has been argued, for example, that such measures (1) are subject to manipulation; (2) may systematically undervalue assets; (3) create distortions due to the nature of depreciation policies elected, inventory valuation, and treatment of certain revenue and expenditure items; (4) differ in methods adopted for consolidation of accounts; and (5) lack standardization in the handling of accounting conventions. Besides, financial accounting returns are difficult to interpret especially in the case of multi-industry participation by firms. It has been demonstrated, for example, that SMEs managers often compare SMEs performance relative to average industry performance when evaluating managerial decisions and performance (Wanjoi, 2008). It is also notable that financial accounting measures do not normally account for shareholder investment risk. Fearing the loss of their jobs, managers might put too much emphasis on how their decisions influence short-term profits and other public disclosures. Managers thus have a tendency to act myopically (Mathuva, 2009).

The emphasis on short-term performance is a common practice among executives. The danger is that current profits are over-valued by the market relative to strategic decisions that are likely to generate future profits. Hence, management will use a very high discount rate when making investment decisions. Good projects that reap their gains in the distant future will be ignored and bad projects with a short payback period accepted (Michalski, 2009). Researchers have however, relied on financial indicators of firm performance because they are readily available to the public. The typical financial indicators that have been commonly used are Return on Assets (ROA) and Return on Equity (ROE) (Cohen, 2009: Meredith, 2010; McMahon, 2011). Over-reliance on financial indicators to judge overall SME performance is often misleading especially if the SME in question has a lot of intangible assets component in its operations including human resources, Research and Development and other non balance sheet assets. Hence, the need to pay attention to non-financial indicators of performance, or at least one that combines aspects of both, for a more comprehensive appraisal of firm performance cannot be overemphasized (Emory, 2009).

Theoretical Framework

Transaction Cost Theory

The Transaction Cost Theory was formulated by Commons (1934) and reinforced by Coase (1937), Arrow (1969, 1974) and Williamson (1985, 1991). According to Arrow (1969), transaction costs are the costs involved in running the economic system. Coase (1988) suggests that there are always costs for carrying out market transactions. Therefore, a firm would prefer transactions to be organised within the firm if the cost would be less than the cost of carrying out the transaction in the market. However, as the additional costs of transactions within the firm exceed the cost of carrying out the transaction through the market, firms attempt to reduce transaction costs by vertical integration (Williamson, 1991). Therefore, the rationale behind the transaction cost theory

TIJSSRA
ISSN: 2977-5745

is that market costs are usually too high for firms to overcome individually. This leads to the creation of linkages for small firms (Thorelli, 1986).

From a transaction theory perspective, a firm needs to consider two main costs, market transaction costs and control costs, as their part of internationalization process (Williamson, 1985; Hennart, 1989). These costs occur as the result of environmental and behavioral uncertainties, opportunism, and asset specificity (RindfleischHeide,1997). Heide (1994) states both environmental and behavioral uncertainties refer to the market changes that is unpredictable together with the uncertainty of possible firm action of reaction. Such unpredictability leads to the contractual constraints, which denote every possibility and consequent response become more ineffective (Heide, 1994). The opportunism can be defined as acting based on self interest with astuteness (Williamson, 1985). Lastly, Williamson (1985) also suggests that asset specificity refers to the fact that the relation between partners is transaction-specific assets that cannot be reorganized easily. Transaction cost theory (TCE) at its core, focuses on transaction and the costs that attend completing transactions by one institutional mode rather than another (Williamson, 1975). The transaction, a transfer of a good or service is the unit of analysis in the TCE and the means of effecting the transaction is the principal outcome of interest (Williamson, 1985).

The theory‟s central claim is that transactions will be handled in such a way as to minimize the costs involved in carrying them out. The goods in this case refer to finances committed to for working capital management. In working capital management, the four elements cash, debtors, stock and creditors stand out as the key problems, whose management involves rigorous planning and resource commitment. For example, stocks can be modeled mathematically to formulate a basic policy outlining when stocks should be ordered, what quantity and the associated cost. In a SME environment, the tools for such action may be lacking or the cost of such adoption may offset the benefits of use. In most practical circumstances, firms can choose between the relative benefits of two basic types of strategies for net working capital management; they can minimize working capital investment or they can adopt working capital policies designed to increase sales. Thus, the management of a firm has to evaluate the trade-off between expected profitability and risk each of them representing an opportunity cost of the other before deciding the optimal level of investment in current assets.

