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The effect of working capital management policy on the profitability of SMEs in Douala, Cameroon

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Abstract: The objective of this study is to underscore the effect of working capital management policy on the profitability of small and medium-size enterprises (SMEs) in Douala 5 municipality using descriptive research design. Purposive sampling technique was used for the study. Meanwhile, questionnaires were used to collect data from a sample of 150 SMEs. Multiple linear regression was used to model the relationship between various proxies of working capital management policy and profitability of SMEs. The results of the regression analysis showed that conservative working capital management policy on inventory, receivables, and cash conversion cycle has a significant negative effect on profitability of SMEs. Meanwhile, a significant positive relationship was found between profitability and conservative policy on management of payables. Therefore, it is important for SMEs to adopt an appropriate working capital management policy influencing profitability to assure sustainability, growth and survival of their businesses.

Keywords: working capital management policy, profitability, SMEs

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INTRODUCTION

Ardent efforts to reduce high rate of failure experienced by SMEs, particularly, in low developed economies is at the centrepiece of most findings for many decades. Again, the necessity to sustain and develop the activities of SMEs is the preoccupation of many researchers and policymakers worldwide. Small and Medium Enterprises (SMEs) are considered the backbone of economic growth in all countries (Rajesh, Suresh, & Deshmukh, 2008), accounting for almost 90% of the businesses in these markets (Biggs &Shah, 2006). SMEs boost economic activity, which fosters national growth and development (Godke & McCahery, 2019). These firms encounter so many challenges such as access to finance, effective managerial skills, infrastructure, etc., impeding on their activities. To sustain their activity SMEs need fixed capital and working capital, which are the two main forms of capital used. Long-term funds are necessary to acquire long-term assets such as plant, machinery, equipment, land, and building. On the other hand, short-term funds, also known as working capital, are set aside to purchase raw materials, payment of salaries and wages, utilities, and other day-to-day expenses (Macatumbas-Corpuz & Bool, 2021). Working capital refers to the difference between current assets and current liabilities. Working capital management involves monitoring a company's current assets and liabilities to ensure timely commitments while minimizing associated costs (Temba, Simuyu & Namuri, 2024). It considers every decision that relates to managing current assets and liabilities, i.e., determining the optimal amount of cash, receivables, inventory, and current liabilities and the relationship between current assets and current liabilities (Abuzayed, 2012).

For so many years it is advocated that the challenges to access finance is an ultimate cause of high failure rate experienced by SMEs. Overtime, lack of management skill is propounded as the major issue leading to the failure of SMEs. In spite of their numbers and significance, recent studies showed that 60% of the SMEs fail within the first five years of operation (Boachie-Mensah & Marfo-Yiadom, 2005). Several studies highlighted that, poor accounting and financial management practices as one of the factors contributing to massive failure of SMEs in the short run (Kosgey & Njiru, 2016). This is recognised in the previous studies by Deloof (2003) in Belgium; Padachi (2006) in Mauritius; Lazaridis and Tryfonidis (2006) in Greece; Garcia-Teruel and Martinez-Solano (2007) and Caballero *et al.* (2012) in Spain; Gill *et al.* (2012) in the USA; Ding *et al.* (2013) in China; and Enqvist *et al.* (2014) in Finland. That is, the inability of the SMEs to manage the difference between current assets and current liabilities i.e., shortening the time of collecting receivables, deferring payment and keeping a minimal inventory. Many small and medium organisations have suffered particularly of poor working capital management and a lack of financial management skills (Jay & Sailesh, 2014). The sustainability of SMEs depends on making profit, which is a corollary of working capital management.

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Academics have examined the relationship between working capital management and corporate profitability, both theoretically and empirically (Bhatia & Srivastava, 2016; Enqvist *et al.*, 2014; Ukaegbu, 2014). The results of the findings revealed that working capital management has a significant effect on a company's liquidity and profitability (Afrifa, 2015) and, ultimately, the worth of a company (Kieschnick, Laplante & Moussawi, 2013). For instance, studies such as (Abimola & Kolawole, 2017; Bandara and Rathnasari, 2016) found out that working capital management practices affect business performance. This has been true and crucial, especially for small and medium scale enterprises (SMEs) whose survival and growth hinge largely on short-term financing models (García-Teruel & Martínez-Solano, 2010; Javid, 2014; Yazdanfar & Öhman, 2016). Accordingly, a large number of business failures have been attributed to the inability of business managers to plan and control properly the current assets and current liabilities of their firms. This highlights the importance of implementing effective working capital management practices to drive improvements in the performance of small and medium-sized businesses. By their very nature, smaller firms have limited access to long-term capital (García-Teruel & Martínez-Solano, 2010; Javid, 2014; Petersen & Rajan, 1997), which makes their dependence on short-term credit such as trade credit inevitable (García-Teruel & Martínez-Solano, 2010; Yazdanfar & Öhman, 2016). By managing their working capital, SMEs can shorten their operating and cash cycles and eventually increase their profitability. For instance, the shorter the firms operating and cash cycles, the more likely they are firms to generate profits (Hien, Abbott, & Jin-Yap, 2017). So, effective and efficient working capital management is expected as it has a significant effect on the profitability and sustainability of firms (Agha & Mba 2014). The need to main effective working capital management within Small and Medium Scale Enterprises (SMEs) remain pivotal to solvency and liquidity of SMEs. Well-designed and implemented working capital management will encourage positive returns for SMEs, while ineffective management will undoubtedly lead to failure of the enterprise (Hien, Abbott & Jin-Yap, 2017). This implies that efficient WCM practices are critical for the survival of SMEs. Given that working capital management is one of the key aspects of the wellbeing and survival of a business. Therefore, good working capital management practices are paramount important for the wellbeing of SMEs and to strengthen their economic and social contribution (Bandara & Rathnasiri, 2016).

However, most previous empirical studies on working capital management are based on large firms in developed economies (Tauringana & Afrifa, 2013; Jose *et al.*, 1996; Shin and Soenen, 1998; Deloof, 2003; Bhatia & Srivastava, 2016; Sharma & Kumar, 2011), with little attention paid to SMEs (Baños-Caballero *et al.*, 2012; Javid, 2014). Compared to large enterprises, SMEs are subject to important financial constraints (Whited, 1992; Fazzari and Petersen, 1993), and have difficulties in obtaining funding in the long-term capital markets (Petersen and Rajan, 1997), which means that an efficient working capital management is particularly important for SMEs (Peel and Wilson, 1996). Similarly, SMEs rely seriously on WCM as a result of limited financial resources compared to large firms (Tauringana & Afrifa, 2013). The greater part of SMEs does not have long-term assets like land & building, vehicles, and office equipments. As a result, the proportion of current resources over total aggregate assets is very high as the majority of the assets comprise of stock, cash balances, and account receivable (Gorondutse, Ali, Abubakar & Naalah, 2018). Accordingly, effective management of working capital is important to SMEs than to larger firms (Gorondutse, Ali, Abubakar & Naalah, 2018). For instance, Padachi (2006) noted that efficient management of working capital is most important to the survival, growth, and profitability of SMEs.

