ISSN: 2658-8455
Volume 5, Issue 8 (2024), pp. 260-274.

Working capital management and financial performance: The case of small and medium sized businesses in economic distress

Etienne François ELOUNDOU, (*PhD, Lecturer*)
Laboratory of Economics and Applied Management, Department of Accountancy and Finance,
Faculty of Economics and Applied Management
University of Douala, Cameroon

Correspondence address :	Lecturer and researcher, University of Douala, Faculty of Economics and Applied Management (FSEGA), BP. 4032 Douala.
Disclosure Statement :	Authors are not aware of any findings that might be perceived as affecting the objectivity of this study and they are responsible for any plagiarism in this paper.
Conflict of Interest :	The authors report no conflicts of interest.
Cite this article :	ELOUNDOU, E. F. (2024). Working capital management and financial performance: The case of small and medium sized businesses in economic distress. *International Journal of Accounting, Finance, Auditing, Management and Economics*, *5*(8), 260-274. https://doi.org/10.5281/zenodo.13328599
License	**This is an open access article under the CC BY-NC-ND license**

Received: June 30, 2024 *Accepted: August 08, 2024*

Working capital management and financial performance: the case of small and medium sized businesses in economic distress.

Abstract:

This paper examined the impact of working capital management practices on the financial performance of small and medium-sized enterprises (SMEs) in the Kumba Municipality. The principal objective of the study was to examine the impact of working capital management practices on the financial performance of small and medium-sized enterprises (SMEs). The research adopted a descriptive and causal research design based on the primary data collected using a well-designed and self-administered questionnaire. A stratified random sampling technique was employed to select a sample size of 97 respondents. A regression analysis was conducted, and a Pearson correlation was employed to ascertain the strength of the relationship between working capital management practices and the financial performance of SMEs. The findings of the study indicate that inventory management and accounts receivable management practices exert a significant influence on the financial performance of SMEs. Moreover, inventory management emerges as the variable with the highest explanatory power for financial performance, as it serves to secure the long-term future of the company through speculation. In light of these insights, the study proposes that SMEs should adopt effective working capital management practices, such as inventory management and accounts receivable management. Additionally, reducing the cash conversion cycle could prove beneficial for SMEs, as it may lead to increased sales through enhanced customer satisfaction.

Keywords: Working Capital Management, Financial Performance, Small and Medium Size Enterprises.
Classification JEL: G32
Paper type: Empirical Research

ISSN: 2658-8455
Volume 5, Issue 8 (2024), pp. 260-274.

IJAFAME
International Journal of Accounting, Finance, Auditing, Management & Economics

1. Introduction

Small and medium-sized enterprises are an important sector of any economy, especially those of developing countries. Their well-functioning and sustainability is of interest to government and society at large. SMEs are a source of dynamic innovation and flexibility in developed countries and should be given a chance to function as such in developing countries. In Cameroon, banks do not offer loans to SMEs to enable them to continue their activities because, on the one hand, the majority of SMEs are considered high-risk borrowers because they do not have sufficient collateral to obtain loans from banks. On the other hand, they do not keep proper accounts and lack financial literacy (Ndjeck et Eloundou, 2022).

Panigrahi, (2013) asserts that trade credit is used to provide money to businesses that do not have the means to obtain money through regular methods. One of the main objectives of enterprises is to develop their businesses in order to generate money and stay in business. Both suppliers and customers benefit from trade credit as it allows them to develop their business and establish long-term relationships. Trade credit varies from one customer to another. In general, the amount of trade credit is determined by the quantity of goods purchased, but also by the turnover of the goods. Goods with a high degree of liquidity have low amounts of trade credit and vice versa. In highly competitive markets, the amount of trade credit is generally very high. Firms with large inventories may also offer trade credit. Long and others, (1993) found that high amounts of trade credit are granted for goods with long production times.

Working capital is the movement of liquid assets necessary for the day-to-day running of a business. It consists of funds invested in current assets that can be converted to cash in the normal course of business within a short period of time without loss of value and without disruption to the organisation. It is a vital element in any organisational environment that requires careful attention, proper planning and management (Owolabi S. A., & Alu CN., 2012). Efficient management of working capital should provide desirable cash to meet a firm's short-term obligations, Raheman & Nasr (2007). In fact, for a trading or distribution company, it constitutes more than half of its total assets and thus directly affects the profitability and liquidity of the company (Raheman & Nasr, op.cit.). Thus, working capital management is one of the most important segments in the company's financing decisions; an important incentive for the company's performance.

The origin of these constraints has been attributed to problems of information asymmetry (Stiglitz & Weiss A., 1981), transaction costs, lack of transparency in accounting records (Chalmers et *al.*, 2020), excessive short-term debt (Peel et *al.*, 2000), volatility of results and lack of adequate collateral. Given these constraints, the management of working capital in SMEs is relevant as it can significantly influence the prospects for survival and development. The COVID-19 pandemic and the socio-political crises throughout Cameroon have made working capital management more difficult for SMEs in the Municipality of Kumba. In Cameroon, few studies have been conducted to examine the relationship between working capital management practices and financial performance of SMEs, such studies are even more lacking in the case of Cameroon's cities. Due to this gap, our research is aimed at answering the question: *What is the effect of working capital management practices on the financial performance of small and medium enterprises in Cameroon?*

The rest of this article is structured as follows: after a review of literature, we will deploy the methodology of the filed research, a section will present the results of the research which will be discussed, and we will conclude our work.

