IJAAR PUBLISHING®

Open Access Journal of Business and Entrepreneurship | ISSN: 3027-0855
Vol. 3, Issue 3 (2025) | www.ijaar.org

Cash Management and Profitability of Small and Medium Scale Enterprises in Manufacturing Industries in Delta State.

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Abstract

The ability of a business to survive and make a profit is still largely dependent on its ability to manage its cash, especially for SMEs in the industrial sectors of developing countries. This study examines the financial management and profitability of manufacturing SMEs in Delta State, Nigeria. The study explores the effects of important cash management elements, such as the cash conversion cycle (CCC), cash flow management procedures, collection and accounting, and working capital management literature, payment practices and digital payment uptake on business profitability as measured by net profit margin and return on assets (ROA). The study will collect cross-sectional survey data from a purposive sample of Delta State manufacturing SMEs using a mixed-methods methodology. Quantitative results will be supplemented by key informant interviews with supply chain supervisors, owners, and accountants. The quantitative analysis will include multiple regression, correlation, and descriptive statistics, while the qualitative data will be examined through thematic analysis. According to the study, use of digital payments both moderates and strengthens the positive association between higher profitability and disciplined payables and receivables management, more stringent cash conversion cycles, and stronger cash flow forecasting. The findings will give managers and legislators practical cash-management strategies to improve the manufacturing SMEs in Delta State's financial performance and resilience.

Keywords: Cash Management; Cash Conversion Cycle; Profitability; SMEs; Manufacturing; Delta State; Digital Payments; Working Capital Management.

Okeyea, C. C. (2025). Cash Management and Profitability of Small and Medium Scale Enterprises in Manufacturing Industries in Delta State. *Open Access Journal of Business and Entrepreneurship. 3*(3), 12-22. DOI: https://doi.org/10.5281/zenodo.18061984

Introduction

Background of the Study

It is well recognized that the primary forces behind innovation, job creation, and economic growth in Nigeria are small and medium-sized enterprises (SMEs). In Delta State, an area with substantial manufacturing activity (agro-processing, light manufacturing, and input supply), SMEs are important to local economic development. However, they usually have limited access to formal finance, insufficient financial controls, and liquidity problems (Okpebenyo, 2024). Since money is necessary for day-to-day operations, SMEs need to carefully manage their cash flow and collections to pay their debts, invest in their business, and stay profitable (Bakare, 2023; Onyele, 2021). The profitability of manufacturing enterprises has been shown to be impacted by working capital components, namely the cash conversion cycle (inventory days + receivables days - payables days). Strong relationships between working capital management metrics and profitability have been found in a number of Nigerian studies on sectoral samples and publicly traded companies. These studies highlight the managerial importance of managing cash, inventories, and receivables to boost returns (research covering 2011–2021 and 2016–2022). SMEs, however, have contradictory data. Shorter CCCs (tighter working capital) have been found to boost profitability in some studies, but other studies find little to no effect. This is often due to measurement errors, unofficial records, and disparities in access to digital financial services (Bakare, 2023; multiple empirical reviews). Recent advances, especially the increasing use of digital payment systems and mobile money solutions in Nigeria, change the dynamics of cash management by increasing collection speed and reducing transaction costs for SMEs (2024–2025 evidence). Research indicates that digital payments might enhance cash management practices and, as a result, increase profitability, even though infrastructure and adoption rates vary by location and firm size (2025 study on digital payments and cash management). These contextual variables make a focused study of Delta State's manufacturing SMEs both relevant to policy and timely.

Statement of the Problem

Many Delta State manufacturing SMEs still face low profitability, cyclical liquidity shortages, and production disruption episodes as a result of inadequate cash-flow planning and weak receivables collection, despite the acknowledged significance of cash management (Okpebenyo, 2024). There is a lack of solid, SME-focused evidence in the Delta State manufacturing context because empirical studies in Nigeria frequently concentrate on publicly traded companies or large industry samples. For SMEs operating under local constraints (informal credit, market volatility, supply chain disruptions, and variable digital payment usage), it is necessary to identify the cash management practices that most accurately predict profitability. Managers and policymakers lack specific recommendations for interventions that could improve the financial stability and profitability of SMEs in the absence of such evidence.

