

Working Capital Management and Profitability: A Study on Small and Medium Enterprises (SMEs) in Bangladesh

Tarik Hossain¹, Fahmida Begum², Trina Saha³, Emranul Hoque⁴

¹Associate Professor, Department of Accounting and Information Systems, Comilla University, Cumilla, Bangladesh.

²Assistant Professor, Department of Accounting and Information Systems, Comilla University, Cumilla, Bangladesh.

³Assistant Professor, Department of Business Administration, Noakhali Science and Technology University, Noakhali, Bangladesh.

⁴Assistant Professor, Department of Accounting and Information Systems, Bangabandhu Sheikh Mujibur Rahman Maritime University, Bangladesh.

KEYWORDS: Working Capital Management, Profitability, SMEs, Bangladesh.

ABSTRACT

Small and Medium Enterprises (SMEs) play a significant role in economic development by increasing economic growth, creating employment, increasing productivity, and ensuring sustainable social stability. This paper recognizes the impact of WCM on the profitability of SMEs in developing countries like Bangladesh. A total of one hundred forty-six entries from fifty SMEs have been used for the study covering a period of 2020 to 2022. All the data are collected from published financial statements. Descriptive statistics, correctional, and regression analyses were performed in this study to determine the impact of WCM on the profitability of SMEs. This study's results indicate that SMEs' optimal working capital advances profitability significantly. The owners and management of SMEs should devote their focus on the WCM practices as the Receivable Turnover (RecT), Inventory Turnover (InvT), Payable Turnover (PayT), and Cash Conversion Cycle (CCC) have a significant impact on profitability. RecT, InvT, and CCC negatively impact profitability while PayT positively impacts profitability. Other variables like CR, DAR, and FS are used as the control variables and Return on Equity (ROE) is used as the proxy of profitability. The WCM significantly impacts profitability and creates investor's values.

Corresponding Author:
Tarik Hossain

Publication Date: 14 May-2025

DOI: [10.55677/GJEFR/03-2025-Vol02E5](https://doi.org/10.55677/GJEFR/03-2025-Vol02E5)

License:

This is an open access article under the CC BY 4.0 license:
<https://creativecommons.org/licenses/by/4.0/>

INTRODUCTION

SME refers to small and medium enterprises where the number of employees working and the assets employed are limited to a certain point. Bangladesh Bank defined SMEs based on the number of employees working and also based on assets worth where the number of employees between 31 and 120 and assets worth between BDT 7.6 million and 150 million (Star-Business, 2017). SMEs are playing a significant role in economic and social development all over the world especially in underdeveloped and developing countries. SMEs are considered as the pillar of sustainable development of an economy in the present time. SMEs are the most common type of business structure and contribute hugely to the economy (Pilar et al. 2018). The SMEs are considered the central part of the economy of any country due to their contribution to multi-sector economic development. SMEs play a significant role in the sustainable development of the country (Maniruzzaman, 2017; Rahman and Khondkar, 2020). More than ninety percent of business organizations are SMEs in Bangladesh. The establishment of SME businesses is significantly increasing due to its easy formation and management. The SMEs do not ensure economic development only rather contribute to the each of three dimensions of sustainability. Vandenberg et al., (2016) concluded that the SMEs contribute 50% of total employment in a country. Lemuel (2009) argued that around 50% of GDP is accounted by SMEs.

The SMEs continuously create employment opportunities for many people and reduce unemployment in the country. The SMEs contribute to the job creation for skilled and semi-skilled workforce and posters entrepreneurship opportunities for the new

entrepreneurs to develop products and services. The sustainable development of SMEs creates excellent income opportunities for a huge number of people (Jahur, 2020). The SMEs produce and distribute a variety of products and services according to the customer's needs (QuocTrung, 2021). Like the emerging economy, in Bangladesh, SMEs largely contribute to the national economy by creating employment, reducing poverty, supplying products and services all over the country, and ensuring equitable development throughout the country. As the local industry SMEs face adverse situations due to striving high competition with large-scale industries for survival (Hossain et al., 2014). The stability in the SME sector in the country is very important for sustainable development. All over the world, SMEs contribute 90% to the national GDP whereas, in Bangladesh, only 20% contribution is generated from SMEs which is very low compared to other countries. For the sustainable development of the country, more and more investments in SMEs are emphasized. More investment in SMEs will ensure equitable development and share resources all over the country which will accelerate the economic growth of the country. Investors desire good returns from their investments and the certainty of getting back the original investments (Hossain, 2021; Hoque et al., 2022). If the SMEs can generate good returns and provide certainty against the investment, many potential investors will invest in this sector. Optimal WCM of SMEs can down the curve of this problem and enhance profitability.

Corporate performance and profitability of the business depend on various factors such as better management of the business, working capital, human resources, strategies, etc. Among them, WCM is very important for better profitability of the business. Most of the SMEs are owned and run by semi-educated and semi-skilled manpower. Sometimes they fail to ensure efficient management and carrying out the activities of SMEs. This may cause the failure of the business. Perfect management of WCM may minimize the failure risk of SMEs and will enhance profitability. Eton, Mwosi & Mpora, (2022) argued that one of the important reasons for SMEs' failure is poor financial management. Profit maximization of the business is one of the important goals of the business. The WCM can reduce the costs of capital which will help to increase the profitability of the business. The WCM is an important fact that ensures the reasonable, perfect, and fair utilization and control of financial resources and liquidity of the business which reflects the profitability. The main focus of the WCM is to minimize the use of capital and improve the usability of the current assets (Lamichhane, 2019). Perfect management of working capital ensures the productive use of SME's funds that are needed for daily business operations .

