Advances in Consumer Research
https://acr-journal.com/

Volume-2 | Issue-4 | Sep 2025

Original Researcher Article

The Impact of Working Capital Management on Profitability in Small and Medium Enterprises (SMEs)

Dr. CA. Mohit Bahal[1*], Praveendas K[2] , Monika Mittal[3], Raj Kumar Singh[4], Garishma Gulyani[5] and Dr. Neelam Sheoliha[6]

[1*]Visiting Faculty at ICAI (The Institute of Chartered Accountants of India),
Email ID: camohitbahal@gmail.com
[2]Assistant Professor, Central University of Karnataka, Kalburagi ,
Email ID: praveendask2@gmail.com
[3]Associate Professor, School of management IILM University Gurugram,
Email ID: monika.mittal@iilm.edu
[4]Professor, School of Management Sciences, Varanasi, Uttar Pradesh, India,
Email ID: rksingh@smsvaranasi.com
[5]Assistant Professor, Maharaja Agrasen Institute of Management Studies (MAIMS), Guru Gobind Singh Indraprastha University (GGSIPU),
Email ID: gulyanigarishma@gmail.com
[6]Associate Professor, DIHE -JIMS Group,
Email ID: neelamsheolihas@gmail.com

Received: 03/08/2025
Revised: 18/08/2025
Accepted: 08/09/2025
Published: 25/09/2025

ABSTRACT

Effective working capital management (WCM) is a serious driver of business performance and financial sustainability, particularly for small and medium enterprises (SMEs) operating with limited access to external financing. This study examines the econometric impact of key WCM components, such as inventory turnover, receivables days, payables days, and the cash conversion cycle, on profitability, measured by return on assets (ROA). A quantitative research design was adopted, applying descriptive statistics, Pearson correlation, and multiple linear regression to secondary financial data from a purposive sample of 100 SMEs. The findings indicate that whereas receivables days, payables days, and the cash cycle show considerable negative effects, inventory turnover has a weighty positive impact on profitability. The regression model exhibited high explanatory power (Adjusted $R^2 = 0.93$), confirming that WCM indicators are powerful predictors of financial performance. From a managerial finance perspective, these findings reinforce the importance of liquidity management, credit control, and strategic cash-flow planning. The study contributes to the business, management, and finance literature by providing robust econometric evidence on SME profitability and suggesting future research using longitudinal and dynamic models.

Keywords: Working capital management, Cash conversion cycle, Inventory turnover, Return on assets, Profitability, Managerial finance, Liquidity management

INTRODUCTION

The survival and financial success of SMEs has been a crucial issue for both industrialized and developing nations in the dynamic and competitive global economy. It is a well-known fact that SMEs form the backbone of most economies as they play a major role in creating employment opportunities, being innovative, and diversifying the economy. Despite their massive input, a high proportion of SMEs in different economies is characterized by a lack of finances, which in most cases results in early demise. Along with the main financial activities affecting their sustainability, WCM resonates as a vital success factor of operational performance and profitability (Braimah *et al.,* 2021). Well-managed working capital elements, including payables, receivables, and inventories, guarantee that a company has a liquidity position and enable it to make long-term strategic choices, thus contributing to expansion and profitability (Tran *et al*., 2017).

WCM is particularly important to SMEs because of their limited ability to obtain outside funding and their low bargaining power in their supply chains. At least, compared to big businesses and startups, which can turn to capital markets or institutional funding easily, small and medium-sized businesses often work with very thin liquidity, and such cash flow management internally is a strategic requirement and not an optional practice

(Afrifa and Tingbani, 2018). As a result, good performances in terms of the practice of WCM may have a favorable effect on the capacity of an SME to survive in the immediate future as well as to invest in the long-term. According to numerous empirical studies, there are optimal working capital levels that could enhance business operations. However, if working capital is mismanaged, it could result in excessive current assets or obligations, which could ruin profits (Afeef, 2011).

During the last decades, WCM has been studied as a salient research topic and practically applied mainly in the SME environment. SMEs are usually more exposed to maintaining fluidity in their organizations and business continuity in the emerging economies, where financial systems might be poorly developed. Afeef (2011), for instance, found a high correlation between the financial success of SMEs in Pakistan and the components of WCM. The findings also indicated that businesses with a lower CCC are more likely to have better financial results. It was also the case in Kenya where, as shown by Ahmed (2022), the direct influence of disciplined the effects of inventory control and cash flow on SMEs' financial results demonstrated that WCM is not a tool that only helps to survive but also to improve profitability.

Once more strongly presented, a result conducted by Akomeah and Frimpong (2019) on Ghana manufacturing firms emphasized that unsuitable management of working capital elements may result in reduced profit margins, despite high sales volume. This supports the results reported by Akbar *et al*. (2022) that focused on strategic WCM that not only affects the short-term liquidity but also interacts with decisions on finance and investments of firms, expanding the implications to the wider scope of financial strategy and firms' sustainability.

Irrespective of the magnitude of literature that demonstrates the presence of a correlation between profitability and WCM, there is still no agreement on the relationship between the two variables, especially in the SME world. Other researchers support the linear positive relationship, making a direct influence on profitability of efficient WCM (Bagh *et al*., 2016; Bellouma, 2011), whereas others support a non-linear or inverse relationship, suggesting that working capital overinvestment may not be beneficial for returns (Baños-Caballero *et al*., 2012). A substantial part of the current literature is inclined to be company-specific or sector-specific, forgetting about the heterogeneity of SMEs and their peculiar depiction of finance (Chadha *et al*., 2023).