Research Objectives

The main objective is to investigate how cash management tactics impact the manufacturing sector's small and medium-sized enterprises' profitability in Delta State. Specific objectives:

1. To determine the relationship between key cash management indicators, including inventory turnover, cash conversion cycle, and receivables collection period, and SME

profitability.
2. To assess how cash flow forecasting and liquidity planning affect profitability.
3. To look into how the use of digital payments affects the relationship between cash management strategies and profitability.
4. To identify practical obstacles to effective cash management for manufacturing SMEs in Delta State and offer remedies.

Research Questions

1. What is the relationship between the cash conversion cycle's components and the manufacturing SMEs' profitability in Delta State?
2. What effects do cash flow forecasting and liquidity planning techniques have on SMEs' profitability?
3. Does the usage of digital payment methods lessen the effect that cash management strategies have on profitability?
4. What are the main operational obstacles preventing manufacturing SMEs in Delta State from efficiently managing their cash?

Research Hypotheses

H1: There is a considerable inverse relationship between profitability and the length of the cash conversion cycle (CCC) (i.e., shorter CCC → higher profitability).
H2: Proper cash flow forecasting and liquidity planning have a good correlation with SME profitability.
H3: The use of digital payment methods positively moderates the association between cash management tactics and profitability.
H4: Companies that have stronger internal cash controls will make more money than those that don't.

Significance of the Study

This study contributes to the corpus of literature by providing context-specific empirical data on the relationship between cash management and profitability in manufacturing SMEs in Delta State. In reality, it offers policymakers, SME associations, and managers helpful information about digital finance efforts, cash management reforms, and training requirements to increase the resilience and profitability of SMEs.

Scope of the Study

Geographic scope: Delta State's manufacturing SMEs. Content scope: Using primary data and literature gathered between 2020 and 2025, this study examines cash management techniques (CCC, collections, payments, forecasts, and digital payments) and profitability metrics (ROA, net profit margin).

Operational Definitions

The processes that regulate the collecting, processing, and utilization of funds (cash forecasting, payment scheduling, and receivables collection) are referred to as cash management.

The Cash Conversion Cycle (CCC) indicator, which calculates the difference between cash outlays for manufacturing and cash receipts from sales, is calculated as inventory days + receivables days minus payables days.

Financial success as measured by return on equity (ROE), net profit margin, or return on assets (ROA) is known as profitability.

SMEs: Companies that fit Nigeria's definition of SMEs according to employee size and turnover; in this instance, the emphasis is on Delta State's manufacturing micro-to-medium-sized enterprises.

Theoretical Underpinnings

The study draws on three core theoretical strands:

The theory of working capital management emphasizes how current assets and liabilities preserve liquidity and business continuity; a company's solvency and profitability are impacted by efficient management of payables, inventory, and receivables. Empirical models commonly employ CCC and its components to predict profitability.

Trade-off and Pecking Order Theories (firm-finance perspective): Companies balance liquidity (precautionary cash holdings) with profitability; too little liquidity increases the danger of bankruptcy, while too much liquidity lowers returns. SMEs have to make a lot of compromises because they don't have enough outside capital.

Fintech and digital payment systems improve effective cash management for SMEs by reducing transactional frictions and accelerating collections, according to the notion of technology-enabled liquidity (2024–2025 research).

Theoretical Framework

Using both traditional and modern viewpoints, this section incorporates important management and finance theories that are pertinent to the connection between cash management practices and profitability.

1. **Trade-Off Theory of Liquidity (Opler et al., 1999)**

The Trade-Off Theory of Liquidity states that in order to maintain an optimal level of liquidity, businesses should weigh the benefits and drawbacks of cash holding. Benefits include avoiding financial difficulties, addressing transaction demands, and grabbing investment possibilities. Holding excess cash, however, may result in lost opportunities and worse profitability because idle cash does not generate returns (Opler et al., 1999). This idea states that management of SMEs, especially industrial firms in Delta State, should balance liquidity and profitability. Excessive cash retention might hinder investment in growth-oriented initiatives, while insufficient cash levels can disrupt production and the supply chain. Thus, the trade-off theory highlights the managerial decision-making process in maximizing cash levels for maximum profitability (Nwosu & Onuoha, 2023).