2. Conceptual Review of Small and Medium Size Enterprises, Working Capital management and Enterprises and Financial performance

This part of the study presents the main concepts of the thesis to provide an understanding of SMEs and financial performance. The objective of our research is to examine the effect of management practices of working capital components (inventory turnover period, accounts receivable period, accounts payable period and cash conversion cycle) on the financial performance of small and medium enterprises in Cameroon.

2.1. Theories on the relationship between Current Assets Management and Financial Performance

Current assets are the assets of an enterprise that are used to carry out its operating activities. They include circulating assets and treasury assets. Circulating assets are assets that a company can normally use, dispose of and trade in the ordinary course of business without the need to obtain the secured creditor's consent (examples of circulating assets are trading stock or inventory, debtors or receivables).

Treasury assets are marketable assets that are traded for meeting legal obligations. Treasury assets include cash on hand, cash in banks, notes receivable and marketable securities. There are a number of theories that explain why and how firms should hold and manage their inventories, receivables and cash flow, and how the management of these assets is expected to affect the financial performance of firms. Firms want to hold inventory and at the same time have customers and cash from the sale of inventory. However, there are costs associated with holding inventory, so different theories try to find ways to minimise the costs associated with holding inventory.

According to Hill & Sartoris (1992), the concepts and approaches used to deal with cash management problems can also be used to manage inventory more effectively. Some of the theories that have been put forward to explain why firms carry inventory include the transactional motive theory, the precautionary motive theory, the speculative motive theory and the just-in-time (JIT) theory. The main objective of firms is to sell as much of their products as possible. While firms mostly want to sell cash, they are sometimes forced to lend to their customers. This is a special case of non-financial seeking firms.

Burkart & Ellingsen (2004) argue that suppliers not only sell goods and services but also extend large amounts of credit. According to Long et *al.* (1993), the explanation for the provision of trade credit is still not very clear. Long et *al.* (1993), Petersen & Rajan (1994) ; Raheman & Nasr (2007) have all put forward theories to explain why firms offer trade credit to their customers, but none have been able to fully explain the widespread use of trade credit.

2.1.1. Transaction Cost Theory and Financial Performance

Transaction costs are the costs associated with the operation of the economic system. Developed by Ferris (1981), the purpose of transaction cost theory is to explain the fact that trade credit improves operational efficiency by reducing the transaction costs incurred in making payments to suppliers. He contends that buyers could manage cash more effectively, particularly for seasonal businesses that tend to build up inventory before the peak season, which causes inventory holding costs (such as storage fees, financing costs) to rise.

According to Emery (1987), the transaction cost motive for granting trade credit is purely motivated by the desire to increase operational flexibility, which can lead to higher profitability. Transaction cost theory is useful in explaining the behaviour of organisations in the supplier-buyer relationship (Williamson, 1988). According to Coase (1988), every market transaction involves transaction costs. Transaction cost theory explains that firms use trade credit to reduce the cost of transactions between them, which can lead to increased profitability (Petersen & Rajan 1997). Without trade credit, firms would have to pay on delivery of goods and services.

ISSN: 2658-8455
Volume 5, Issue 8 (2024), pp. 260-274.

IJAFAME
International Journal of Accounting, Finance, Auditing, Management & Economics

When payment terms are agreed, a firm is able to separate its purchase cycle from its payment cycle, as this limits frequent agreements on immediate payment. This will also limit the number of transactions between seller and buyer, which in turn will reduce costs. By separating purchases from payment and also agreeing on a fixed payment period, a firm can plan and manage its financial resources with certainty (Schwartz, 1974). In the absence of trade credit, firms may be forced to hold large sums of money as a precautionary measure against unexpected or sudden demand for products. Stowe & Gehr (1985) argue that separating payment from delivery reduces the risk of cash theft and therefore improves profitability. In addition, a firm experiencing large fluctuations in demand can smooth production by adjusting production schedules, reducing prices or using trade credit.

2.1.2. Transaction Motive Theory and Financial Performance

The transaction motive theory suggests explain how firms can increase their profit by keeping inventory. First firms can increase profitability through a reduction of inventory holding period by keeping the minimum required inventory in order to satisfy the expected demand of production. Management forecast the future sales demand and therefore keep the required inventory to meet the said demand. Companies must also keep minimum inventory for display or demonstration purposes (Bhattacharya, 2008), as customers would always like to examine a sample of a particular product before committing to place an order. By keeping minimum inventory, the firm reduces the inventory holding period, and to a reduction in the various cost associated with the holding of inventory, therefore leading to higher profitability. Secondly, firms can increase profitability by buying in bulk.