Profitability is treated as an insignia of effective functioning the business (Hossain, 2022 and Hossain et al., 2023). Generating profit has become a very crucial factor for the business due to the recent changes in climate conditions (Faruky, Uddin and Hossain; 2011), international political instability, increasing competition, and the Covid-19 pandemic (Hossain et al., 2021). The SMEs are also suffering from these unexpected circumstances. Working capital is deemed to be the key factor in the financial management of a business because it significantly influences the profitability of a business. Holding more working capital increases the cost of products on the other hand shortage of working capital increases the insolvency risks and decreases the profitability of the firm. The perfect management of working capital increases profitability by reducing costs and risks (Hossain, 2020a). The optimal WCM is the combination of planning and controlling the working capital in such a way that minimizes the risk of incapability to pay short-term debts while keeping away from unnecessary investment in current assets (Eljelly, 2004). Therefore, WCM is considered a crucial burning issue in the business world. The WCM is a burning topic and very important in corporate finance because it straightforwardly shapes performance and profitability by changing the liquidity position of the business (Knauer&Wöhrmann, 2013). The WCM is extremely vital for all types of businesses working in any economy (Motlicek and Matinovicova, 2014; Wambugu, 2013). The WCM is very vital for business because it is not only related to profitability but also related to risk. The WCM plays a significant role in the SMEs because most of the SMEs do not have excess fixed assets but they use more of their current assets. The SMEs use more current assets like inventories, account receivables, and cash than long-term assets like buildings, lands, and machinery (García-Teruel and Martínez-Solano, 2007). The WCM is very crucial for making short-term financing decisions in business. The WCM provides the required information for making better short-term financing decisions and ensures effective utilization of the current assets of the business. The WCM also ensures control of the utilization of assets. The WCM is very important for SMEs because it is related to the profitability, survival, and sustainable development of the business.

After reviewing of literature, it can be said that there is very few studies have been conducted to evaluate the impact of working capital management on the performance of SMEs in Bangladesh. Moreover, several studies have found nationally evaluating the problems and challenges of SMEs in Bangladesh (Jahur, 2020; UzZaman, 2011), SMEs development and economic growth of Bangladesh (Rahman & Khondkar, 2020) but only Ullah et al. (2018) concentrated on the impact of working capital management on the performance of the SMEs in Bangladesh. This study is very important for several stakeholders of SMEs and will add value to the existing SMEs literature.

LITERATURE REVIEW

Working capital is considered as the vibrant component of a business organization, especially SMEs. Effective and efficient management of working capital can boost the profitability of SMEs by ensuring sustainable development of the business and reducing business failure risks. Abe et al. (2015) argued that the inability to generate sufficient cash to pay current obligations is the main cause of failing SME businesses. Effectual WCM is the pre-condition to make success in a business organization

(Mukhopadhyay, 2004). Several components of WCM individually and collectively affect the profitability of SMEs in different ways. Chen et al., (2020) noticed an inverse linear relationship of profitability of SMEs with the different components of working capital. The WCM is the biggest challenge faced by the business firm and also the biggest opportunity if the firm can manage optimally. The business organization needs to maintain optimal working capital to maximize the firm's profitability. Any level of working capital has some additional benefits and costs for the business (Tauringana and Afrifa, 2013), at an optimal level of working capital these costs are low and benefits are high which ensures maximum profitability. The SMEs that are competent to have optimal working capital can make maximum profitability in business. Optimal working capital positively impacts the profitability (Gomes, 2013; Afrifa and Padachi, 2016; Usma et al., 2017; Gorondutse et al., 2018) and growth of the SMEs (Prijadi and Desiana, 2017). Alam et al. (2011) found a significant correlation between different elements of WCM and profitability. Maduba and Ogbonaya (2016) found an inverse relationship between WCM and the performance of SMEs supported by (Ahmeti, et al., 2022). Baños-Caballero (2012) found a concave relationship between working capital and profitability which means that up to the optimal level of working capital, the organization earns maximum profit, after the optimal level profit will decline which is supported by Hernandez, et al., (2022).

Business receivables management is very important for SMEs. Due to the small form of business, most of the SMEs have no credit control department which is why SMEs cannot manage credit properly, failing in the business (Wambugu, 2013). Business receivables turnover and business payable turnover are related to the profitability of the SME business (Pais and Gama, 2015). Falope and Ajilore, (2009) found a negative relationship between inventory turnover, business receivables turnover, and profitability of SMEs. Business receivable duration has a significant impact on profitability (Mutiso and Mwangi, 2019; Dan, 2020). The impact of business receivables on profitability varies because of the business policy applied in making sales and collecting business receivables. The business may follow traditional or aggressive policies in sales and collecting business receivables. The traditional policy will increase sales along with business receivables but may decrease the cash flow which may decrease the cash availability and reinvestment opportunities. The aggressive policy will increase the availability of cash and reinvestment opportunities that impact on the profitability. Business receivables turnover is inversely related to the profitability of SMEs (Raheman and Nasr, 2007; Afeef 2011; Maduba and Ogbonaya, 2016; Lampty et al., 2017; Tran et al., 2017).

Inventory turnover is the period needed to convert inventory into cash by business activities. Inventory management decisions are very important for business and financial management. Holding more inventories creates extra costs and reduces the profit of the business. SMEs having less inventories may face the risk of stock out which may cause of hampering the normal business operations of the firm. So the optimal inventory is very important for the smooth performance of SMEs. Inventory management significantly influences the performance (Torky, 2020 and Althaqafi, 2020). Inventory turnover hurts the profitability (Deloof, 2003; Alipour, 2011; Lampty et al., 2017; Onyando, 2018 and Nandon et al., 2017; Ahmeti, et al., 2022. Mwaura (2017) found a positive relationship between inventory turnover and profitability.