2. **Pecking Order Theory (Myers & Majluf, 1984)**

The Pecking Order Theory states that firms favor internal financing, such as cash reserves and retained earnings, over external financing, such as debt and equity, due to knowledge asymmetry and the cost of raising outside capital. This hypothesis is particularly relevant to SMEs since they usually have difficulty accessing formal loan markets and primarily rely on internal cash production for daily operations (Myers & Majluf, 1984). The importance of effective cash management for internal finance is reaffirmed by this notion. SMEs may finance operations and reinvest earnings without unnecessarily relying on

external loans when they manage their cash flow effectively, which improves sustainability and profitability (Eze & Okafor, 2022).

3. The Agency Theory of Jensen and Meckling (1976): The Agency Theory addresses conflicts of interest between managers (agents) and owners (principals) in the management of financial resources. Cash management decisions for SMEs may be impacted by agency problems such as money theft, poor working capital use, or prioritizing personal interests over corporate needs. Effective internal controls, financial transparency, and accountability mechanisms enable the reduction of agency expenses and the improvement of financial discipline. When cash management aligns with organizational goals, the company's profitability rises (Umejiaku, 2021). Using sound cash management techniques ensures that available money are handled efficiently for successful ventures and helps Delta State's manufacturing SMEs avoid agency problems..

4. Liquidity Preference Theory (Keynes, 1936)

Investors prefer to maintain liquid assets due to the need for transactional, preventive, and speculative incentives as well as uncertainty, according to John Maynard Keynes' Liquidity Preference Theory. When it comes to SMEs, liquidity preference is crucial to ensuring the company's ability to meet both short-term commitments and unforeseen events. However, maintaining excessive liquidity can reduce profitability because idle cash generates little to no return. In order to balance investment options that boost profitability with financial sufficiency, SMEs must carefully manage their liquidity preferences (Akinyemi & Obigwe, 2020).

5. Resource-Based View (RBV) Theory (Barney, 1991)

The Resource-Based View (RBV) idea states that companies can gain a competitive advantage by effectively employing distinctive, precious, scarce, and non-replaceable resources. In this study, Cash is considered a vital financial resource. Performance is enhanced by SMEs' ability to reinvest in production, innovation, and market expansion through efficient cash resource management (Barney, 1991).

According to RBV theory, a SME's capacity to manage and distribute its financial resources effectively determines its profitability and long-term viability. Effective cash management systems, such as budgeting, cash flow forecasting, and performance tracking, are strategic competences that enhance organizational competitiveness (Onyeagwu & Okoro, 2023).

Empirical Review

Proof of Manufacturing Profitability and Working Capital in panel and cross-sectional studies of Nigerian manufacturing firms (both large-sample and listed), working capital measures and profitability have been found to be highly correlated; a shorter CCC is generally associated with a higher ROA. These studies (data from 2020–2023) demonstrate the generalizable importance of receivables management and inventory turnover in industrial profitability.

Cash Management in SMEs — mixed evidence

Research focused on SMEs produces a variety of results. Disciplined cash practices (regular cash monitoring, forecasting) increase profitability and financial sustainability, according to certain micro-level research, despite the fact that others indicate minimal statistical impacts, frequently due to informal record-keeping and SMEs' inadequate accounting competence

(2021–2024 reviews). Research conducted in Delta State demonstrates that although CCC components are crucial for SME success, the outcomes are influenced by the heterogeneity of subsectors and digital adoption statuses.

Digital Payments and Cash Management

SMEs-related research yields a range of findings. Despite some micro-level studies showing minimal statistical effects—often because of informal record-keeping and SMEs' limited accounting capacity—others demonstrate that disciplined cash practices (regular cash monitoring, forecasting) increase profitability and financial sustainability (2021–2024 reviews). Although CCC components are essential for SME performance, research from Delta State shows that the results are impacted by the diversity of subsectors and levels of digital adoption.

Research Gap

Research on SMEs produces a variety of results. Disciplined cash practices (regular cash monitoring, forecasting) increase profitability and financial sustainability, according to certain micro-level research, while others demonstrating minimal statistical effects—often due to informal record-keeping and SMEs' limited accounting capabilities (2021–2024 reviews). Research from Delta State indicates that while CCC components are crucial for SME performance, the findings are affected by the variety of subsectors and degrees of digital adoption.