Even though this will increase the inventory holding period as the quantity of inventory will increase, buying in bulk may reduce the procurement cost of production. The bulk purchase cost savings will also result in a decrease in the cost of sales of the product, which will reduce the overall price of the product leading to more profitability. A company that buys in bulk enjoys quantity(trade) discount from the supplier will save companies money in terms of transportation, because instead of going two or three trips a company will make only one trip. Bulk purchase will also save a company from the fixed cost of ordering including placing and processing orders or setting up costs.

2.1.3. Precautionary Motive Theory and Financial Performance

The precautionary motive theory suggests a positive association between inventory holding period and profitability. Firstly, longer inventory holding period will avoid the prospect of a stock out situation (Wang 2002), which could result in the decline of profitability. A stock out is a situation whereby a company runs out of inventory. A stock out situation will have a catastrophic effect on a company's profitability because a company without stock may lose its goodwill (Bhattacharya 2008). Lack of inventory will drive both current and potential customers away to competitors. This will negatively affect the current and future profitability of the firm and will leave the firm with a bad name.

Wang (2002) argues that the stock out avoidance theory hold more truth than any other theories explaining the association between inventory holding period and profitability. Secondly, according Modigliani (1957), because of uncertainty in the lead time, increase in the inventory holding period for will lead to higher profitability. This is because unforeseen circumstances can cause a delay in the delivery, which can cause a loss of opportunity for prospective sales, which will reduce the profitability of a company. In addition, due to the uncertainty in lead-time and the time gap between placing an order and receiving inventory, companies are required to keep a safety or buffer stock. This is the minimum amount of inventory kept preventing stock-out whiles awaiting delivery of inventory, in order to avoid the undesirable consequences of the inability to satisfy demand.

2.1.4. Speculative Motive Theory and Financial Performance

According to the theory of the speculative motive, a longer inventory holding period can lead to higher profitability because of the prospect of realising abnormal profits in the future (Christiano & Fistzgerald, 1989). Firms expect higher price changes for their products, which leads to higher profitability. The holding period of inventories increases as long as future prices are expected to rise. However, the expected increase in future prices should be sufficient to compensate for the various costs associated with higher inventory holding. The expected higher price changes reason for increasing the inventory holding period works best under inflationary conditions (Hill & Sartoris, 1988). Under speculative conditions, firms withdraw old versions of products from the market, creating an artificial scarcity of the old products. Another theory of speculative motives for higher inventory holding periods is an expected change in the product. A change in the product will result in the old version being withdrawn from the market. This will increase the demand for the old product in excess of the supply, causing the price to rise. The increase in price will result in an increase in the firm's profitability. It is therefore common for sellers to increase inventory holding periods when products are about to be withdrawn from the market because of the expected future higher price for them.

2.2. Assumptions regarding working capital management and financial performance

2.2.1. Hypothesis on Inventory Management

Inventory, as a component of WCM[1] is very important for firm profitability. Ibrahim and al. (2022), have shown that a firm's profitability is affected by the amount of inventory held. Low amount of inventory held shows that the firm is able to dispose of inventory quickly, while higher inventory level shows the slowness of the firm to dispose of inventory (Deloof, 2003). High inventory levels help firms to achieve high sales and prevent them from experiencing trade disruptions caused by stockouts in the production process due to loss of business customers (Deloof, 2003; Falope & Ajilore, 2009). According to Ibrahim et *al.* (2022), lack of stock can also lead to poor customer service as customers may not be adequately served. This may cause customers to switch to other suppliers. High inventory will improve the firm's sales and profitability as it will prevent firms from rushing to make emergency purchases (which require additional costs). High levels of inventory can also cause stoppages in the production line, which can have a negative impact on profitability because the firm may not be able to achieve the required quality standard due to the emergency purchase.
There have been mixed empirical findings on the relationship between firm profitability and inventory management. While Eroglu & Hofer, (2011) found a significant positive relationship, Falope & Ajilore, (2009) found a significant negative relationship. However, since high levels of inventory are associated with holding costs (e.g. security costs, rent, heating, obsolescence, theft) for firms, the following hypothesis is formulated:
H_1: There is a significant positive relationship between inventory management and financial performance.

2.2.2. Hypothesis on Accounts Payable Management

Accounts payable are a short-term source of finance for the enterprise; they form an important part of a company's current liabilities, which are used to finance its current operations.
A firm with a longer accounts payable ratio means that the firm takes a longer time to settle its short-term debts and vice versa. This tends to cause the firm to lose the discount for early payment (Smith, J. K., et *al.*, 1999). This will negatively affect the profitability of the firm as the firm may face high opportunity costs due to the loss of discounts and inherent high costs due to the credit period.

[1] Working Capital Management

ISSN: 2658-8455
Volume 5, Issue 8 (2024), pp. 260-274.

