Impact of Working Capital Management on Profitability of Small-Scale Enterprises: The Case of Wolaita Sodo Town, Southern Ethiopia

Admasu Eyasu
Finance Director, Department of Finance, Wolaita Sodo University, Ethiopia

Durga Rao
Assistant Professor, Department of Accounting and Finance
College of Business and Economics, Wolaita Sodo University, Ethiopia

Tedeme Belachew
Customer Service Officer, Commercial Bank of Ethiopia, Wolaita Sodo, Ethiopia

Maya Khater
Associate Professor, Department of Public International Law
College of Law, Abu Dhabi University, Saudi Arabia
https://orcid.org/0000-0002-5892-9176

Sharmili Mohamed Rafi
Senior Lecturer and Head, Department of Management, Bentong Community College, Malaysia

Marisennayya Senapathy
Associate Professor, Department of Rural Development and Agricultural Extension
College of Agriculture, Wolaita Sodo Univeristy, Ethiopia
https://orcid.org/0000-0002-8371-3035

OPEN ACCESS

Manuscript ID:
MGT-2025-12048643

Volume: 12

Issue: 4

Month: April

Year: 2025

P-ISSN: 2321-4643

E-ISSN: 2581-9402

Received: 05.02.2025

Accepted: 25.03.2025

Published Online: 01.04.2025

Citation:
Eyasu, Admasu, et al. "Impact of Working Capital Management on Profitability of Small-Scale Enterprises: The Case of Wolaita Sodo Town, Southern Ethiopia." *Shanlax International Journal of Management*, vol. 12, no. 4, 2025, pp. 98-115.

DOI:
https://doi.org/10.34293/management.v12i4.8643

Abstract
Working capital management has become an important topic for the profitability of small-scale enterprises. There for this research objective is formulated in the study to investigate the impact of working capital management on the profitability of small-scale enterprises and provide recommendations for the rate of return in Sodo town. In this light, the study in its first section gives a background to the study and the second part is a detailed literature review on working capital management, third tools and assessment models, Quantitative research design is employed, and under the quantitative research design survey method is used. The data will be collected by cross-sectional survey method. The fourth part of this study is an analysis of primary data by descriptive statistical tools and hypothesis testing using a regression model. This leads the researcher to conclude in the last section that SSEs with good working capital management practices have lower problems of earning rates and relatively higher profitability of enterprises.
Keywords: Cash Conversion Cycle, Receivables Management, Inventory Management, Return on Assets

Introduction

Background

The small-scale enterprise may vary from country to country, year to year, from period to period and from time to time according to the level of economic development reached in a country. Sometimes it is defined in terms of a number of workers employed and on the use of electric power and also in terms of investment made in Ethiopia. Regarding the current definition of SSEs which was improved in January 2011, the revised sector both micro and

small-scale enterprises are categorized into the industrial sector, trade sector and service sector. Under the industry sector (manufacturing, construction and mining) micro enterprises are defined as; an enterprise that operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000. Under the service sector (transport, hotel and Tourism, ICT and maintenance service micro-enterprises are defined as; an enterprise that operates with 5 persons including the owner of the enterprise and/or the value of total assets not exceeding Birr 50,000. Under the trade sector (retailer and wholesaler) service micro-enterprises are defined as; an enterprise that operates with 5 persons including the owner of the enterprise and/or the values of total assets not exceeding Birr 50,000.

Under the industry sector (manufacturing, construction and mining) small enterprises are defined as; operating with 6-30 persons and with a paid-up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million. Under the trade sector (retailer and wholesaler) Small enterprises are defined as; operating with 6-30 persons or/and total assets, or a paid-up capital is with Birr 50,001 and not exceeding Birr 500,000.

Under the Service sector (transport, hotel and Tourism, ICT and maintenance service) Small enterprises are defined as; operating with 6-30 persons or/and total assets, or a paid-up capital is with Birr 50,001 and not exceeding Birr 500,000.

Table 1 Improved Definition of SSEs in Ethiopia

Level of Enterprise	Sector	Human power	Total asset
Micro	Industry	≤5	≤ Birr 100000 ($6000 or €4500)
	Service	≤5	≤ Birr 50000 ($3000 or €2200)
	Trade	≤5	≤ Birr 50000 ($3000 or €2200)
Small	Industry	6-30	≤ Birr 1.5 million ($90000 or €70000)
	Service	6-30	≤ Birr 500000 ($30000 or €23000)
	Trade	6-30	≤ Birr 500000 ($30000 or €23000)

Source: Ethiopian Micro and Small Enterprise Development Strategy

When ambiguity is encountered between manpower and total assets as explained above, the total asset is taken as a primary benchmark. But there is no categorization of business above small-scale enterprises as medium and large enterprises in the country. For this paper, the researchers used, those enterprises that hired 6 up to 30 employees or total asset amount birr 50,000 up to 500,000 not greater than for both services and trade sector as small scale enterprises.

Small Scale Enterprise has always been at the forefront of development strategies of every nation. Thus, the quest of any nation's development must be centered around Small Scale Enterprise; because of its great role in terms of production activities, employment generation and the overall improvement in the qualities of the life of people. Furthermore, the small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of- Scale businesses as are driving force for economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved.

Despite these problems and challenges, the current economic reform process ongoing in Ethiopia aimed at reducing poverty, and unemployment and strengthening basic institutions and sub sectors of the economy targeted at improving and enhancing the capacity of small-scale enterprises is beginning to show a renewed optimism on small scale enterprises as an instrument of economic growth and development.

Ethiopia relies on these enterprises (small-scale enterprises) to ensure the sustainability of economic growth. However, as the five (2012-2017) selected enterprise study years data observed from Sodo town trade and industry reveals that profitability measures on return on assets 19.5%, that means return on assets on retailers but 21%, mobile centre 18%, Garage service 16%. In conclusion, the five-year average performance of SSE' is with low return on assets.

Therefore, the Management of working capital is an important component for the development of small-scale enterprises, because it directly affects the profitability of the enterprise. (Smith) concluded

that working capital management is important because of its effect on enterprise profitability and risk, and consequently its value. Similarly, (Deloof) indicated that the way working capital is managed has a significant impact on the profitability of the enterprise.

The ultimate objective of any business is to maximize its profit. However, preserving the liquidity of the enterprise is an important objective as well. The problem is that increasing profits at the cost of liquidity can bring serious problems to the business. Therefore, there must be an exchange between these two objectives (liquidity and profitability) of business. One objective should not be at the cost of the other because both have their importance. If businesses do not care about profit, they cannot survive for a longer period. In other round, if businesses do not care about liquidity, they may face the problem of insolvency or bankruptcy. For these reasons, managers of firms should give proper consideration to working capital management as it ultimately affects the profitability of the enterprise. Indeed enterprises may have an optimal level of working capital that maximizes their value. Large inventory and generous trade credit policy may lead to high sales. Large inventory also reduces the risk of a stock-out. Trade credit may stimulate sales because it allows an enterprise to assess product quality before paying (Raheman and Nasr).