Agency Theory

Agency theory deals with the people who own a business enterprise and all others who have interest in it like managers, banks, creditors, family members and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as the agents who have been engaged by the owners of the business as principals who are also known as shareholders.

This theory places emphasis on transaction costs, contracting analysis following the work of Coase (1937) Jensen and Meckling (1976) and most important, Stiglitz and Weiss (1981).The work of these writers all point to the challenges that surround ownership, contractual agreements, management interrelationship, credit rationing etc between SMEs and external providers of finance, thereby subjecting firms to the risk of asset substitution which in practice means a change in the firm‟s asset structure. For very small and micro-enterprises this asset substitution may well take place

TIJSSRA
ISSN: 2977-5745

between the enterprise and the owner‟s household. As described in the report by South African reserve bank (2004)
The presence of these problems in small firms may explain the greater use of collateral lending to small firms as a way of dealing with these agency problems. Lenders‟ strategies for dealing with these problems also add significantly to the cost of dealing with this sector. For a large enterprise the evaluation of an application for finance may be limited to the assessment of an (audited) set of financial statements and supporting documentation provided by the applicant, while for SMEs the assessment frequently has to go far beyond this, implying a substantially higher transaction cost.
The theory is on the notion of the principle of two sided transaction. It holds that any financial transactions involve two parties and both act on best interest but with different expectations. The major problem associated with this theory includes information asymmetry, moral hazard and adverse selection (Kwame, 2010). According to Stiglitz and Weiss (1981), agency problems such as asymmetric information and moral hazards can impact on the availability of credit and hence the capital structure of SMEs. Stiglitz and Weiss termed this phenomenon as credit rationing.

Resource-Based Theory
Resource-based view has become one of the most influential and cited theories in the history of management theorizing. It aspires to explain the internal sources of a firm‟s sustained competitive advantage (Kraaijenbrink, Spender & Groen, 2010). It was Penrose who established the foundations of the resourced-based view as a theory (Roos & Roos, 1997). Penrose first provides a logical explanation to the growth rate of the firm by clarifying the causal relationships among firm resources, production capability and performance. Her concern is mainly on efficient and innovative use of resources. She claimed that bundles of productive resources controlled by firms could vary significantly by firm, that firms in this sense are fundamentally heterogeneous even if they are in the same industry (Barney & Clark, 2007). Wernerfelt (1984) took on a resource perspective to analyze antecedents of products and ultimately organizational performance and believed that "resources and products are two sides of the same coin" and firms diversify based on available resources and continue to accumulate through acquisition behaviors. The knowledge based literature of the firm fosters and develops the resource based theory in that it considers knowledge to be the most complex of an organization‟s resources (Alavi&Leidner, 2001). According to resource-based theory, the intellectual capital (IC) is a main source to improve enterprise growth. Therefore, intellectual capital has been studied by many past researchers who investigate the influence of intellectual capital on business performance. However, most past researchers focused on the impact of individual intellectual capital on performance while neglecting the effects of specific elements of intellectual capital.
The currently dominant view of business strategy – resource-based theory or resourcebased view (RBV) of firms – is based on the concept of economic rent and the view of the company as a collection of capabilities. This view of strategy has a coherence and integrative role that places it well ahead of other mechanisms of strategic decision making. Ganotakis & Love (2010) used the Resource Based Theory (RBT) to explain the importance of human capital to entrepreneurship. According to RBT, human capital is considered to be a source of competitive advantage for

