



**WORKING CAPITAL AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KWARA STATE, NIGERIA**

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**ABSTRACT**

*Small and medium scale enterprises are the engine room of any nation's development, yet, this sector is bedeviled by several constraints including poor working capital management practices which continue to mar its developmental objectives. Hence, this study evaluates the impact of working capital management on the performance of small and medium scale enterprises in Kwara State, Nigeria. The study was carried out using primary data which was obtained through the administration of copies of questionnaire to owners and senior management staff of small and medium scale enterprises in Kwara state. The data were analysed using descriptive statistics, structural equation model and ordered logit regression. The findings of the study reveal that frequently used working capital are personal savings, profit from the business operations, bank loans and account payable. The study also reveals that cash management practices significantly impact on the performance of small and medium scale enterprises in Kwara state with a coefficient value of 1.575421 at a 1% significance level while account receivables practices also significantly impact on the performance of small and medium scale enterprises in Kwara state, with a coefficient value of .6241527 at 5% significant level. It was further revealed from the study that inventory management practices are a significant determinant of performance of small and medium scale enterprises in Kwara state with a coefficient value of 3754485 at a 5% significance level. Finally, it was revealed that account payable practices are significant determinants of performance of small and medium scale enterprises in Kwara state with a coefficient value of .5051616 at a 5% significance level. The study concluded that working capital management significantly influences the performance of small and medium scale enterprises in Kwara state. Based on the findings, it is suggested that management of SMEs should pay attention on reducing the number of day's accounts receivable and inventories to a reasonable minimum to generate enough profitability for owners and shareholders.*

**INTRODUCTION**

Small and medium scale enterprises (SMEs) have, over the years, played a leading role in the economic growth and development of any nation. It is a stylized fact that small and medium scale enterprises are considered to be major sources of innovation and flexibility in any economy. According to the Organisation for Economic Co-operation and Development (2017), the benefits of a vibrant SME sector also include employment opportunities, strengthening of industrial linkages, promotion of innovation, and generation of export revenues. SMEs engage in diverse economic activities and provide the backbone of economic growth and development in both developing and developed economies (Kumar & Rao, 2015). SMEs play a significant role in producing import substituted machinery, mitigating rural-urban drift, producing specialized items



in small quantities to meet diverse needs, mobilization of local resources as well as encourage technological development and innovation (Kumar, 2017). SME sector is the main driving force behind job creation, export earnings, poverty reduction, wealth creation, income redistribution and reduction in income inequality, apart from contributing to efficient allocation of resources. Thus, SMEs expansion boosts employment more than large firms because SMEs are more labour-intensive (Osemene, Salman & Kolawole, 2017).

As a result of the above arguments, small and medium scale enterprises constitute the general government strategy in addressing the challenges of unemployment and poverty. Small and medium scale enterprises (SMEs) can be seen as the driving force of the economy in developed countries and the alternative solution to poverty alleviation in the less developed countries. The creation and development of small and medium scale enterprises (SMEs) have provided essential impetus to the growth and development of many countries; particularly the developed countries such as The United States of America, The United Kingdom, France and China. In such countries, SMEs consist of over 98 per cent of the entire businesses and play a part in more than 65 per cent of employment opportunities, thus contributing over 50 per cent to the Gross Domestic Product (GDP) of those regions (Statista, 2017). The development of SMEs is also an essential element in the growth strategy of most economies and holds particular significance for developing countries. In India, SMEs have emerged as the most vibrant and dynamic sector of the economy during the last five decades. SMEs consist of 51.1 million units in the fiscal year 2014–2015 and provide employment to more than 117.13 million people in Indian (Ministry of Micro, Small and Medium Enterprises, 2016).