Another component of working capital is accounts payables, Raheman and Nasr indicated that delaying payment of accounts payable to suppliers allows enterprises to access the quality of obtaining products and can be an inexpensive and flexible source of financing. On the other hand, delaying such payables can be expensive if a firm is offered a discount for the early payment. By the same token, uncollected accounts receivables can lead to cash inflow problems for the firm.

A popular measure of working capital management is the cash conversion cycle, that is, the period between the expenditure for the purchases of raw materials and the collection of sales of finished goods. (Deloof) found that the longer the time lags, the larger the investment in working capital, and also 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 or granting more trade credit to customers.

In general, working capital management is not only improving financial performance in today's cash-strapped and uncertain economy, but it is the question of meeting the enterprise day-to-day operations. Hence, it may have both a negative and positive impact on enterprise profitability, which in turn, has a negative and positive impact on the shareholders' wealth. Therefore, it is a critical issue to know and understand the impacts of working capital management and its influence on enterprise profitability.

Indeed, a lot of research has been conducted on this topic in other countries to show the impacts of working capital components on business profitability. However, as per the knowledge of the researcher, it is almost untouched in Ethiopia only very little research has been done in this area. This limited evidence in the context of Ethiopia along with the importance of working capital management calls for research on the impact working capital management on Small Scale Enterprises (SSEs) profitability in Wolaita Zone Sodo Town Administration.

Statement of the Problem

It's difficult for the enterprise to run its operations smoothly without the proper management of working capital components. That is why, (Brigham and Houston) mentioned that about 60 per cent of a typical financial manager's time is devoted to working capital management. Hence, the crucial part of managing working capital is maintaining the required liquidity in day-to-day operations to ensure the enterprise's smooth running and to meet its obligations (Eljelly).

Further, working capital management has been a major issue, especially in developed countries. As a result, to explain the relationship between working capital management and profitability different research has been carried out in different parts of the world, especially in developed countries.

However, despite the above importance this issue failed to attract the attention of researchers in

Ethiopia. Thus, while searching on the internet, and browsing through books and journals the researcher didn't find directly related research topics carried out in Ethiopia. Therefore, the researcher believed that the problem is almost untouched and there is a knowledge gap in the area. In its effect, most Ethiopian enterprise managers thought regarding working capital management to shorten the cash conversion cycle (traditional views) to increase enterprise profitability.

However, if the enterprise has a higher level of accounts receivable due to the generous trade credit policy, it would result in a longer cash conversion cycle. In this case, the longer cash conversion cycle will increase profitability and thus, the traditional view of managers cannot be applied to all circumstances. Hence, the lack of proper research study on the area gives a chance for Ethiopian enterprises to have limited awareness about working capital management to increase enterprise profitability.

Therefore, to achieve the contribution made by SSEs and ensures them to grow, it is required to overcome a series of challenges such as the size of the enterprise, cash conversion cycle, average collection period and inventory turnover in the day. In Ethiopia specifically, SSEs have been confronted in the past by many of these problems as little the researcher's literature search shows, that to date very little research has been conducted on the factors constraining the growth and survival of small businesses in Ethiopia in general, and particularly in Wolaita Sodo and none on this topic. Thus, gaps exist concerning understanding the problems facing SSEs in Wolaita Sodo.

Therefore, this study intends to investigate the impact of working capital management on small-scale enterprises in Sodo town delimiting them to size of the enterprise, cash conversion cycle, current ratio and debt ratio, average collection period and payment period, and inventory turnover in the day.

Objectives of the Study

The general objective of the study is to identify the impact of working capital management profitability on small-scale enterprises in Sodo town. The specific objectives of the study are to investigate the impact of cash conversion on the profitability of small enterprises, to identify the impact of receivables management on the profitability of small enterprises, to examine the impact of inventory management on small enterprise profitability and to identify the impact of enterprise size on profitability of a business.

Hypotheses of the Study

H1: There is an impact of cash conversion on the profitability of small enterprises.

H2: There is an impact of receivables management on the profitability of the small enterprise

H3: There is an impact of inventory management practices on small enterprise profitability.

H4: There is an impact of enterprise size on small enterprise profitability.

Literature Review

Theoretical Review

Working capital is defined as including "stocks of materials, fuels, semi-finished goods including work-in-progress and finished goods and by-products; cash in hand and bank and the algebraic sum of various creditors as represented by outstanding factory payments e.g. rent, wages, interest and dividend; purchase of goods and services; short-term loans and advances and various debtors comprising amounts due to the factory on account of sale of goods and services and advances towards tax payments" (Arnold).

To understand working capital it is better to have basic knowledge about various aspects of working capital. To start with, there are two concepts of working capital known as gross and net.

Gross working capital (GWC): Gross working capital generally deals with overall corporate assets. It is also the total cash, and cash equivalent that a business has on hand to run the business. Cash equivalents may include inventory, accounts receivable and investments, in marketable securities, which may be liquidated within the calendar year. Generally, gross working capital is simply called the total current assets of a firm.

Net working capital (NWC): it is the amount of assets or cash that remain after sutracting a company's current liabilities which refers to the

claims of outsiders which are expected to mature for payment within an accounting year and include creditors for goods, bills payable, bank overdraft and accrued expenses from its total current asset (Brealey et al.). This can be mathematically presented as:

Working capital=current assets-current liabilities

In this equation, net working capital may be positive or negative. A positive net working capital arises when current assets exceed current liabilities and a negative net working capital arises when current liabilities exceed current assets. According to Brigham and Houston, both (positive or negative NWC) aspects have equal importance for management. Therefore, positive WC focuses attention on the optimum investment in and financing of the current assets, while negative WC indicates the liquidity position of the firm and suggests the extent to which working capital needs may be financed by permanent sources of funds.

Nature and size of the business: The working capital requirements of a firm are influenced by the nature and size of the business. Size may be measured in terms of the scale of operations. A firm with a larger scale of operations will need more working capital than a small firm. Similarly, the nature of the business influences the working capital decisions. Trading and financial firms have less investment in fixed assets. But require a large sum of money to be invested in working capital. Retail stores, and business units require a larger amount of working capital, whereas, public utilities need less working capital and more funds to invest in fixed assets.

Growth and expansion of business: The working capital requirement of a business firm tends to increase in correspondence with growth in sales volume and fixed assets. A growing firm may need funds to invest in fixed assets to sustain its growing production and sales. This will, in turn, increase investment in current assets to support increased scale of operations. Thus, a growing firm needs additional funds continuously.

Receivable management: Businesses have either products or services to sell to their customers; they also want to maximize their sales. So, to increase the level of their sales they use different policies to attract customers and one of them is offering a trade credit. Trade credit refers to a situation where a company sells its product now to receive the payment at a specified date in the future. (Fabozzi and Peterson) mentioned that when a firm allows customers to pay for goods and services at a later date, it creates accounts receivable or refers to trade credit. Account receivables (trade credit) also have an opportunity costs associated with them, because the company can't invest this money elsewhere until and unless it collects its receivables. More account receivables can raise profit by increasing sales but it is also possible that because of the high opportunity cost of invested money in account receivables and bad debts, the effect of this change might turn difficult to realize. Hence, it calls for careful analysis and proper management is the compulsory task of the company's credit managers.