Business payable is the payable that arises due to business transactions like accounts payable, and accrued expenses. A mixed impact of business payable on profitability is found in the literature reviews. Some argue business payable turnover has a significant negative impact on the financial performance of SMEs. Delaying in making payment on business receivables may create cheap short-term financing facilities for the business (Ahmeti, et al., 2022; Yazdanfar and Manhman, 2016) but increase the costs by adding the interest on the overdue (Giannetti, Burkart and Ellingsen, 2011). Wongthatsanekorn (2015) found an inverse relation between account payable days and profitability supported by (Enqvist et al. (2014); Yazdanfar and Manhman, 2016; Ahmeti, et al., 2022). More days to pay creditors has a positive impact on profitability (Gonçalves et al., 2018; Gorondutse et al., 2018; Onyando, 2018).

The cash conversion cycle (CCC) is a period that starts with the purchase of raw materials, making payment to the business creditors, producing the finished goods, selling the products and collecting the dues from business receivables. CCC represents the level of efficiency of WCM (Sogomi, Patrick, and Kamau, 2024). CCC is the most effective and popular variable to measure the efficiency and effectiveness of the WCM in the business. Nandon et al. (2017) argued a negative relationship between CCC to the performance of SMEs that is supported by (Usman and Khan, 2017); Lampty et al., 2017; Delima, 2020; and Arnaldi et al., 2021). Karadagli (2012); and Gorondutse et al. (2018) argued a positive impact of the CCC on the business profitability of the SMEs supported by (Gill et al. 2010; Alvarez et al., 2021; Ahmeti, et al., 2022). Afeef (2011) concluded that there is no significant relationship between CCC and profitability of the SMEs.

The other variables used in this study are constant and cannot be changed like current ratio, debts to assets ratio and firm size. The current Ratio (CR) describes the availability of the liquid assets to pay the current obligations. These current assets are used to pay the current expenditures and current liabilities of the business. More current assets increase the cost of funds because ideal funds hold up in the business. On the other hand shortage of current assets increases the business's sustainable risks. Ahmeti, et al. (2022) found that the current ratio significantly negatively impacts on the profitability. Debts to assets ratio (DAR) represents the level of the company's debt financing to acquire the total assets. DAR is found by dividing total debts by total assets. Firm Size (FS) represents the scale on which a company operates. The FS is calculated as the log of total assets. Firm size has a significant negative impact on performance (Enqvista et al., 2014) which is supported by Nandon et al. (2017).

Ahmed and Mwangi (2021) conducted a study using the secondary data of 149 SMEs working in Kenya and found that inventory turnover has a significant impact on the profitability of SMEs. Business receivable has the least impact on profitability while the cash conversion cycle has a positive and the most influence on the profitability of SMEs. They also found that the lingering of business payable days also positive impact on the profitability of SMEs.

Rey-Ares (2020) conducted a study of Spanish fish canning companies using dynamic panel data methodology of 377 companies from 2010 to 2018. The results revealed that business receivables collection period, the inventory turnover influences the business profitability. They also found that investment in inventory has a convex relationship with profitability.

Profitability is the capability of making a profit from a business by utilizing assets (Hossain, 2020)b. Return on Assets (ROA) and Return on Equity (ROE) are used as the proxy of profitability (Liuspita and Purwanto, 2019; Rezina, Ashraf, and Khan, 2020).

Hypotheses

- i. H_{01} : There is a significant negative relationship between profitability and receivable turnover (RecT) in the SME sector of Bangladesh.
- ii. H_{02} : There is a significant negative relationship between profitability and Inventory Turnover (InvT) in the SME sector.
- iii. H_{03} : There is a significant positive relationship between payable turnover (PayT) and profitability.
- iv. H_{04} : There is a significant negative relationship between profitability and cash conversion cycle (CCC).

Model Specification:

$$ROE = f(\text{InvT}, \text{RecT}, \text{PayT}, \text{CCC}, \text{CR}, \text{DAR}, \text{FS})$$

Here, ROE denotes the return on equity which is found by earnings before tax and interest divided by total equity. This indicates the firm's profitability based on equity capital. The InvT denotes the inventory turnover of the firms. This is the average period of how many days are required to convert the inventory into cash. The RecT denotes the receivable turnover of the firms. This indicates the average period of days required to collect the dues from the receivables. The PayT is the payment turnover of the firm that indicates the average period of days the firm makes payments. The term CCC indicates the cash conversion cycle of the firms. The term CR indicates the current ratio of the firm. The term DAR indicates the debt-to-asset ratio of the firm. The term FS is the firm size that is found by log total assets.

Conceptual Framework

The conceptual framework for this study is presented here.