entrepreneurial firms. Ownership of firm-specific assets enables a company to develop a competitive advantage. This leads to idiosyncratic endowments of proprietary resources (Barney, 1991). According to RBT, sustainable competitive advantage results from resources that are inimitable, not substitutable, tacit in nature, and synergistic (Barney, 1991). Therefore, managers need to be able to identify the key resources and drivers of performance and value in their organizations. The RBT also states that a company's competitive advantage is derived from the company's ability to assemble and exploit an appropriate combination of resources. Such resources can be tangible or intangible, and represent the inputs into a firm's production process; such as capital, equipment, the skills of individual employees, patents, financing, and talented managers. As a company's effectiveness and capabilities increase, the set of available resources tends to become larger. Through continued use, these "capabilities", defined as the capacity for a set of resources to interactively perform a stretch task or an activity, become stronger and more difficult for competitors to understand and imitate. (R&D expenditures) and can be used to augment future production possibilities. Rylander, 2001
Resource-based theory has been developed to understand how organisations achieve sustainable competitive advantages. The theory focuses on the idea of costly-to-copy attributes of the firm as sources of business returns and the means to achieve superior performance and competitive advantage (Barney, 1986; Conner, 1991; Hamel and Prahalad, 1996). A firm can be understood as a collection of physical capital resources, human capital resources and organisational resources (Barney, 1991). Resources that cannot be easily purchased, that require an extended learning process or a change in the corporate culture, are more likely to be unique to the enterprise and, therefore, more difficult to imitate by competitors. It is argued that performance differentials between firms depend on having a set of unique inputs and capabilities (Conner, 1991).

Empirical review

Working capital is the concern of all firms, Peel et al. (2000) revealed that small firms tend to have a relatively high proportion of current assets, less liquidity, volatile cash flows, and a heavy reliance on short-term debt. Therefore, for small and growing businesses efficient WCM is a critical component of success and survival; i.e., both profitability and liquidity (Peel, 1996). With limited access to the long-term capital markets, these firms must rely more heavily on owner financing, trade credit and shortterm bank loans to finance their needed investment in cash, accounts receivable and inventory (Howorth and Wilson, 1998). Studies in the UK and the US have shown that weak financial management particularly poor WCM and inadequate long-term financing (Binks and Ennew, 1996) is a primary cause of failure among small businesses (Berryman, 1983). The success factors or impediments that contribute to success or failure are categorised as internal and external factors. The factors categorised as external include financing (such as the availability of attractive financing), economic conditions, competition, government regulations, technology and environmental factors. The internal factors are managerial skills, workforce, accounting systems and financial management practices. Small enterprise is not an exception in the economic and social world, but a fundamental aspect of the way in which a society organises itself and produces (Day, 2000). While the performance levels of small businesses have traditionally been attributed to general managerial factors, such as manufacturing, marketing and operations, WCM may have a strong impact on small-business survival and growth. Although WCM has received less attention in the literature than long-term investment and financing decisions (Howorth, 199), yet it occupies the major portion of a financial manager‟s time and attention (Gitman, 2000).Given their heavy reliance on short-term sources of finance (Walker and Petty, 1998), it has long been recognized that the efficient management of working capital is crucial for the survival and growth of the small firms (Grablowsky, 1984). A large number of business failures have been attributed to inability of financial managers to plan and control properly the current assets and the current liabilities of their respective firms (Smith, 1973). In particular, the small firms may face serious problems due to the operating conditions and characteristics peculiar to them.

Evidence in the literature repeatedly points towards failure to understand cash flow shortages as a major problem of small business operators, which is often the result of poor WCM. During the life of a business, the frequent lack of liquidity to meet current obligations on their due dates is not a welcoming situation and may cause business failure. This may also be aggravated by heavy borrowing which bring along a heavy interest burden to a small business. WCM has been shown to be a major problem both at start up (Moore, 1994) and for growing firms (Dodge, Fullerton & Robbins, 1994). Peel and Wilson (1996) reported quite a disturbing result whereby 81% of the small business failure was attributed to poor financial management and banks were willing to give financial support only to those owner-managers who attended financial management training courses. Poor financial planning may be credited as the main cause of small business failures at the different stage of the business‟s life cycle (Argenti, 1976). Nayak and Greenfield (1994) also reported evidence that micro firms lack signs of any systematic WCM.