The vagueness brings about a knowledge gap, which calls for further investigation, given the fact that SMEs usually have no specific financial departments or analytical tools they oversee working capital in the best way. As the financial crisis of 2008 enabled the observation of the way in which mismanaged SMEs are put in danger, it becomes clear that efficient WCM can be utilized as an instrument for reducing the impact of macroeconomic shocks. The study aims to investigate the relationship between WCM and SMEs' profitability by taking a comprehensive approach that considers a variety of factors of WCM on board.

Because working capital is a practical issue rather than an academic one, it is imperative to comprehend the cash flow. To a policymaker, information on WCM's impact on SME profitability may advise them on how to design support frameworks and financial literacy programs that suit the operationality needs of SMEs. As a blueprint of enhanced operational efficiency and sustainable growth, the working capital policies may work very well among the SME owners and managers (Chalmers *et al*., 2020).

The broader context of post-pandemic recovery, as SMEs worldwide are attempting to regain control over their cash flows, restore their relationships with suppliers, and so on, strong WCM disciplines can make a critical difference between their recovery and collapse. The fact that good WCM practices are directly associated with SME resilience and profitability in these types of economies is supported by a study conducted by Gorondutse et al. (2017) in Malaysia. That way, the research can find a practical application in the vast pool of stakeholder groups, including financial organizations, governmental organizations, and SME boosting organizations. In addition, by providing evidence of underserved industries and geographical locations, the study adds to the worldwide body of information on the financial management of SMEs and advances academic knowledge in the following ways. Given that working capital is a multifaceted question and has to be linked with a range of business processes, the research also preconditions future research in the corresponding fields, such as supply chain finance, liquidity risk management, and entrepreneurial finance. The fields of business, management, accounting, economics, and finance are where this research falls. Working capital practices are directly linked in the study to theories of corporate finance, including the pecking order theory of financing and the liquidity–profitability trade-off. The study advances knowledge of how SMEs attain sustainable profitability in resource-constrained contexts and complements the body of literature on managerial finance by examining how internal liquidity management might replace external borrowing.

Research Objectives

- To analyze the connection between individual components of working capital (inventory, receivables, payables) and SME profitability
- To evaluate the effect of the cash conversion cycle on the financial performance of SMEs
- To identify which WCM practices are most effective in enhancing profitability within the SME sector

LITERATURE

WCM now plays a central role in SMEs, both in terms of business and financial performance. The literature in

the area is unanimous in saying that quality WCM is a determinant of profitability, liquidity, and long-term sustainability. It is not surprising that the subsequent review will engage in a synthesis of the most significant scholarly works that explore the multifaceted connection between WCM and the profitability of SMEs in different economic contexts.

A premature empirical investigation conducted by Afeef (2011), which was tested in Pakistan, found that, in this scenario, a firm with a smaller CCC would have a higher profitability. The paper also discussed the status of active receivables and inventory management as a means of enhancing the presentation of SMEs. Likewise, Bagh *et al*. (2016) supported these results with the financial data of the Pakistani companies and demonstrated that the ideal ratios of current obligations to current assets positively contribute to the firm performance, which leads to the conclusion that neither liquidity mismanagement nor short-term heavy indebtedness should be treated as optimal.

Increasing the geographical context, Baños-Caballero *et al*. (2012) examined Spanish SMEs, where they discovered that the association between profitability and WCM formed an inverted U shape. It is a non-linear observation that implies that there can be an ideal working capital amount for investments that the cost would surpass the benefits on the second side (Alsulayhim, 2019). It is especially important to SMEs, since an excess investment in current assets may constrict capital, which may otherwise be used in profit-causing activities.

The position of WCM has gained recognition in the African settings as critical. As an example, Ahmed (2022) examined SMEs in Garissa County, Kenya, and found that proper management of key elements that influenced the ROE and ROA were inventories, sales payables, sales receivables, and sales returns. The paper highlighted that SMEs whose cash flow is well monitored and where collections are faster, record higher profitability ratios. In support of that, Akomeah and Frimpong (2019) have examined listed manufacturing firms in Ghana, and, as per their conclusions, aggressive WCM approaches, especially related to accounts receivable, increased profitability based on greater liquidity and increased speed at recovering cash. Oladimeji and Aladejebi (2020), in their research conducted among businesses in Nigeria, have come to similar conclusions and stated that the inability to manage receivables and inventory turnover is a devastating malady of any SME development.

The significance of liquidity management was also stressed by Afrifa and Tingbani (2018), who incorporated the background of the volatility of cash flows into the analysis of WCM. In their study, they noted that accessibility of cash flow in SMEs is a mediating factor that enables the firms to manage the risk better associated with longer prevalence of CCCs. This shows that the working capital decisions cannot be made without regard to the capacity of the business to produce cash and its market position. Makori and Jagongo (2013) confirmed this fact by examining Kenyan companies whose profits were directly influenced by the cautious synchronisation of liabilities and current assets.