Average collection period (ACP)=Receivables/(Sales/365)

This ratio measures the quality of debtors. A short collection period implies punctual payment by debtors. It reduces the chances of bad debts. Similarly, a longer collection period implies too liberal and inefficient credit collection performance. It is difficult to provide a standard collection period for debtors (Brigham and Houston).

Inventory management: Inventory is an important component of current assets. It is the stock of physical goods for eventual sale. It consists of raw materials, work-in-process, and finished goods available for sale. As is the case with accounts receivable, inventory levels depend heavily upon sales. However, whereas receivables build up after sales have been made, inventory must be acquired ahead of sales. This is a critical difference, and the necessity of forecasting sales before establishing target inventory levels makes inventory management a difficult task (Brigham and Houston). Inventory management refers to an optimum investment in inventories. It should neither be too low to affect the production adversely nor too high to block the funds unnecessarily. Excess investment in inventories is unprofitable for the business and both excess and inadequate investments in inventories are not desirable. Hence, the firm should operate within the two danger points. Additionally, proper inventory management requires close coordination among the sales, purchasing, production, and finance departments. The sales/marketing department

is generally the first to spot changes in demand. These changes must be worked into the company's purchasing and manufacturing schedules, and the financial manager must arrange any financing needed to support the inventory buildup. Lack of coordination among departments, poor sales forecasts, or both, can lead to disaster (Brigham and Houston). In general, the purpose of inventory management is to determine and maintain the optimum level of a firm's investment in inventory. At the same time, it helps to hold the costs of ordering and carrying inventories to the lowest possible level.

Inventory Turnover in Day (ITID)=Inventory/(Cost of sales/365)

In general there is no rule of thumb or standard for interpreting the inventory turnover ratio. The norms may be different for different firms depending upon the nature of the industry and business conditions. However, the study of the comparative or trend analysis of inventory turnover is still useful for financial analysis.

Accounts Payables management: Account payable is defined as a debt arising from credit sales and recorded as an account receivable by the seller and as an account payable by the buyer. Firms generally make purchases from other firms on credit, recording the debt as an account payable. Accounts payable is the largest single category of short-term debt, representing about 40 per cent of the current liabilities of the average nonfinancial corporation (Brigham and Houston).

Cash Conversion Cycle (CCC): The cash conversion cycle is a period between the payment for raw material and the receipt from the sale of goods. (Weston and Brigham) mentioned that firms typically follow a cycle in which companies purchase inventory, sell goods on credit, and then collect accounts receivable. For a manufacturing company, it can be defined more precisely as, the time for which raw material is kept for processing plus the time taken by the production process. And the time for which finished goods are kept and sold, including the time taken by the debtors to pay their liability, minus the maturity period of 30 accounts payable. By this definition, it is quite clear that a longer cash conversion cycle requires more investment in the current assets. Furthermore good cash conversion cycle (depending on the company's target) is helpful for the organization to pay its obligations at the right time which will enhance the goodwill of the company. On the other hand, a company with a poor cash conversion cycle will not be able to meet its current financial obligations and will face financial distress. The cash conversion cycle is also used as a gauge to measure the aggressiveness of working capital policy. It is believed that a longer cash conversion cycle corresponds to a defensive working capital policy and a shorter cash conversion cycle corresponds to an aggressive working capital policy (Arnold).

Liquidity ratio: Liquidity ratio measures the short-term solvency of the financial position of a firm. These ratios are calculated to comment upon the short-term paying capacity of a concern or the firm's ability to meet its current obligations and they are discussed as follows:

Current ratio: is defined as the relationship between current assets and current liabilities. It is a measure of general liquidity and it is the most widely used to analyze the short-term financial position or liquidity of a firm.

The current ratio can be calculated by dividing the total current assets by the total current liability.

Current ratio=current asset/current liability

Acid test ratio or quick ratio: it is true liquidity refers to the ability of a firm to pay its short-term obligations as and when they become due. It is the ratio of liquid assets to current liabilities.

Quick ratio=Current assets–inventory/Current Liabilities

It is very useful in measuring the liquidity position of a firm. It measures the firm's capacity to pay off current obligations immediately and is a more rigorous test of liquidity than the current ratio. On the other hand, the debt ratio is one part of the financial ratio which is used for debt management by different companies. Hence, it is a ratio that indicates what proportion of debt a company has relative to its assets. The measure gives an idea of the leverage of the company along with the potential risks the company faces in terms of its debt load.

Profitability measures: The profitability ratio is a measure of the profit generated from the business and is measured in percentage terms e.g. percentage of sales, percentage of investments, and percentage

of assets. A high percentage of profitability plays a vital role in bringing external finance to the business because creditors, investors and suppliers do not hesitate to invest their money in such a company. There are several measures of profitability which a company can use. A few measures of profitability are discussed here:

Net profit margin (NPM): It calculates the percentage of each sale dollar that remains after deducting interest, dividend, taxes, expenses and costs. In other words, it calculates the 35 per cent of profit a company is earning against its per dollars sale. A higher value of return on sale shows better performance (Gitman and Zutter).

NPM=(Earnings available for common stakeholder/Net sales)

Return on asset (ROA): This ratio explains how efficient a company is to utilize its available assets to generate profit. It calculates the percentage of profit a company is earning against per dollar of assets (Weston and Brigham). The higher value of ROA shows better performance and it can be computed as follows

ROA=(Earnings Available For Common Stockholders/ Total Asset)

Gross operation profit (GOP): this ratio explains how efficient a company is to utilize its operating assets. This ratio calculates the percentage of profit earned against the operating assets of the company (Weston and Brigham).

Empirical Studies

There are a number of studies that assessed working capital management from the perspective of both developing and developed nations. For example, the corporate working capital and liquidity may be considered as the best-known study in this field (Samiloglu and Demirgunes). The difficulty, compounded due to the lack of any uniformity in the definition of what is meant by "working capital" motivated him to study corporate working capital and liquidity literature. Hence, the study was conducted using qualitative methods to answer three problems towards which the paper was directed. Thus are; "What is meant by corporate working capital, liquidity and sources of liquidity?" Indeed the study concluded that the term "working capital" should be coextensive with current assets and described by its functions as revolving capital. Further, the study noted that the nature of an asset is determined by its function and not by its name. On the other 39 hand, the study pinpointed that the ordinary use of the term "liquidity" makes it more a problem of marketing than accounting and finance and hence, liquidity is a consequence of the dynamic function of satisfying social wants. Finally, the study concluded that it is through working capital that a source of liquidity is attained.