In a survey undertaken by the Small Business Service Council, UK (2001) „„lack of working capital‟ was cited as the top five short-term constraints by SMEs. Similarly, Howorth and Westhead (2003) found that small firms have a lower intake of WCM practices. Timmons (1994) and others also point to a number of factors including strategic errors, weak financial skills, poor management reporting as the determinant of failure. The study of Kargar and Blumenthal (1994) showed that despite having healthy operations and profits, many enterprises fail owing to mismanagement of working capital, so it is a research theme that deserves increased investigation and especially for the SMEs as it is the wide belief that they are an essential element of a healthy and vibrant economy. Some research studies have been undertaken on the WCM practices of both large and small firms in India, UK, US, Australia, New Zealand and Belgium using either a survey based approach (Burns & Walker, 1991) to identify the push factors for firms to adopt good working capital practices or econometric analysis to investigate the association between WCM and profitability (Shin & Soenen, 1998). Furthermore it is noted that many of the studies in the area of working capital have tended to focus on the management of individual assets such as cash (Grablowsky, 2008), accounts receivable (Lewellenand Johnson, 2008), late payment and credit management (Peel et al., 2000; Drever and Armstrong, 2005), accounts payable (Walker, 1980) and inventory (Grablowsky, 1984). But the few studies currently undertaken on the overall WCM/policies used primary data to gauge the take-up of best practices in the area of working capital (Howorth & Westhead 2003; Peel & Wilson 1996). The important finding of those studies was a significant relationship between various success measures and the employment of formal working capital policies and procedures. Given the evolutionary process of financial management practices, some researchers have also used a

qualitative approach (case study) to better understand the owner-manager‟s approach to financial management (Deakins, et al., 2001, 2002; Ooghe, 1998). Other studies in the area of WCM have used a quantitative approach, a qualitative approach or a mixed approach. Previous study (Deloof, 2008) have focused their analysis on larger firms. However, the management of current assets and liabilities is particularly important in the case of small and medium-sized companies. Most of these companies‟ assets are in the form of current assets. Current liabilities are one of their main sources of external finance in view of their difficulties in obtaining funding in the long-term capital markets (Petersen & Rajan, 2012). In this respect, Scott (2010) show that small and medium-sized US firms use vendor financing when they have run out of debt. Thus, efficient working capital management is particularly important for smaller companies (Peel, 2011).
According to Okech 2000, in manufacturing firms, the current assets account for over half of their total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm‟s realizing a substandard return on investment. However, Van Horne and Wachowicz (2008) point out that excessive level of current assets may have a negative effect of a firm‟s profitability, whereas a low level of current assets may lead to lowers of liquidity and stock-outs, resulting in difficulties in maintaining smooth operations.
Despite the increased attention paid to the SME sector both in developed and developing countries, there is comparatively little knowledge about the process of financial management and to what extent SMEs‟ growth are being inhibited as a result of poor WCM practices. The research undertaken so far has increased our understanding with regards to the overall numbers of small firms, their characteristics, the number of jobs created, the number of small firms concerned with the take-up and use of support schemes, the number of firms that are using different forms of finance (Winborg, 1997). and which economies in the world have probably the most dynamic SME populations. However our knowledge on process issues, such as financial management decisions in SME remains something of a „black box‟ (Deakinset al., 2001). However, the biggest problem which most SMEs usually face is that of a lack of liquidity, which is often the result of late payment or poor credit management (Howorth & Wilson, 2009). Ironically, their operations may turn out to be very profitable in the long run, but due to liquidity (cash flow) problems, they get into financial difficulties. On this note, Kolay (1991) highlighted that firms need to systematically plan for adopting suitable short and long-term strategies to manage and avoid future working capital crisis.

Methodology

Research Design: The study adopted a descriptive research design. The researcher used a cross sectional research design with both qualitative and quantitative methods. The design was appropriate in investigating the empirical and theoretical relationship between the variables.

Sample Size and Population

80 members of staff and 87 members of customers constitute the respondents for this research work. A total of 432 questionnaires were sent out and 253 were fully answered and returned and used for the analysis.

Methods of Data Collection

Data needed for this work was collected through the use of primary and secondary source.

Primary Sources of Data

The research uses personal interviews amongst staff of the company and few customers, all selected at random. Also, questionnaires were used to collect necessary information to avoid bias.

Descriptive Results

Results and Discussion

Impact of cash management practice on financial performance of Small and Medium manufacturing Enterprises in Nigeria

Table 2: Distribution of respondents by impact of cash management practice on financial performance of small and medium manufacturing enterprises in Nigeria

Statement	Mean	Rank
Share capital financing enjoys the support of all stakeholders	**4.01**	**Accepted**
Sometimes cash management can be difficult due to lack of funds or in-house capacity	**3.98**	**Accepted**
The firm prefers long term debt to short term debt as source of finance	**3.76**	**Accepted**
The firm pays accounts payable in good time	**3.65**	**Accepted**
All retained earnings have been reinvested back to the business over the last 10 years.	**4.12**	**Accepted**
The return on investment (ROI) is the best measure of firm profitability	**4.15**	**Accepted**
Inventory budgets of your business is useful in providing information for making the inventory decisions	**4.09**	**Accepted**
Grand mean	**3.96**	