In Nigeria, it is on record that SMEs accounts for more than 95% of productive activities, employ over 70% of work force and have the ability to generate up to 70% of Gross Domestic Product (GDP) (Eniola, 2014). However, SMEs in Nigeria have underperformed despite the fact that the SMEs in Nigeria constitute more than 90% of Nigerian businesses, their contribution to the nation's GDP is below 10% (Nigerian Bureau of Statistics, 2018). For instance, the sub-sector employs over 70% of the industrial labour force but produces about 10-15 percent of the industrial output with a capacity utilization of slightly over 30 percent. Business firms in Nigeria are constrained by resources such as technology, finance, marketing, and human resources (Kafigi, 2015). The ability of these firms to compete in the global market depends on their access to financial resources and firms that have better access to these resources are able to exhibit better innovative and economic performance. Finance is necessary in order to help SMEs set up and expand their operations, develop new products, and invest in human capital and infrastructural facilities.

Working capital management is a very important component of corporate finance because it directly affects the liquidity and profitability of a company. Management of working capital, which aims at maintaining an optimal balance between each of the working capital components, that is, cash, receivables, inventory and payables, is a fundamental part of the overall corporate strategy to create value and it is an important source of competitive advantage in businesses. Working capital management is one of the most important issues in organizations; yet many financial



managers find it difficult to identify the important drivers of working capital and the optimum level of working capital (Atseye, Ugwu&Takon, 2015). As a result, companies minimize risk and improve their overall performance if they are able to identify the determinants of working capital.

The efficient working capital management which involves a trade-off between profitability and liquidity risk is particularly important in the global competitive business environment (Aktas, Croci&Petmezas, 2015). Since efficient working capital management is crucial to avoid liquidity risk (i.e., likelihood of financial distress/bankruptcy), it has a significant role in the business viability in times of economic downturn such as recent financial crises. In addition, efficient working capital management will allow firms to redeploy the firm's underutilized resources to higher yielding opportunities which could increase the firm's performance (Aktas, Croci&Petmezas, 2015).

Over the years, there have been efforts by various governments to diversify the economy. Policies have been initiated, committees set up but the seemingly good initiatives have been marred by little commitment from government. For the improved performance of small and medium scale enterprises, successive governments have made serious efforts at making good the policies through schemes, programmes and institutions (Ikon&Chukwu, 2018). However, a number of businesses especially small and medium enterprises (SMEs) have failed in Nigeria because of the inability of their financial managers to plan and maintain the balance between the current assets and current liabilities of the firms. According to Onyinyechukwu(2020), SME sector in Nigeria struggles with issues of accountability, funding, stiff competition from foreigners, security challenges, infrastructure and regulatory bottlenecks, the business owners always persevere and shoot past these limits to continually grow their businesses, and our economy. Most SMEs in Nigeria die within their first five years of existence, a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent survive, thrive and grow to maturity (Aremu&Adeyemi, 2011).

Besides, small businesses are prone to a situation where the production and sales cycles are shorter than the average period of accounts payable thus resulting in a situation where trade debt would build up in an ever-increasing manner until becoming a doubtful end/ or bad debt. The perennial squeeze on cash and credit balances continuously threatens the survival of small and medium scale enterprise in Nigeria. Many companies, irrespective of their age, size or product range, have experienced difficulties in meeting short-term maturing liabilities. The liquidity position of these firms are poor due to the high interest rates on bank loans obtained to meet short-term finance obligations which were necessitated by failed trade credit policies to customers. It is generally observed that the high rate of insolvency in small businesses could often be a consequence of poor and ineffective working capital management (Snober, 2014). Small and medium scale enterprises in Nigeria have encountered several problems in their working capital management such as ignorance about the sources of the working capital; inappropriate management of cash flows, no laid down collection policies of accounts receivable, frequent inventory stock-out, poor control of accounts payable and poor evaluation of investment risk (Oroka, 2013).



According to Agwu and Emeti (2014), other key problems of SMEs are poor power supply, infrastructural inadequacies (water, roads etc.), lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of a succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery and inability to engage or employ the right caliber of staff, cut-throat competition. Hence, the need to examine the impact of working capital management on the performance of small and medium scale enterprises in Kwara state. To achieve this, the following hypotheses are formulated:

Ho<sub>1</sub>: Working capital management practices have no significant impact on the performance of SMEs in Kwara State.