Conversely, the current and quick ratios had a negative relationship with the debt-to-equity ratio and a positive with the time's interest earned ratio. Finally, the study concluded that there is no difference between the liquidity ratios of large and small firms. The relationship between working capital management and corporate profitability of listed companies in the Athens Stock Exchange. They conducted a penal study by using a sample of 131 firms listed on the Athens Stock Exchange from 2001 to 2004. The result from regression analysis showed that there is a statistically significant relationship between profitability, measured through gross operating profit, and the cash conversion cycle and its components (accounts receivables, accounts payables, and inventory). Based on the results, they concluded that managers could create value for shareholders by handling correctly handling the cash conversion cycle and keeping each different component at an optimum level.

(Raheman and Nasr) studied the effect of different variables of working capital management including average collection period, inventory turnover in days, average payment period, cash conversion cycle, and current ratio on the net operating profitability of Pakistani firms. They selected a sample of 94 Pakistani firms listed on the Karachi Stock Exchange for a period of six years from 1999 - 2004 and found a strong negative relationship between variables of working capital management and profitability of the firm. They found that as the cash conversion cycle increases, it leads to decreasing profitability of the firm and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level.

(Garcia-Teruel and Martinez-Solano) collected a panel of 8,872 small to medium-sized enterprises (SMEs) from Spain covering the period 1996-2002. They tested the effects of working capital management on SME profitability using the panel data methodology. The results, which are robust to the presence of end genetics, demonstrated that managers could create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firm's profitability. On the other hand, the working capital components and the impact of working capital management on the profitability of Hindalco Industries Limited for the period from 1990 to 2007. Results of the study showed that the current ratio, liquid ratio, receivables turnover ratio and 45 working capital to total assets ratio had a statistically significant impact on the profitability of Hindalco Industries Limited.

(Nazir and Afza) attempted to investigate the traditional relationship between working capital management policies and a firm's profitability for a sample of 204 non-financial firms listed on the Karachi Stock Exchange (KSE) for the period 1998-2005. The survey study found significant differences among their working capital requirements and financing policies across different industries. Moreover, regression results found a negative relationship between the profitability of firms and the degree of aggressiveness of working capital investment and financing policies. They suggested that managers could increase value if they adopt a conservative approach towards working capital investment and working capital financing policies.

(Falope and Ajilore) used a sample of 50 Nigerian quoted non-financial firms for the period 1996 -2005. Their study utilized panel data econometrics in a pooled regression, where time series and cross-sectional observations were combined and estimated. They found a significant negative relationship between net operating profitability and the average collection period, inventory turnover in days, average payment period and cash conversion cycle for a sample of fifty Nigerian firms listed on the Nigerian Stock Exchange. Furthermore, they found no significant variations in the effects of working capital management between large and small firms. In the same year, (Mathuva) examined the influence of working capital management components on corporate profitability by using a sample of 30 firms listed on the Nairobi Stock Exchange (NSE) for the period 1993 to 2008. He used Pearson and Spearman's correlations, the pooled ordinary least squares (OLS), and the fixed effects regression models to conduct data analysis. The key findings of his study were that: i) there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers (accounts collection period) and profitability, ii) there exists a highly significant positive relationship between the period taken to convert inventories into sales (the inventory conversion period) and profitability, and iii) there exists a highly significant positive relationship between the time it takes the firm to pay its creditors (average payment period) and Profitability.

(Gill et. al.) investigated the relationship between working capital management and the firm's profitability for a sample of 88 American manufacturing companies listed on the New York Stock Exchange for the period of 3 years from 2005-2007. They primarily sought to extend the findings by testing with the same hypothesis. They found a statistically significant relationship between the cash conversion cycle and profitability, measured through gross operating profit. The study concluded that managers can create profits for their companies by handling correctly the cash conversion cycle and by keeping accounts receivables at an optimal level.

Finally, (Ali and Hasan) conducted the study to explore the relationship between working capital policy and the profitability of Swedish firms. Furthermore, this study aimed to investigate the nature of the relationship between working capital policy and a component of the cash conversion cycle. For their study, the researchers used a sample of 37 listed companies in the OMX Stockholm stock exchange over five years from 2004-to 2008 and six regressions were run on 185 observations in SPSS software. The result of regression analysis shows that managers can't change the level of profitability by adopting any of the working capital policies i.e. there exists no relationship between working capital policy and profitability.

Conceptual Framework

The research addressed various types of business constraints such as receivables, cash conversion, enterprise size, and inventory management practices.

The link between constraints and the growth potential or rate of earrings of SSEs can be viewed from different angles. Business constraints may, on the one hand, limit physical capital accumulation. On the other hand, they may constrain a firm's ability to undertake its daily operations since they may reduce its internal financing and its capacity to make proper business decisions.

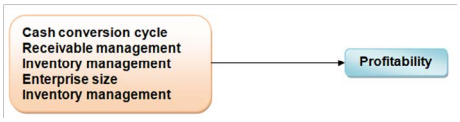

Figure Conceptual Framework

This study proposes four variables that influence working capital management in Wolaita sodo Small-scale enterprises. The choice of these variables has been influenced by the previous studies related to working capital management done by previous researchers. All these variables are of great help to test the hypothesis of this study. The independent variables used in this study include, Cash Conversion Cycle, Receivable management, Inventory management, and Enterprise size. These are estimated core components of working capital that need to be managed to increase the efficiency and effectiveness of working capital. The efficiency of these variables affects the dependent variable. In the case of this study profit used is net profit.

Research Methodology

Target Population

The target area for this particular study is all the small scale enterprises in the margin of the three sub-cities (merkato, mehal and Arada sub-cities) of Sodo town administration. There are 87 small-scale enterprises with 945 operators including the owners/ managers who are operating in the selected sector of enterprise under study area in the current period.

Considering the target population of the study information gathered from the small enterprises provides the opportunity to assess the perceptions of enterprise owners or managers toward factors affecting working capital management. To finalize the research, data was collected from each owner/ manager of SSEs from three sub-cities Arada, Merkato and, Mehal sub-cities of Sodo town administration. The reason for owners/ managers of each SSE were chosen as suitable candidates for the questionnaire is, that the owners or managers make most of the decisions about the SSEs.

Moreover, the questionnaires were distributed among the operators, because the studies reported that operators' perception significantly impacted enterprises' working capital. In addition to data gathered by using a surveys from owners or managers, the interview was conducted with owners of enterprises working in the retailers, but, Garage service, and Mobile Centre from three sub-city in the Wolaita Zone Sodo Town Administration.).

Research Design

This chapter deals with the research design and methodologies used in the study, it starts with the description, the research design used followed by the research methodologies Lastly, it presents descriptive and inferential statistics.

This research was designed in both qualitative and quantitative approaches to investigate the problem under study. Employing a mixed approach is used to neutralize the biases of applying any of a single approach (Creswell and Creswell). The data gathered by using Likert scales from operators and/or owners were analyzed by using quantitative methods, on the other hand, data gathered from officials of sub-cities through interviews was analyzed qualitatively to cross-check the finding. The purpose of this thesis is to describe factors adversely affecting SSEs' working capital management and help to better understand and clarify a problem. This study is cross-sectional, A cross-sectional study is chosen because the cross-sectional study is a suitable alternative when conducting a survey. Therefore to ensure the evidence obtained enables the researcher to answer the initial questions, the type of data needed has been used for five consecutive years (2012- February 2016).