In Table 2, the grand mean of 3.96 which is above the criterion mean of 3 shows that respondents agreed that cash management practice has significant effect on financial performance of small and medium manufacturing enterprises in Nigeria. The results also indicate that on average; the respondents agreed that cash management practice is one way a company has remained competitive. The mean score for the opinion of owner/manager might feel about the efficiency of cash management practices as worked out by adding all respondents scores. The overall mean score is **3.96**. This means that the opinion of the respondents was on the higher side of the likert scale which implied that the respondents felt that the of cash management was positive.

The summary findings indicate that cash management practices that about 83.7 percent of SMEs rarely or sometimes prepare cash management practices and preparing and reviewing cash budgets are frequently based on monthly periods. At the same time, 85.3 percent of responding SMEs sometimes and often have shortage of cash while about 59.6 percent always and often have a surplus of cash. Nevertheless, only 19 percent of SMEs deposit their cash surplus into bank accounts while up to 58.9 percent of responding SMEs invested nowhere.

Regression Model

Employee performance = $\alpha + \beta 1_{x1} + \mu$

TIJSSRA
ISSN: 2977-5745

Where the variables are define as:
FP- Financial Performance
X_1 – Working Capital Management Practices

Table 3: Impact of cash management practice on financial performance of Small and Medium manufacturing Enterprises in Nigeria

Model	R	R^2	Adjusted R^2	Std error of the estimate	
1	0.761	0.579	0.490	1.602	
Explanatory variable	**B**	**Std error**	**t – value**	**p-value**	**Remarks**
Constant	21.450	0.875	28.510	0.000	
Innovation-driven outsourcing	0.232	2.074	1.786	0.011	S

Table 2 The findings revealed that Cash management had the greatest influence on financial performance with a unit change in the Cash Management, holding IM and RM constant, resulting to a 57..9% increase in financial performance, whereas receivables management had the least influence with a unit change in RM holding CM , IM and PM constant, resulting to a 23.2% increase in financial performance.

Conclusion

The findings of working capital management practices and SME financial performance and conclusions related to the relationships between working capital management practices and SME financial performance could be used as the foundations for the further research. Working capital management not only assists the SMEs in successful financial performance, but also in the internal operations of the business especially in policy formulation. Proper working capital management nurtures SMEs at crucial junctures in their development and lay the foundation for an emerging generation of locally owned large enterprises.

Therefore, working capital management has a potential of assisting Nigeria to achieve vision 2030 which advocates for strengthening SMEs to become key industries of tomorrow. These conclusions bring about important implications in applying working capital management and improving SME financial performance. Therefore it implies that working capital management has a significant role in the financial performance of SMEs in Nigeria.

Recommendations

Based on the results, findings and conclusions the following recommendations have been deciphered. It is therefore recommended that the management of manufacturing companies to consider putting in place the recommended steps seen as probable ways of ensuring that their financial management practices are improved for better financial performance. For instance, the manufacturing companies should enhance the process of managing premium arrears as this could be a key to increased gross premium for respective companies. The manufacturing companies should also prepare cash-flow forecasts as this could help in identifying future surpluses and

TIJSSRA
ISSN: 2977-5745

deficits. This will enable the enterprises maintain optimal cash balances which will enable them meet their financial obligations as they fall due. The government should be able to come up with the monitoring units to have the government sponsored SMEs evaluated in order to ensure that they follow the required regulations more so on the working capital management. This is because proper working capital management practices lead the SMEs to achieve a successful financial performance.

REFERENCES

Altman, E. (2008).Financial ratios, discriminant analysis and the prediction ofcorporate bankruptcy, The Journal of Finance. 23, 589–609.

Atieno, R. (2009). Linkages, access to finance and the performance of smallscaleenterprises in Kenya. Journal of Accounting and Business Research, 3(1), 33-48.

Atrill, P. (2008). Financial management for decision makers (4th ed). Sydney: Longman Professional.

Back, D. (2009).Success in Small Business: the Role of the Financial Adviser Sydney: Longman professional.

