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Effects of working capital management on SME profitability

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Abstract

Purpose

The object of the research presented in this paper is to provide empirical evidence on the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms.

Design/methodology/approach

The authors have collected a panel of 8,872 small to medium-sized enterprises (SMEs) covering the period 1996-2002. The authors tested the effects of working capital management on SME profitability using the panel data methodology.

Findings

The results, which are robust to the presence of endogeneity, demonstrate that managers can 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.

Originality/value

This work contributes to the literature in two ways. First, no previous such evidence exists for the case of SMEs. Second, unlike previous studies, in the current work robust test have been conducted for the possible presence of endogeneity problems. The aim is to ensure that the relationships found

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Keywords

Working capital

Profit

Small to medium-sized enterprises

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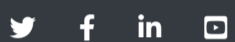
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