IJAFAME
International Journal of Accounting, Finance, Auditing, Management & Economics

Studies by Deloof, (2003), Lazaridis & Tryfonidis (2006); García-Teruel & Martínez-Solano, (2007). All of them found a negative relationship between the accounts payable period and profitability. It is argued that firms could increase their profitability by having a longer credit period. A longer credit period leads to a reduction in transaction costs, thereby increasing the profitability of firms. The availability of cash flow generated by the delay in payment may also lead to an increase in investment in accounts receivable and inventory days held, which may lead to higher profitability as firms are able to reduce their transaction costs of paying bills (Ferris, 1981). On their part, Alvarez & Vazquez, (2021) found a significant positive relationship between accounts payable management and profitability. This suggests that increasing accounts payable has a positive effect on the performance of companies. Based on this, the following hypothesis is formulated:

H_2: There is a significant positive relationship between accounts payable management and profitability.

2.2.3. Hypothesis on Accounts Receivable Management

Trade receivables are short-term loans granted by the company to customers. It represents an investment in the firm's working capital (WC). By giving customers time to pay for their purchases, financial resources are provided to the customers. According to Banos C. et *al.* (2013), accounts receivable have a significant impact on the profitability of a firm. A firm with a very long accounts receivable period will also take a long time to receive payment from its customers. Accounts receivable can act like any other sales promotion tool to increase sales and profitability. Garcia-T., and Martinez-S., (2010), found that increasing the level of accounts receivable stimulates sales, customers buy more when they are given a much longer time to pay for their purchases.

Ketata, (1996); Ramachandran & Janakiraman, (2009), found a positive relationship between accounts receivable days and profitability. On the contrary, a very high investment in accounts receivable has negative effects such as default risk, late payment and transaction costs of converting receivables into cash, which may harm a firm's profitability (Hills & Sartoris, 1988). Based on this literature, we propose the following hypothesis:

H_3: There is a significant positive relationship between credit management and profitability.

2.2.4. Hypothesis on Cash Flow Management

Cash management can be referred to as the processes used by a company to efficiently process its accounts receivable and accounts payable in order to optimise its cash flow position and facilitate the effective management of its business operations. Cash is the primary asset used to pay obligations and must be managed accordingly to maximise returns.

Previous studies (Falope & Ajilore, 2009) used CCC[2] as the traditional measure of working capital management. It measures the time lag between the expenditure for the purchase of raw materials and the collection of sales of finished goods. Soenen (1993) asserts that the length of the CCC determines the profitability of the firm. Firms with a longer cash conversion cycle often take longer to pay their suppliers than to collect sales of finished goods from their customers. Banos-Caballero et *al.* (2013), argue that firms with a shorter cash conversion cycle are able to maximise profitability due to their ability to generate funds internally, which could reduce their reliance on external financing. As such, firms are able to finance their current assets with suppliers' credit, thereby avoiding the need for short-term loans, which can be very expensive and inaccessible to some firms, particularly smaller firms Ketata, (1996), thereby reducing profits. A lower cash conversion cycle is also an indication of a firm's efficiency in the use of its working capital. It shows how quickly the firm is able to convert its inventory into

[2] Cash conversion cycle

sales and how quickly it is able to collect receipts from credit sales while slowing down its cash disbursements (Ketata, op.cit). This helps to improve the firm's profitability. To this end, we hypothesised the following:

H_4: There is a significant negative relationship between cash conversion cycle and profitability.

3. Field research methodology

We begin by presenting the area of study, then the research design, the sources of data collection, the population of study, the sampling technique and sample size, method of data collection, processing and analysis.

3.1. Method of data collection and area of study.

Data for the study was collected from non-financial SMEs in Kumba Municipality. Our study area is Kumba Municipality. Kumba is one of the cities in the South West Region of Cameroon. It is the headquarters of the Meme Division and links four divisions (Ndian, Manyu, Kupe Manuguba and Fako Division) of the region's six divisions, and is itself the headquarters of another division. Administratively, the city is divided into three Municipal Councils, the Kumba I, Kumba II and Kumba III Municipal Councils. Each of the councils has an outlet from the city to other neighbouring towns and villages, and therefore serves as a meeting point. However, with the arrival of the COVID-19 pandemic and the ongoing socio-political crises, economic activities have been severely affected.

3.2. Research Design

According to Orodho (2000), a research design is defined as the scheme, outline or plan that is used to generate answers to the research problems. The research was conducted within the conceptual structure. It provides the blueprint for the collection, measurement and analysis of data.

A causal research design was used in the study. Causal research is a type of conclusive research that attempts to establish a causal relationship between two or more variables; it is a comparative, also known as ex post facto (after the fact) research design; an approach that attempts to find a causal relationship between an independent variable and a dependent variable. This design is used in our study because we are investigating a cause and effect relationship between two variables, WCM, the independent variable, and financial performance, the dependent variable. It will allow us to determine the effect of WCM on the financial performance of SMEs.

3.3. Sources of Data Collection and sampling

In our research we have used primary data and secondary data.

Primary data is data collected by the researcher from first-hand sources using methods such as surveys, interviews, questionnaires. Primary data has been collected from the primary source. The data is raw data collected directly from the respondents in the field by the researcher and processed into information according to the research objectives.