## **LITERATURE REVIEW**

### **Conceptual Review**

Nurein (2014) defined working capital as the excess of current assets over current liabilities. This definition actually brought together the basic tenets of working capital (current assets and current liabilities). There is a consensus among scholars with respect to the definition of working capital which is an amount of money available to finance the organization's short term debt obligation. The availability of this short term fund is a function of excess of current assets over current liabilities. Working capital can simply be said to mean the cash available at hand for the day-to-day running of a firm that is used in its trading operations which is the excess of current assets over the current liabilities (Dauda, 2015). It is also called operating assets or net current assets. Therefore, improved working capital condition in an enterprise can lead to smoother operations, higher productivity, increased profits and stronger relationships with both customers and suppliers (Bellhouse, 2017). On the other hand, a poor working capital condition can cause losses, legal troubles and even bankruptcy. The management should, therefore, play a part in this regard, by predicting future cash flows and advancing strategies to free up cash. Cash flow forecasting will help a firm to strengthen its balance sheet and stabilize its financial state. A combination of a company's operational and financial skills helps to recognize and implement new strategies which generate short-term cash. The right set of executives can set goals for the company, account for its performance levels, be motivated to be enterprising and can function as change agents (Bellhouse, 2017).

According to Mathuva (2010), average collection period is approximately the time that a business takes to receive payments owed it. It is an independent variable that is used as a proxy for collection policy. It is calculated by dividing account receivable by net credit sale and multiplying with 365. The average collection period is the average number of days between the date that a credit sale is made, and the date that the money is received from the customer. The average collection period is also referred to as the days' sales in accounts receivable. The average collection period can be calculated as follows: 365 days in a year divided by the accounts receivable turnover ratio. An



alternate way to calculate the average collection period is: the average accounts receivable balance divided by average credit sales per day.

One of the most important parts of a business is its inventory. Businesses need to be able to keep track of how long it takes to convert inventory into cash because it affects performance (Mekonnen, 2011). Inventory turnover is used by firms as a way to understand how they are performing overtime and relative to other firms in the same industry and once they know how they compare to other industries and how long products take to sell, changes can be made to improve efficiency and profitability (Afeef, 2011). Average payment period refers to the time taken to pay a firm's creditors. According to Peavler, (2015), accounts payables, located on a company's balance sheet represent what the company owes its suppliers or the vendors from which it buys its' inventory and other suppliers. They are current liabilities which are listed on the right-hand of the balance sheet. They are just like unpaid bills and are expected to be repaid to the suppliers within one year. Apart from being a source of funding, accounts payable can be used to assess the quality of a product. According to Afeez (2011), average payment period is the short term liquidity that explains the rate at which a company pays its suppliers. It is an independent variable and it is used as a payment of proxy policy. It is calculated by dividing account payable by purchase and multiplying with 365. Also, Afza and Nazir (2008) the average collection period is the average number of days between the date that a credit sale is made, and the date that the money is received from the customer. The average collection period is also referred to as the days' sales in accounts receivable.

Performance Measurement is viewed as a process of quantifying the efficiency and effectiveness of past actions through acquisition, collation, sorting, analysis, interpretation and dissemination of appropriate data (Neely, 2012). It is a constant review of outcome of an action to determine success or failure of that action. While Neely's definition describes the process, it does not give much guidance to organizations about what it is essentially all about. A more apt definition of the concept is provided by Ogunmokun and Li (2014) who defined performance measurement as an evaluation of how well organizations are managed and the value they deliver for customers and other stakeholders. Ogunmokun, et al., (2014) definition clearly shows the purpose of performance measurement and emphasizes the assessment both of the value an organization gives to its various stakeholders and the way the organization is managed. Organization sets goals and put in place action plan or strategies for achieving the set goals.