Another important issue in the literature is the strategic implications of WCM. Akbar et al. (2022) observe that when selected, WCM enhances not only current acute financial performance but also subsequent investment and funding. This duality is of particular concern to SMEs where an external source of financing might not exist, and internal ones have to be used. The authors assert that the firms that went on to develop their WCM further have financial discipline, enabling them to make sound investments and avoid excessive reliance on debt financing (Prasad et al. 2019). Similarly, Tauringana and Afrifa (2013) found that the elements of WCM (inventory days and receivables management) are not equally important at all stages in the life cycle of SMEs, as well as across industries.

In the event of an economic crisis, WCM's job becomes even more crucial. Referring to the example of SMEs during the 2008 global financial crisis, Akgun and Karatas (2021) came to the conclusion that well-executed WCM practices enabled businesses to prepare more effectively and provide strong financial performance during the crisis. Their research has concluded with findings that favour the argument that WCM is not only a financial tool, but also a strategic cushion against macro-economic risks in the market. Similarly, Soda et al. (2022) in their analysis of Jordan confirmed the fact that the market-based WCM efficiency is directly associated with the profitability of the firm in an economically volatile environment.

Baimah et al. (2021) also wrote about the Ghanaian SME industry and conducted research on the issue of effective WCM practices in the country, and demonstrated that these practices are crucial in terms of profitability, and trade receivables and payables management in particular. Another reason that they cited in their research is that they felt the dynamics in the industry were relevant to their study; hence, the strategies of WCM will have to respond to the needs of various industries. This was matched by a second opinion by Prsa (2020), who observed that Croatian SMEs achieved higher margins when they maximise the duration of their CCC.

Chadha et al. (2023) added to the knowledge base with Indian MSMEs and emphasized that the success of WCM depends on internal factors: the competency of managers, the adoption of digital, and financial literacy. The same trends were noted in the work by Chalmers et al. (2020) carried out among Indian SMEs, where it was mentioned that those companies that managed their financial activities in real-time and whose tools were automated were the ones that managed their cash cycles more efficiently. Olaoye et al. (2019) noted that inadequate WCM was among the most significant factors that contributed to the collapse of businesses in

the quoted firms in Nigeria. Collectively, these studies draw the same conclusion that WCM is not a universal business. Instead, it is a histrionic, dynamic, and contextual process that largely dictates SME profitability. An equilibrium between profitability and liquidity must exist in other geographical areas and in other economic conditions with the assistance of efficient WCM practices.

These works emphasize the two-fold nature of the WCM as a business performance driver and a management financial aspect. The current study builds on this literature by offering econometric facts to support the effect of WCM elements on the rate of SME profitability, which supports theoretical insights into trade-off theory and financing hierarchy proposed in the pecking order theory.

METHODOLOGY

Research Design

The research took a quantitative research design underpinned by descriptive and correlational structure. The method was selected to provide an orderly study of the relationship among the working capital components, which includes the cash conversion cycle, inventory turnover, accounts payable, and accounts receivable, along with success metrics like net profit margin (NPM) and (ROA). The correlational design offered the analytical foundation for evaluating the strength and direction of the relationship between the variables being studied. The study was likewise non-experimental since its objective was to analyze the present financial issues in SMEs without trying to change any of the factors.

Secondary data served as the study's foundation. The performance data and financial statements were obtained based on formally registered SMEs, and they were objective and correct in their data analysis. A cross-sectional time frame was used, where cross-sector financial ratios of a particular financial year were studied to give a snapshot of the present WCM practice.

Data Collection Method

The analysis applied secondary data that was obtained from audited financial records of SMEs. Data on the official business directory and SME registry were used to make them authentic and comparable. The sample of 100 SMEs was selected using a purposive sampling method, and it formed 10 percent of the overall population, comprising about 200 firms that were chosen depending on availability and completeness of financial records. Firms that had uninterrupted operations within the last five years and no missing data on annual variables like inventory turnover, receivables days, the CCC, payables days, and asset returns were put under consideration. The data were from one financial year, and the study was of a cross-sectional design.

Population and Sampling

The respondents included SMEs that were in the manufacturing and trading industries since such businesses had a record of being greatly dependent on effective working capital cycles to continue running their operations. SMEs registered with business development authorities and chambers of commerce were used as the source of the study population.

Purposive sampling methodology was used, and SMEs were chosen where the business is more than five years old, and these firms keep full and audited accounts. The criterion guaranteed that the financial data would be reliable, and they could be used in meaningful analysis of trends. A trial of 100 businesses was selected from a population of around 200 SMEs, following the criteria of data availability and accessibility of the scope of the research. They were gathered among enterprises of both the urban and semi-urban industrial clusters to be representative in terms of business size, geographical distribution, and financial maturity.

Data Analysis Technique

The study employed both descriptive and inferential statistics to investigate the connection between profitability and WCM. Initially, descriptive statistics such as the frequency distribution, mean, and standard deviation were used to describe the data and determine the central tendencies among the variables on working capital and profitability.

The Pearson correlation was then employed to look into working capital indicators' linear connections and profitability measures. This will be complemented by the multiple linear regression analysis, in which it will be possible to establish the extent to which each working capital factor will predict profitability changes using the firm size and the industry as control factors.