3.4. Sampling Technique and size

The study used stratified random sampling. Stratified random sampling is the process of dividing a study population into geographical zones and then using random sampling to select the strata to be used in the sample. Strata were used because of the heterogeneous nature of the study population. Four strata were used in our sample, consisting of Kumba town, Fiango, Kosala and Mabanda, each with 30 SMEs, making a total of 120 SMEs.

ISSN: 2658-8455
Volume 5, Issue 8 (2024), pp. 260-274.

IJAFAME
International Journal of Accounting, Finance, Auditing, Management & Economics

We also targeted 120 respondents from SMEs in Kumba Municipality out of a target population of 300 respondents currently working in the different departments. Respondents were approached in all parts of the municipality, with deliberate attempts to include representative samples of men and women, young and old, and different types of SMEs. A total of 120 questionnaires were distributed, of which 97 were completed and returned. This gives us a response rate of (97/120)*100 = 80.83%, which is high enough for the responses to be considered valid in our research.

In addition, the respondents were randomly selected to ensure that our findings are representative of the target population and to meet the statistical assumptions that samples should be random.

3.5. Model specification.

The causal model, which expresses the mathematical relationship and is based on the above hypotheses, is presented below.

The general Model is: Financial Performance = f(Working Capital Management).

$$Y = \beta_0 - \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 - \beta_4 X_4 + \beta_5 X_5 + E,$$

Where:

Y = Financial Performance (profit growth)

β_0 = intercept, value of Y when X values are zero

X_1 = Inventory management (WCM.);X_2 = Accounts receivable management (ARM)

X_3 = Accounts payable management (AMP) ; X_4 = Cash flow management (cash conversion cycle, Inv.Mag) ; X_5 = Leverage (Debt) ; E= error margin normally distributed about the mean of zero ; $\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 are coefficient of X_1, X_2, X_3, X_4 and X_5

Table 1: List of variables

Variables	Codes	Mesures	Sources
Profit growth	ROA	ROA_t -ROA_{t-1} (earning before interest and tax/Asset)	Padachi, K., (2006). Banos-Caballero et al., (2013)
Number of days accounts receivable	ARM	365×(Accounts receivable/ Sales)	Falope and Ajilore, (2009)
Number of days accounts payable	AMP	365×(Accounts payables/Purchases)	Alvarez & Vazquez (2021)
Number of days of inventory	WCM	365×(Inventories/Purchases)	García-Teruel, P. J., & Martínez-Solano, P. (2007)
Cash conversion cycle	Inv.Mag	ARM+ WCM-AMP	Soenen (1993).
Debt	LEV	Debt /Liabilities	Alvarez & Vazquez, (2021)
Size	**Log (assets)**	Logarithm of assets	Alvarez & Vazquez, (2021)

Source: Author

4. Research results and managerial implications.

4.1. Bivariate Associations

The correlations between the seven main variables are shown in Table 2. The correlations were generally low, especially between the dependent and independent variables.

To further assess the influence of the background variables on the relationship between WCM and financial performance, an analysis of the covariance was performed. The independent variables included the four WCM independent variables and the background variables. Variable selection was used to find the best model for each response. First, nonsignificant interaction(s) were removed starting with the interaction term with the highest p-value; and then nonsignificant main effects were removed one by one, starting with the one with the highest p-value.

Table 2: Pearson Corrélation coefficients

	X1_IM	X2_ARM	X3_APM	X4_CFM	LEV	SIZE	Y_FP
X1_IM	--						
X2_ARM	.010	--					
X3_APM	.298**	.469**	--				
X4_CFM	.272**	.157	.380**	--			
LEV	.338**	.248*	.103	-.001	--		
SIZE	.403**	.174	.145	.012	.652**	--	
Y_FP	.405**	.234*	.135	.006	.918**	.899**	--
***. Correlation is significant at the 0.01 level (2-tailed).*							
**. Correlation is significant at the 0.05 level (2-tailed).*							

Source: Author

4.2. Descriptive Statistics of Background Variables

The eight background variables were summarised using counts and percentages. These were presented using a frequency table and percentages. The results are shown in the tables below (Tables 2, 3 and 4).

Table 3: Respondents age, gender, and education (Personal Characteristics)

Age			Gender			Education		
	N	percent		N	percent		N	percent
Below 25 years	4	0.04	Female	40	0.41	Secondary level	26	0.27
25-30years	21	0.22	Male	57	0.59	Bachelor degree	35	0.36
30-35years	27	0.28				Master Degree	25	0.26
35-40years	10	0.10				Primary level	3	0.03
Above 40years	35	0.36				Professional qualification	8	0.08

Source: Author

The personal characteristics (age and sex) and education of the respondents are shown in Table 3 above. There were more male respondents (59%) than female respondents (41%). There were more respondents aged over 40 (36%) than any other age group, and more respondents (36%) had a Bachelor's degree than any other qualification.

Table 4: Number of staff and how long the business has lasted

Number of Staff			Business duration		
	n	percent		n	percent
0-10	78	0.80	Less than 10years	54	0.56
10-20	8	0.08	10-20years	30	0.31
20-30	4	0.041	20-30years	13	0.13
30-50	7	0.072			

Source: Author

Table 4 shows that most enterprises have been in existence for less than 10 years (enterprise lifetime = 56%) and that most enterprises (80%) have less than 10 employees.

