



Towards an Investigation into the Liquidity Management and Performance of Small- Medium Scale Enterprises in Lagos State, Nigeria

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ABSTRACT

This paper presents a research agenda set out to investigate the extent of liquidity management practices among SMEs in Nigeria. The objective is to assess the factors influencing liquidity management among SMEs and examined the effect of liquidity management practices on the performance of SMEs in Nigeria. These were with a view to determining how liquidity management enhances performance of small firms. Primary data will be gathered and population of the study is expected to comprise of 4,460 registered SMEs in Lagos state based on Nigerian government contacts database (2015). The methodology of choice is to engage the Taro Yamane's formula, to select SMEs of choice for questionnaire administration. In each SMEs that will be randomly sampled, questionnaires will be administered to the following categories of respondents; Owner, Supervisor or Financial Manager who provided necessary information on liquidity management practices of their firms. Data collected from the study will then be analysed with the use of appropriate descriptive statistics and linear regression analysis. The findings from the study is expected to provide insights into the relationship between liquidity management and SMEs performance.

Keywords: Investigation, Liquidity Management, Performance, SMEs, Lagos State, Nigeria.

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1. BACKGROUND

SME"s account for a significant share of the economic activity in Nigeria and can play an important role in achieving the Millennium Development Goals (MDGs). The long term goals is for SME"s to maximize their contribution to the Country's economic and social development with respect to production, income distribution and employment and the closer integration of women and people in rural areas within the national economy Liquidity funds need to be generated and these funds are circulated in the business. As and when this circulation stops, the business becomes lifeless. It is because of this reason that the liquidity is known as the circulating capital as it circulates in the business just like blood in the human body." (Agarwal, 2000). Inefficient financial management including liquidity management may damage business enterprise's profitability (Gebrehiwot & Wolday, 2006). The efficient management of liquidity is a fundamental part of the overall corporate strategy to create shareholders value (Nazir and Afza, 2008).



In addition, efficient liquidity management leads to improve the operating performance of the business concern and it helps to meet the short term liquidity (C. Paramasivan T. Subramanian, 2009). Therefore firms try to keep an optimal level of liquidity that maximizes their value (Deloof, 2003). In addition to that, the effective liquidity management is very important because it affects the performance and liquidity of the firms (Taleb et al., 2010). The main objective of liquidity management is to reach optimal balance between liquidity management components (Gill, 2011).

A popular measure of liquidity management is the cash conversion cycle, that is, the time span between the expenditure for the purchases of raw materials and the collection of sales of finished goods. Deloof (2003) found that the longer the time lags, the larger the investment in liquidity, and also a long cash conversion cycle might increase profitability because it leads to higher sales. In general, liquidity management is not only improving financial performance in today's cash strapped and uncertain economy, but it is the question of meeting firm's day to day operation. Therefore, it is a significant issue to know and understand the impacts of liquidity management and its influence on firms' performance. Also, several research works have identified the impact of liquidity management on the performance of organizations, but no significant work appears to have been done on the impact of liquidity management on the performance of many SMEs in emerging economics like Nigeria.

1.1 Statement of the Problem

Liquidity management is poorly understood by most small and medium scale enterprises in many parts of the developing world of which Nigeria is one. The dynamic role of small and medium scale enterprise (SME'S) in developing countries have been identified as the means through which rapid industrialization and other development goals of these countries can be realized. Many small and medium scale enterprises which are profitable are forced to cease their operations due to the inability to meet their short term debts obligations. Not that they do not have funds to operate, but the problem is how they manage their liquidity. Blunt and vague ideas about phenomenon will be misnomer.

To gain empirical insight into this state of affairs, there is a need to conduct an investigation into the management practices of small and medium scale enterprises insofar as their liquidity is concerned and why small and medium scale enterprises which are profitable collapse. Hence, lack of proper research study on the area gives a chance for Nigerian company's managers to have limited awareness in relation to liquidity management to increase firms' performance. All these constitute the problem of the investigation, hence, the need to study the impact of liquidity management on the performance of metal manufacturing industries in Nigeria particularly Lagos city.

1.3 Objectives of the Study

The objective of this study is to examine the impact of liquidity management on Small Medium Scale Enterprises' Performance firms' performance in selected SMEs in Lagos State of South West Geo-political zone of Nigeria, while the specific objectives are to:

- i. examine the impact of cash management on firms performance.
- ii. assess the effect of inventory management on firms performance
- iii. analyze the effect of receivable management on firms performance
- iv. evaluate the relationship between liquidity management and corporate performance



2. SIGNIFICANCE OF THE STUDY

The findings of this study may have implications for other companies who are trying to make decisions regarding liquidity management reform model. This finding would help to develop an understanding of the advantages and disadvantages of financial practices and techniques of managing Liquidity Components in metal company's paradigms. The study would reveal how essential Liquidity Management Strategies such as policies, practice and techniques is to Small and Medium Scale Enterprises in Lagos State of South West Geo-political zone of Nigeria in terms of performance.