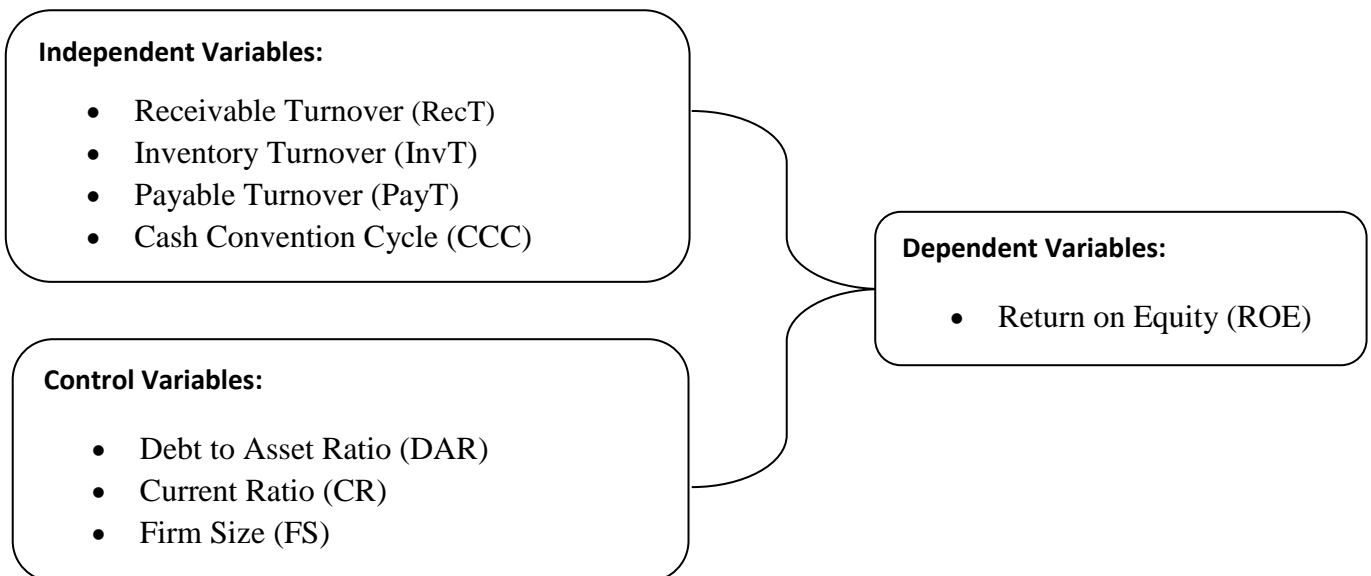


Figure 01: Conceptual Framework

Research Methodology

Population, Sample, and Data Collection: The SMEs working in the manufacturing sector in Bangladesh are considered the population for this study. All the SMEs do not maintain the accounting records properly. Few of them maintain their accounts on the single entry systems. Many of the SMEs do not want to share business information with external parties. A total of fifty SME firms agreed to share the financial information based on the public non-disclosure agreement. These firms are randomly selected for data collection purpose. A total of one hundred seventy-six entries have been used for the study covering a period of 2020 to 2022. All the data are collected from different published and unpublished financial statements.

Data and Variables:

Table 1: List of Variables

Abbreviation	Variable	Measurement
ROE	Return on Equity	Earnings Before Tax And Interest/Total Equity
RecT	Receivable Turnover	Accounts Receivable/Net Sales*365
InvT	Inventory Turnover	Inventory/Cost of Sales*365
PayT	Payable Turnover	Accounts Payable/Cost of Sales*365
CCC	Cash Convention Cycle	InvT + InvT – PayT
DAR	Debt to Asset Ratio	Total Liabilities/Total Assets
CR	Current Ratio	Current Assets/Current Liabilities
FS	Firm Size	Ln (Total Assets)

Analysis:

Descriptive Statistics:

Table 2: Descriptive Statistics

	Mean	Std. Deviation	Variance	Skewness	Kurtosis
ROE	31.9410	12.43055	154.518	.934	4.400
InvT	57.6806	31.27426	978.080	.788	1.046
RecT	21.2525	14.17183	200.841	1.289	1.926
PayT	8.9306	8.43421	71.136	1.721	2.625
CCC	70.0972	27.92100	779.582	.031	-.211
CR	1.0236	1.30928	17.023	3.481	13.468
DAR	.1319	.10392	.011	1.242	1.209
FS	1.5408	.32920	.108	.957	.879

Table 2 represents the descriptive statistics of the manufacturing SMEs in the Comilla zone in Bangladesh. Here the mean value of the ROE is 31.94 percent with a standard deviation of 12.43 percent, variance of 154.52, skewness of 0.934, and kurtosis of 4.400. The mean value of InvT is 57.68 days with a standard deviation of 31.27 days, variance 978.08, skewness 0.788, and kurtosis 1.046. The RecT has a mean value of 21.25 days along with a standard deviation of 14.17 days, the variance of 200.84, skewness of 1.289, and kurtosis of 1.926. The mean value of RecT is 8.93 days with a standard deviation of 8.43 days, variance 71.136, skewness 1.721, and kurtosis 2.625. The average CCC is 70.09 days with a standard deviation of 27.92 days, variance 779.582, skewness 0.031, and kurtosis -0.211. The mean value of CR is 1.0236 with a standard deviation of 1.309, the variance of 17.023, skewness of 3.481 and kurtosis of 13.358. The mean value of DAR is 0.1319 with a standard deviation of 0.10392, variance 0.011, skewness 1.242, and kurtosis 1.209. The mean value of FS is 1.5408 with a standard deviation of 0.3292, variance 0.108, skewness 0.957, and kurtosis 0.879.

Correlations Analysis:

Table 3: Correlations

	ROE	InvT	RecT	PayT	CCC	CR	DAR	FS
ROE	1							
Sig. (2-tailed)								
InvT	-.089	1						
Sig. (2-tailed)	.455							
RecT	.103	-.229	1					
Sig. (2-tailed)	.389	.053						
PayT	-.134	.256*	.449**	1				
Sig. (2-tailed)	.261	.030	.000					
CCC	-.025	.915**	.106	.219	1			
Sig. (2-tailed)	.834	.000	.373	.065				

CR	.075	.215	-.161	-.341**	.259*	1		
Sig. (2-tailed)	.531	.070	.178	.003	.028			
DAR	.132	-.124	.303**	.381**	-.111	-.473**	1	
Sig. (2-tailed)	.268	.298	.010	.001	.352	.000		
FS	-.334**	.042	.087	.321**	-.014	-.192	.519**	1
Sig. (2-tailed)	.004	.729	.470	.006	.904	.107	.000	

* Significant at 95%

**Significant at 99%

Table 3 shows that the dependent variable ROE is positively related to RecT, CR, and DAR and negatively related to InvT, PayT, CCC, and FS where the relationship is significant for FS. Here we also found that the correlation of InvT with PayT, CCC, CR, and FS is positive and with RecT and DAR are negative where the correlation is significant with PayT and CCC. Here the correlation of RecT with PayT, CCC, DAR and FS are positive and negative with CR where the relation is significant with PayT and DAR. In this table, we also find that the correlation of PayT is positive with CCC, DAR and FS and negative with CR where the correlation is significant with CR, DAR and FS. The independent variable CCC is significantly positively correlated with CR and negatively correlated with DAR and FS. The independent variable CR is significantly negatively correlated with DAR and negatively related with FS. The Independent variable DAR is positively correlated with FS. In most of the cases, the correlation among the independent variables is positive and the estimated coefficient is within 0.75 except a few cases point out the the absence of multicollinearity among the variables.