Sampling Techniques and Sampling Frame

To select a sample for the study, the sampling frame which is the list of sub-cities with the

corresponding number of enterprises and the list of individuals working in the selected sub-cities was the sampling frame is required for the selection of different sampling units. The top four small enterprises are selected for study out of 87 small enterprises in the three sub-cities of Sodo town administration. Based on their number of enterprises comprised represents the total population of SSEs in the Wolaita zone sodo town administration. The sampling frame was purposive for sub- cities identification and stratified random for enterprise by size and sector. Briefly, stratification across sectors was made based on the intensity of the sector activities such as retailers, Garage service, and Mobile centre from three sub cities in the Wolaita Zone Sodo town administration).

Sample Size Determination

The sample size usually depends on the population to be sampled. In this study to select sample size, a list of the population formally registered in SSEs until February 2016 by the Sodo Town Administration Trade and Industry Development Office was obtained as follows.

Table 2 Members and Numbers of Enterprise in Study Selected Sectors of Enterprises

Name of Sectors	Members of Enterprise	Nos. of Enterprise
Trade Sector		
Retailers	239	24
Boutique	314	30
Service Sector		
Garage service	180	12
Mobile center	212	21
Total	**945**	**87**

Source: Sodo Town Trade and Industry

The total population of the study is 945 which includes retailers (239), Boutique (314), Garage services (180), and Mobile centres (212). The sample unit selected here is considered representative of retailers, mobile, Garage service, and Mobile centre and is also large enough to allow for precision, confidence and generality of the research findings. The following formula is used for the calculation of the sample size since it is relevant to studies where a probability sampling method was used (Yamane).

$n=N/(1+Ne^2)$

Where

n=is the sample size

N=is the population size and

e=is the level of precision

In this case, N is 945 ±5% precession levels where the confidence level was 95% and p=.05 hence, the sample size of the study is 284.

Sources of Data Collection

A survey method was used to collect information from operators or owners of SSE, the three sub-cities (Arada, merkato and Mehal sub-cities) of Sodo town administration. The study was conducted by gathering both primary and secondary data sources, which are gathered by using questionnaires and interviews to support data gathered by surveys, Journals, articles, books and agency reports were used as secondary sources for the study. The primary data was collected using interviews and open & close-ended questionnaires from SSE owners/managers and concerned bodies. The Likert type questionnaire was developed. Then questionnaire is translated into Amharic considering the level of understanding of the unit of analysis. While translation is made necessary checks are made by those professionals in the area. Then questionnaires were distributed to 284 SSEs' from the three sub-cities (Arada, merkato, and Mehal sub-cities) of the Sodo town administration. A semi-structured interview was conducted with Retailers, Beau tic, Garage service, and Mobile Centre.

Methods of Data Collection

Respondents were asked to indicate the degree of importance they strongly design, by using five Likert –style a point scale, the extent to which they found barriers strongly disagree, disagree, neutral, Strongly agree and agree of those statements on the progress of SSEs regarding working capital management. SSE managers or owners will be asked to give their opinion regarding enterprise working capital management barriers.

In addition to these, the qualitative two-question instrument was developed to evaluate and also mostly explained more during the interview. The first is how well SSEs did this year compared to last year and the second is overall how well it did versus

leading competitors or similar SSEs. These two important questions result in a subjective rating of performance.

Description of Variables

Dependent Variables

In this study, (dependent variable) the term working capital is commonly used for the capital required for day-to-day working in a business concern, such as profitability.

Independent Variables

The study attempts to investigate the relationship between factors negatively affecting SSEs working capital management. Besides, the independent variables include;- cash conversion, receivables, inventory management practices and enterprise size.

Each variable is measured using information collected through appropriately designed questionnaires and by interviews with officials of sub-cities in Sodo town administration.

Data Reliability and Validity Test

To make sure whether collected data are correct, the necessary activities, including using appropriate instructions and instruments are used.

Reliability Test

The reliability is "concerned with the consistency of measures", thus, the level of an instrument's reliability is dependent on its ability to produce the same score when used repeatedly.

Table 3 Reliability and Normality Tests

Variables	Skewness	Kurtosis	Cronbach alpha
Profitability	-0.714	0.202	0.857
Cash Conversion Cycle	-0.700	0.181	0.913
Inventory Management	-1.046	0.816	0.916
Receivable management	-0.865	0.315	0.895
Enterprise Size	-0.772	0.148	0.812

Source: Field survey

Reliability was tested using the Cronbach coefficient alpha, using SSEs operators or owners pilot test, to pre-test on the designed questionnaires. According to the stability coefficient' Cronbach's Alpha', if the coefficient is < 0.60, the consistency and internal stability are considered weak, if the coefficient > 0.60 to < 0.80, it is considered accepted if the coefficient varies between (0.80 - 0.85), it is good and if the coefficient is > 0.85 to 1, this means high integrity in the answers of the investigated subjects. For this study the following table shows the reliability and normality test.

The normality test can be checked by using Skewness and Kurtosis as conducted from the Statistical test is shown in table 3. The variables have a skewness and kurtosis value of ±2, Which is considered as acceptable and normal.

Validity Test

Validity on the other hand refers to whether an instrument measures what it is supposed to measure, given the context in which it is Applied. To assure validity, the questionnaire that will be used in this study is given to independent experts in consultation with a statistician to evaluate it for content validity as well as for conceptual clarity and exploratory bias.

Method of Data Analysis

To analyze the findings descriptive and inferential be used, descriptive like percentage, mean, mode, tables and figures presentation, whereas inferential correlation analysis will be applied by using the latest available version of the SPSS package program and also bivariate correlation and linear regression analysis used to analyze the results of the questionnaires.

Regression Analysis

In this study linear regression is employed. Linear regression analysis takes into account the inter-correlations among all variables involved. This method also takes into account the correlations among the predictor scores, the equation of regressions in this study is generally built around two sets of variables, namely the dependent variable (profitability) and independent variables, Cash conversion, Inventory Management, Receivable management and Enterprise Size. The basic objective of using regression equations in this study

is to make the study more effective at describing, understanding and predicting the stated variables. Regress Performance on Selected Variables

$$Y_{ij} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_{ij}$$

Where:

Y is the response or dependent variable defined as Profitability of Small scale enterprises, X_1=cash conversion, X_2=Inventory management, X_3=Receivable management and X_4=Size of enterprise, β_0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0, and β_1 β_2 β_3 β_4 are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables.

Data Analysis and Interpretation

Questionnaire Return Response Rate

As already mentioned in the objective of this study, the main objective of this study is to identify the impact of working capital management on profitability of small-scale enterprises by taking a sample size of 284 from three sub-cities of Wolaita Sodo town structured questionnaires were distributed. From the total samples out of 284 (100%), 260 (91.5%) were returned whereas others 24 (8.5%) were not returned. Therefore, the entire analysis given in this study is based on the actual returned number which is 260. This is shown in the following table as follows.