### **Theoretical Framework**

Having considered so many theories, this study was anchored on the Trade-off theory. The Trade-off theory demonstrates that firms decide their optimal level of cash holding by comparing the marginal cost and benefits of holding cash. Large investment in current assets under certainty would mean low rates of profitability for the firm, as excess investments in current assets will not earn enough return. A smaller investment in current assets, on the other hand, would mean interrupted production and sales, because of frequent stock-outs and inability to pay its creditors on time due to restrictive policy. Therefore, there must be a trade-off between these two objectives of firms. One objective should not be fulfilled at the cost of the other since both are important. If



we do not care about profit, we cannot survive for a longer period. On the other hand, if we do not care about liquidity, we may face the problem of insolvency or bankruptcy.

The firm must decide about the levels of current assets to be carried for which a firm's technology and production policy, sales and demand condition, operating efficiency is taken into consideration in the policy decision. It may follow a conservative risk-return trade-off. More aggressive working capital approaches are associated with higher return and higher risk while conservative working capital approaches are concerned with lower risk and lower return.

### **Empirical Review**

Vida, Seyed, and Rezvan (2011) studied the relationship between working capital management and corporate profitability of 101 listed companies on Tehran Stock Exchange (TSE) during the period of 2004-2008. Multivariate regression and Pearson correlation were used to test hypotheses. Findings revealed that cash conversion cycle, a key measure of working capital management, has a relationship with corporate profitability. Findings also show that a positive significant relationship exists between logarithm of sales and profitability, and a negative significant relationship exists between financial debt ratio and profitability.

Chuan-guo, Hui-min, Shou and Yan, (2014) examined the influence of strategic choice on working capital configurations and observe how the relationship between working capital ratio and operational performance differs depending on strategy. By clustering the strategic factors of the wholesale and retail industry, we find three categories of strategies: terminal market strategy, middle market strategy, and hybrid strategy. Using the panel data of the listed companies of the wholesale and retail industry as our sample, we analyze the differences in the ways companies configure working capital, the speed with which working capital adjusts to its target, and the effects of working capital on performance for companies that make different strategic choices. The empirical results suggest that working capital is configured and adjusted to its target in different ways under different competitive strategic choices.

Maria Amélia, Pais Paulo, and M Gama (2015) carried out a study on Working capital management and SMEs profitability: Portuguese evidence. Using correlation and regression analysis, the result confirmed a negative relationship with profitability was found for INV, PMP, PMR and CCC variables, results that are aligned with other analyses performed in different business contexts. The term profitability is measured in different ways by the researchers. It can be measured as Gross Operating Profit (GOP), Net Operating Profit (NOP), Return on Assets (ROA) and Return on Investment (ROI), while Working Capital Management was measured on size of the firm (SIZE), days accounts receivable (AR), the number of days accounts payable.

Godfred and Afrifa (2016) investigated Net working capital, cash flow and performance of UK SMEs. A panel data of 21 firms listed in KSE-30 Index for a period of years 2001 to 2014 was



analysed. The results indicate a strong concave relationship between net working capital and performance in the absence of cash flow; however, the relationship becomes convex after taking cash flow into consideration. They concluded that managers can increase value of shareholder and return on asset by reducing their inventory size, cash conversion cycle and net trading cycle.

Rajabi (2016) studied panel data of companies in the Chinese Stock Exchange for the period of 2008 – 2015 to shed light on the empirical studies involving the Determinants of Working Capital Management: Empirical Evidence from Chinese Electronic Industry. The findings revealed that firms should invest more during contracting economy condition and less during expanding economy condition in WC. Accordingly, the ascending in account receivables and inventory are accompanied with rising investment in WCM.

Onyango and Ngahu (2018) examined the influence of working capital management on financial distress in the hospitality industry. More specifically the study determined the influence of cash conversion cycle on financial distress in hospitality industry. Descriptive survey research design was adopted in the study. The targeted population composed of 100 hotels in Nairobi. The study targeted all the financial managers in all the hotels. The study used a simple random sampling method to select 50 hotels whose financial officers served as the study respondents. Data collection was done through use of questionnaires. Questionnaire was tested for validity and reliability. The collected data was analyzed using a statistical package for social sciences. Data was analyzed using descriptive statistics which included frequency, percentages, mean and standard deviation and inferential statistics which included regression and correlation analysis and was presented in tables and figures. Findings from the study concluded that cash conversion cycle, inventory level, accounts receivables and current liabilities were insignificant to financial distress management in hospitality industries.