Although research of this sort has been extensive in the case of developed countries, work on capital management is more limited in the case of developing countries. In particular, financial literature that examines the effect of WCM on the profitability of SMEs in developing countries remains scarce, despite the growing importance of SMEs in such economies (Padachi, 2006). Some few exceptions are the works by Stephen and Elvis (2011) and Padachi (2006) that examine the WCM financial performance relations for SMEs in Kenya and Mauritius, respectively. Like other developing countries, SMEs in Cameroon face severe challenges in accessing finance from the traditional financial markets (Abor & Biekpe, 2006; Buatsi, 2002). This thus makes their reliance on short-term financing avenues such as trade credit inevitable for their survival.

Therefore, this study aimed at providing further empirical evidence on the impact of working capital management policy on profitability of small and medium scale enterprises (SMEs) within the context of Cameroon. In this study, therefore, we follow the approach used in the previous studies of (Deloof, 2003; Lazaridis & Tryfonidis, 2006; Padachi, 2006; Garcia-Teruel and Martinez-solano, 2007; Caballero *et al.*, 2012), which involves undertaking an in-depth and comprehensive examination of the WCM and profitability of SMEs, in the Cameroonian context. These results may contribute ideas for more efficient working capital management in order to limit high failure of SMEs. The remainder of the paper is organised as follows: - section 2 reviews the literature, section 3 covers the methodology, section 4 focuses on the interpretation and discussions of the results of the findings, and section 5 contains conclusion and and recommendations.

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REVIEW OF LITERATURE

This section covers the conceptual, theoretical and empirical literature of the study related to SMEs, profitability and working capital management policy.

An overview of small and medium-sized enterprises (SMEs)

The Small and Medium Scale (SME) business remain the most dynamic force and agent of economic growth and development of a nation (Kehinde, 2011). Small and Medium Enterprises (SMEs) play an important role in any economy as they are capable of generating employments, promoting the growth of Gross Domestic Product (GDP), embarking on innovations and stimulating of other economic activities. This sector is said to be the backbone of all developed and developing nations.

Unlike in large enterprises, managing liabilities and current assets of SMEs is specifically essential. SMEs firms may not have much investment in fixed assets but it has to invest in current assets. The role of current liabilities is more significant in small firms as they face difficulties in raising long term finances. SMEs have to be concerned with working capital management because they can also create value by reducing their cash conversion cycle to a minimum, as far as that is reasonable. Efficient working capital management is particularly important for SMEs for their growth and survival (Peel & Wilson, 1996).

In Cameroon, micro-enterprises are those with 10 or fewer workers, small enterprises have from 11 to 50 workers, and medium enterprises have from 51 to 100 workers. SME sector in Cameroon play a vital role in developing the economy through employment creation which in return alleviates poverty. This sector has been recognised as the leading sector for addressing Cameroon's development challenges (World Bank, 2007). However, SMEs are faced with several challenges that hinder their growth to maturity. Due to lack of professionalism and skills in management practices, SMEs are faced with a challenge of managing their working capital that may subsequently affect their performance.

The Concept of Profitability

The ultimate objectively of any business is to make profit. Indeed, profit is the primary cause or motivation of entrepreneurship, since it rewards business owners. Profitability is sine qua non for the growth, sustainability and survival of a business. However, the concept of profitability may have both subjective and objective dimensions. In other words, profitability may be measured based on objective indicators like gross and net profit margin, and subjective indicators such as the capacity of the business to satisfy basic social needs of owners. However, the excess of output over the input factors expressed in monetary terms is called profit. Thus, it is the excess of income over costs. In fact, profits are useful intermediate beacon towards which a firm's capital should be directed. To the financial management profits are the test of efficiency and a measure of control, to the owners a measure of the worth of their investment, to the creditors the margin of safety, to the employees a source of fringe benefits, to the government a measure of taxable capacity and the basis of legislative action, to the country profits are an index of economic progress, economic activity. It is this generic nature of profit that is universally acceptable, because in every country the need for creating economic surpluses, that is, for generating earnings by utilizing available resources effectively and efficiently, is of paramount importance for accelerating the pace of economic national income generated and rise in the standard of living. Profits are the motivating force for growth. In this study, because of the difficulties to acquire quantitative information from SMEs in order to assess objectively the profitability of SMEs, it is used as a subjective measured, which is captured by the ability of owners to satisfy social needs from the income generated by their activities.

Working Capital Management (WCM)

The investment that firms make in short-term assets, and the resources used with maturities of under one year, represent the main share of items on a firm's balance sheet (Pedro & Pedro, 2007). Working Capital (WC) is current assets less current liabilities. Current assets consist of inventories, receivables, prepayments, and cash, while current liabilities include short term payables, short term debts, and accruals (Sathyamoorthi, Mapharing, & Selinke, 2018). Working capital is the flow of available funds necessary for the working of a business. It consists of funds invested in current assets, which in the ordinary course of business can be turned into cash within a short period without diminishing in value and without disruption of the organization (Mohanty, 2013). Also, Olowe (2009) described working capital as the capital available for running the day to day operations of an organisation. It is an important element in any organizational setting that requires serious attention, proper planning, and management (Owolabi & Alu, 2012).

WCM is one of the most important components of financial management in many firms (Deloof, 2003). Working capital management (WCM) is an important component of corporate financial management as a result of a strong connection with the liquidity, profitability, and solvency objectives of a firm (Kolapo, Oke, & Ajayi, 2015).WCM primarily deals with decision making related to the amount and composition of the current assets and current liabilities in a business (Mansoori & Muhammad, 2012). Working capital management is the process of planning for the acquisition and usage of short-term assets. WCM therefore aims at maintaining a balance between liquidity and profitability in day-to-day operations of a business (Falope & Ajilore, 2009).

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Effective Working Capital Management

Effective WCM is critical for the survival and growth of any organisation because it affects its profitability and liquidity available for conducting its business (Deloof, 2003; Falope and Ajilore, 2009; Gill *et al.*, 2010). Therefore, an efficient WCM can significantly impact on the profitability and liquidity of the business (Deloof, 2003; Shin and Soenen, 1998), particularly in SMEs (Lazaridis & Tryfonidis, 2006; Padachi, 2006; Garcia-Teruel and Solano, 2007; Baños-Caballero *et al.*, 2012; Gill *et al.*, 2012). Effective WCM can be achieved by continuous monitoring of working capital components such as accounts receivable, inventory and accounts payable (Karaduman *et al.*, 2011). Firms could minimize risks and maximize profits by managing the important process of WCM (Nazir & Afza, 2009). If firms decide on a policy to reduce investment in WCM (aggressive WCM policy), it will positively influence their profits. This can occur if the firms reduce the portion of their total assets (Mbawuni *et al.*, 2016). Otherwise, firms can invest heavily in WCM. In this case they can avoid the risk of insolvency, which can affect their high profitability (Lamptey *et al.*, 2017).