Regression Analysis:

Table 4: Regression Model Summary

Model	R	R Square	Adjusted Square	R	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.570 ^a	.425	.352		.405	4.410	7	64	.000	2.404
a. Predictors: (Constant), FS, CCC, RecT, CR, PayT, DAR, InvT										
b. Dependent Variable: ROE										

Table 5: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		B	Std. Error	Beta			
1	(Constant)	5.636	7.648			7.369	.000
	InvT	.116	.620	-.292		1.876	.005
	RecT	.120	.613	-.137		1.964	.014
	PayT	-.126	.603	.859		-2.101	.040
	CCC	-.118	.634	-.266		-1.872	.036
	CR	.180	.120	.189		1.498	.139
	DAR	.581	.168	.486		3.445	.001
	FS	-2.087	4.700	-.553		-4.441	.000
a. Dependent Variable: ROE							

Table 4 shows that the F-Value is 4.410 that is significant at a one per cent level of significance, and the D-W Statistic is 2.404, which indicates that the model is fit for regression analysis for the dependent variable ROE using the independent variables InvT, RecT, PayT, CCC, CR, DAR, and FS. The values of R, R² and Adjusted R² are 0.570, 0.425, and 0.352 respectively, which implies that the dependent variable ROE 35.20 per cent is explained by this model. The independent variables used in this study can explain the changes in the profitability of the SME business.

From Table 5 we found that the beta coefficient and p-value of InvT-0.292 and 0.005 respectively that the independent variable InvT is significantly negatively related to the dependent variable ROE. The hypothesis that H₁ InvT is statistically significantly related to ROE is accepted at a one per cent level of significance. The result found here is matched with Deloof, 2003; Alipour,

2011; Lampty et al., 2017; Onyando, 2018 and Nandon et al., 2017; Ahmeti, et al., 2022 and varying with Mwaura, 2017. The message from this is that if the inventory turnover time is increased the SME's profitability will be significantly decreased. Inventory conversion into cash time is inversely related to the profitability of SMEs.

From Table 5 we also found that the beta coefficient and p-value of RecT-.137 and 0.014 respectively that the independent variable RecT is significantly negatively related to the dependent variable ROE. The hypothesis that H2 RecT is significantly negatively related to ROE is accepted at a one per cent level of significance. The result found here is matched with Rahman and Nasr, 2007; Afeef 2011; Maduba and Ogbonaya, 2016; Lampty et al., 2017; Tran et al., 2017. The message from this is that if the receivable turnover time is increased the SME's profitability will be significantly decreased. Account receivables turnover time is inversely related to the profitability of SMEs.

From Table 5 we also found that the beta coefficient and p-value of PayT 0.859 and 0.040 respectively that the independent variables are significantly positively related with the dependent variable ROE. The hypothesis that H3 PayT is significantly positively related to ROE is accepted at a five per cent level of significance. The result found here is matched with Gonçalves et al., 2018; Gorondutse et al., 2018; Onyando, 2018 and varying with Enqvist et al., 2014; Wongthatsanekorn, 2015; Yazdanfar and Manhman, 2016; Ahmeti, et al., 2022. The message from this is that if the payable turnover time is increased the SME's profitability will be significantly increased. Account payables turnover time is directly related to the profitability of SMEs.

From Table 5 we found that the beta coefficient and p-value of CCT -.266 and 0.036 respectively that the independent variables are significantly negatively related to the dependent variable ROE. The hypothesis that H4 CCTT is significantly negatively related to ROE is accepted at a five per cent level of significance. The result found here is matched with Nandon et al., 2017; Usman and Khan, 2017; Lampty et al., 2017; Delima, 2020; Arnaldi et al., 2021 and varying with Karadagli, 2012; Gorondutse et al., 2018; Gill et al. 2010; Alvarez et al., 2021; Ahmeti, et al., 2022. The message from this is that if the cash conversion time is increased the SME's profitability will be significantly decreased. Cash conversion time is inversely related to the profitability of SMEs.

CONCLUSION

WCM has been seriously emphasized by several scholars at different times. At a time WCM is the challenge, opportunity and potentiality for the business if it is managed optimally. Optimal WCM can boost the profitability and minimize the risk for the SMEs. For ensuring the optimal WCM, all the items of working capital must be seriously considered because all the items of working capital individually and collectively impact profitability. Working capital is a function of liquidity and profitability (Sogomi, Patrick, and Kamau, 2024). The high level and low level of working capital both create negative influences on the SME business like other businesses. The high level of working capital increases the total costs of capital by incurring more capital holding costs and also decreases the investment opportunity for the business. On the other hand, a low level of working capital increases the business sustainability risk that in the long run may decrease the profitability of the business. The SMEs can minimize this two-dimensional problem by creating and managing optimal working capital.