Sameni and Fakour (2019) evaluated the effect of working capital management components on financial performance and operating cash flows. The data used in this study are financial statements of companies listed in Tehran securities exchange for the period 2007 to 2011. The difference between sales and operating profit as a benchmark for measuring performance and the difference between operating cash flow and operating profit as a measure of operating cash flow has been used. Regression results show that there is no meaningful relationship between the components of working capital management with financial performance and operating cash flow. Muia, Makau and Mwanzia (2019) assessed the effect of working capital management on the financial performance of firms listed at the Nairobi Securities Exchange. The specific objectives of the study were to determine the effects of average collection period and leverage on financial performance of listed manufacturing firms at NSE. Firm performance was measured using Return on Assets (ROA). This study uses descriptive research design to describe the effects of working capital management on financial performance of listed manufacturing firms at NSE, Kenya. The target population was all the 9 listed manufacturing Companies which are listed at Nairobi Securities Exchange as at December 2015. A census of the 9 firms listed manufacturing at the Nairobi Securities Exchange from year 2011-2015 was the sample. This study utilizes secondary data, which was collected by use of content analysis obtained from the annual financial statement reports of listed firms for a period ranging from 2011 to 2015. The collected data was entered into



the Statistical Program for Social Sciences (SPSS version 24.0) and multiple regression analysis method was used to analyze the data. By use of Pearson's correlation, Return on Assets was negative related to Average Collection Period and Leverage. The regression model reveals a significant effect and negative relationships among Average Collection Period and leverage.

Mab and Makoni (2019) investigated the nexus between working capital management and financial performance of firms in South Africa. A panel data of 21 firms listed in the South African Stock Exchange Market for a period of years 2001 to 2014 was analysed. The results indicate a positive relationship between the average payment period (APP) and profitability. They concluded that managers can increase value of shareholder and return on asset by reducing their inventory size, cash conversion cycle and net trading cycle.

Tarek and Rafik (2020) evaluated the relation between firms profitability and its corporate value by applying panel data analysis on 16 companies registered in the Egyptian stock market during the period from 2013 to 2017. The performance of companies is measured through profitability using return on assets (ROA) and firms value were measured by Tobin's Q (TQ) ratio. The working capital management was measured by using current assets ratio (CAR), quick ratio (QR) and cash ratio (CR). The study found according to the statistical results that there is a positive relationship between cash ratio, current ratio with the ROA and quick ratio with the Tobin's Q ratio.

Uchenna, Olayinka, Modebe and Uzoma (2020) examined the impact of working capital management on the performance of selected companies listed on the Nigerian Stock Exchange using panel data for forty (40) firms from the consumer and industrial goods sectors of the economy. Return on assets (ROA) was adopted as proxy for firm performance while cash conversion cycle (CCC), average payment period (APP), inventory collection period (ICP), and average collection period (ACP) were adopted as proxies for working capital management. Estimation of the impact of the exogenous variables (cash conversion cycle, average payment period, inventory conversion period and average conversion period) on firm performance (endogenous variable) was based on the econometric technique of the Ordinary Least Squares. The study produced evidence of significant positive impact of cash conversion cycle, average payment period, and inventory conversion period on firm performance. There is also evidence of non significant negative impact of average conversion period on the performance of the selected firms. Parameter estimates were obtained at 10 per cent level of significance.

Oladimeji and Aladejebi (2020) assessed the impact of working capital management on the profitability of SMEs in Nigeria. The quantitative research method was adopted using relevant secondary data from annual financial reports of selected SMEs. Regression analysis was used to determine if the working capital (WC) variables were a significant predictor of the SMEs' profitability. The finding shows that for the period 2014 – 2018, there is no relationship between WCM and SME's profitability.