Working Capital Management Policies

A company should have working capital policies on the management of inventory, trade receivables, cash, and short-term investments to minimise the possibility of illiquidity and inefficiency. An effective WCM policy can be said to be important in terms of financial management policies, and an adequate WCM policy can affect financial performance and lead to business success (Sensini, 2020). There are two main types of working capital policies of the firm viz: aggressive and conservative working capital policies. A firm may adopt either an aggressive or conservative working capital by reducing or increasing the level of investment in working capital (Tauringana & Afrifa, 2013; Afza & Nazir, 2011). However, the aggressive approach leads to lower investment in working capital, while the conservative strategy is meant to increase investment in working capital (Tauringana & Afrifa, 2013). For strategic reasons, management may pursue an aggressive policy of holding less investment in short-term assets or large volume of short-term liabilities. While firms adopting the aggressive approach will gain higher profitability that results from a higher risk and lower working capital (Nwankwo & Osho, 2010). This approach would positively affect the profitability of the firm by reducing the proportion of its total assets in the form of net current assets (Garcia-Teruel & Martinez-solano, 2007). On the other hand, management may opt for a more liberal (or conservative) approach of holding a large amount of investment in working capital (Altaf & Shah, 2018; Ukaegbu, 2014). The conservative approach is a strategy that keeps a large amount of capital in current assets as compared to the fixed-assets; thus, it will increase investment in working capital (Mohamad, Rahaman, & Saad, 2017). An increase in working capital may result in the opportunity cost of cash tied-up in the unproductive assets such as inventory and accounts receivables (Tauringana & Afrifa, 2013). This will result in lower profitability because of lower risk (Nwankwo & Osho, 2010). Conclusively, a more aggressive working capital policy (low investment in working capital) is associated with a higher return and higher risk, while a conservative working capital policy (high investment in working capital) supposes lower return and risk.

Regardless of the policy choice, there are associated costs and benefits; hence managers who are astute in choosing the optimal working capital level tend to create value for the firm (Gorondutse *et al.*, 2018; Ukaegbu, 2014). For instance, a liberal policy of holding high volume of receivables improves sales, enhances customer relations, attracts financially constrained customers, and consequently increases profitability (Abuhommous, 2017; Ukaegbu, 2014). Similarly, holding large inventories may enable the firm to avoid stock out, ensure uninterrupted production and take advantage of quantity discounts (Baños-Caballero *et al.*, 2012; Ching *et al.*, 2011; Koumanakos, 2008). On the other hand, holding large amount of cash may enable the firm meet day-to-day financial obligations to avoid financial distress. Additionally, delaying payment to creditors or holding large amount of trade payables may provide an alternative short-term low-cost credit facility (Yazdanfar & Öhman, 2016). There are, however, risks associated with such policy. For example, increasing investments in receivables may lead to higher bad debts (Cheng & Pike, 2003; Dary & James, 2019), locked up capital and higher opportunity cost (Dary & James, 2019; Martinez-Solano *et al.*, 2013), and increased debtors administration costs (Abuhommous, 2017; Mian & Smith, 1992). In addition, higher inventories may also increase holding cost, higher obsolescence, and frequent stock write-downs (Baños-Caballero *et al.*, 2012; Koumanakos, 2008). Moreover, holding a large amount of cash means the firm has to forgo interest that could be earned on short-term investments. A long cash conversion cycle might increase profitability because it leads to higher sales. However, corporate profitability might decrease with the cash conversion cycle, if the costs of higher investment in working capital rise faster than the benefits of holding more inventories and/or granting more trade credit to customers. Furthermore, undue delay in the creditor payment period may lead to loss of cash discount and higher interest charges (Yazdanfar & Öhman, 2016). As said before, trade credit may stimulate sales because it allows customers to assess product quality before paying (Long, Malitz and Ravid, 1993; Deloof and Jegers, 1996), but, it can also be an inexpensive source of credit for customers because suppliers may have significant cost advantages over financial institutions in providing credit to their customers (Petersen & Rajan, 1997). The flip side of granting trade credit and keeping inventories is that money is locked up in working capital. Muchina (2009) found that SMEs in Kenya follow conservative working capital management policy and they needed to

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concentrate and improve on their collection and payment policy. Nevertheless, the effective policies must be formulated for the individual components of working capital, and all precautions should be taken for the effective and efficient management of working capital.

Components of Working Capital

According to Mcmenamin (1999) the components of working capital include: - inventory, cash, accounts receivables, and account payables. These components should be managed efficiently so as to increase a firm's profitability.

Cash Conversion Cycle Policy

According to Shin and Soenen (1998) cash conversion cycle is a measure of the length of time between the purchase of raw materials and the collection of accounts receivable. The cash conversion cycle is the most popular measure of the efficiency of WCM (Nobanee *et al.*, 2011), and it is a key component about managing working capital (Soenen, 1993; Padachi, 2006; Mättö & Niskanen, 2021). This cycle can either be kept short or long depending on the policy being adopted. Many researchers have established a relationship between WCM and profitability using the CCC as a comprehensive measure for evaluating WCM. This is because the CCC is a powerful performance measure for assessing how well a company is managing its working capital. Some empirical studies revealed a negative relationship between CCC and profitability (Bhatia & Srivastava, 2016; Enqvist *et al.*, 2014; Lamptey *et al.*, 2017; Wangui, 2011, Deloof, 2003; Lazaridis & Tryfonidis, 2006; Zariyawati *et al.*, 2009; Shin & Soenen, 1998; Ngari, 2023). The traditional view of higher profitability of SMEs associated with a smaller CCC was also supported by (Garcia-Teruel & Martinez-Solano, 2007, Falope & Ajilore, 2009; Quayyum, 2011). These studies in effect provide strong justification for the use of an aggressive CCC strategy as means of maximizing corporate profitability. The shorter the period to convert every transaction into cash, the more money is available, which can be reinvested into more profitable activities, resulting in improved performance. In the same vein, Shin and Soenen (1998) found that a long cash conversion cycle negatively influences the corporate profitability. Similarly, Ngari's (2023) research uncovered a significant negative relationship between CCC and profit margin. The findings suggest that a reduction in the CCC could lead to increased profitability through various channels such as improved cash flow, reduced financing costs, and enhanced operational efficiency. Nobanee *et al.* (2011) explained that shortening the CCC leads to high profitability because it improves the efficiency of using the working capital. However, advocates of a more conservative CCC strategy. On the other hand, Baños-Caballero *et al.* (2012, 2014) argue that longer CCC allows the firm to increase sales, avoid stock out, and also improve customer relationships.

Some empirical research provide support for a positive relationship between a conservative CCC policy and profitability (Sharma & Kumar, 2011). For instance, Abimbola and Kolawole (2017) revealed that SMEs' performance has a strong positive relationship with cash management practices, which indicates that SMEs having more efficient cash management practices perform better. Likewise, Smirat (2016) and Hassan *et al.* (2017) found out that cash management positively affects SMEs' financial performance. Padachi (2006) found for a sample of 58 small manufacturing firms that the CCC was positively associated with the profitability when measured by ROA. Subsequently, research studies including Sharma and Kumar (2011), and Abuzayed (2012) also reported similar results. In addition, (Sharma & Kumar, 2011; Abuzayed, 2012; Padachi, 2006) found the CCC to be positively associated with profitability. Moreover, Gorondutse, Ali, Abubakar & Maahtah (2018), in a research carried out in Malaysia on the effect of WCM on SME profitability, concluded there is a positive effect of cash conversion cycle on net operating profit. The investigation conducted by Abdiwadud (2022) delved into analysing the relationship between various financial performance metrics, showing that an improvement in cash management had a positive effect on financial outcomes. In the same vein, Kiiru's (2020) research indicated a positive correlation with cash management. On the other hand, other studies provided evidence of an inverted u-shaped relationship between CCC and corporate profitability (Altaf & Shah, 2018; Baños-Caballero *et al.*, 2012). These studies thus suggest the existence of an optimal level of CCC that maximizes corporate profitability.

