The Effect of Working Capital Management on Small and Medium sized Enterprises (SMEs) Profitability in Egypt

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ABSTRACT

The aim of this paper is to study the relationship between working capital management (WCM) and Small and Medium sized enterprises (SMEs) profitability in Egypt. The study is applied on a sample of 29 firms listed in the Nile index (NILEX) of Egypt for the period from 2008 to 2017. The study uses Return on Sales (ROS) as proxy for the dependent variable, firm profitability. Cash conversion cycle (CCC), Number of days of Inventory (INV), Number of days of Accounts Receivables (AR), and Number of days of Accounts Payable (AP) are used as independent variables. In addition, the study uses firm size, firm age, firm sales growth, financial leverage, and assets tangibility as control variables. The results indicated that shortening the CCC improves an SME’s profitability.

METHODOLOGY

The researcher conducts an applied study on 29 Egyptian SMEs listed in the NILEX, throughout the years from 2008 till 2017. This research is quantitative dealing with long economy as well as in the Egyptian economy. This research is quantitative dealing with long economy as well as in the Egyptian economy. The analyses of number of days of inventory indicated that there is a negative significant relation between INV and firm’s profitability. This means that the shorter the firm’s inventory holding period, the higher the profitability and vice versa. The analyses of number of days of accounts receivables showed that there is a significant negative relationship between AR and firm’s profitability. This means that shortening a firm’s accounts receivable period increases the profitability and vice versa. The analyses of accounts payable period specified that there is a positive relationship between AP and firm’s profitability, but statistically not significant. This means that lengthening a firm’s accounts payable period raises the profitability and vice versa. The analyses of CCC reflected that there is a significant negative relationship between this cycle and firm’s profitability. This can be described as, shortening a firm’s CCC increases profitability and vice versa.

RESULTS

The results showed a significant negative relationship between CCC, INV & AR and profitability of firms measured as ROS. The results found a positive statistically insignificant relationship between AP and ROS. The analyses of number of days of inventory indicated that there is a negative significant relation between INV and firm’s profitability. This means that the shorter the firm’s inventory holding period, the higher the profitability and vice versa. The analyses of number of days of accounts receivables showed that there is a significant negative relationship between AR and firm’s profitability. This means that shortening a firm’s accounts receivable period increases the profitability and vice versa. The analyses of accounts payable period specified that there is a positive relationship between AP and firm’s profitability, but statistically not significant. This means that lengthening a firm’s accounts payable period raises the profitability and vice versa. The analyses of CCC reflected that there is a significant negative relationship between this cycle and firm’s profitability. This can be described as, shortening a firm’s CCC increases profitability and vice versa.

CONCLUSION

The negative association between CCC, INV, AR and ROS, and the positive association between AP and ROS; revealed that SMEs in Egypt follow the aggressive strategy in managing their working capital and its components. Panel data analysis results showed that the management of INV, CCC and AR are important for SMEs profitability measured as ROS. In terms of relative importance, INV management is most important, followed by CCC, AR and AP respectively. Panel data analysis results showed that the management of INV, CCC and AR are important for SMEs profitability measured as ROS. In terms of relative importance, INV management is most important, followed by CCC, AR and AP respectively.