

**IMPACT OF WORKING CAPITAL MANAGEMENT PRACTICES ON
PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN
BATTICALOA DISTRICT**

T. Keerthigha

Department of Commerce, Eastern University, Sri Lanka

*Corresponding author: (email: keerthitharma@gmail.com)

INTRODUCTION

Small and medium-sized enterprises (SMEs) account for 90% of all establishments, making them a crucial segment of the nation's economy. According to the Department of Census and Statistics (2020), SMEs are responsible for 45% of the employment creation, and roughly one million enterprises in the nation employ 2.25 million people. The SME sector is categorized as micro, small, and medium enterprises (National Policy Framework for SME Development, 2016). In Sri Lanka, SMEs play a vital role in the country's socio-economic aspects and are considered the backbone of the economy. In Sri Lanka, SMEs contribute significantly more toward economic growth than major corporations (Central Bank Report, 2018). SMEs tend to get more numerous over time in Sri Lanka. The Batticaloa District has also noticed an increase. The economy of the Batticaloa district is primarily dependent on agriculture and SMEs. However, the Batticaloa district's SME sector performance is ineffective for various reasons (Department of Census and Statistics, 2020). They are the inability to obtain financing, customer satisfaction, globalization, a lack of raw materials, skilled labour, and technological advancements during the early stages of SMEs. However, the absence of working capital management methods, widespread among SME owners throughout Sri Lanka and in the Batticaloa District, is the primary cause of SME ineptitude (Central Bank Report, 2018). Decisions about working capital management are regarded as some of the most crucial short-term choices in financial management. These choices are made about current assets and liabilities (Jamil, Mawih, & Shubiri, 2015). In light of this, working capital management prioritizes managing current assets and liabilities for businesses. Farrah, Noredi, and Othman (2016) reported that less efficiency could be seen in the selected SMEs regarding managing their working capital.

Further, they emphasized that ineffective asset utilization and short-term investment decreases result from improper working capital management. Therefore, inefficient working capital management could lead to the failure of SMEs. In Sri Lanka, the most of the studies on working capital management practices were about Western province SMEs and listed companies. As mentioned above, the Batticaloa district is considered to be dependent on SMEs and agriculture for their livelihood, and it can be seen that there is a shortage of studies on working capital management practices. Therefore, this study aimed to determine the impact of working capital management practices on the performance of SMEs in the Batticaloa district.

METHODOLOGY

The population consisted of registered SMEs in the Batticaloa district's Koralai Pattru West Divisional Secretariat. The total population of this division is 442 numbers of registered SMEs. 100 SMEs were selected as the study sample. The sample was segmented into homogeneous sub-groups based on the types of SMEs. A structured 5-point Likert-scale questionnaire was issued to gather primary data. Three proxies were used to measure working capital management. They are cash management practices (CMPs), inventory management practices (IMPs), and receivable management practices (RMPs). Descriptive and inferential statistics were used in this study.

A multiple regression model was used to examine the impact of working capital management practices on SMEs' performance.

$$\text{Performance} = \beta + B1\text{CMPs} + B2\text{IMP} + B3\text{RMP} \dots \dots \dots e$$

Hypotheses formulated for the study are mentioned below.

H₁: There is a significant impact of CMPs on the performances of SMEs.

H₂: There is a significant impact of IMPs on the performances of SMEs.

H₃: There is a significant impact on RMPs performances of SMEs.

RESULTS AND DISCUSSION

This section elaborates on the results and discussion of this study.

Table 1 Result of Reliability Test

Variable	Cronbach's Alpha
Working capital Management Practices	0.951
Cash management practices	0.986
Inventory management practices	0.901
Receivable management practices	0.998
Performance	0.976

The strength of the consistency was measured using Cronbach's alpha and found acceptable confirming the internal consistency reliability (Table 1). In the sample, a higher percentage (86%) of enterprises' owners were male, running the business, while females were only 14%. The sample includes four age groups: namely, below 30, between 30-40 years, 40-50, and above 50. The majority of respondents (34%) were between the age of 30 and 40. Moreover, the next highest level of respondents (30%) belonged to the age group of 40-50. Most respondents (30%) had studied up to the level of GCE O/L, and 26% of the respondents had studied GCE A//L. Moreover, 28% percent of the owners were below the GCE O/L qualification, and 16 % of the owners had qualified with either a diploma or a degree. From the data collected, it can be seen that 62% of enterprises were small-size enterprises, and 38 percent were medium size enterprises. Most were said to have been in operations as a small enterprise in the Batticaloa district.