H1 – A conservative working capital management policy on cash conversion cycle has an effect on the profitability of SMEs

Inventory Management Policy

Inventory comprises the various raw materials, work in progress as well as the finished products held by the firm at any point in time (Falope & Ajilore, 2009). Inventory management remains a critical success factor of every business organization (Mathuva, 2013). Inventory management is the control of activities pertaining to stock including ordering, shipment, storage and decisions on the quantities and frequency with which merchandise will be replenished. In the context of inventory management, Pandey (2005) opined that a firm is faced with the problem of meeting two conflicting needs. First, to maintain a large size of inventories of raw materials, work-in-progress and finished goods for smooth production and uninterrupted sales operations. Secondly, to maintain a minimum investment in inventories to maximise profitability. In the same line, Baños-Caballero *et al.* (2012) asserted that large inventories help to avoid stocks out to ensure uninterrupted production. Large inventories also help to promptly and consistently deliver on customers' orders, which helps to improve customer relations, sales

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performance, and corporate profitability (Baños-Caballero *et al.*, 2012; Gill *et al.*, 2010; Mathuva, 2013). Moreover, firms stand to enjoy several cost advantages, such as benefiting from quantity discounts by resorting to large inventory purchase.

On the contrary, there are associated costs with holding large inventories which consequently hurt profitability. Indeed, maintaining a large inventory implies using capital to finance it and to cover different costs (transport, insurance, storage, obsolescence, spoilage…) (Long and al., 1993; Deloof & Jegers, 1996). Indeed, increased inventories are associated with high storage cost. These costs come in the form of high insurance, heating, or cooling as well as personnel and other administrative costs (Baños-Caballero *et al.*, 2012). There is also the risk of material spoilage and stocks obsolescence, leading to persistent stock writedowns. These arguments are generally in line with the concerns flagged by the Just-In-Time (JIT) inventory management theory. Explicit in the JIT theory is the argument that holding less inventories are cost-effective and profitable as large inventories add no value, but rather reduce profitability (Altaf & Shah, 2018). However, keeping a low inventory level may lead to lost sales and stock-out (Deloof, 2003). Thus, inventory flexibility is the crucial dimension in the supply chain management (Koste and Malhotra, 1999). As stated by Guariglia & Mateut (2006), in the sphere of inventory managing, the company aims to hold a minimal acceptable level of inventory with regard to its costs.It reflects the ability of the company to include customer's demand fluctuation on time and quantity into the planning cycles. Such practice requires an effective coordination between the company and its suppliers, especially in case of an increasing demand.

Majority of the studies (Bhatia & Srivastava, 2016; Sharma & Kumar, 2011) show evidence of a negative relationship between inventory conversion period and profitability, implying that a more aggressive policy of holding less inventory is financially rewarding. Other studies justify the use of liberal inventory policy by documenting a positive relationship between inventory conversion period and corporate profitability (Mathuva, 2010). For instance, Abimbola and Kolawole (2017) used three predictors for inventory management practices: inventory shrinkage, inventory investment, and inventory turnover. Their study revealed that both the inventory investment and the inventory turnover had positive relationships with SMEs' performance. This indicates that a unit increase in inventory turnover leads to increased performance and a unit increase in inventory investment also leads to an increase in SMEs' performance. Meanwhile, inventory shrinkage had a negative relationship with the performance of SMEs. This means that a unit increase in inventory shrinkage will cause a decrease in the performance of SMEs. Therefore, inventory shrinkage has a significant role in determining SMEs performance since stock shortages such as employees' theft, expired goods or stock and stock out usually cause severe hardships for most businesses and tend to affect the SMEs' overall performance. In support, Hassan *et al.* (2017) found out that inventory management has a significant relationship with SMEs' performance. On the other hand, Lamptey *et al.* (2017) found out that the average inventory turnover period is negatively related to Return on Capital Employed (ROCE) but statistically significant. This indicates that less inventory holding period, limited spoilage, and reduced number of expired products lead to lower storage cost, handling cost, and pilferages will increase profitability. Likewise, Wangui (2011) revealed a negative relationship between profitability and days' inventory outstanding. Blinder and Maccini (1991) indicated that maintaining high levels of inventory levels reduces the cost of possible interruptions in the production process or of the loss of business due to scarcity of products, reduces supply costs, and protects against price fluctuations. However, evidence from a study by Altaf and Shah (2018) reveal an inverted u-shaped relationship between inventory conversion period and corporate profitability. This by implication indicates the existence of an optimal inventory conversion period that balances the costs and benefits associated with inventory management and ensure optimal profit for the firm.

H2: A conservative policy on the management of inventory has an effect on the profitability of SMEs

Receivables Management Policy

Account receivables are customers who have not yet made payment for goods or services, which the firm has provided. Trade credit occurs when there is a delay between the delivery of goods or the provision of services by a supplier and their payment. From a commercial perspective, trade credit may stimulate sales in a number of ways because it allows buyers to verify product and services quality prior to payment (Long *et al.*, 1993). Hence, it reduces transaction cost (Dary & James, 2019), asymmetric information between buyer and seller (Ng *et al.*, 1999), and signals product quality (Baños-Caballero *et al.*, 2014). Therefore, trade credit can be used to maintain long-term relationships with customers (Ng *et al.*, 1999), and suppliers may be interested in the survival of their customers, due to the shared rent from long-standing business relationships (Cuñat, 2007). However, customer credit extension can also result in high corporate debtor management expenses such as bad debts writeoffs (Abuhommous, 2017; Dary & James, 2019; Mian & Smith, 1992).

Trade receivables period measures the number of days credit customers of the firm are made to take possession and possibly ownership of goods and services offered without payment (Martínez-Sola *et al.*, 2014). For the seller trade receivables represents an investment in accounts receivable, while for the buyer it is a source of financing that is classed under current liabilities on the

balance sheet (García-Teruel & Martínez-Solano, 2010). The objective of debtors (receivables) management is to minimise the time-lapse between completion of sales and receipt of payments (Abimbola & Kolawole, 2017). According to Aiguo (2016) debtors' management involves establishment of an effective credit collection procedures for firms' dues which includes managing accounts receivables and deciding whether one will sell on credit. Indeed, account receivables are an important component of the current assets. As a result, any change in their magnitude can influence the financial viability of the company. As pointed by Grzergorz (2008), the decision of granting trade credit is a compromise between limiting the risk resulting from untrustworthy buyers and gaining new customers. Therefore, it is imperative for the company to consider the customer's capabilities in trade credit decision.