In this study, we found that all the elements of working capital such as InvT, RecT, PayT, and CCC significantly either positively or negatively impact the profitability of SMEs. The inventory turnover statistically negatively impacts the profitability of the SMEs that pursue managing inventories optimally for better success in SMEs business. A high level of inventory increases the inventory holding costs and also locks up the funds reducing further investment opportunities. The receivables turnover statistically inversely impacts the profitability of the SMEs that pursue to collect business receivables quickly. If the SMEs can convert business receivables into cash quickly they will be able to minimize liquidity risk in the SMEs and will be able to new investment opportunities (Hossain, 2020)^a. The payment turnover statistically positively impacts the profitability of the SMEs that consider business payables as the alternative sources of business finance. Compared with other sources of finance, SMEs can use business payables as short-term financing facilities. The cash conversion cycles statistically inversely impact the profitability of the SMEs that pursue a short period of CCC reducing the funds holding costs and the available funds can be reinvented to add more value for the investors.

Effectively determining and maintaining optimal working capital is very crucial and urged for smoothly operating the SME business and earning optimal profit successfully. Continuously monitoring, supervising, and managing the optimal working capital SMEs will be able to minimize the risks and costs and maximize the performance and profitability of the business.

REFERENCES

1. Abe, M., Troilo, M., & Batsaikhan, O. (2015). "Financing Small and Medium Enterprises in Asia and the Pacific." *Journal of Entrepreneurship and Public Policy*, Vol. 4 No. 1, pp. 2-32.
2. 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).
3. Afrifa, G. A., & Padachi, K. (2016). "Working Capital Level Influence on SME Profitability." *Journal of Small Business and Enterprise Development*, Vol. 23 No. 1, pp. 44-63.

4. Ahmeti, A., Ahmeti, Y., & Ahmeti, S. (2022). "The impact of working capital management on SME profitability – evidence from Kosovo." Vol. 40, No. 2, pp. 459-478. UDC: 657.422:334.012.61-022.51/.55(497.115). <https://doi.org/10.18045/zbefri.2022.2.459>.
5. Ahmed, A., & Mwangi, L. (2022). Working Capital Management and Financial Performance of Small and Medium Enterprises in Garissa County, Kenya. *International Journal of Current Aspects in Finance, Banking and Accounting*, 4(1), 56-71. <https://doi.org/10.35942/ijcfa.v4i1.229>.
6. Alam, H., Ali, L., Rehman, C., & Akram, M. (2011). Impact of working capital management on profitability and market valuation of Pakistani firms. *European Journal of Economics, Finance & Administrative Sciences*, 32, 48-54.
7. Alipour, M., 2011. Working capital management and corporate profitability: Evidence from Iran. *World Applied Sciences Journal*, 12(7), pp.1093-1099.
8. Althaqafi, T., (2020) Effect of inventory management on financial performance: evidence from the Saudi manufacturing company. *European Journal of Accounting, Auditing, and Finance Research*.8, 10, pp.13-26.
9. Alvarez, T., Sensini, L. and Vazquez, M. (2021), "Working capital management and profitability: evidence from an emergent economy", *International Journal of Advances in Management Economics*, Vol. 10 No. 1, pp. 32-39.
10. Baños-Caballero, S., García-Teruel, P. J. and Martínez-Solano, P. (2012), How does working capital management affect Spanish SMEs profitability? *Small Business Economics*, 39 (2), 517-531 (doi.org/10.1007/s11187-011-9317-8).
11. Chen, Y., Migliaro, D., Roscigno, R. and Silva, J. (2020). Working capital management and profitability of SMEs: Evidence from the manufacturing sector of an emerging economy. *Entrepreneurship and performance in emerging economies* ISBN:9788890618444. Pp. 62-77.
12. Dan, Patrick B. S. (2020) Examines the effect of the account receivable period on the Corporate Performance of quoted manufacturing firms in Nigeria. *International Network Organization for Scientific Research*. 6(1): 116-129, 2020.
13. Delima, V. J. (2020). Impact of Working Capital Management on Firm's Profitability: A Study on Listed Companies in Sri Lanka. *Asian Journal of Economics, Business and Accounting*, 20(1), 42-58. [doi:10.9734/AJEBA/2020/v20i130318](https://doi.org/10.9734/AJEBA/2020/v20i130318).
14. Deloof, M., 2003. Does working capital management affect the profitability of Belgian firms? *Journal of Business Finance & Accounting*, 30(3-4), pp.573-588.
15. Eljelly, A. M. A. (2004) "Liquidity-Profitability Trade-Off: An Empirical Investigation in an Emerging Market", *International Journal of Commerce and Management*, 14 (2): 48-61.
16. Enqvist, J., Graham, M. and Nikkinen, J. (2014), "The impact of working capital management on firm profitability in different business cycles: evidence from Finland", *Research in International Business and Finance*, Vol. 32 No. 5, pp. 36-49.
17. Eton, M., Mwosi, F., & Mpora, E. B. (2022). Financial Management Practices and Small-Scale Businesses' Profitability, from the Viewpoint of Kabale Municipality, Uganda, *Annals of Management and Organization Research*, 3(3), 165-178.
18. Falope, O.I. and Ajilore, O.T. (2009), "Working capital management and corporate profitability: evidence from panel data analysis of selected quoted companies in Nigeria", *Research Journal of Business Management*, Vol. 3 No. 3, pp. 73-84.
19. Faruky, K. N. B., Uddin, A. and Hossain, T. (2011). Understanding the Challenges of Climate Change on Business: A Study on RMG Sector in Bangladesh. *World Review of Business Research* Vol. 1. No. 1. March 2011. Pp. 34-49.
20. García-Teruel, P. and Martínez-Solano, P. (2007), "Effects of working capital management on SME profitability", *International Journal of Managerial Finance*, Vol. 3 No. 2, pp. 164-177.
21. Giannetti, M., Burkart, M., Ellingsen, T. (2011) "What You Sell is What you Lend? Explaining Trade Credit Contracts", *Review of Financial Studies*, Vol. 24, No. 4, pp. 1261–1298, <http://doi.org/10.1093/rfs/hhn096>.
22. Gomes, D.F.N. (2013), "How does working capital management affect firms' profitability? – Evidence from Portugal", Master's thesis, Lisboa School of Economics & Management, Lisbon.
23. Gonçalves, T., Gaio, C. and Robles, F. (2018), "The impact of Working Capital Management on firm profitability in different economic cycles: evidence from the United Kingdom", *Economics Business Letters*, Vol. 7 No. 2, pp. 70-75.
24. Gorodutse, A. H., Abubakar. A. & Naala, M. N. (2018) The Effects of Working Capital Management on S.M. Es Polish *Journal of Management Studies* 16(2) 99-109.
25. Gill, A., Biger, N. and Mathur, N. (2010), "The relationship between working capital management and profitability: evidence from the United States", *Business and Economics Journal*, 10, 1-9.
26. Hernandez, S., Alvarez, T., Roscigno, R. and Piluso, V. (2022). Working Capital Management and Profitability: Empirical Evidence from an Emergent Economy. *International Journal of Business Management and Economic Research (IJBMER)*, Vol 13(1), 2022, 2013- 2018. ISSN:2229- 6247.
27. Hoque, E., Hossain, T., & Saha, T. (2022). Predicting the Bankruptcy of Cement Companies in Bangladesh: A Study on Dhaka Stock Exchange. *International Journal of Business, Economics and Management*, 9(5), 162–174. <https://doi.org/10.18488/62.v9i5.3207>.