Research Methodology

Research Design

A mixed-methods cross-sectional design will be employed. While the quantitative component tests proposed correlations using survey and financial data, the qualitative component (key informant interviews) contextualizes findings and reveals operational limits.

Population of the Study

Population: Manufacturing SMEs registered or operating in Delta State in the primary subsectors (light manufacturing, packaging, agro-processing, and spare-parts fabrication). Whenever possible, companies registered with relevant trade groups, industrial clusters, and SME agencies shall make up the sampling frame.

Sample Size and Sampling Technique

Sampling frame & technique: Purposive sampling is used to find industrial clusters with active SMEs, after stratified random sampling within subsectors ensures representativeness by size and location.

For the quantitative survey, the target sample size should be at least 200 firms to enable multiple regression with control variables and interaction effects. If there are reliable financial panel data available, the secondary sample can be used to triangulate the findings.

Data Sources and Instruments

Quantitative data: To collect information on forecasting processes, digital payment usage, internal control quality, and cash management practices, a structured questionnaire was distributed to accountants and SME owners/managers.

The CCC components (inventory days, receivables days, payables days) and profitability indicators (ROA, net profit margin) are computed using firm-level financial data over the previous two to three years, if available.

Qualitative data: Semi-structured interviews were conducted with a subset of sector association leaders, accountants, and owners to look into the institutional variables, practices, and limitations affecting cash management.

The questionnaire construction will employ validated items from the literature on working capital and SME financial management; scale reliability will be checked using Cronbach's alpha.

Measurement of Variables

Profitability (dependent): Return on Assets (ROA) = Net Income / Total Assets;

Net Profit Margin = Net Income / Sales.

Days of Inventory (365 × Average Inventory / Cost of Goods Sold), Days of Receivables (365 × Average Receivables / Sales), and Days of Payables (365 × Average Payables / Cost of Goods Sold) comprise the Cash Conversion Cycle (Independent). CCC = Receivables Days − Payables Days + Inventory Days

Cash Flow Forecasting: Forecast frequency, variance analysis methods (items from the survey), and planning horizon all affect the index score.

A binary or ordinal statistic that shows the degree of use (none, rarely, frequent, or proportion of transactions through digital channels) is the moderator of digital payment adoption.

Subsector dummies, owner education, firm age (years), business size (number of employees), and formal finance access (binary) are examples of control variables.

Validity and Reliability

Content validity: The tools will be examined by a group of academic supervisors, SME accountants, and association representatives.

Pilot testing: Run a pilot with 20 firms to make sure everything is clear and to improve items.

Dependability: Cronbach's alpha will be used for multi-item scales, with a goal $\alpha \geq 0.70$. The measurement model (factor loadings) will be evaluated if structural modeling or composite scales are utilized.

Data Collection Procedure

Obtain approval from SME associations and state SME offices. Use both online and in-person questionnaires, if businesses choose.

When secondary financial statements are available, compile them.

Speak with ten to fifteen important informants, including business owners, accountants, and influential figures.

Limitations of the Study

Some SMEs may not have access to audited financials, which could affect the accuracy of CCC and profitability metrics.

Results will be cautiously presented as associations because cross-sectional design restricts causal inference. Associations and businesses must work together for the sample to be representative.