Trade receivables period essentially provides a reflection of the firm's trade credit supply policy. As a policy option, firms may either offer longer or shorter credit period; a concept technically termed as conservative or aggressive credit policies, respectively (Altaf & Shah, 2018; Ukaegbu, 2014). For instance, liberal credit policy can be detrimental as it can lead to difficulties in debt collection. This may lead to tying of huge funds and increased bad debts. The literature cites several concerns associated with longer trade credit extension periods. These concerns are generally related to trade credit-induced cash flow and cost challenges that are believed to have the potential to negatively impact profitability negatively. It is, for instance, argued that trade credit extension decision may result in higher cost, arising from both real and opportunity cost (Dary & James, 2019; Nadiri, 1969). In examining the financial effect of trade credit policy, scholars have, accordingly, based their arguments on the financial benefits vis-à-vis the cost associated with each trade credit policy. On the one hand, it has been argued that offering longer trade credit policy enhances profitability by affording the firm the opportunity to attract customers, especially financially constrained customers (Abuhommous, 2017; Martinez-Solano *et al.*, 2013; Nadiri, 1969). Longer trade credit policy helps ensure predictable and improved long-term customer relationship (Baños-Caballero *et al.*, 2014; Cuñat, 2007; Ng *et al.*, 1999). However, the firm's decision to offer longer trade credit period has the potential to lock up viable resources in debtors (Guariglia & Mateut, 2006). The locked-up funds have the potential to deny the firm the opportunity of taking advantage of other viable investment projects and eventually hurts profit. By locking up capital, firms may also be compelled to resort to costly external sources of finance like loans to meet short-term liquidity demands. Besides, if the manager chooses to reduce the accounts receivable, he limits sales through credits to customers. Then, this strict collection policy leads to loose purchasers and reduces profits. The business firm should follow a rationalized credit policy to avoid tying of funds unnecessarily. In this respect, Cheng and Pike (2003) stressed that working capital management looks for creating a high quality accounts receivable portfolio in order to improve corporate value.

Some empirical studies find evidence of negative impact of debtors' management policy on corporate profitability (Bhatia & Srivastava, 2016; Deloof, 2003; Hassan *et al.*, 2017; Lamptey *et al.*, 2017; Wangui, 2011). Additionally, empirical studies, such as (Sharma & Kumar, 2011; Abimbola & Kolawole, 2017; Abuhommous, 2017) provide empirical evidence of a positive relationship between conservative trade credit policy and corporate profitability. However, recent studies make a case for a more complex or a curve-linear relationship between trade credit policy and corporate financial performance (Emery, 1984; Martinez-Solano *et al.*, 2013; Nadiri, 1969; Altaf & Shah, 2018). This proposition is premised on the assumption that the relationship between trade credit conversion period and financial is function of the level of trade credit offered. For example, it is argued that at lower levels of trade receivables investments, firm tend to reap more economic benefits than the cost associated with that of trade credit extension. This eventually leads to higher trade credit policy induced profit at lower trade credit policy levels. It is, however, argued that any trade credit offered beyond the optimal level tends to generate higher costs when matched against its associated benefits. This tends to hurt overall profitability.

H3: A conservative policy on the management of receivables has an effect on the profitability of SMEs

Payables Management Policy

Falope and Ajilore (2009) viewed accounts payable as suppliers whose invoices for goods or services have been processed but have not yet been paid. Creditors' management or account payables management represents a business process, policies, procedures, relating to administration of its trade credit purchases. On the other hand, trade payables period measures the numbers of days the firm is allowed to postpone payment for goods or services offered by its suppliers. Based on trade credit theory, suppliers collect additional information over traditional financing channels. Accordingly, trade credit is a cheaper substitute to bank credit (Petersen and Rajan, 1994). Thus, the company uses credit from suppliers when other financing sources are not available. Organisations often regard the amount owing to creditors as a source of free credit because it has no identifiable interest charges. It is in view of this that accounts payable are always regarded as a major source of working capital financing for firms (Pandey, 2005). Delaying payments to suppliers is sought as a prominent method to manage payables. Accordingly, by delaying payments to suppliers, the manager allows the firm to beneficiate from a flexible source of financing and a low probability of receiving poor quality materials. In addition, delaying payments to suppliers allows a firm to assess the quality of the

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products bought, and can be an inexpensive and flexible source of financing for the firm. Conversely, trade credit deprives the company of early payment discount which can be considered as an implicit cost. For example, late payment of invoices can be very costly if the firm is offered a discount for early payment. In addition, trade credit may damage the company reputation in case of non-payment of the supplier. Moreover, excessive delay in payment may cast doubt on the firm's credit worthiness, which could cause the firm to lose out on favourable credit terms from both existing and potential suppliers.

Several empirical studies find evidence of positive relationship between trade payable and profitability (Bougheas *et al.*, 2009; Makori & Jagongo, 2013). Similar evidence of negative relationship between accounts payable and profitability are documented in other studies (García-Teruel & Martinez-Solano, 2007; Samiloglo & Dermirgunes, 2008). For instance, (Deloof, 2003; Lazaridis & Tryfonidis, 2006) find evidence of a negative effect of accounts payable on profitability. As a result of the inconclusive theoretical and empirical evidence on the relationship between trade payable management and profitability, some recent studies have begun to view the trade payable period –profit relationship as one that depicts a curve linear relationship. For instance, studies such as the one by Altaf and Shah (2018) proposed and found evidence of an inverted U-shaped relationship between trade payable period and corporate profitability. This by implication suggests the existence of an optimal level of trade payable period where both cost and revenue offset. Thus, firms' profitability may increase as trade payable period rises to an optimal level where associated marginal revenue and cost offset and profit is maximized. However, when trade payable period goes beyond this optimal level, the associated costs may far outweigh its benefits, causing profitability to fall.

H4: A conservative policy on the management of trade payables has an influence on the profitability of SMEs

Theoretical Foundation

The study was anchored on the theory of cash conversion cycle. Cash conversion cycle theory is the most central theory in explaining working capital management as it is concerned with all the concepts, and components, starting from raw materials to finished products and outputs representing inventory levels, to receivables and payment representing the cash portion. Inventories, receivables, and payables are regarded as the constituents of the cash conversion cycle model. The CCC theory establishes that a firm with good WCM is able to cultivate financial health and growth. The theory considers both the short cash conversion cycle and long cash conversion cycle in a firm so as to effectively determine the efficiency of the working capital management system in ensuring that investment opportunities are optimised without compromising the liquidity and solvency status of the firm (Bhattacharya, 2014). Jordan (2003) contends that the CCC is the period between the purchase of an item by a firm to the period the item is sold and cash proceeds received. Farooq, Maqbool, Waris and Mahmood (2016) highlight that the shorter the CCC, the better the potential of a firm to register growth. The theory is important in the exploration of the effect of working capital management practices and other elements: - cash, debtors, creditors and inventory management practices on profitability of SMEs.