It was examined with Statistical Package of the Social Sciences (SPSS) 22. The p-value was lower than 0.05, a standard value of p to test their hypothesis. Maintenance was done in SPSS to ensure accuracy, replicability, and to handle the huge amount of data present. The regression and correlation analyses used in this research can be related to the accepted econometric methods used in numerous studies in the field of finance and accounting. The dependent variable selected was ROA since it is among the most reliably used financial performance measures in the managerial finance literature, providing comparability both in the industry and the company.

Ethical Considerations

The research appeals closely to ethical research undertakings in the gathering and analysis of data. SME owners and applicable administrative bodies gave official authorization to access their financial data before reading it. The purpose of the research was communicated to the participating firms, and informed consent was obtained. Databases were securely encrypted in the storage and analysis to guarantee data confidentiality through anonymizing profitability and even the identities of the firms. The study output did not reveal any personal or proprietary information. Also, the study was under the standards of institutional ethics concerning the responsible use of secondary data and academic integrity, not involving fabrication,

falsification, and plagiarism. The researcher was neither interested in hiding the origin of the data collected nor failing to base all statistical implications on the empirical evidence acquired. The study was subjected to prior to the study being carried out, ethical permission was obtained from the university's research ethics committee.

RESULTS

WCM's effect on the overall profitability of SMEs was examined using descriptive statistics, multiple linear regression, and Pearson correlation. CCC days of payables, days of receivables, and inventory turnover were chosen as the financial metrics, to a parameter named ROA, or return on assets, was thought to be the primary measure of profitability.

Descriptive Analysis

Table 1 displays descriptive statistics that provide an important understanding of financial dynamics in sampled small and medium-sized enterprises. Inventory turnover was moderately efficient and was between 4.20 to 6.50 with an average of 5.43. The average days of receivables were 48.15, which means that the credit terms to customers were long. The days in the payables had a smaller spread, averaging 31.60 days, which shows medium credit demand with the suppliers. The cycle of cash conversion was even more dispersed, with a minimum and maximum of 48.00 and 85.00 days, respectively, which illustrates variations in the efficiency of operations. The average value of the ROA was 8.31% and the degree of dispersion was rather low, which is an indication of generally stable performance in terms of profitability among the sample.

Table 1: Descriptive Statistics of Key Variables (N = 20)

Variable	Minimum	Maximum	Mean	Standard Deviation
Inventory Turnover	4.20	6.50	5.43	0.70
Receivables Days	38.00	60.00	48.15	6.82
Payables Days	25.00	38.00	31.60	3.86
Cash Conversion Cycle	48.00	85.00	63.35	11.22
Return on Assets (%)	6.50	9.80	8.31	1.03