Table 4 Enterprises Response Rate

Name of Enterprise (sub-cities)	Returned		Not returned	
	No. of Returned	%	No. of not Returned	%
Merkato	80	28.2	10	3.5
Mehal	100	35.1	7	2.5
Arada	80	28.2	7	2.5
Total	**260**	**91.5**	**24**	**8.5**

Source: Field Survey

According to the above table, the respondents' rate of 28.2% is from the Merkato sub-city, 35.1% are from Mahal sub-city and 28.2% from the Arada sub-city. This shows most of the respondents from Mahal subsidy (35.1).

Demographic Information

Table 5 Gender of the Respondents

Gender	Number	Percentage
Male	154	59.23
Females	106	40.77
Total	260	100

Source: Field Survey

According to Table 5 considerably larger number 154 (59.23%) of the respondents are found that male members of enterprises whereas 106 (40.77) of them are females. This indicates most of the respondents were males.

Table 6 Marital Status of Respondents

Marital Status	Number	Percentage
Unmarried	67	25.77
Married	193	74.23
Total	**260**	**100**

Source: Field Survey

The above table indicates that the majority of the respondents (74.23%) are married and 25.77% are Unmarried.

Table 7 Educational Qualification

Educational level	Number	Percentage
Less than 10th grade	56	21.5
11th to twelve	28	10.8
Diploma	137	52.7
BA and above	39	15
Total	**260**	**100.0**

Source: Survey Result

According to the above table, a minority of the respondents' education level (21.5%) is Less than 10th, (10.8%) 11th to twelve complete, Diploma (52.7%), and (15%) BA and above.

Table 8 Business Types

Business Type	Number	Percentage
Service	154	59.23%
Trade	106	40.77%
Total	**260**	**100.0%**

Source: Field Survey

According to the table, 59.23% of the respondents were Service sectors and 40.23% were trade sectors.

Table 9 Life of the Business

Life of the Business	Number	Percentage
1 to 5 years	56	21.5
6 years to 12 years	204	78.5
Total	**260**	**100.0**

Source: Field Survey

The above table indicates that 21.5% of respondents were 1 to 5 years and (78.5%) were above 6 years to 12 years. Based on the above table most of the business life lies between 6-12 years (78.5%).

Table 10 Age of the Respondents

Age	Number	Percent
18-30 years	165	63.5
31-45 years	95	36.5
Total	**260**	**100.0**

Source: Field Survey

According to above table, 63.5% of the respondents were between the age group 18-30 and 36.5% between the age group 31-45. This indicates that most of the respondents were between 18-30 years old.

Table 11 Number of Employees

Numbers of Employees	Number	Percent
5-20	204	78.46
21-99	56	21.54
Total	260	100.0

Source: Field Survey

The above table shows that 78.46% have 5-20 employees and (21.54%) the enterprise has 21-99 employees. Based on the above table most of the enterprises have employees 5-20 (78.46%).

Table 12 Manager Type of Business

Manager type	Number	Percent
The owner	193	74.23
Employed manager	67	25.77
Total	**260**	**100.0**

Source: Field Survey

According to the table 12, 74.23% of the business manager type is the owner and 25.77% of business managers types are Employees. This shows most of the business managers are owners type.

Descriptive Statistics

Participants of this study were asked different questions regarding the impact of working capital management on the profitability of small-scale enterprises. The questionnaires were designed using a 5-point Likert Scale where almost all the statements were measured on a five-point scale. Respondents were asked in the questionnaires to explain their agreement or disagreement with whether the independent variables have some association with the enterprises.

Descriptive statistics is used to show the mean score and standard deviation of the variables which have been asked in the survey.

Table 13 Descriptive Statistics of Variables

Variables	Variables	Mean	SD
DV	Profitability	3.461	0.9945
IV1	CCC	3.576	0.9894
IV2	I'M	3.582	1.019
IV3	RM	3.457	1.035
IV4	Enterprise Size	3.746	0.956

Source: Field Survey

Referring to above Table 13, the mean score of the 5 variables (1 dependant and 4 independent) has a values ranging from 3.457 to 3.746. The highest mean score 3.746 falls under the enterprise size (ES). This shows that most of the enterprises operate as the size of an enterprise with a maximum mean score of 3.746. The enterprise size mostly affects the profitability because of its mean score of 3.746. The levels of Inventory Management (IM) is the next predictor of profitability with a 3.582 mean score. The cash conversion cycle (CCC) is also the third predictor of profitability with a moderate mean score of 3.576. And receivables management (RM) is another & last predictor for the profitability of the enterprise with a 3.457 mean score.

Inferential Analysis

In this section, the results of inferential statistics are presented. To assess the objectives of the study, Pearson's Correlation Coefficient and regression analyses were performed. With the aid of these statistical techniques, conclusions are drawn about the sample and decisions are made concerning the research hypothesis.

Pearson Correlation Analysis

Table 14 Pearson Correlation Analysis

Variables		Profitability
Profitability	Pearson Correlation	1
	Sig. (2-tailed)	
Cash conversion cycle	Pearson Correlation	.569**
	Sig. (2-tailed)	.000
Inventory Management	Pearson Correlation	.943**
	Sig. (2-tailed)	.000
Receivables management	Pearson Correlation	.962**
	Sig. (2-tailed)	
Enterprise size	Pearson Correlation	.699**
	Sig. (2-tailed)	.000

Source: Field Survey, 2021

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

Table 14 shows the level of correlation between the dependent variable Profitability and Independent variables cash conversion, Receivable management, Inventory management and Enterprise size.

Profitability is positively related to the predictor cash conversion cycle, with a Pearson correlation coefficient of r=.569 and Sig is 0.00 which is < 0.05 hence, there is a strong relationship between profitability and cash conversion cycle.

Profitability is positively related to Inventory management with a Pearson correlation coefficient of r=.943 and the Sig. is 0.00 which is < 0.05. Therefore, there is a strong relationship between profitability and Inventory management.

Profitability is positively related to Receivables management with a Pearson correlation coefficient of r =.962 and the Sig is 0.00 which is < 0.05. Therefore the researcher can also gain confidence that there is a strong relationship between Profitability and Receivable management.

Profitability is positively related to Enterprise size with a Pearson correlation coefficient of r=.699 and the significance value is less than .000 which is less than p- the p-value (.05). Therefore, the researcher can gain confidence that there is a genuine relationship between Profitability & Enterprise size.

Regression Analysis (Study Variables Hypothesis Testing)

Regression analysis is a statistical procedure used for estimating the relationships between one or more predictor variables and the response variable. To test for the influence of each independent variable (Cash conversion cycle, Inventory management, Receivable management, and Enterprise size) on the dependent variable (Profitability), linear regression analysis was performed.