A general conceptual framework model will provide basic guidelines for researchers, accountants and professionals, financial managers, and policy makers in the Small and Medium Scale Enterprises in Lagos State of South West Geo-political zone of Nigeria. The study would suggest various financial management techniques metal manufacturing companies can use to measure their performance in terms of profitability. For example, Current Ratio to assess the firms' liquidity status, Activity Ratios, Leverage ratios, Cash Conversion Cycle (CCC), Return on Investment (ROI), and Return on Equity (ROE). The findings may also help assess the effectiveness of liquidity management on firms' performance in the studied companies for program evaluation.

3. RESEARCH METHODS

The study design to be adopted will be descriptive and analytical sample survey. It was chosen in view of the facts that, it is a Small- Scale study of relatively short duration and it involves a systematic collection and presentation of data to give a clear picture of a particular situation. It was aimed at getting relevant information related to liquidity management of small and medium scale enterprises in the Lagos Metropolis.

3.1 Population

We propose a the population of the study to consist of eight (8) small and medium scale enterprises registered associated SMEs bodies in Lagos Metropolis. Some of the association's members are located at, Ikeja, Ikorodu, Kosofe and Oshodi. The associations were categorised into eight (8) sectors based on the nature of their operations as depicted in table 3.1 below;

3.4 Research Instruments

Under this study, both Secondary data and Primary data were used. Secondary source consisted of SMEs, Annual Financial statements, Budgets and Monetary records, Cash flow statement, Asset register, Tax schedule among others. Questionnaire was administered to collect the primary data from the various SMEs in order to tap more information from those who handle and or keep records of current assets and current liabilities. The questionnaire used was both structured and unstructured.

4. DATA COLLECTION AND ANALYSIS

The researcher will select and distribute the questionnaire to the sample respondents on the first visit and time was given for its collection. Contacts will be made to all the eight (8) leaders of the various associations through the list provided by Small Scale Agency of Nigeria in Lagos. A follow up will be made made to a cross section of respondents in order to help them with the filling of the questionnaire. The third visit will be used to collect the questionnaire. In this study the data that will be gathered from the field of study will be edited to ensure that the questionnaire had been properly completed and contained accurate information. The data will then be coded and entered on the computer for analysis.



4.1 Method of Data Analysis

To provide answers to research questions and the stated objectives, information gathered on all relevant variables will be analyzed using descriptive (frequencies, percentage, mean, and standard deviation) and inferential (regression) statistics with the use of SPSS.

Objective one

In achieving this objective which examined the liquidity management system among Nigeria SMEs, descriptive statistics such as frequencies, arithmetic mean, percentages and standard deviation will be used to know liquidity management practice among Nigerian SMEs.

Objective two

This objective investigated the factors influencing liquidity management among SMEs in Nigeria. This will be achieved through descriptive statistics such as frequencies, arithmetic mean, percentages and standard deviation.

Objective three

This determined the effect of liquidity management on the performance of SMEs in Nigeria. A model where liquidity management was used as an independent variable will be specified. A linear regression model will be specified for the determination of the effect of liquidity management on the performance of SMEs in Nigeria using profitability, market share and sales revenue respectively.

In addition to the descriptive analysis of the distribution of respondents on factors influencing liquidity management among SMEs in Lagos state Nigeria, an inferential analysis will be performed for the regression and hypothesis of the study.

In addition to the descriptive analysis of the distribution of respondents in this study area, an inferential analysis will be performed for the regression and hypothesis of the study.

5. FINAL REMARKS

The study will look at the adoption of liquidity management practice among SMEs in the areas of cash conversion cycles, current ratios, liquidity, debtor turnover ratio, and acid test ratio. The study will examine the impact of keeping proper books of account, bank account operation cash budget preparation and availability of current asset convertible into cash immediately within a short period viz-a-viz liquidity management practice among the selected. SMEs. Also factors influencing liquidity management such as access to trade credit, availability of short term investment as alternative, availability of other short term loan and availability of owner-managers collateral will be evaluated.

6. FUTURE WORKS

Future works will present research data, discussions and report findings from the research



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APPENDIX

Department of Accounting
 College of Management and Social Sciences,
 Oduduwa University,
 Ipetumodu. Osun State, Nigeria

Dear Sir,

I am an undergraduate Student in the Department of Accounting of the above named Institution, undertaking a research work. The title of my research work is Liquidity Management and performance of SMEs in Lagos Nigeria. Your business is one of the selected ones to participate in this study and you have been chosen as one of those to supply the type of data I need. As a key management staff in this section, it is my position that you can adequately provide the information I humbly request for through the questionnaire attached.