Table 5: Respondent's length of stay (Tenure), position in business, and type of business

Tenure			Position			Type		
	n	percent		n	percent		n	percent
0-5years	29	0.3	Manager	57	0.59	Limited Liability Company	12	0.12
5-10years	33	0.34	Accountant	22	0.23	Partnership	27	0.28
10-15years	9	0.09	Cashier	13	0.134	Sole Proprietorship	58	0.6
15-20years	20	0.21	Finance Officer	5	0.05			
Above 20years	6	0.06						

Source: Author

ISSN: 2658-8455
Volume 5, Issue 8 (2024), pp. 260-274.

IJAFAME
International Journal of Accounting, Finance, Auditing, Management & Economics

The results from Table 5 show that most of the respondents had been in business for less than ten years (tenure) and most of the respondents were managers (position = 59%). The majority of respondents operated a sole proprietorship type of business (type = 60%).

4.3. Descriptive statistics of WCM (Working Capital Management) and Financial Performance Variables

The descriptive statistics of the main variables in this research are summarised in the subsections below. The data are described in terms of minimum, mean, median, standard deviation, maximum and number of participants. There were no missing values, so the sample size is the same for all variables. A summary of the variables (adjusted sum of scores) used for formal statistical testing is shown in the tables.

Table 6: Descriptive statistics of main (WCM and Financial performance) variables

	Minimum	Mean	Std.Dev	Median	Maximum	N
X1_WCM	8	15.95	3.87	17	23	97
X2_ARM	9	16.56	3.29	17	25	97
X3_AMP	8	13.29	3.12	14	19	97
X4_InvMag	4	8.690	2.13	9	12	97
Y_Profit	2	11.53	3.54	11	20	97

Source: Author

From table 6 above, accounts receivable management has a mean score of 16.56, with a maximum score of 25 and a minimum score of 9. Cash flow management has a mean score of 8.69, with a maximum score of 12 and a minimum score of 4. Profit growth has a mean score. More attention seems to be paid to receivables than to any other working capital component, while cash flow management receives the least attention.

4.4. Influence of inventory management on financial performance.

The influence of inventory management on profit growth was accessed using a linear regression analysis between profit growth as the dependent variable and inventory management as the independent variable. This was fitted using the package in R software and the results are presented in Table 7. For this model, the R-squared was 0.314, the adjusted R-squared was 0.3047 and the p-value was 0.0007191. The parameter estimate for inventory management (X1_WCM), as shown in Table 6, is 0.341408 with a significant p-value. This indicates that for every unit increase in inventory management, profit growth will increase by 0.341408.

Table 7: Coefficients from the regression model of Inventory on profits growth

	Term	Estimate	Std.error	Statistic	P.value
1	(Intercept)	5.658161	1.602067	3.531789	0.000639
2	X1_WCM	0.341408	0.09765	3.49625	0.000719

Source: Author

The results in Table 7 show that inventory management has a positive relationship with the measure of financial performance. This result confirms our first hypothesis (H_1). Inventory management has a significant and positive effect on the financial performance of SMEs in Kumba Municipality.

In the context of economic recession, this result also confirms that of Ketata, (1996). The result of this study confirms the result of the research conducted by Chalmers and Shan, (2020). They studied working capital management in India. The study concluded that working capital management affects the financial performance of small and medium enterprises with significant positive relationship.

4.5. Influence of Accounts receivable management on financial performance

The results of the regression between accounts payable management and profit growth are shown in Table 8.

Table 8: Coefficients from the regression model of accounts receivable management on profit growth

	Term	Estimate	Std.error	Statistic	P.value
1	(Intercept)	6.224419	1.993746	3.121972	0.002381
2	X2 ARM	0.294665	0.118131	2.494381	0.014345

Source: Author

The R-squared for this model was 0.16147 and the adjusted R-squared was 0.14159 with an F-statistic = 6.222, p-value: 0.01434. The parameter estimate in Table 7 indicates a positive relationship between credit management and profit growth.
Table 8 shows that there is a non-significant p-value (0.014345), indicating that credit management does not seem to have a statistically significant relationship with profit growth. This result confirms the findings of Alvarez & Vazquez, (2021), who carried out a study on the effect of working capital management practices on the performance of SMEs in an emerging economy and found that inventory management practices on the financial performance of SMEs.
According to the findings of this research, SMEs will improve their financial performance when they manage their accounts receivable were. They constantly remind their customers of the due date for payment of their receivables in order to avoid bad debts. They give their customers longer payment terms to encourage sales. They should also keep track of their customers to identify which customers are potential defaulters so that appropriate action can be taken.

4.6. Influence of Accounts payable management on financial performance.

Table 9 illustrates the results of the regression analysis between accounts payable management and sales growth.