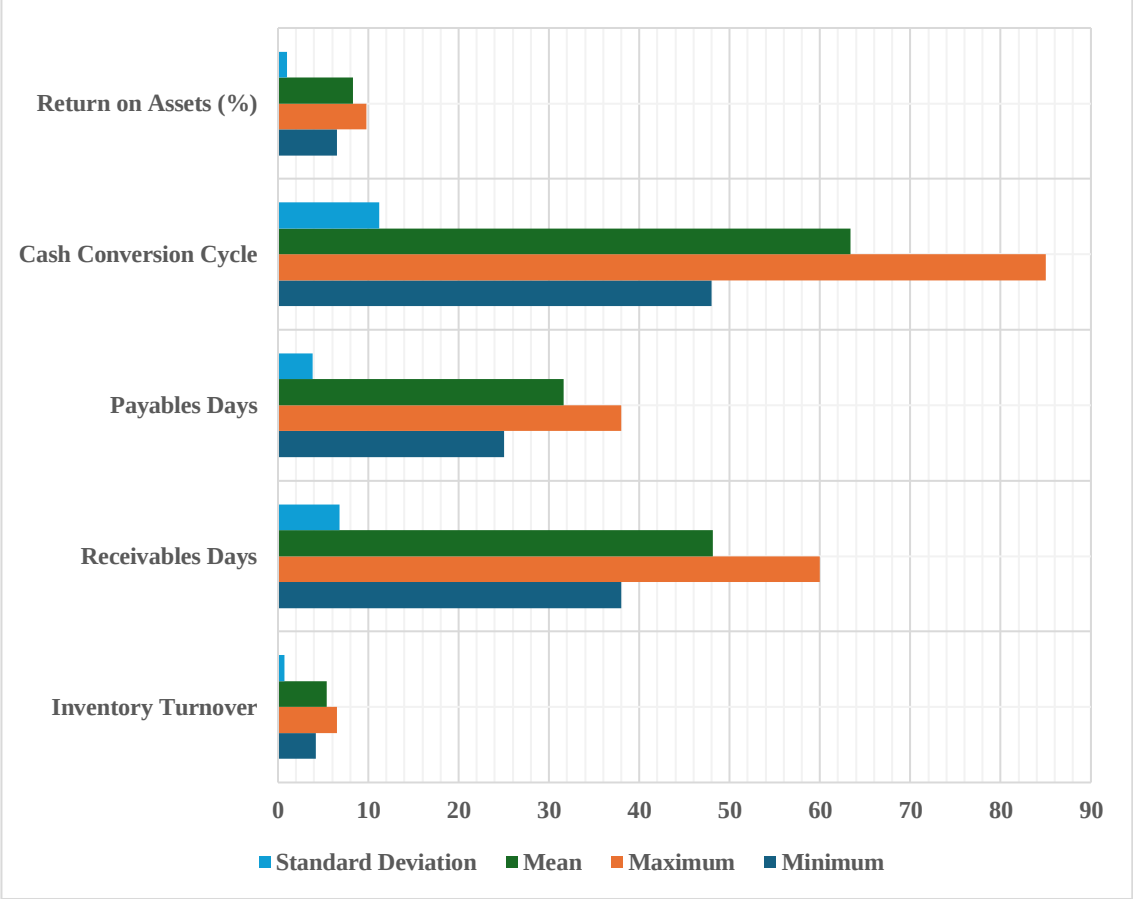

Figure 1: Summary Statistics of Financial Performance Indicators

Figure 1 illustrates the summary statistics mean, maximum, standard deviation, and minimum of key financial performance indicators, including Payables Days, Cash Conversion Cycle, Return on Assets, Receivables Days, and Inventory Turnover. It provides a comparative view of each metric's variability and central tendency, offering perspectives on financial stability and operational effectiveness across observed entities.

Correlation Analysis

Table 2 displays a correlation matrix that shows substantial correlations between elements of profitability and working capital. The correlation between ROA and inventory turnover was r = 0.977, which means that an effective use of inventory positively impacts the financial performance. However, there were also very negative correlations between receivables days (r = -0.981), payables days (r = -0.901), and the cash conversion cycle (r = -0.973), with ROA indicating that delayed cash collection and longer operating cycle reduce profitability. The concentrated WCM of the high interdependencies of the various measures of receivables, payables, and CCC also indicates the integrated WCM in dictating firm performance.

Table 2: Correlation Matrix

Variables	Inventory Turnover	Receivables Days	Payables Days	CCC	ROA
Inventory Turnover	1.000	-0.959	-0.868	-0.945	0.977
Receivables Days	-0.959	1.000	0.933	0.984	-0.981
Payables Days	-0.868	0.933	1.000	0.951	-0.901
Cash Conversion Cycle	-0.945	0.984	0.951	1.000	-0.973
Return on Assets	0.977	-0.981	-0.901	-0.973	1.000

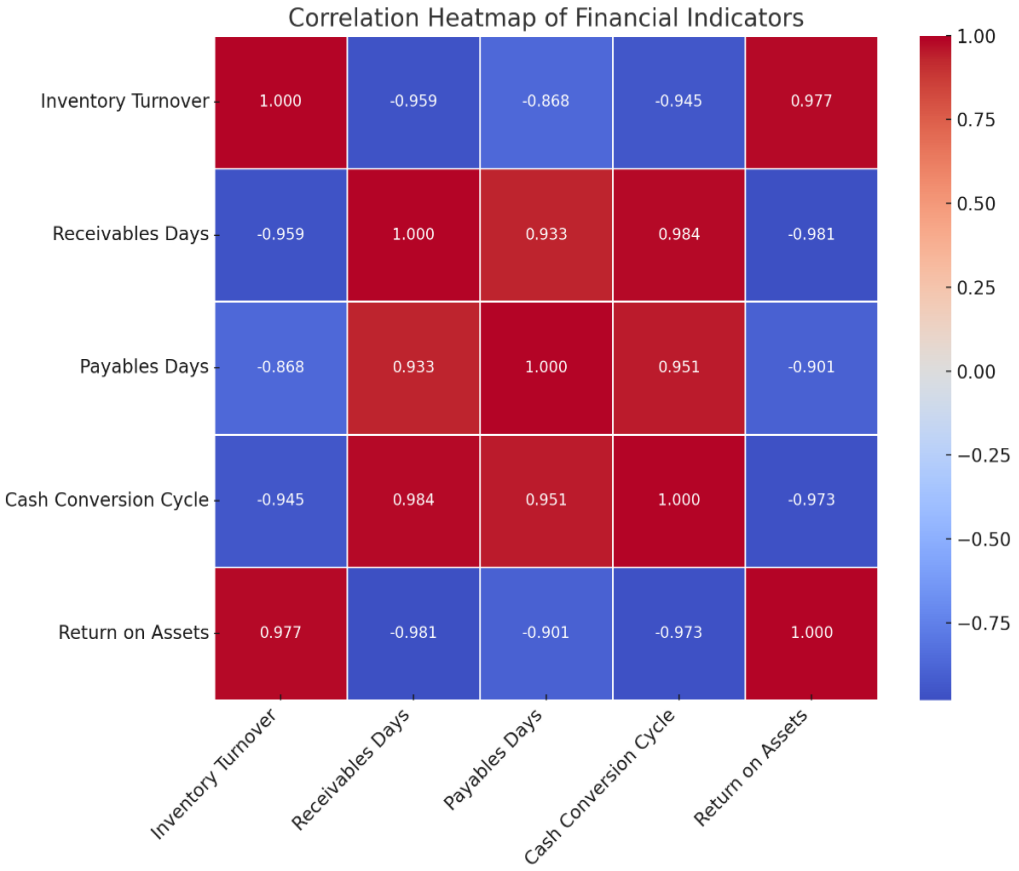

Figure 1: Contribution of Working Capital Components to Return on Assets

Figure 2 illustrates the individual contributions of elements of working capital that contribute to return on assets. Inventory turnover positively influenced profitability, while days of payables and receivables, as well as the cycle of cash conversion, showed negative impacts. The chart emphasizes that minimizing delays in receivables and payables is crucial to improving the financial performance of SMEs.