Barr, A.(2009). The functional diversity and spillover effects of social capital of Africanconomies, Journal of Accounting and Business Research 11(1), 14-29

Barrow, C. (2010). Financial Management for the Small Business: The Daily Telegraph guide, (2nd ed), London: Kogan Page,

Burns, R. & Walker, J. (2011), A survey of working capital policy among small manufacturing firms, The Journal of Small Business Finance, 1(1), 61 – 74.

Bhunia, A. (2009). Working Capital and Liquidity Management of Iron and Steel Enterprises in India: A Comparative Study between SAIL and TISCO. The Journal of Small Business Finance, 1(1), 60 – 66.

Bowen, M., Morara, M. & Mureithi, S. (2009). Management of business challenges among smalland micro enterprises in Nairobi-Kenya, The Journal of Small Business Finance, 1(2), 40- 46.

Cohen, W. (2009).The Entrepreneur and Small Business Financial Problem Solver, New York: John Wiley & Sons.

Cooley, P. & Pullen, R. (2009). Small business cash management practices, American Journal of Small Business, 4(2), 1 – 11

D"Amboise, G. &Gasse, Y. (1980).Performance in small firms and utilization of formal management techniques, Proceeding of the Joint National Meeting TIMS/ORSA, Washington

Deloof, M. (2009) Does Working Capital Management Affect Profitability of Belgian Firms? Journal of Business, Finance and Accounting, 30(3-4), 573-587.

Eljelly, A. (2009). Liquidity-Profitability Tradeoff: An empirical Investigation in an Emerging Market, International Journal of Commerce & Management, 14(2), 48–61

Emory, C. (2009). Business Research Methods, 3rd Edition, Sydney: Irwin.English, J. (2010).Small Business Financial Management in Australia, International esearch Journal of Finance and Economics 88 (2012), 162

Falope, I. & Ajilore, T . (2009). Working capital management and corporate profitability: evidence from panel data analysis of selected quoted companies in Nigeria. Research Journal of Business Management, 3, 73-84.

Garcia-Teruel, P. & Martínez-Solano, P. (2009).Effects of working capital management on SME profitability .International Journal of Managerial Finance, 3(2), 164-177.

Grablowsky, B. (2008).Management of cash position, Journal of Small BusinessManagement, 22(3), 59 – 65.

Grablowsky, B., & Rowell, D. (2010). Small business financial management: Theory and practice. Norfolk: Old Dominion University.

Hussain, A. (2009). Business Finance, Nairobi: Heinemann publishers.

Hutchinson, P., Meric, I., & Meric, G. (2008, October). The financial characteristics of small firms Which achieve quotation on the UK unlisted securities market,. Journal of Business Finance & Accounting, 15(1), 25.

Juan, P. & Martinez, S. (2009). Effects of working capital management on SME profitability, Journal of Business Finance Account., 30(3–4), 1-14.

Kibas, M. (2008).Credit Financing and profitability. Unpublished PhD Thesis, Nairobi: University of Nairobi.

Kothari, C. (2008). Research methodology: methods and techniques", New Delhi, India.

Kotut, P. (2009). Working capital management practices by Kenyan firms: A case study Of firms listed in the NSE. Unpublished MBAproject. Molo: Egerton University.

Kwame, K. (2008). Working capital management practices of small firms in the Ashanti Region of Ghana. Journal of Business Finance Account, 3(1–4), 1-4.