Table 15 Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.891[a]	0.794	0.791	0.4548

Source: Field Survey

The above linear regression model table shows (R) the correlation between dependent variable (profitability) and independent variables (Cash conversion cycle, Inventory management, Receivable management and enterprise size). As shown in the above table, R of 0.891 represents a situation in which the strong correlation of independent variables with dependent variable Profitability.

The coefficient of determination or correlation coefficient squared (R^2) tells how much of the variance in Profitability is accounted for by the regression model from a sample of 284 respondents and which measures the amount of profitability predictors Cash conversion cycle, Inventory management, Receivable management, and Enterprise size) which each factors are shared with each other.

As the above Table 15 Square of the correlation coefficient of each factor shares is 79.40% of Profitability predictors. Therefore, the researcher found that Cash conversion cycle, Inventory management, Receivable management and Enterprise size) share 79.40% of Profitability in Wolaita Sodo Town Enterprises. This means that 20.6% of the Profitability affecting factors cannot be explained by this study variable (Cash conversion cycle, Inventory management, Receivable management, and Enterprise Size) factors alone. Therefore, there must be also other variables which did not include in this study which have an influence on profitability in the study area.

The adjusted (R^2) value indicates the loss of predictive power or shrinkage, the adjusted value tells us how much variance in Profitability would be accounted for if the model had been derived from the population from which the sample was taken.

The adjusted R^2 gives some idea of how well our model generalizes and ideally its value to be the same, or very close to, the value of R^2.

In the above table the difference for the final model is small (the difference between the values is (0.794−0.791)=.0.003 (about 0.3%). This shrinkage means that if the model was derived from the population rather than a sample it would account for approximately 0.1% less variance in the outcome. Therefore, the regression model results in a significantly better prediction of Profitability than that of the mean value of predictors (Profitability affecting factors). In short, this regression model overall predicts profitability affecting factors are significantly good.

The below table shows that the independent variables are statistically significant to predict the dependent variable, F=245.810, p<.05 (i.e., the regression model is a good fit for the data).

Table 16 Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	203.395	4	50.849	245.810	.000[b]
Residual	52.750	255	0.207		
Total	256.145	259			

Source: Field Survey

Table 17 Predicting Profitability Regression Model

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	0.131	0.130		1.006	.315		
Cash Conversion Cycle	0.111	0.034	0.111	3.286	.001	.710	1.409
Inventory Management	0.523	0.056	0.536	9.345	.000	.245	4.076
Receivables management	0.197	0.056	0.205	3.486	.001	.234	4.279
Enterprise Size	0.171	0.040	0.164	4.259	.000	.546	1.833

Source: Field Survey

Dependent Variable: Profitability

The regression coefficient b represents the change in the outcome resulting from a unit change in the predictor and that if a predictor is having a significant impact to predict the outcome then this b should be different from 0 (and big relative to its standard error).

As indicated in above table 17 t-statistics can be derived from those tests whether a b-value is significantly different from 0. The t-tests measure whether the predictor is making a significant contribution to the model or not. Therefore, if the t-test associated with a b-value is significant (if the value in the column labelled Sig. is less than .05) then the predictor is making a significant contribution to the model.

The p-value is less than 0.05 for all the variables. Hence, it indicates that the 4 independent variables are significant in predicting Profitability (Dependent Variable).

These four independent variables (Cash conversion, Inventory management, Receivable management and Enterprise size) have significance levels (p-value) are less than .05, and this result reflects all the independent variables (IDVI) have a good effect on the dependent variable Profitability.

Therefore, the b is different from 0 and the researcher found that the predictor variables make a significant contribution in predicting Profitability, Cash conversion cycle (β_1)=.111, Inventory Management (β_2)=.523, Receivable management (β_3)=.197, Enterprise Size (β_4)=.171 are statistically significant variables can predict Profitability.

As indicated in the above table, each of these beta values has an associated standard error indicating to what extent these values would vary across different samples, and these standard errors are used to determine whether or not the b-value differs significantly from zero.

To know the impact and relationship of independent variables on the dependent variable (Profitability), the regression function is in form of

$P=\beta_0 + \beta_1 CCC + \beta_2 IM + \beta_3 RM + \beta_4 ES + e$

β_0=0.131 which is constant

P=0.131+0.111CCC+0.523IM+0.197RM+0.171ES

The β - values tell to what degree each predictor affects the outcome if the effects of all other predictors are held constant:

The linear equation above indicates that there is a positive relationship between the above predictors and Profitability.

This can be explained that for every increase in the Cash conversion cycle, Inventory management, Receivable management, Enterprise size, and Profitability will increase by 11.10%, 52.3%, 19.7%, and 17.1% respectively.

Test of Hypothesis

Based on table 18, by using the Regression Model hypothesis of the study is tested. The below table shows the significance level of the hypothesis.

Table 18 Test of Hypothesis

Hypothesis	Test independent variable with dependent variable	P-value	Significance of co-relation	Result
H1	The cash Conversion Cycle has a significant impact on the Profitability of SSE in WS Town	.001 < 0.05	Significant	H1 is accepted
H2	Inventory management has a significant impact on the Profitability of SSE in WS Town	.000 < 0.05	Significant	H2 is accepted
H3	Receivables management has a significant impact on the Profitability of SSE in WS Town	.001 < 0.05	Significant	H3 is accepted
H4	Enterprise size has a significant impact on the Profitability of SSE in WS Town	.000 < 0.05	Significant	H4 is accepted

Source: Field Survey

Results and Discussion

Research hypothesis 1 predicts a positive relationship between Profitability (ROA) and the Cash Conversion Cycle. Similar to the hypothesis, the regression output showed a positive and strongly statistically significant relationship between Profitability and the Cash Conversion Cycle. So we cannot reject H1 that there is a positive and statistically significant relationship between the Cash Conversion Cycle and Profitability (ROA). This positive relationship implies that the increasing rate of the cash conversion cycle leads to Profitability. The correlation coefficient value for the Cash Conversion Cycle indicated that 0.111. This implies that for 1% increase in the Cash conversion cycle would result in an 11.1% increase in Profitability.

Results generated by SPSS showed that there is a significant relationship between Inventory Management and Profitability as the p-value is 0.000 which is less than 0.05. Hence, alternative hypothesis H2 is accepted in this study. In addition, the correlation coefficient value 0.523 has a positive and strong relationship between Inventory Management and Profitability. This implies that an increase or decrease in Inventory management has an impact on Profitability.

Based on the results computed, Research Hypothesis 3 predicts a positive relationship between Profitability and Receivables Management. Similar to the hypothesis, the regression output showed a positive and strongly statistically significant positive relationship between Profitability and Receivables Management. So we can Receivables management not reject H3. That there is a positive and statistically significant relationship between Receivables Management and Profitability. The correlation coefficient value for Receivables management indicated 0.197. This implies that for 1% increase in Receivables management would result in a 19.7% increase in Profitability. Since the p-value is 0.001 which is less than 0.05. Hence, alternative hypothesis H3 is accepted in this study.