Regression Analysis

The regression coefficient explained how the working capital components affected profitability. The model shows that the inventory turnover level made a huge, significant positive difference to the productivity of the assets (0.4636, $p < 0.001$), which implies that profitability increases with inventory efficiency. A firm is most likely to be. On the other hand, days of payables, days of beneficiaries, and cash conversion cycle carried negative coefficients with 0.0973, 0.0445, and 0.0526 as the 0 values of B, respectively, and the coefficients were all statistically significant ($p < 0.01$). According to these findings, the delays in collections, payments, and prolonged cash cycle are negatively affecting financial outcomes, which once again justifies the need to employ efficient WCM to ensure that the profitability of the SME does not decrease. The regression model achieved a significant level of substantive significance ($p < 0.001$) and had a high level of explanatory power (adjusted R^2 is 0.93). It implied that the model accounted for almost 93 percent of the change in ROA. The strong adjusted

R2 (0.93) shows that the model is econometrically robust and that variations in SME profitability are almost fully attributed to WCM indicators. This provides solid empirical support for the financial management proposition that efficient liquidity management is a cornerstone of sustainable business performance.

Table 3: Regression Coefficients Summary

Predictor	Coefficient (β)	Std. Error	t-Statistic	p-Value
Constant	13.3959	0.506	26.464	0.000
Inventory Turnover	0.4636	0.048	9.753	0.000
Receivables Days	-0.0973	0.010	-9.832	0.000
Payables Days	-0.0445	0.015	-2.944	0.009
Cash Conversion Cycle	-0.0526	0.008	-6.576	0.000

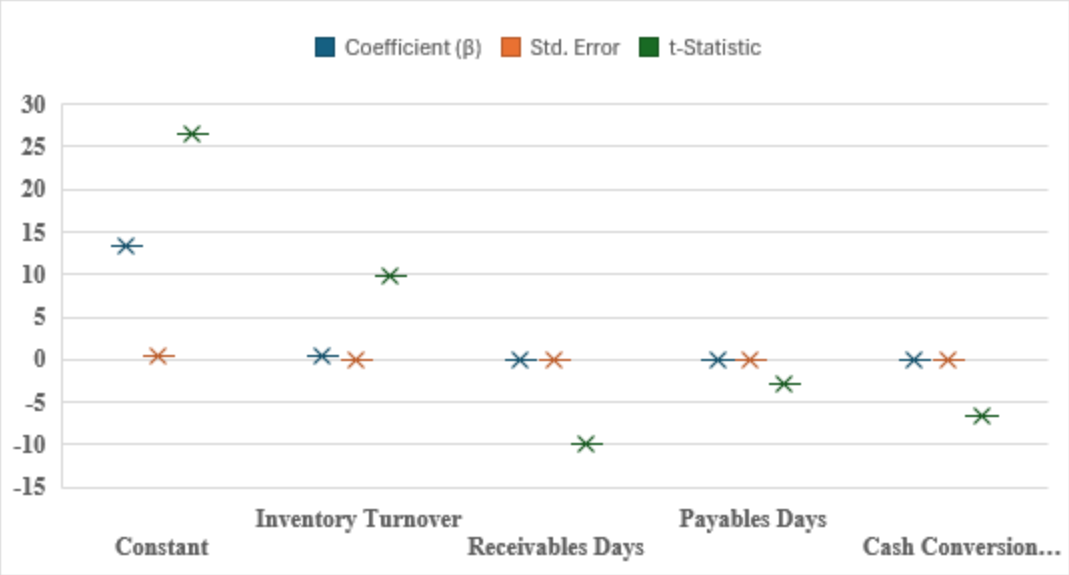

Figure 2: Regression Summary for Working Capital Variables

Figure 2 presents the regression output for working capital variables, displaying coefficients, standard errors, and t-statistics. Inventory turnover showed a strong positive effect, while days of payables, days of accounts receivable, and the cycle of cash conversion negatively influenced profitability. All predictors were statistically significant, underscoring how they affect the return on assets.

DISCUSSION

These empirical findings substantiate that the management of working capital is decisive in SME profitability, which has direct importance to the managerial finance and accounting literature. It was found that inventory turnover has a positive impact on ROA, which supports the idea of effective use of assets as a factor that contributes to improving the performance of a firm. By contrast, long receivables, long payables, and long cash conversion days were all counterproductive to profitability, demonstrating the liquidity-profitability trade-off highlighted in corporate finance theory. These findings suggest that WCM is a working practice, as well as a strategic financial practice that defines the competitiveness of firms and long-term sustainability of firms.

The data has been validated by the regression analysis (0.4636, $p < 0.01$) to be statistically significant on ROA and highlights the fact that those companies, which are effective in managing their inventories, have higher chances of transforming the resources to positive returns. The result is consistent with the statement made by Jana (2018) according to which it is observed that inventory optimization is directly correlated with making the firm more lucrative within the Indian FMCG market, meaning that with the optimization of the inventory management process is brought to a minimum the risks of obsolesces are avoided.

In contrast, the cash conversion cycle and days payable were found to have a significant and negative correlation with profitability (0.0973 and 0.0526, respectively). This means that as long as the credit period is observed and the operating cycle duration is prolonged, the financial performance is negatively impacted. This supports Makori and Jagongo's (2013) findings that delayed receivables also reduce Kenyan manufacturing firms' liquidity, which in turn reduces their company profitability.