ISSN: 2977-5745

Lamberson, M. (1995).Changes in Working Capital of Small Firms in Relation to Changes in Economic Activity, Journal of Business Finance Account.,10(2), 4550.
Lazaridis, I. & Tryfonidis, D. (2006).“Relationship between Working Capital Management and Profitability of Listed Companies in the Athens Stock Exchange”, Journal of Financial Management and Analysis, 19(1), 26-35.
Mathuva, D. (2009). The influence of working capital management components on Corporate profitability: a survey on Kenyan listed firm"s .Research Journal of Business Management, 3, 1-11
McMahon, R.& Holmes, S. (2008).Small business financial management practices in North America, International Research, Journal of Small Business Management, 2(4), 140-153.
McMahon, R. (2008). Business growth and performance and the financial reporting practices of Australia manufacturing SMEs, unpublished Doctoral thesis, NSW, Australia.: the University of New England,
McMahon, R. (2011). Financial reporting to financiers by Australian manufacturing SMEs, International Small Business Journal, 18(1), 35–52.
Meredith, G. (2010).Financial Management of the Small Enterprise, McGraw- Hill, Sydney, New South Wales. Michalski, G. (2009). Small and Medium Enterprises Accounts Receivable Management With Value of Liquidity in View.Journal of Financial Management and Analysis, 19(1), 26-35.
Mona,A.(2012).The Impact of Working Capital Management Policies on Firm's Profitability and Value: The Case of Jordan, International Research Journal of Finance and Economics, 3(2), 147-153.
Mugenda,O.&Mugenda,A.(2009).Building theories from case study research. Journal of Finance and Economics, 9(2), 1-2
Namusonge, G. (2008).Determination of growth oriented small and medium enterprises in Nairobi Kenya unpublished PhD Thesis, Nairobi: JKUAT.
Nazir, M.&Afza, T.(2009). Impact of Aggressive Working Capital Management. Journal of Finance and Economics, 10(2), 23-27
Ngaba, D.(2008).Working capital management policies among public companies in Kenya, unpublished Masters thesis, Nairobi: U.O.N.
Ngotho, M. (2009). Impact of financial education of Entrepreneurs on SMEs performance In Kenya. Unpublished Masters Thesis, Eldoret: Moi University
Nyakundi, M. (2008)..A survey of working capital management policies among public Campanies in Kenya, unpublished Masters thesis, Nairobi: U.O.N.
Oduog,A.(2008). .Income Generating activities in Secondary Schools: a case study of Suba District from2008-2012.unpublished M.Ed. thesis, Nairobi; KenyattaUniversity.
Oketch, H. (2009). Micro and small Enterprises in Kenya: Agenda for improving the Policy Environment. (Unpublished Masters thesis), Nairobi: U.O.N
Ondiege, M. (2008).Inventory management practices in Kenya. Masters Thesis, Moi University
Padachi, K. (2009). “Trends in Working Capital Management and its Effect on Firms’ Performance: An Analysis of Mauritian Small Manufacturing Firms”. Masters thesis, Nairobi; U.O.N
Pandey, I. (2008).Financial Management (9th ed.), New Dehli: Vikas Publishing House PVT Ltd.
Raheman, A. & Nasr, M. (2009).Working capital management and profitability – case of Pakistani firms. International Review of Business Research Papers, 3 (1),279300.
Ross, S., Westerfield, R. & Jaffe, J. (2009).Corporate Finance, 5th edition, Irwin andMcRaw-Hill, Boston.
Ross, A., Westerfield, W.& Jordan. (2008). Fundamentals of corporate finance. International Review of Business Research Papers, 3(1), 279-300.
Sanger, J. (2009). Working capital: a modern approach. International Review ofBusiness Research Papers, 3 (1), 279-300.
Saunders (2008).Research methods for business students (3rd ed.), New York: Prentice Hall Scarborough, (2008).Effective small business management: An Entrepreneurial Approach (7th Ed), New Jersey; Prentice Hall International Inc. Scarborough, N. & Zimmerer, T. (2008), Effective small business management, (2nd ed.) Merrill Publishing Company.
Shah, A. & Sana, A. (2009).“Impact of Working Capital Management on the Profitability of Oil and Gas Sector of Pakistan”, European Journal of Scientific Research.15 (3), 301-307.
Smith. (1980). Profitability versus liquidity tradeoffs in working capital, European Journal of Scientific Research.13 (4)101-120
Smith,K.(2010). Readings on the management of working Capital Management on the Profitability, European Journal ofScientific Research. 20(1), 291 - 300. Star, M. & David, W. (2008).Inventory control: Theory and practice New Jersey:

Prentice-hall, Inc. Teruel, P.(2008). Effects of Working Capital Management on SME Profitability. International Journal of Managerial Finance, 3(2), 164-177.
Van Horne, J.&Wachowicz, M. (2010).Fundamentals of Financial Management, (12th Ed), New York: Prentice Hall
Vuong, Q. (2008).SMEs to play a large role in private sector, Vietnam Investment Review. Policy on Firms" Profitability, the IUP Journal of Applied Finance, 15(8),19-30.
Wanjoi, M. (2008).Factors determining the success of SMEs in Nakuru, The IUP Journal of Applied Finance, 10(8), 11-28
Waweru, K. (2009). Determining cash balance management practices: The Journal of Applied Finance, 15(8), 10-20.