## **METHODOLOGY**



For the purpose of this study, the Correlational Research Design was used to examine the statistical association or relationship between two or more variables. Correlational research design is therefore considered as the most appropriate for this study because it allows for testing of relationships between or among variables and making of predictions regarding these relationships. The population for the study is all Small and Medium Scale Enterprises operating in Kwara State, Nigeria. The data of all SMEs collected from both Ministry of Industry and Solid Mineral Development and also Kwara State Ministry of Commerce and Cooperatives shows that a total number of 804 viable small and medium scale enterprises are currently operating in Kwara State. Kwara State consists of 16 Local Government areas. These are; Asa, Baruten, Edu, Ekiti, Ifelodun, Ilorin East, Ilorin South, Ilorin West, Irepodun, Isin, Kaiama, Moro, Offa, Oke-Ero, Oyun and Pategi. They are: Asa, Baruten, Edu, Ekiti, Ifelodun, Ilorin East, Ilorin South, Ilorin West, Irepodun, Isin, Kaiama, Moro, Offa, OkeEro, Oyun and Pategi. The sample size for this study is three hundred and seventy (373) owners/managers of small and medium scale enterprises in Kwara state. Several data collection methods were considered for this study including participant observation and a well-structured questionnaire.

**Model Specification**

The model applied in this study is a conjoint adaptation from Egbide(2009);Falope and Ajilore (2009) and Akinlo (2012). Working capital variables such as account receivable management practices and account payable management practices are two of the most important determinants of profitability of small and medium scale enterprises. In the light of this the study models the direct taxes in its functional form as:

PRO = f (CMP, IMP, ARMP, APMP)... .....(3)

Econometrically, the equation can be written as:

PRO=β<sub>0</sub>+β<sub>1</sub>CMP +β<sub>2</sub>IMP +β<sub>3</sub>ARMP +β<sub>4</sub>APMP +μ.....(4)

Where:

PRO= Profitability (Measured with total profit)