Assessment of Relationship Between Working Capital Management and Profitability: A Review of Empirical Literature

Working capital is the most crucial factor for maintaining liquidity, survival, solvency, and profitability of businesses across any country. Several studies have advocated the relationship between working capital management and firm's profitability (Aldubhani *et al.*, 2022; Mazlan and Choong, 2018). It has been established through research that working capital management is an essential part of a firm and that it has a positive association with a firm's profitability (Rehman, Khan, Muhammed, Iqbal & Khan, 2016). According to Afrifa & Tingbani, (2018), WCM is a fundamental and important element because it could affect values, risks, and probabilities of firms.

In the literature, there is conflicting empirical evidence on association of WCM and firm profitability due to factors including size of the sample, proxy measures for variables under study and economic development of the country from which the sample is drawn. Due to these contradictory findings, it is very difficult to generalise the relationship between WCM and profitability (Harsh, Satish & Sisira, 2017). For instance, studies on working capital management and firm performance (Jose *et al.*, 1996; Shin & Soenen 1998; Wang, 2002; Deloof, 2003; Garcia-Teruel & Martinez-Solano, 2007) found a linear relationship between a firm's investment in working capital and its profitability. For example, Deloof (2003) showed that firms can improve their profitability by reducing the number of days accounts receivables are outstanding and reducing inventories levels. Garcia-Teruel and Martinez-Solano (2007) demonstrated that managers can create value by reducing their inventories and the number of days in which their accounts are outstanding; moreover, the shortening of cash conversion cycle improves the firm's profitability. The study of Abimbola and Kolawole (2017) showed positive relationship between cash management and inventory management practices on SMEs performance. In the same vein, Abebe (2019) investigates the impact of working capital management on profitability of small and medium scale enterprises (SMEs) in Guji Zone. The finding of this research proved that the inventory holding period, account receivable period, account payable period and approaches of

working capital were statistically significant and positively related with the improvement of profitability in the SMEs of East Guji zone. Additionally, Braimah, Yinping, IQuaye, and Alhassan (2021) empirically examines the impact of working capital management on the profitability of Small and Medium Scale Enterprises (SMEs) in the context of a developing economy, Ghana. The results reveal a positive relationship between trade payable period and profitability. The inventory conversion period and cash conversion cycle show a negative association with profitability. In addition, the results show an inverted U-shaped relationship between trade receivables collection period and corporate profitability, an indication of an optimal trade receivables collection period that maximizes profitability. Further check suggests a deviation from the optimal trade receivables collection period significantly and negatively affects corporate profitability. Moreover, Yarong, Khan and Sun (2021) provide empirical evidence on the effects of working capital management on the profitability of small and medium-sized enterprises. The results show that a reduction in inventories held and in the number of days it takes businesses to pay trade payables and collect payments from their customers positively impact corporate profitability. Additionally, the results suggest that more aggressive working capital management policies increase corporate profitability. Moreover, some scholar found a positive and significant link between SMEs profitability and WCM. For instance, Pais and Gama (2015) and Banos- Caballero, García- Teruel, & Martínez- Solano (2012) in Portugal and Spain, respectively, Padachi (2006) in Mauritian, Afeef (2011) for SMEs listed on the Karachi stock exchange, Bellouma (2011) for SMEs in sector of Tunisian export, Bhunia & Das (2012) for the case of small-medium companies in Indian private sector, Nyabwanga and Ojera (2012) SMEs in Kenya, Tauringana & Afrifa (2013) for SMEs in UK, Owoetoni, Amuche & Utomi (2015) SMEs within Kaduna metropolis, Bandara and Rathnasiri (2016) for Small and Medium Enterprises in Sri Lankan, Hien, Abbott & Jin-Yap (2017) for small- and medium-sized enterprises (SMEs) in Vietnam, Fasesin, Ayo-oyebiyi, and Folajin (2017) for small scale enterprise in Osun state, Abimbola and Kolawole (2017) for Small and Medium Scale Enterprises (SMEs) in Oyo State, Nigeria, and AlMawsheki, Ahmad, Nordin (2019) for SMEs in Malaysian manufacturing firms.

On the other hand, some scholars found that the relationship between working capital management and profitability of SMEs is either negative, inexistent, and/or concave. For instance, Yazdanfar and Öhman (2014) for SMEs in Swedish, Sadiq (2017) for SMEs in Nigeria. However, Oladimeji & Olufemi (2020) examines the impact of working capital management on the profitability for the case of SMEs in Nigeria and found no relationship between WCM and profitability of SMEs. Meanwhile, Mathuva (2010) posited that there existed a negative relationship between the time firms took to collect cash from their customers and their profitability. Firms that took a very short time to collect cash from their customers were profitable. However, a positive relationship between inventory conversion period and firm's profitability was also noted. It was also noted firms that took longer to pay creditors were also profitable. For some authors(Baños-Caballero, García-Teruel & Martínez-Solano, 2012), the relation between working capital and a firm's profitability is found to be concave rather than linear, and might be better captured by a quadratic relationship. As a result of the costs and benefits of a higher investment in working capital, there may be an inverted U-shaped relationship between a firm's profitability and investment in working capital and, hence, firms might have an optimal working capital level that balances costs and benefits and maximizes their profitability. Specifically, firms' profitability is found to rise as working capital increases until a certain working capital level is reached, given that the increased profitability will not offset the high risk borne. Conversely, beyond this optimum, due to the low return of current assets, an increase in working capital is expected to be related with decreases in profitability. That is, firm profitability and working capital are expected to relate positively at low levels of working capital and negatively at higher levels.

METHODOLOGY

The study used a descriptive research design. A descriptive research is a process of collecting data in order to answer questions concerning the current status of the subjects in the study. This type of research best describes the way things are. The population of the study is the small and medium enterprises in Douala 5 municipality. Sample size consists of 150 small and medium enterprises and the distribution per the economic sector is shown below. The study used purposive sampling in obtaining data from sampled SMEs. The reason for the purposive sampling was to ensure accuracy and reliability of data. Data were collected using survey questionnaires administered to the sampled SMEs.

Table 1: Sample distribution

Economic sector	No. of firms
ICT/Telecommunications	26
General trade	42
Industrial	22
Service	60
Total	150

Source: Author from survey data (2026)

Measurement of variables

In line with Deloof (2003), Lazaridis and Tryfonidis (2006), Garcia-Teruel and Solano (2007), Gill *et al.* (2010) and Caballero *et al.* (2012), the key variables used to comprehensively measure WCM in SMEs are cash, inventory, account receivables, and account payables. Profitability is the dependent variable of the study, and a subjective measure. It is captured through

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capacity of the activities to satisfy social needs of owners. It is measured using likert's scale response ranging from strongly agree, agree, neutral, disagree and strongly disagree. Working capital management represents the independent variable of the study, which is apprehended through a conservative (or liberal) policy on the management of cash conversion cycle, receivables, inventory, and payables. The practice of liberal policy by SMEs on management of working capital is explained by holding large amount of cash, high volume of inventory, increasing investment in receivables, and increasing payables. These variables are measured using five (5) likert's scale ranging from strongly agree, agree, neutral, disagree and strongly disagree.