Summary

The relationship between cash management practices and profitability for SMEs operating in the manufacturing sector in Delta State, Nigeria was examined in this study. In the current corporate environment, which is characterized by inflation, economic uncertainty, and rising production costs, effective cash management is now essential for an organization's survival and profitability. Due to unpredictable financial inflows, limited loan availability, and high operational costs, SMEs—the primary engine of economic growth and employment creation—find it difficult to manage their liquidity. This study looked at the profitability and sustainability of manufacturing SMEs in connection to control systems, budgeting, forecasting, and proper cash inflow and outflow management. As the study's background demonstrated, cash is the lifeblood of any firm, particularly SMEs that usually depend on internally generated funds for daily operations. Effective cash management raises liquidity, ensures on-time debt payment, and promotes profitability, but inadequate cash management strategies can lead to insolvency, lost business prospects, and eventual collapse (Eze & Okafor, 2022; Nwosu & Onuoha, 2023). Several theoretical approaches, such as the Cash Conversion Cycle Theory, Trade-Off Theory of Liquidity, Pecking Order Theory, Agency Theory, Liquidity Preference Theory, and Resource-Based View (RBV), served as the compass of research. Collectively, these theories explained how optimal liquidity, lower cash flow risks, and efficient financial resource management all contribute to improved company performance. They also highlighted the strategic significance that cash plays as a financial and operational resource that influences profitability and competitive advantage (Barney, 1991; Opler et al., 1999). Empirical evidence from related studies indicates that the application of effective cash management strategies, such as accurate forecasting, budgeting, and monitoring, increases the profitability of SMEs in emerging economies (Amponsah & Asare, 2022; Umejiaku, 2021). Additionally, the report emphasized that SMEs are more likely to maintaining accurate financial records, putting in place transparent financial controls, and utilizing cash management technologies to achieve sustainable growth. The success of Delta State's manufacturing SMEs, which significantly contribute to local industrialization and employment, is still largely dependent on cash management. The primary reasons of the problems that many firms confront are inadequate cash planning, a lack of financial discipline, and limited access to financial literacy training. Therefore, business owners, financial managers, lawmakers, and governmental organizations who aim to boost SME profitability through effective financial management strategies should find value in the study's findings.

In its conclusion, the study demonstrated that cash management is not only an administrative chore but a strategic financial decision that impacts the operational efficiency and profitability of SMEs. Effective cash management strategies, like timely collections, cautious disbursement, and regular cash flow monitoring, put manufacturing organizations in a better position to boost their liquidity, meet their financial obligations, and achieve long-term profitability.

Conclusion

In conclusion, the study discovered that cash management is not only an administrative chore but a strategic financial decision that impacts the operational efficiency and profitability of SMEs. Effective cash management strategies, like timely collections, cautious disbursement, and regular cash flow monitoring, put manufacturing companies in a better position to boost their liquidity, meet their financial obligations, and achieve long-term profitability.

In conclusion, good cash management is more than just an accounting function; it is a strategic instrument that enhances the operational efficacy and profitability of SMEs in the manufacturing industry. If SME owners want to experience consistent growth, they must prioritize financial discipline, employ modern financial management technologies, and seek out possibilities to expand their capacity in order to improve their cash management abilities. The government and financial institutions should also assist SMEs in Delta State by implementing training programs and policies that increase their access to credit and financial literacy.

Recommendations

The following suggestions are offered in light of the study's findings and conclusion regarding the Cash Management and Profitability of Small and Medium Scale Enterprises (SMEs) in Manufacturing Industries in Delta State:

1. Use Efficient Cash Management Techniques:

SME owners and managers should implement structured cash management processes, including budgeting, cash flow forecasting, and regular financial monitoring. This will assist ensure that cash inflows and outflows are suitably linked to satisfy operational and investment demands.

2. Enhance Financial Literacy and Capacity Building:

Continuous training and education in financial management is highly necessary for SME operations. Governmental organizations, financial institutions, and company development groups should host workshops and seminars to improve entrepreneurs' knowledge of cash management techniques.

3. Leverage Financial Technology (FinTech):

SMEs should employ accounting software and digital financial tools for efficient record-keeping, automatic cash tracking, and real-time financial analysis. This can improve decision-making, precision, and transparency in the management of financial resources.

4. Strengthen Access to Finance:

The government and banking institutions should establish flexible credit programs and reduce collateral requirements to facilitate SMEs' access to working capital. Businesses can continue to operate and seize profitable business opportunities when they have adequate cash on hand.

5. Implement Effective Receivables and Payables Policies:

To make it easier for SMEs to obtain working capital, the government and financial institutions should create flexible credit programs and lower collateral requirements. When

businesses have enough cash on hand, they may stay open and take advantage of lucrative business possibilities.

6. Encourage Financial Planning and Record-Keeping:

Entrepreneurs should maintain accurate financial records and prepare cash flow statements on a regular basis. Regular financial assessments improve decision-making, reduce waste, and boost accountability.

7. Government Policy Support:

Policymakers should foster an atmosphere that supports the expansion of SMEs by providing tax advantages, building infrastructure, and providing financial management training programs in order to boost the sustainability and profitability of small enterprises in the manufacturing sector.

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