28. Hossain, T., (2022). Impact of Corporate Governance on Performance of Selected Commercial Banks in Bangladesh: A Comparative Approach. *Journal of Asian Business Strategy*, 12(1), 10–21. <https://doi.org/10.18488/5006.v12i1.4413>.
29. Hossain, T., (2020)^a. The effect of working capital management on profitability: A study on manufacturing companies in Bangladesh. *International Journal of Research in Business and Social Science*, 9(6), 114-122. Available at: <https://doi.org/10.14710/dijb.3.1.2020.36-46>.
30. Hossain, T. (2020)^b. Determinants of profitability: A study on manufacturing companies listed on the Dhaka stock exchange. *Asian Economic and Financial Review*, 10(2), 1496-1508. Available at: <https://doi.org/10.18488/journal.aefr.2020.1012.1496.1508>.
31. Hossain, T., (2021). The value relevance of accounting information and its impact on stock prices: A study on listed pharmaceutical companies at Dhaka Stock Exchange of Bangladesh. *Journal of Asian Business Strategy*, 11(1), 1-9. Available at: <https://doi.org/10.18488/journal.1006.2021.111.1.9>.
32. Hossain, T., Chowdhury, H. J., & Begum, F. (2014). Khadi cottage industry in Bangladesh: A study on Comilla. *The Journal of Rural Development*, 39(2), 121-141.
33. Hossain, T., Khalifa, M. M., & Ahmmed, R. (2023). Determinants of the dividend payout policy of multinational companies in Bangladesh: Evidence from Dhaka stock exchange. *Financial Risk and Management Reviews*, 9(1), 1–10. <https://doi.org/10.18488/89.v9i1.3454>.
34. Hossain, T., Nesa, T., Dowla, M. S. U., & Akter, F. (2021). The Impact of Covid-19 Pandemic on the Stock Market Performance: A Study on Dhaka Stock Exchange (DSE). *International Journal of Business, Economics and Management*, 8(5): 390-408. DOI: 10.18488/journal.62.2021.85.390.408.
35. Jahur, M. S. (2020). SMEs in Bangladesh-Prospects and Challenges. *Journal of Business and Society*, 9, 16-43.
36. Karadagli, E. C. (2012). The Effect of Working Capital Management on the Profitability of Turkish SMEs. *British Journal of Economics, Finance and Management Sciences* 36 September 2012, Vol. 5 (2), 36-44.
37. Knauer, T., & Wöhrmann, A. (2013). Working capital management and firm profitability. *Journal of Management Control*, 24(1), 77-87.
38. Lamichhane P. (2019) “Efficiency of Working Capital Management and Profitability: Evidence from Manufacturing Firms of Nepal”, *Management Dynamics*, Vol. 22, No. 1, pp. 21–34, <https://doi.org/10.3126/md.v22i1.30236>.
39. Lamptey, L. L. Frimpong, K. & Morrison, A. B. (2017) Empirical Study on the Influence of Working Capital Management on Performance of S.M.E.s in Developing Economy. *British Journal of Economics, Management and Trade* 17 (4): 1- 10 2017
40. Lemuel, E. (2009). Financing options for Small and Medium Scale Enterprises (SMEs): Exploring the non-bank financial institution as an alternative means of financing in Nigeria. Sweden: School of Management, Blekinge Institute of Technology.
41. Liuspita, J., & Purwanto, E. (2019). The profitability determinants of food and beverages companies listed at the Indonesia stock exchange. *International Journal of Scientific & Technology Research*, 8(9), 197-202. ISSN 2277-8616.
42. Maniruzzaman, M. (2017). Role of Working Capital Finance in the Growth of SME Sector in Bangladesh. *International Journal of New Technology and Research (IJNTR)* ISSN:2454-4116, Volume-3, Issue-6, June 2017 Pages 39-50.
43. Motlicek, Z. & Martinovicova, D. (2014) Impact of Working Capital Management on Sales of Enterprises Focusing on the Manufacture of Machinery and Equipment in the Czech Republic.
44. Mukhopadhyay, D. (2004). Working capital management in heavy engineering firms-A case study. *MANAGEMENT ACCOUNTANT-CALCUTTA*-, 39, 317-323.
45. Mutiso, A., & Mwangi, P., (2019). The Effect of Receivable Management on Performance Of Small And Medium Scale Manufacturing Firms In Kiambu County, Kenya. *International Journal of Economics, Commerce, and Management*, United Kingdom. ISSN 2348 0386 Vol. VII, Issue 8, August 2019.
46. Mwaura, C. N. (2017). The Effect of Inventory Turnover on the Financial Performance of Medium and Large Retail Supermarkets In Kenya (Doctoral dissertation, School of Business, University of Nairobi).
47. Nando, Y. I., Mubarik, A. M. & Aziz, F. A. (2017) The Impact of Working Capital Management on Corporate Performance: Evidence from Listed Non-Financial Firms in Ghana. *European Center for Research Training and Development*. Vol. 5 No.3, PP.68-75.
48. Onyando, P. O., (2018). Aimed at assessing cash management and how it affects small and medium enterprises' (SMEs) financial performance in Nakuru County, Kenya. *Research Journal of Finance and Accounting*, 4(18), 90-95.
49. Usman, S.A.S.M. and Khan, S. (2017), “Impact of working capital management on firm profitability: evidence from Scandinavian countries”, *Journal of Business*, Vol. 11 No. 1, pp. 99-112.
50. Pais, M. A. and Gama, P. M. (2015) "Working capital management and SMEs profitability: Portuguese evidence", *International Journal of Managerial Finance*, Vol. 11 Issue: 3, pp.341-358, <https://doi.org/10.1108/IJMF-11-2014-0170>