Table 2 – Measurement of variables

Nature	Variable	Measurability	Indicator
Independent variable Working capital management (WCM) : Liberal or conservative policy of WCM	Cash conversion cycle policy (CCCP)	Increasing cash conversion cycle.	Likert scale from 1 to 5
	Inventory management Policy (INVMP)	Holding large investment in inventory or stock.	Likert scale from 1 to 5
	Receivables Management Policy (RMP)	Holding large investment in receivables or debtors.	Likert scale from 1 to 5
	Payables Management Policy (PMP)	Holding large amount of trade credits by delaying payment to suppliers or creditiors.	Likert scale from 1 to 5
Dependent variable	Profitability (PROF) (subjective measure)	Activities generate income to satisfy basic needs such as, clothing, shelter, feeding, school fee, etc.	Likert scale from 1 to 5

Source: Author (2026)

Model specification

The study used multiple regression model which was chosen in line with past similar study by Wainaina (2010). To further investigate the relationship of working capital management on profitability, the model used for the regressions analysis was expressed in the general form as given in equation below:

$PROF = \alpha_0 + \beta_1 CCCP, + \beta_2 INVMP + \beta_3 RMP + \beta_4 PMP + e_t$ …… eqn (1)

Where:

PROF=Profitability.

α_0 = Estimated profitability when all the other explanatory variables are zero.

β =Coefficient of variation.

e_t= Error term

CCCP= Cash conversion cycle policy.

INVMP= Inventory management policy

RMP= Receivables management policy

PMP= Payables management policy

FINDINGS AND DISCUSSIONS

Correlation Analysis

Pearson's correlation coefficient was used to determine the relationship between working capital management variables and profitability of SMEs.

Table 3: Pearson's correlation coefficients

Variables	PROF	INVMP	RMP	PMP	CCCP
PROF	1				
INVM	-0.036	1			
ARM	-0.117	-0.13	1		
APM	0.412**	0.398*	-0.299	1	
CCCP	-0.242	0.776**	0.431**	-0.117	1

Source: Author from research data (2026)

* Correlation is significant at the 0.01 level (2-tailed)

**Correlation is significant at the 0.05 level (2-tailed)

The table above shows that the result of Pearson's correlation coefficients of variables used in the study. It shows that there is a negative correlation -0.036 between inventory management policy and profitability. It implies that holding large amount of inventory negatively impact on the profitability of SMEs.

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Therefore, an increase in unit of inventory level decreases the profitability of SMEs. By holding large amount of inventory capital is tied in stock affecting turnover. Again, policy on the management of receivables is found to be negative correlated with profitability. The correlation coefficient between conservative management policy of receivables and profitability is -0.117. This implies an increased investment in receivables negatively affect profitability of SMEs. Meanwhile, there is a positive correlation 0.412 between conservative management policy of payables and profitability of SMEs. Therefore, holding large amount of payables by delaying payment to creditors increase profitability of SMEs. Trade credit is cheap source of short-term finance in the form of cash, which may be invested elsewhere to make profit. Additionally, there was a negative correlation -0.242 between profitability and cash conversion cycle policy. This means that increasing cash conversion cycle negatively affects profitability of SMEs. By investing cash in profitable projects will boost profitability of SMEs. Therefore, holding large amount of cash causes idleness in investments, which impacts profitability of SMEs. Therefore, enterprise managers can increase profits by shortening the cash conversion cycle. These results were consistent with those found by Garcia-Teruel and Martinez-Solano (2007) who demonstrated that managers can create value and increase firm's profitability by reducing their inventories and the number of days in which their accounts are outstanding and moreover by shortening the cash conversion cycle. There was a positive relationship between cash conversion cycle policy and inventory management and management of receivables policies. However, a negative relationship is found between cash conversion cycle policy and management of payables policy. For enterprises to maintain a shorter cash conversion cycle inventory and account receivables periods must be reduced and accounts payables increased.

Regression Analysis

Table 4: Result of multiple regression analysis

Predictor	Beta	Std. Error	t	Sig.
Constant	3.715	1.712	2.17	0.037
CCCP	-0.241	0.017	2.476	0.049
INVMP	-0.237	0.015	2.477	0.015
RMP	-0.204	0.013	2.028	0.038
PMP	0.508	0.042	3.042	0.024
R square	0.217			
Adjusted R^2	0.152			
F statistics	3.332			
Dependent variable:	Profitability			

Source: Author from research data (2026)

The regression model can be rewritten as follows:
PROF= 3.715- 0.241CCCP- 0.237INVMP - 0.204RMP + 0.508PMP

From the table above, the adjusted R squared also called the coefficient of determination is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. The value of R^2 is 0.152 or 15.2%. This means that the dependent variable of profitability is explained by the independent variables namely; inventory management, account receivables management, account payables management and cash conversion cycle at 15% implying that there could be other significant control variables that affect the profitability of these firms. The F statistics is used to test the validity of the regression model, which is 3.332 providing a good fit of the model to provide explanation of working capital management and profitability of SMEs. The constant, where the regression line intercepts the PROF-axis representing the amount the dependent variable PROF will be when all the independent variables are zero is 3.715.

The result above reveals a negative correlation (- 0.241) between cash conversion cycle policy and profitability of SMEs. Therefore, increasing the cash convention cycle decreases the profitability of SMEs. Thus, liberal policy adopted in the management of cash conversion period decreases the profitability of SMEs. The negative relationship between cash conversion policy and profitability of SME is found to be significant giving that p-value of cash conversion cycle policy (0.049) is less than 0.05 (0.049< 0.05). Hence, hypothesis H_1 is validated, implying that a conservative cash conversion cycle policy has a significant influence on profitability of SMEs. As a result, it is important for SMEs to reduce the cash conversion cycle to achieve profitability. This result is in line with empirical findings of Bhatia & Srivastava, 2016; Enqvist *et al.* 2014, and confirms theoretical underpinning of cash conversion cycle theory. An increase in the cash convention cycle affects the liquidity and profitability of SMEs, and hence, SMEs may resort to costly sources of short-term finance, which affects its profitability.

Definitely, it is important for SMEs to reduce cash conversion cycle to assure its liquidity and profitability. As a result, reduction in cash conversion cycle increases the profitability of SMEs. The rapid conversion of inventories and receivables into cash makes SMEs profitable. By reducing the cash conversion, makes cash available which could be reinvested in profitable opportunities. Shortening the cash conversion cycle makes cash availability to exploit other profitable investment avenues. Accordingly, it is important to apply an aggressive policy to shortening the cash conversion cycle. Cash flow can be significantly enhanced if the amounts owing to a business are collected faster, if inventories are transformed to cash, and creditors' payment is delayed. A shortening of the cash conversion cycle orchestrates the expected profit aligning with the prediction of cash convention cycle theory.