Research hypothesis 4 predicts a positive relationship between Profitability and Enterprise Size. Similar to the hypothesis, the regression showed a positive and statistically significant relationship between Profitability and Enterprise Size. So we can not reject H4 that there is a positive and statistically

significant relationship between Profitability and Enterprise Size. The positive relationship between Profitability and Enterprise Size implies that the Enterprise Size decides the profitability of Small scale enterprises. The correlation coefficient value for enterprise size indicated 0.171. This implies that a 1% improvement in Enterprise size activity would result in a 17.1% increase in Profitability. Since the p-value is 0.000 which is less than 0.05. Therefore, alternative hypothesis H4 is accepted in this study.

Conclusion

This research was carried out in Wolaita Sodo Town with the aim of predictors of Profitability in small-scale enterprises. Specifically, the study attempted to explore predictors of Profitability in Wolaita Sodo Town of the three sub-cities. About the following issues: identifying the impact of these predictors of profitability, pointing out the Benefits of Profitability and analyzing the challenges which the scale enterprises are facing and would face in future to increase their Profitability base.

Based on the objectives and findings of the study, the researcher tried to conclude the study as follows:- In Wolaita Sodo Town, there are 87 Small-scale enterprises from which only 26 enterprises were taken as samples. Therefore, the Small-scale enterprises from three sub-cities of Wolaita Sodo Town are taken as a total population which is 945 of these 284 samples, by using Yamane's formula. Of the total respondents, 91.5 % were taken from the three sub-cities. Merkato 28.2%, Mehal=35.1% and Arada 28.2% were taken and this was used by the researcher to collect accurate data from the right respondents.

Predictors of profitability in Wolaita Sodo Town are cash conversion cycle, inventory management, receivable management and enterprise size. Based on the mean scores and standard deviation of the profitability, Enterprise size is one of the predictors which predict profitability with a high mean score of 3. 476 and correlated with (r =.699) profitability. It has a beta coefficient of .171 and its impact on profitability is significant at 2- the 2-tailed test (p-value< 0.000).

Receivable management is the least predictor which predicts profitability with a minimum mean score of 3.457 and last to enterprise size is correlated with (r =.962) profitability. It has a beta coefficient of .197 and its impact on profitability is significant at 2- the 2-tailed test (p-value< 0.000).

Recommendations

The researcher recommended some alternative ways about promoting and increasing profitability in the three sub-cities. Hence, the possible and constructive recommendations:

The management of the enterprise should work to eliminate the time it takes to convert non-cash assets to cash to increase profitability. Minimizing time delay in payment of customers, reducing time gap in converting inventory into sales and providing incentive time for customers who pay dues easily.

The management of the enterprise should maintain better receivable management through extending credit time for accounts payable, good method of collection of accounts receivable, making review of better credit trade policy for suppliers and managing revenue in the enterprise.

The management of the enterprise should arrange adequate enterprise size through an insufficient level of capital, quality standardized products, and standardized shopping.

References

Ali, Wajahat, and Syed Hammad Ul Hasan. *Relationship between the Profitability and Working Capital Policy of Swedish Companies*. Umea University, 2010.

Arnold, Glen. *Corporate Financial Management*. Prentice Hall, 2005.

Brealey, Richard A., et al. *Principles of Corporate Finance*. McGraw-Hill, 2008.

Brigham, Eugene F., and Joel F. Houston. *Fundamentals of Financial Management*. Cengage, 2021.

Creswell, John, and J. David Creswell. *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. SAGE Publications, 2017.

Deloof, Marc. "Does Working Capital Management Affect Profitability of Belgian Firms?." *Journal of Business Finance and Accounting*, vol. 30, no. 3-4, 2003, pp. 573-88.

Eljelly, Abuzar. "Liquidity-profitability Tradeoff: An Empirical Investigation in an Emerging Market." *International Journal of Commerce and Management*, vol. 14, 2004, pp. 48-61.

Fabozzi, Frank J., and Pamela P. Peterson. *Financial Management and Analysis*. Wiley, 2003.

Falope, Olufemi I., and Olubanjo T. Ajilore. "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, 2009, pp. 73-84.

Garcia-Teruel, Pedro Juan, and Pedro Martinez-Solano. "Effects of Working Capital Management on SME Profitability." *International Journal of Managerial Finance*, vol. 3, no. 2, 2007, pp. 164-77.

Gill, Amarjit, et al. "The Relationship between Working Capital Management and Profitability: Evidence from the United States." *Business and Economics Journal*, vol. 2010, 2010.

Gitman, Lawrence J., and Chad J. Zutter. *Principles of Managerial Finance.* Pearson, 2017.

Mathuva, David. "The Influence of Working Capital Management Components on Corporate Profitability: A Survey on Kenyan Listed Firms." *Research Journal of Business Management*, vol. 4, no. 1, 2010.

Nazir, Mian Sajid, and Talat Afza. "Impact of Aggressive Working Capital Management Policy on Firms' Profitability." *The IUP Journal of Applied Finance*, vol. 15, no. 8, 2009, pp. 19-30.

Raheman, Abdul, and Mohamed Nasr. "Working Capital Management and Profitability - Case of Pakistani firms." *International Review of Business Research Papers*, vol. 3, 2007, pp. 279-300.

Samiloglu, F., and K. Demirgunes. "The Effect of Working Capital Management on Firm Profitability: Evidence from Turkey."*The International Journal of Applied Economics and Finance*, vol. 2, no. 1, 2008, pp. 44-50.

Smith, Keith. "Profitability versus Liquidity Trade-offs in Working Capital Management." *Readings on the Management of Working Capital*, 1980.

Weston, J. Fred, and Eugene F. Brigham. *Essentials of Managerial Finance*. Dryden Press, 1982.

Yamane, Taro. *Statistics: An Introductory Analysis*. Harper & Row, 1967.

Author Details

Admasu Eyasu, *Finance Director, Department of Finance, Wolaita Sodo University, Ethiopia,*
Email ID: *admasueyasu2@gmail.com*

Durga Rao, *Assistant Professor, Department of Accounting and Finance, College of Business and Economics, Wolaita Sodo University, Ethiopia,* ***Email ID:*** *drpvdurgarao@gmail.com*

Tedeme Belachew, *Customer Service Officer, Commercial Bank of Ethiopia, Wolaita Sodo, Ethiopia*
Email ID: *tedemebelachew@cbe.com.et*

Maya Khater, *Associate Professor, Department of Public International Law, College of Law, Abu Dhabi University, Saudi Arabia,* ***Email ID:*** *m_khater@yu.edu.sa*

Sharmili Mohamed Rafi, *Senior Lecturer, Head, Department of Management, Bentong Community College, Malaysia,* ***Email ID:*** *sharmili0312@gmail.com*

Marisennayya Senapathy, *Associate Professor, Department of Rural Development and Agricultural Extension, College of Agriculture, Wolaita Sodo Univeristy, Ethiopia,* ***Email ID:*** *drsenapathy@wsu.edu.et*