Interestingly, the payables days also hurt ROA (b = -0.0445), though to a less significant level. In some sense, this contrasts with the conventional wisdom of paying later, which can facilitate the short-term liquidity. It concurs with Samson et al. (2012), who found that high use of trade credit by the Nigerian SMEs is often symptomatic of cash flow constraint as opposed to planned management of liquidity to the cost of long-

term profitability. These results confirm the hypothesis, though it could be possible to think that short-term liabilities would appear to have the benefits of cash flows in the short-run, over-reliance on delayed expenditures could damage relationships with suppliers and increase operational costs especially in a credit-sensitive business.

The results of the research also represent an emerging consideration in the literature regarding the importance of WCM to SMEs. In response, Oladimeji and Aladejebi (2020) warned that successful WCM operations by the Nigerian small businesses translated into higher liquidity success, along with higher returns. Similarly, Panda et al. (2021) developed the idea that in a climate of both macroeconomic stability and instability, SMEs in India that were aggressive in taking care of their receivables and reducing their CCC performed better (at least in terms of profitability) than others.

Pais and Gama (2015), based on Portuguese SMEs data, revealed that CCC is a major determinant of firm performance. In their statement, ideal levels of working capital maximize returns, we can highlight that their finding is the same as the high adjusted R^2 in the study, at 0.93, leading to the belief that WCM variables significantly account for a high proportion of the variance in knowledge about profitability.

Khan (2016) studied the causal link between SMEs' working capital cycles and firm performance and concluded that an average days-payable outstanding is shorter, indicating operational efficiency and reducing reliance on the provision of outside funds- a conclusion that is supported by the findings of the regression performed in the given paper.

Khan *et al*. (2021) complements their results with another regional analysis, showing that in the member states of the Gulf Cooperation Council (GCC), the ROA, or return on assets, significantly declined among SMEs, or small and medium-sized businesses with weak receivables-management processes, an effect that the current study replicates across the region due to different location circumstances.

As shown in Prsa (2020), smaller and medium Croatian enterprises whose inventory and receivables control is stricter have more stable earnings histories and exposure to financial risk; hence, supporting an argument in the current study, which holds that it is a strategic predictor of financial sustainability.

Although the current research presents compelling data, it is important to note certain methodological shortcomings. The study's foundation is secondary financial data from 2017, which limits the ability to detect time change and observe seasonality. Longitudinal data would have made it possible to give a more heterogeneous evaluation of macro-influences on WCM. Secondly, the sample was selected among the 100 SMEs that were selected purposefully as having high-quality data, but it is only a sample of the overall population of SMEs, especially those services-centered enterprises or technology-driven either whose working-capital demands do not differ as much as those of manufacturing enterprises. The analysis might not allude to the heterogeneity in the SME sectors. Third, managerial expertise, digital adoption, and supply-chain integration, the non-financial determinants, were not measured systematically, although they may have a potent effect on profitability; thus, including them in further studies is suggested. Finally, no control variables were used in the regression model, including company size, age, or the overall market environment, and as a result, it was impossible to undertake a rigorous evaluation of the influence of such mitigating elements influencing the connection between profitability and WCM.

The empirical data gathered during the investigation are pragmatic and political. These results underline the importance of strict lending policies, the ideal inventory level, and shorter working cycles for SMEs, or small and medium-sized enterprises. These will assist in the creation of internal money, lessening of outside borrowing needs, and an increase in profitability of companies. The fact that inventory turnover and firm performance have a strongly positive correlation also contributes to the evidence that a person creating inventory management systems or demand forecasting software can indeed make a great deal out of assets.

The present review shows the importance of financial literacy programs and working capital advisory services to SMEs or small and medium-sized businesses. The agencies concerned with the development of SME should channel their efforts towards the development of skills associated with cash-flow forecasting and credit policy-making. Meanwhile, the regulating authorities are expected to take into account developing progress-based programs or credit assistance according to which SMEs with sound working capital control will be rewarded, therefore, consolidating the element of sustainable business.

CONCLUSION

Effective working capital management is a crucial factor in SMEs' financial performance in a setting that is becoming more and more competitive. This study provides robust econometric evidence that inventory turnover contributes positively to profitability, while extended receivables, payables, and cash conversion cycles reduce ROA. These results confirm the centrality of liquidity management in managerial finance and business strategy. By demonstrating that internal cash-flow efficiency enhances profitability and reduces reliance on external borrowing, the study contributes to the literature in business, management, and finance. Practical implications include the need for SMEs to adopt stricter credit-control policies, invest in inventory optimization systems, and apply proactive cash-flow forecasting. For policymakers and industry stakeholders, the findings emphasize the value of financial literacy programs and advisory services tailored to SME needs. Future research should expand

on this work through longitudinal and cross-country econometric studies, integrating firm-specific and macroeconomic factors to deliver deeper insights into the financial determinants of SME profitability.