Table 2: Result of Correlation Analysis

		Performance	CMPs	IMPs	RMPs
Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
CMPs	Pearson Correlation	0.364**	1		
	Sig. (2-tailed)	0.000			
IMPs	Pearson Correlation	0.365**	0.563**	1	
	Sig. (2-tailed)	0.000	0.000		
RMPs	Pearson Correlation	0.733	0.321**	0.454**	1
	Sig. (2-tailed)	0.000	0.000	0.000	

According to Table 2, CMPs have a medium positive correlation of 0.364 and a p-value of 0.000, IMPs have a medium positive correlation of 0.365 and a p-value of 0.000, and RMPs have a strong positive correlation of 0.733 and a p-value of 0.000 with SMEs' performance respectively. This means that all the variables positively affect the SMEs' performance.

Table 3: Result of Regression Analysis

Model	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
Constant CMPs	0.835	0.638		1.309	0.194		
	-0.004	0.118	-0.002	-0.035	0.972	0.994	1.006
IMPs	0.670	0.065	0.718	10.345	0.000	0.995	1.005
RMPs	-0.116	0.061	-0.132	-1.909	0.059	0.996	1.004
R ² = 0.540		Adjusted R ² = 0.526		F = 37.562		P = 0.000	

Multiple regression analysis was used in this study to examine the impact of working capital management practices on the performance of SMEs. According to the results of the Model summary, R square (R²) is 0.540. The result showed that three working capital management practices explained 54 percent of the total variance in performance. The remaining 46 percent of the variability was not explained in this model. Value of F = 37.562, p < 0.05, depicted that the model was significant, which means regression results were accepted for this analysis. The decision rule is that if the P value is more significant than 0.05, accept the null hypothesis and if the P value is less than 0.05 reject the null hypothesis. Results show that IMPs significantly impact SME performance where the P value is 0.000, less than 0.05. CMPs and RMPs do not significantly impact SMEs' performance as the significance level are more significant than 0.05. Therefore, the multiple regression equation related to the study is;

$$\text{Performance} = 0.835 + 0.670\text{IMPs}$$

The unstandardized constant statistic 0.835 unit shows that the model would predict if all the independent variables were zero. The β coefficient for IMPs is 0.670. This means that if IMPs go up to 1 point on average, then SMEs' performance will improve by 0.670.

HYPOTHESES TESTING

H₁: There is a significant impact of CMPs on the performances of SMEs.

The null hypothesis has been accepted based on the P value and concluded that there is no significant impact of CMPs on the performances of SMEs in Batticaloa District.

H₂: There is a significant impact of IMPs on the performances of SMEs.

The null hypothesis was rejected based on the P value and concluded that there is a significant impact of IMPs on the performances of SMEs in Batticaloa District.

H₃: There is a significant impact on RMPs performances of SMEs.

The null hypothesis has been accepted based on the P value and concluded that there is no significant impact of RMPs on the performances of SMEs in Batticaloa District.

CONCLUSIONS AND IMPLICATIONS

The study examined the impact of working capital management practices on the performance of SMEs in Batticaloa District. CMPs, RMPs, and IMPs were considered proxies to measure the working capital management in the SMEs in the Batticaloa district. According to the results, the IMPs have a significant impact on SMEs' performance. Enterprise owners will benefit from the study as they can efficiently develop their business performance by employing working capital management practices. This study focuses on the SMEs in the Batticaloa district only. It will be benefited all if future studies are conducted by considering the SMEs in the whole of Sri Lanka. Moreover, other variables in the working capital management practices contribute to the improvement of the performance of SMEs. Therefore, future researchers can focus on other variables and their impact on the performance of SMEs.

Keywords: Cash management practices, inventory management practices, receivable management practices, SMEs

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