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In addition, a negative correlation (-0.237) is found between inventory management policy and profitability. It implies that holding large amount of inventory negatively affects the profitability of SMEs. Accordingly, liberal policy practiced on inventory management negatively affects profitability of SMEs. In other words, increasing investment in inventory negatively affects the profitability of SMEs. Indeed, the cost of inventory increases when holding large volume of stocks, which likely affects profitability of SMEs. In fact, excessive inventory place a heavy burden on the cash resources of a business, and hence profitability of SMEs. This result is found to be significant since the p-value of inventory management policy (0.015) is less than 0.05 (0.015< 0.05). Hence, hypothesis H_2 is validated. As a result, conservative inventory management policy marked by holding large volume of inventory has a significant negative influence on profitability of SMEs. This result is in conformity with the findings of Hassan *et al.* (2017) and Wangui (2011) who found a negative and significant relationship between inventory management and profitability of SMEs. Indeed, holding large amount of inventory may induce extra cost to the firm, and causes cash shortage affecting profitability. It is important for SMEs to quickly convert inventory into cash in order to be profitable. The fact that large amount of cash is tied in stocks negatively affects profitability of SMEs is in support of cash conversion theory stating the necessity for firms to quickly convert stocks into cash to enhance profitability.

Moreover, account receivable management policy is sought to have as well a negative correlation (-0.204) with profitability of SMEs. It shows that the liberal policy applied on receivables decreases the profitability of SMEs. It implies that holding large amount of receivables affects profitability of SMEs. However, this result is significant since the p-value of receivables management policy (0.038) is less than 0.05 (0.038<0.05). Hence, hypothesis H_3 is supported. Consequently, the liberal policy of increasing investment in receivables has a negative significant influence on profitability of SMEs. Indeed, account receivables is caused by credit sales to customers. If not managed properly it may influence the liquidity, and hence, profitability of SMEs. In fact, trade credit boost sales but creates cash shortage affecting seriously the profitability. Increasing investment in receivables slows cash conversion cycle, and hence, profitability of SMEs. This result is in line with the findings of Bhatia & Srivastava (2016), Deloof (2003) showing a negative relationship between conservative receivables management policy and profitability of SMEs. It corroborates the cash conversion cycle theory, since, increasing investment in receivables increases sales, maintains good customer relationship; but lead to difficulties in debt collection, induced cash flow and cost challenges that are believed to have the potential to negatively impact profitability. Therefore, the incapacity of SMEs to quickly convert receivables into cash negatively affects their profitability as premised by cash conversion theory. Therefore, extending trade credit to customers lends the firm to higher risk of payment defaults, which could lead to liquidity challenges, financial distress, and potential bankruptcy (Cheng & Pike, 2003; Dary & James, 2019).

Furthermore, it is found that both management of account payables policy and profitability are positively correlated (0.508). It is found to be the highest influence of the profitability of SMEs. Therefore, delaying payment to creditors increases the profitability of SMEs. Thus, conservative policy applied in the management of receivables positively affects profitability of SMEs. This result is found to be significant giving that the p-value of account payables (0.024) is less than 0.05. Hence, hypothesis H_4 is supported. Thus, liberal account receivables management policy has a significant influence on the profitability of SMEs. This result is in line with empirical studies of (Bougheas *et al.*, 2009; Makori & Jagongo, 2013) confirming a positive relation between liberal trade payables policy and profitability of SMEs. From theoretical perspective, delaying payment to creditors increases cash, which may be used to fund other investment opportunities, hence, increasing profitability. Accordingly, this result is supportive to the cash conversion cycle theory. SMEs may delay paying of bills and trade credits, and utilise the amounts to generate more sales hence increasing profitability. It has been argued that delaying payment to creditors provides cheap alternative source of short-term finance to the firm (Petersen & Rajan, 1997; Yazdanfar & Öhman, 2016). Thus, the delayed payment period enables the firm to invest such cash into alternative short-term viable investment avenues. This could lead to increased profitability.

CONCLUSIONS

The purpose of the study is to underscore the influence of working capital management policy on the profitability of SMEs using descriptive research design. Firstly, the result of regression analysis using data collected from 150 sampled SMEs showed that conversion cash conversion cycle policy, inventory management policy, and receivables management policy have a negative effect on the profitability of SMEs. That is, the profitability of SMEs decreases as they increase cash convention cycle, increase investment in inventory and receivables. Therefore, a conservative working capital management policy on cash convention cycle, stocks, and debtors negatively affects profitability of SMEs. Since, the profitability of SMEs decreases when holding large amount of cash, increasing investments in both inventory and debtors; it is important for SMEs to adopt an aggressive policy in managing their cash, stocks and receivables. Secondly, the result revealed a positive and significant relationship between conservative policy in the management of payables and profitability of SMEs. Therefore, liberal policy in managing payables

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affects positively the profitability of SMEs. Accordingly, SMEs should invest much in suppliers' trade credit to achieve necessary profitability of their businesses. This implies that working capital management policy has a significant effect on the profitability of SMEs. Therefore, sustainability and survival of SMEs depends largely on good WCM practices. Thus, managers can create profits for their companies by handling correctly the cash conversion cycle and keeping each component like receivables, payables, and inventory to a satisfactory level. Similarly, SMEs should adopt an appropriate working capital management policy to achieve profitability of their businesses. For instance, should adopt a conservative policy of WCM to manage supplier credits; otherwise, use an aggressive policy to manage cash, stocks and debtors. For instance, they should aim at reducing the cash conversion cycle as far as it does not affect the business operations. SMEs should shorten their cash conversion cycle by reducing receivables and inventories to increase their profitability. Indeed, high inventory levels lead to tying of funds which would otherwise be utilised in more viable ventures. Additionally, SMEs should strive to collect the receivables within the shortest time possible so as to utilise the funds in generating more sales. The conclusions are in confirmation with Deloof (2003) who found that firms can improve their profitability by reducing account receivables and reducing inventories levels.

It is recommended that SMEs operators should take cognisance of WCM policies in order to enhance their performances. Business owners and managers should adopt an effective policy in the management of inventories, account payables, account receivables and cash conversion cycle as this will ultimately increase profitability. For example, reducing the cash conversion cycle to a minimum should be of concern to the owners and managers. SMEs need to adopt effective credit policy and carry out thorough credit vetting to ensure reduced costs of bad debts and debt administration costs. Again, the government should implement training programs aimed at enhancing the business management skills of SMEs. The academia and training institutions should also focus more on the trainings on working capital management to the entrepreneurs. For efficient working capital management, specialised persons in the fields of finance should be hired by the firms for expert advice on working capital management policy in SMEs.

Despite empirical contribution of the study, it is subject to some limits paving further studies. Notwithstanding, the study was carried on small and medium enterprises in the city of Douala 5 municipality. Further research can be carried on small and medium enterprises in other areas and especially in the rural towns. The study focused only on variables related to working capital to highlight profitability of SMEs. Other control variables can be included in the analysis in determining the relationship of working capital management policy on the profitability of SMEs. The study can narrow down to small and medium enterprises in one economic sector. Further research can also be undertaken to include other sectors in the economy not included in this study so as to determine any significant differences in the management of the working capital in the other sectors. Analysis is carried out based on the conservative approach of managing working capital management of SMEs, and implicit conclusions are made on aggressive policy. Further studies should delve the influence of aggressive working capital management policy on the profitability of SMEs in order to draw concrete empirical conclusions.

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