Table 9: Coefficients from the regression model of accounts payable management on profit growth

	Term	Estimate	Std.error	Statistic	P.value
1	(Intercept)	9.340104	1.57466	5.931505	4.84E-08
2	X3 AMP	0.164476	0.115399	1.425285	0.157352

Source: Author

According to the results of this model, the R-squared is 0.02094, the adjusted R-squared is 0.01063 and the p-value is 0.1574. The regression results in Table 9 show a non-significant relationship between creditor management and financial performance measures. It could be that the relationship is influenced by another independent variable.
Accounts payable management has no significant effect on the financial performance of SMEs. This research result confirms the result obtained by Garcia and Martinez-Solano, (2007). On their part, Alvarez & Vazquez, (2021) found a significant positive relationship between accounts payable management and profitability. This suggests that increasing accounts payable has a positive effect on the performance of companies. According to Baños-Caballero and al., (2020), companies should reduce their dependence on external capital and use the resources released for other investments, thus improving the financial flexibility of the company. SMEs can increase their profitability by having accounts payable terms that are longer than accounts receivable terms. They should also require suppliers to meet their contractual agreements. This will reduce delays in delivery, thereby reducing the working capital cycle and associated costs, and lead to an increase in profitability.

ISSN: 2658-8455
Volume 5, Issue 8 (2024), pp. 260-274.

IJAFAME
International Journal of Accounting, Finance, Auditing, Management & Economics

4.7. Influence of Cash Flow management on financial performance

The result of the regression analysis between the management of cash flow and the growth of profits is shown in table 10.

Table 10: Coefficients from the regression model of cash flow management on profit growth

	Term	Estimate	Std.error	Statistic	P.value
1	(Intercept)	11.35119	1.523981	7.448376	4.30E-11
2	X4_InvMag	0.020089	0.170353	0.117924	0.906377

Source: Author

The R-squared for this model was 0.0001464 and the adjusted R-squared was 0.01038 with an F-statistic =0.01391, p-value: 0.9064. Table 10 shows a non-significant relationship between cash flow and financial performance. It could be that their relationship is influenced by another variable.

The results of this research show that cash flow management is a predictor of financial performance. Cash flow management has no significant effect on the financial performance of SMEs in Kumba Municipality.

This study does not support the study conducted by Alvarez & Vazquez, (2021). They investigated working capital management and performance: Evidence from SMEs in an emerging economy. The aim of the study was to examine the relationship between working capital efficiency and profitability, focusing on SMEs operating in the agri-food sector.

The results suggest that SMEs in Kumba Municipality should manage their working capital efficiently in order to reduce their dependence on external capital and use the freed-up resources for other investments, thereby improving the financial flexibility of the firm. Firms should reduce their cash conversion cycle as this will lead to increased sales through customer satisfaction, in line with the result of Banos-Caballero et al. (2020). SMEs should also consider paying their purchases immediately in order to benefit from cash discounts, which will increase their profits.

5. Conclusion

The objective of this study, entitled "Working capital management and financial performance: the case of small and medium-sized businesses in economic distress", was to examine the effect of working capital management on the financial performance of SMEs in Kumba Municipality. The specific objectives of the study are as follows: firstly, to determine the effect of cash management practices on the financial performance of SMEs; secondly, to evaluate the effect of inventory management practices on the financial performance of SMEs; thirdly, to determine the effect of accounts receivable management practices on the financial performance of SMEs in Kumba Municipality; and finally, to evaluate the effect of accounts payable management practices on the financial performance of SMEs.

The study demonstrated that effective working capital management has a positive and significant impact on financial performance. An increase in working capital management efforts will lead to an improvement in the financial performance of firms in the Kumba Municipality. The findings of the study concluded that working capital management practices have a significant impact on the financial performance of SMEs.

This study demonstrates that the variable with the greatest explanatory power for financial performance is inventory management, which ensures the long-term future of the company through speculation. It is therefore recommended that SMEs should incorporate good working capital management practices, including inventory management and accounts receivable

management. Furthermore, SMEs should reduce their cash conversion cycle, as this will lead to increased sales through customer satisfaction.

References

(1). Alvarez, T., Sensini, L., & Vazquez, M. (2021). Working capital management and profitability: Evidence from an emergent economy. *International Journal of Advances in Management and Economics*, *11*(1), 32-39.

(2). Baños-Caballero, S., García-Teruel, P. J., & Martínez-Solano, P. (2020). Net operating working capital and firm value: A cross-country analysis. *BRQ Business Research Quarterly*, *23*(3), 234-251.

(3). Bhattacharya, H. (2008). Theories of trade credit: limitations and applications. *Available at SSRN 1286443*.

(4). Burkart, M., & Ellingsen, T. (2004). In-kind finance: A theory of trade credit. *American economic review*, *94*(3), 569-590.

(5). Chalmers, D. K., Sensini, L., & Shan, A. (2020). Working capital management (wcm) and performance of SMEs: Evidence from India. *International Journal of Business and Social Science*, *11*(7), 57-63.

(6). Christiano, L. J., & Fitzgerald, T. J. (1989). *The magnitude of the speculative motive for holding inventories in a real business cycle model* (No. 10). Federal Reserve Bank of Minneapolis.