CMP= Cash Management Practices

IMP= Inventory Management Practices

ARMP= Account Receivable Management Practices

APMP= Account Payable Management Practices

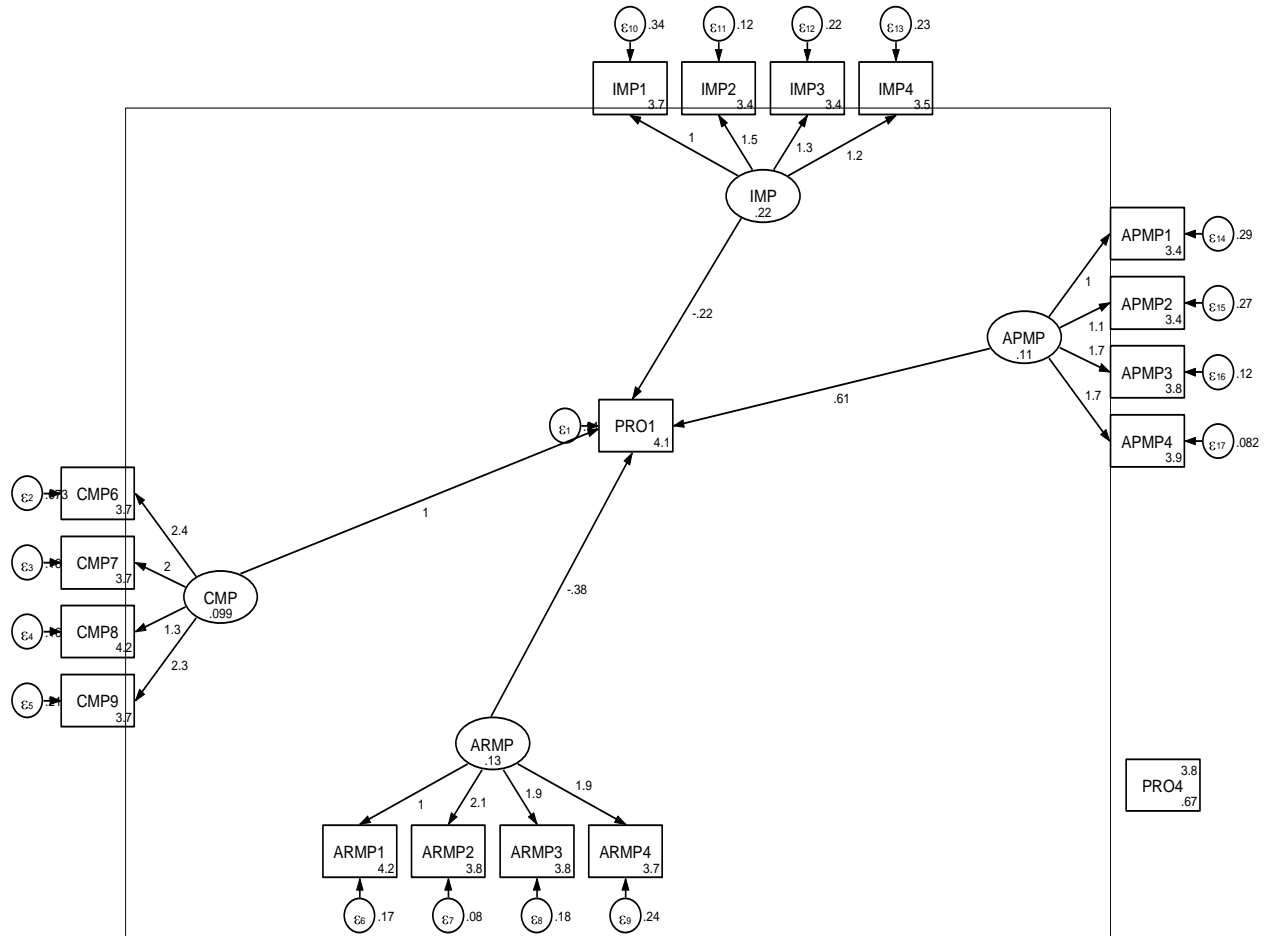
β<sub>0</sub>= Intercept

β<sub>1</sub> and β<sub>2</sub> = parameter estimates associated with the relationship between the profitability of SMEs and the working capital management in Kwara State.

$\mu$ = error terms.

RESULTS AND FINDINGS

Fig 4.1 Standardized Path Model for Profitability



Source: Author’s Computation, 2020

The result of research which is poured in the form of full structural model by using LISREL 8.70 obtained a model of track diagram, that is standardized model and t-value model as shown in the following figure:

Table 4.1: Summary Results for the path coefficients for Profitability

	Coefficient	OIM Standard error (P. value)
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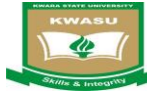
Measurement			
PRO1 <-	CMP	1	(constrained)
	ARMP	-.3823953***	.1190942 (0.001)
	IMP	-.2244735***	.0663901 (0.001)
	APMP	.6072791***	.1137167 (0.000)

Source: Author’s Computation, 2020

From the result obtained above, it can be observed that all the variables significantly affect profitability at a 5% level of significance. From the result, a unit improvement in the Account Receivable Management Practices decreases profitability by 0.38 units, while a unit improvement in Inventory Management Practices decreases profitability by 0.22 units. There is however a positive impact of the Account Payable Management Practices on profitability as can be found. Note the details of the measurement model can be found on appendix 2 of this study.

**Table 4.2 Post Estimation Results**

Fit statistic	Value	Description
<b>Likelihood ratio</b>		
chi2_ms(87)	613.576	model vs. saturated
p > chi2	0.000	
chi2_bs(105)	1978.909	baseline vs. saturated
p > chi2	0.000	
<b>Population error</b>		Root mean squared error of approximation
RMSEA	0.164	
90% CI, lower bound	0.152	
upper bound	0.176	
pclose	0.000	Probability RMSEA <= 0.05
<b>Information criteria</b>		



AIC	6603.299	Akaike's information criterion
BIC	6786.309	Bayesian information criterion
<b>Baseline comparison</b>		
CFI	0.719	Comparative fit index
TLI	0.661	Tucker-Lewis index
<b>Size of residuals</b>		Standardized root mean squared residual
SRMR	0.334	Coefficient of determination
CD	1.000	

Source: Author’s Computation, 2020

The study tested the main standardized path coefficients between constructs. The standardized hypotheses of what factors predict profitability by analysing coefficients for direct paths with standard error are described in [Table 4](#) and [Fig 2](#). The model fit statistics (RMSEA = 0.164; CFI = 0.719; TLI = 0.661; SRMR = 0.334) provided enough evidence that model fits reasonably for the data. The results from the Bentler-Raykov squared multiple correlations also showed that the model explained slightly more than half of the variance.