51. Pilar, P. G., Marta, A. P., & Antonio, A. (2018). Profit efficiency and its determinants in small and medium-sized enterprises in Spain. *BRQ Business Research Quarterly*, 21(4), 238250. <https://doi.org/10.1016/j.brq.2018.08.003>
52. Prijadi, R. and Desiana, P. M. (2017). Factors Affecting the Profitability and Growth of Small & Medium Enterprises (SMEs) in Indonesia. *International Journal of Economics and Management*. 11 (S1): 35 – 44 (2017).
53. QuocTrung, N. K. (2021). Determinants of small and medium-sized enterprises performance: The evidence from Vietnam. *Cogent Business & Management*, 8(1), 1984626.
54. Raheman, A. and Nasr, M., 2007. Working capital management and profitability–case of Pakistani firms. *International review of business research papers*, 3(1), pp.279-300.
55. Rahman, M. M. and Khondkar, M. (2020). Small and Medium Enterprises (SME) Development and Economic Growth of Bangladesh: A Narrative of the Glorious 50 Years. *Barishal University Journal of Business Studies*, Volume- 7, Issue- 1, June- 2020. ISSN 2411-247X.
56. Rey-Ares, L., Fernandez-L´opez, S., and Rodeiro-Pazos, D. (2020). Impact of working capital management on profitability for Spanish fish canning companies. *Marine Policy* Volume 130, August 2021, 104583. <https://doi.org/10.1016/j.marpol.2021.104583>.
57. Rezina, S., Ashraf, A., & Khan, M. A. (2020). An inferential study on the profitability determinants of the cement industry in Bangladesh. *Asian Finance & Banking Review*, 4(2), 8-21. DOI: 10.46281/asfbr.v4i2.684.
58. Sogomi, F.C., Patrick, M. K. and Kamau, C. G. (2024). Exploring the Relationship between Working Capital Management, Liquidity, and Financial Performance within the Context of Kenyan SMEs. *African Journal of Commercial Studies*. ISSN: 2958-2326. doi: 10.59413/ajocs/v4.i2.4. Ark: ark:/69431/AJoCS.v4i2.4.
59. Star-Business. (2017, 03-07-2017). BB updates SME terms. *The Daily Star*. Retrieved from <https://www.thedailystar.net/business/bb-updatesme-terms-1427509>
60. Tauringana, V. and Afrifa, G.A. (2013), “The relative importance of working capital management and its components to SMEs profitability”, *Journal of Small Business and Enterprise Development*, 20, (3), pp. 453-469.
61. Torky, A., (2020). Effect of inventory management on financial performance: evidence from the Saudi manufacturing company. *European Journal of Accounting, Auditing, and Finance Research* Vol.8, No. 10, pp.13-26, November 2020.
62. 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. <https://doi.org/10.1108/JSBED-05-2016-0070>.
63. Ullah, G. M., Zahid, A., Khan, I., & Islam, M. N. (2018). Working capital management and SME profitability: Empirical evidence from Bangladesh. *Global Journal of Management and Business*, 5(2), 094-099.
64. Usman, M. Shaikh, S. A. & Khan, S. (2017) Impact of Working Capital Management on Firm Profitability: Evidence from Scandinavian Countries. *Journal of Business Strategies* Vol. 11 No. PP. 99-112.
65. UzZaman, A. H., & Islam, M. J. (2011). Small and medium enterprises development in Bangladesh: Problems and prospects. *ASA University Review*, 5(1), 145-160.
66. Vandenberg, P., Chantapacdepong, P., & Yoshino, N. (2016). SMEs in developing Asia new approaches to overcoming market failures. *Asian Development Bank Institute*.
67. Wambugu, P. M. (2013) Effects of Working Capital Management Practices on Profitability on Small and Medium Enterprises in Nairobi County, Kenya. Unpublished MBA Kenyatta University, Kenya.
68. Yazdanfar, D., Öhman, P. (2016) “The Impact of Trade Credit Use on Firm Profitability: Empirical Evidence from Sweden”, *Journal of Advances in Management Research*, Vol. 13, No. 2, pp. 1–16, <https://doi.org/10.1108/JAMR-09-2015-0067>.