(7). Coase, R. H. (1988). The nature of the firm: origin. *The Journal of Law, Economics, and Organization*, *4*(1), 3-17.

(8). Deloof, M. (2003). Does working capital management affect profitability of Belgian firms? *Journal of business finance & Accounting*, *30*(3-4), 573-588.

(9). Emery, G. W. (1987). An optimal financial response to variable demand. *Journal of financial and quantitative analysis*, *22*(2), 209-225.

(10). Eroglu, C., & Hofer, C. (2011). Lean, leaner, too lean? The inventory-performance link revisited. *Journal of operations management*, *29*(4), 356-369.

(11). Falope, O. I., & Ajilore, O. 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*(3), 73-84.

(12). Ferris, J. S. (1981). A transactions theory of trade credit use. *The Quarterly Journal of Economics*, *96*(2), 243-270.

(13). García-Teruel, P. J., & Martínez-Solano, P. (2007). Effects of working capital management on SME profitability. *International Journal of managerial finance*, *3*(2), 164-177.

(14). García-Teruel, P. J., & Martínez-Solano, P. (2010). A dynamic approach to accounts receivable: a study of Spanish SMEs. *European Financial Management*, *16*(3), 400-421.

(15). Hill, N. C., & Sartoris, W. L. (1988). *Short-term financial management*. Macmillan.

(16). Ibrahim, A. K., Abdullahi, S. R., Auwal, S. I., Ibrahim, S., Aliyu, R., & Idris, B. Y. (2022). Inventory management and profitability of listed cement manufacturing companies in nigeria. *TSU-International Journal of Accounting and Finance*, *1*(2), 288-299.

(17). Ketata, N. (1996). *La gestion du fonds de roulement des PME en période de récession économique* (Doctoral dissertation, Université du Québec à Trois-Rivières).

(18). 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).

ISSN: 2658-8455
Volume 5, Issue 8 (2024), pp. 260-274.

IJAFAME
International Journal of Accounting, Finance, Auditing, Management & Economics

(19). Long, M. S., Malitz, I. B., & Ravid, S. A. (1993). Trade credit, quality guarantees, and product marketability. *Financial management*, 117-127.
(20). Modigliani, F., & Ando, A. K. (1957). Tests of the life cycle hypothesis of savings: Comments and suggestions 1. *Bulletin of the Oxford University Institute of Economics & Statistics*, *19*(2), 99-124.
(21). Ndjeck N., & Eloundou E.F**.** (2022). *Le financement des PME en contexte de rationnement bancaire, cas du Cameroun*, Editions Cheik Anta Diop (Edi-Card) Collection Dynamique Economique et Développement.
(22). Ng, C. K., Smith, J. K., & Smith, R. L. (1999). Evidence on the determinants of credit terms used in interfirm trade. *The journal of finance*, *54*(3), 1109-1129.
(23). Owolabi, S. A., & Alu, C. N. (2012). Effective working capital management and profitability: A study of selected quoted manufacturing companies in Nigeria. *Economics and Finance review*, *2*(6), 55-67.
(24). Padachi, K. (2006). Trends in working capital management and its impact on firms' performance: an analysis of Mauritian small manufacturing firms. *International Review of business research papers*, *2*(2), 45-58.
(25). Panigrahi, C. M. A. (2013). Relationship between inventory management and profitability: An empirical analysis of Indian cement companies. *Asia Pacific Journal of Marketing & Management Review*, *2*(7).
(26). Peel, M. J., Wilson, N., & Howorth, C. (2000). Late payment and credit management in the small firm sector: some empirical evidence. *International small business journal*, *18*(2), 17-37.
(27). Petersen, M. A., & Rajan, R. G. (1997). Trade credit: theories and evidence. *The review of financial studies*, *10*(3), 661-691.
(28). Raheman, A., & Nasr, M. (2007). Working capital management and profitability–case of Pakistani firms. *International review of business research papers*, *3*(1), 279-300.
(29). Ramachandran, A., & Janakiraman, M. (2009). The relationship between working capital management efficiency and EBIT. *Managing Global Transitions: International Research Journal*, *7*(1).
(30). Schwartz, R. A. (1974). An economic model of trade credit. *Journal of financial and quantitative analysis*, *9*(4), 643-657.
(31). Soenen, L. A. (1993). Cash conversion cycle and corporate profitability. *Journal of cash Management*, *13*, 53-53.
(32). Stiglitz, J. E., & Weiss, A. (1981). Credit rationing in markets with imperfect information. *The American economic review*, *71*(3), 393-410.
(33). Stowe, J., & Gehr, A. (1985). Contract costing and trade credit. In *Western Finance Association Meeting, June*.
(34). Thiétart, R. A. (2014). *Méthodes de recherche en management-4ème édition*. Dunod.
(35). Wang, Y. J. (2002). Liquidity management, operating performance, and corporate value: evidence from Japan and Taiwan. *Journal of multinational financial management*, *12*(2), 159-169.
(36). Williamson, O. E. (1988). Corporate finance and corporate governance. *The journal of finance*, *43*(3), 567-591.