REFERENCES

1. Afeef, M. (2011). Analyzing the Impact of Working Capital Management on the Profitability of SME's in Pakistan. *International Journal of Business and Social Science*, *2*(22), 173-183.
2. Afrifa, G. A., & Tingbani, I. (2018). Working capital management, cash flow, and SMEs' performance. International Journal of Banking, Accounting and Finance, 9(1), 19-43.
3. Ahmed, A. Y. (2022). *Working capital management and financial performance of small and medium enterprises in Garissa County, Kenya* (Doctoral dissertation, Doctoral dissertation, Kenyatta University).
4. Akbar, A., Jiang, X., & Akbar, M. (2022). Do working capital management practices influence investment and financing patterns of firms?. *Journal of Economic and Administrative Sciences*, *38*(1), 91-109.
5. Akgun, A. I., & Memis Karatas, A. (2021). Investigating the relationship between working capital management and business performance: Evidence from the 2008 financial crisis of EU-28. *International Journal of Managerial Finance*, *17*(4), 545-567.
6. Akomeah, J., & Frimpong, S. (2019). Effect of working capital management on the profitability of listed manufacturing companies in Ghana. International Journal of Finance and Banking Research, 5(2), 29-35.
7. Alsulayhim, N. (2019). The relationship between working capital management and profitability.
8. Bagh, T., Nazir, M. I., Khan, M. A., Khan, M. A., & Razzaq, S. (2016). The impact of working capital management on firms financial performance: evidence from Pakistan. *International Journal of Economics and Financial Issues*, *6*(3), 1097-1105.
9. Baños-Caballero, S., García-Teruel, P. J., & Martínez-Solano, P. (2012). How does working capital management affect the profitability of Spanish SMEs?. *Small business economics*, *39*, 517-529.
10. Bellouma, M. (2011). The impact of working capital management on profitability: the case of small and medium-sized export companies in Tunisia. *Management international*, *15*(3), 71-88.
11. Braimah, A., Mu, Y., Quaye, I., & Ibrahim, A. A. (2021). Working capital management and SMEs profitability in emerging economies: The Ghanaian case. *Sage Open*, *11*(1), 2158244021989317.
12. Chadha, S., Tripathi, D. K., & Tripathi, A. (2023). What determines the efficiency of working capital among Rajasthan MSMEs?. *Indian Journal of Finance*, *17*(6), 45-62.
13. 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.
14. Gorondutse, A. H., Ali, R. A., Abubakar, A., & Naalah, M. N. I. (2017). The effect of working capital management on SMEs profitability in Malaysia. *Polish Journal of Management Studies*, *16*.
15. Jana, D. (2018). Impact of working capital management on profitability of the selected FMCG companies in India. *International Research Journal of Business Studies*, *11*(1), 21-30.
16. Khan, M. A. I. (2016). Working capital management and its impact on SMU's performance. *IJER© Serials Publications*, *13*(5).
17. Khan, M. A. I., Alam, S., & Syed, A. J. (2021). Correlation between the profitability and working capital practices: A case study in the Gulf Cooperation Council. *Journal of Asian Finance, Economics and Business*, *8*(3), 0229-0236.
18. Makori, D. M., & Jagongo, A. (2013). Working capital management and firm profitability: Empirical evidence from manufacturing and construction firms listed on Nairobi securities exchange, Kenya. *International journal of accounting and taxation*, *1*(1), 1-14.
19. Oladimeji, J. A., & Aladejebi, O. (2020). The impact of working capital management on profitability: evidence from selected small businesses in Nigeria. *Journal of Small Business and Entrepreneurship Development*, *8*(1), 27-40.
20. Olaoye, F. O., Adekanbi, J. A., & Oluwadare, O. E. (2019). Working capital management and firms' profitability: Evidence from quoted firms on the Nigerian stock exchange. *Intelligent information management*, *11*(3), 43-60.
21. Pais, M. A., & Gama, P. M. (2015). Working capital management and SMEs profitability: Portuguese evidence. *International journal of managerial finance*, *11*(3), 341-358.
22. Panda, A. K., Nanda, S., & Panda, P. (2021). Working capital management, macroeconomic impacts, and firm profitability: evidence from Indian SMEs. *Business Perspectives and Research*, *9*(1), 144-158.
23. Prasad, P., Narayanasamy, S., Paul, S., Chattopadhyay, S., & Saravanan, P. (2019). Review of literature on working capital management and future research agenda. *Journal of Economic Surveys*, *33*(3), 827-861.
24. Prsa, D. (2020). The impact of working capital management on the profitability of Croatian manufacturing SMEs. *Ekonomski vjesnik/Econviews: Review of Contemporary Business, Entrepreneurship and Economic Issues*, *33*(2), 371-382.
25. Samson, A. A., Mary, J., Yemisi, B., & Erekpitan, I. O. (2012). The impact of working capital management on the profitability of small and medium scale enterprises in Nigeria. *Research journal of business management*, *6*(2), 61-69.
26. Soda, M. Z., Hassan Makhlouf, M., Oroud, Y., & Al Omari, R. (2022). Is firms' profitability affected by working capital management? A novel market-based

evidence in Jordan. *Cogent Business & Management*, *9*(1), 2049671.

27. Tauringana, V., & Adjapong Afrifa, G. (2013). The relative importance of working capital management and its components to SMEs' profitability. *Journal of Small Business and Enterprise Development*, *20*(3), 453-469.
28. Tran, H., Abbott, M., & Jin Yap, C. (2017). How does working capital management affect the profitability of Vietnamese small-and medium-sized enterprises?. *Journal of Small Business and Enterprise Development*, *24*(1), 2-11.