**Model Result using Ordered logit Estimation Technique**

Table 4.3: Estimation Results of Ologit Estimation Technique. Dependent variable: PRO

Variables	Coefficient	Standard error (P. value)
<b>CMP1</b>	1.575421***	.209114 (0.000)
<b>ARMP1</b>	-.6241527***	.2075201 (0.003)
<b>IMP1</b>	-.3754485***	.1380722 (0.007)
<b>APMP1</b>	.5051616***	.1859711 (0.007)
<b>/cut1</b>	7.371509	1.179675
<b>/cut2</b>	11.14225	1.35492

Log likelihood = -92.795399, LR chi2(4) = 125.52, Prob > chi2 = 0.0000

Source: Author’s Computation, 2020



The ordered logistic model was employed to investigate the impact of working capital management on profitability of small and medium scale enterprises in Kwara state of Nigeria. The response categories are coded from 1 to 5 for responses (strongly disagree to strongly agree) respectively. The use of this model was informed by the natural ordering of the response categories (strongly disagree, disagree, neutral, agree to strongly agree). The result of the model is presented in the Table 4.6 which displays the model as a good fit of the true relationship between the dependent and independent variables. This indicated by the values of the log ratio chi-statistics 125.52 whose probability value is 0.0000.

The independent variables for the study are cash management practices (CMP), account receivable management (ARMP), inventory management (IMP) and account payable management (APMP) while the dependent variable is profitability. The result in the table illustrates cash management practices, account receivables, investment management practices and account payable practices are significant determinant of profitability of small and medium scale enterprises of Kwara state in Nigeria. The result further showed that all the variables except account receivables and investment management practices are positively related to profitability. This implies that, the improvement in cash management and account payables practices will improve the profitability of small and medium scale enterprises of Kwara state in Nigeria by 1.575421 and .5051616 respectively and vice versa while an increase in account receivables and investment management practices will reduce the profitability of small and medium scale enterprises of Kwara state in Nigeria by .6241527 and .3754485 vice versa.

## **CONCLUSION AND RECOMMENDATIONS**

The study concludes that working capital management practices are significant determinant of profitability of small and medium scale enterprises. The study also concludes that working capital influences the sales growth of SMEs in Kwara state and that working capital practices influences customer service delivery by SMEs in Kwara state. The study concluded that working capital impacts significantly on performance of small and medium scale enterprises in Kwara state.

The conclusion of this study aligns with the underpinning theory, which is the trade-off theory. The trade-off theory is concerned with the balance the objectives of profitability and liquidity of firms. It was also concluded that investments levels of different companies affected the profitability, whereby companies with very high total assets were not very profitable. The study concluded that there exists a strong relationship between working capital management approaches and financial performance.

Based on the above conclusions, the following policy recommendations are suggested that:

- i. Management of small and medium scale enterprises should pay more attention on reducing the number of day's accounts receivable and inventories to a reasonable minimum to generate enough profitability for owners and shareholders.
- ii. The government through the Small-Scale Industry (SSI) division in the Federal Ministry of industries of the various working capital management practices (i.e. cash



- management practices, accounts receivables management practices, inventory management practices, accounts payable management practices, and investment management practices), to enable them formulate and implement favourable policies that would enhance the working capital management practices of small and medium scale enterprises.
- iii. Management of SMEs should try balance between liquidity and profitability. This is because the rates of liquidity in almost all the companies under study were low. The managers of these companies should make sure they maintain adequate cash, at every point in time, so that they meet up with their financial obligations at all time.
  - iv. The management of SMEs should be diligent in handling of stocks/inventories, so that they would not experience stock-outs.

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