Kindly assist me to complete the questionnaire. Any information provided for this study would be regarded and treated confidentially and used purely for academic purposes only. The name of your firm will neither be used in the analysis nor mentioned in the research report. I will be highly grateful to you if this request is given the attention it deserves.

Yours faithfully,
 Longe Olufisayo Olukunle
 U/17/AC/001P

QUESTIONNAIRE LIQUIDITY MANAGEMENT AND PERFORMANCE OF SMEs IN LAGOS STATE NIGERIA

SECTION A

Background Information of Respondents

Please fill in your answer in the appropriate boxes.

1. Gender: Male Female
2. Academic Qualifications:
 OND/NCE B.SC Post graduate others
3. Working Experience:
 1 – 5years 6-10years 11-15years 16-20years Above 20years
4. Your status/rank: Owner Financial manager Supervisor
5. Age: 5-30years 31-35years 36-40years above 40years
6. Years of Establishment:
 Below 10 years 11-20years 21-30years 31 – 40 years Above 40years



SECTION B ACHIEVEMENT OF STATED OBJECTIVES

SECTION B: EXTENT OF LIQUIDITY MANAGEMENT PRACTICES IN YOUR ORGANISATION.

Please respond to the following statements by picking any column. Your answer represents the degree of your assessment or opinion as the case may be, the actions of your business that indicates the extent of Liquidity Management practices of your organisation.

Key to response 1= Very Dissatisfied (VD), 2 = Dissatisfied (D), 0 = Neither/ Nor satisfied (N), 3 = Satisfied (S), 4 = Very Satisfied (VS).

LIQUIDITY MANAGEMENT VARIABLES	4	3	2	1	0
A. Cash Conversion Cycle					
1. Your company prepares cash budget					
2. Your company operates bank accounts					
3. Your company keeps track of cash payments					
4. Your company keeps proper books of accounts					
B. Current Ratio					
5. Your organization gives an idea of its ability to pay back its short term debt					
6. your business has good financial health					
7. Your business uses credit risk control in credit management					
C. Liquidity					
8. Your business converts cash within an accounting year					
9. Your business has claims of outsiders that are expected to mature for payment within an accounting year					
10. There is fund invested in current assets that are employed in the business process					
11. Your business focuses attention on how to optimize investment in current assets					
D. Debtors Turnover Ratio					
12. Your business has a mechanism of quickness in realization of sundry debtors.					
13. There is effectiveness in collection of debts due in your business					
14. Your business maintains a balance between the debtors outstanding and the amount of interests incurred					
E. Acid Test Ratio / Quick Ratio					
15. Your business has measures for financial condition					
16. There are current assets convertible into cash immediately at short time in the company					
17. Your business has ability to meet its current liabilities					
18. there is supplement to the current ratio in analyzing liquidity in the company					



SECTION C Factors Influencing Liquidity Management among SMEs in Nigeria:

The set of statements seek to find out the extent to which these factors influence Liquidity Management among SMEs in Nigeria. Please tick as 5= Strongly Agree (SA), 4= Agree (A), 3= Neutral (N), 2= Disagree (D), 1= Strongly Disagree (SD).

		SA	A	N	D	SD
19	Lack of financial management					
20.	Age of the business					
21	Size of the business					
22.	The industry type					
23.	Availability of owner-managers collateral.					
24	Access to bank over-draft facilities					
25.	Ability to raise finance through debt or equity					
26.	Professional staff					
27	Increase in amount receivables					
28	Decrease in amount payables					
29	General paucity of liquidity					
30	Access to trade credit					
31	Availability of short term investment as alternative					
32	Availability of other short term loan					
33	Possibility of Factoring					

SECTION D: The Effect of Liquidity Management on your Business performance

These statements seek to examine the effect of liquidity management on business performance of your Organization. Please rate your company's performance behaviour in each of the following areas as a result of effective Liquidity Management.

Key to response: 1 = Very poor (VP), 2 = Poor (P), 3 = Fair (F), 4 = Good (G), 5 = Excellently (E).

	Self Assessment. (Please, tick under the expression or word that best describes how each of the following business performance of your organization has behaved for having effective Liquidity Management in your Organization.	VP 1	P 2	F 3	G 4	E 5
34	Increased Return on asset					
35	The growth in return on capital Employed					
36	The growth in profit of your Business					
37	The growth in sales revenue of your business					
38	Growth in return on investment					
39	An increase in customer payments					
40	An increased practice of liquidity forecasting					
41	An increase in short term investments					
42	An increase in delay of account payables					
43	Increased use of tighter credit routines					

Thank you very much for the cooperation.