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Managing working capital for profitability; Experience in the Saudi SME sector

إدارة رأس المال العامل لتحقيق الربحية ؛ خبرة في قطاع الشركات الصغيرة والمتوسطة السعودية

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Abstract

This study is an attempt to examine the relationship between Assertive investment, inventory conversion period, cash conversion period, firm performance, and market value. Moreover, this study also examined the mediating role of firm performance. The data for this research was collected from the employees working in the SME sector of KSA. A self-administrative survey was conducted to collect the data. After three reminders, 68.4% of questionnaires were returned, and 66.7% were found to be duly completed and used in this research. The data was gleaned from these questionnaires and was later analyzed using SPSS 25 and Smart PLS 3. The study's results revealed that except for the inventory conversion period, all other chosen parameters affect the market value of the Saudi SME sector. At the same time, the rest of the direct effects are confirmed. On the other hand, the mediating role of firm performance is confirmed between CCP, ICP, and MV. The findings of this study are helpful for the policymakers of the SME sector in KSA.

Keywords: Assertive investment, inventory conversion period, cash conversion period, market value, SME.

Introduction

In the current competitive environment, sustainability is dependent upon the success of the functionality of financial management. It has become very challenging for the finance division managers to deal with financial market issues. It

تهدف هذه الدراسة لمحاولة فحص العلاقة بين الاستثمار الحازم وفترة تحويل المخزون وفترة التحويل النقدي وأداء الشركة والقيمة السوقية. بالإضافة الى ذلك، درست هذه الدراسة أيضًا الدور الوسيط لإداء الشركات. تم جمع بيانات هذا البحث من الموظفين العاملين في قطاع الشركات المتوسطة والصغيرة في المملكة العربية السعودية. تم إجراء مسح إداري ذاتي لجمع البيانات. بعد ثلاثة رسائل تذكير، تم إرجاع 68.4% من الاستبيانات، وتم العثور على 66.7% مكتملة ومستخدمة كما ينبغي في هذا البحث. تم الحصول على هذه البيانات من الاستبيانات وتم تحليلها لاحقًا باستخدام SPSS 25 و Smart PLS 3. أظهرت نتائج الدراسة أنه باستثناء فترة تحويل المخزون، تؤثر على جميع العوامل الأخرى المختارة في القيمة السوقية لقطاع السعودي للشركات المتوسطة والصغيرة. في نفس الوقت، تم التأكد على بقية التأثيرات المباشرة. ومن ناحية أخرى، تم تأكيد الدور الوسيط لإداء الشركة بين CCP و ICP و MV. نتائج هذه الدراسة مفيدة لصناع السياسات في قطاع المشاريع المتوسطة والصغيرة في المملكة العربية السعودية.

الكلمات الرئيسية: استثمار حازم، فترة تحويل المخزون، فترة التحويل النقدي، القيمة السوقية، الشركات المتوسطة والصغيرة.

is because organizational success depends upon effectivity and efficiency of the financial markets. The success also depends on the operational and financial affairs of the organization. Therefore, organizations are

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paying much attention to their performance. Organizations are enhancing knots with grants of equity so goals related to financial performance can be achieved (Yasir, Majid, & Yousaf, 2014).

The typical nonequity or equity grants link the organizational performance by enhancing values and identifying targets and thresholds. The organizations involved in business try to apply different kinds of tactics so they can enhance their sales, values, and profitability. Organizations have also invested in different environmental projects to enhance their performance (Obeidat, Al Bakri, & Elbanna, 2020).

The stock price shows investors' perception regarding its ability to grow adds earn profit in the future. Many conditions can influence the prices of stock. Because of these conditions, the stock price can go up and down, and the company's financial position can also be influenced by time. An organization can be considered a healthy organization with outstanding financial performance. As a result, the value of the company is impacted. Higher company value attracts more investors, which, in the long run, will result in better financial performance (SUKESTI, GHOZALI, Fuad, ALMASYHARI, & NURCAHYONO, 2021).

The firm's value is the concept of economics which reflects the organization's value. It shows the value of a business at a specific date. In theory, firm value is the amount a person needs to pay so the business entity can be purchased. The organization's financial performance is its ability to allocate and manage resources. It is possible to determine the Market value with the help of the present value of the future earnings (Jihadi et al., 2021).

In the context of social sciences, assertiveness is considered a social skill that contributes to the regular adaptation of a person's social interaction, maintaining the social relationships, And the emotional well-being of the person involved in social interaction. The basic message in the interaction is a kind of self-expression without humiliation, dominance, or any other threat to the person involved in it (ROMAȘCANU & STĂNESCU, 2020).

Therefore, this study examines the relationship between Firm performance, assertive assessment, cash conversion period, and inventory conversion period on the market. This study also explored the mediating effect of firm performance.

Literature Review

Firm performance

Performance measurement is the process of examining the organizational actions to Improve effectiveness and efficiency. The success of an organization is based upon explaining the company's performance over a certain period. Scholars have paid a lot of effort to examining the concept of performance in different conditions. By successfully measuring the organizational performance, one can easily compare the organizational performance with other organizations as well. Scholars have reported that organizational performance is the construct of multiple hierarchies and indicates the organization's operational and financial performance (Vejseli & Rossmann, 2017).

The organizations that are successful always play a crucial role in the development of countries as well. Some economists consider themselves the same as the engine determining their political, social, and economic development. For survival in a competitive business environment, every organization's main objective must be to regularly improve its performance. Scholars have pointed out that performance is the set of nonfinancial and financial indicators that provide the information required to achieve results and objectives. Researchers also opined that performance is a very big word because it has several notions, including competitiveness, effectiveness, productivity, return, and growth (Phan, De Luca, & Iaia, 2020).

For investors, corporate values are a critical concept. It is because this concept is an essential indicator of the way the market perceives the company. The organization's market value is assessed through the stock market price. The stock market price shows the organizational potential for the future (Sulong, Saleem, & Ahmed, 2018). It may also include the investor's assessment of the capital owned by the organization. Organizational value is shown in the stock price of the organization. The prosperity of the shareholder will rise if the price of the share increase. The market price also reflects the organization's value (Ngatemin, Maksum, Erlina, & Sirojuzilam, 2018).

The organization's performance is a multidimensional and complex phenomenon in the literature on the business. Firm performance is comprised of the organizational results as well as the organizational output, which are measured in terms of intended objectives, goals, and

outputs. Three different areas are involved in organizational performance: market performance, shareholder return, and financial performance (Koji, Adhikary, & Tram, 2020).

For the organization's managers, organizational performance is the primary concern because it allows them to examine the critical factors for organizational success. In the concept of firm performance, researchers have used the terms effectiveness and efficiency interchangeably. The potential of the organization is represented through effectiveness. As mentioned by the scholars, the needs for organizational performance and effectiveness are the same. Therefore, they are interchangeable (Taouab & Issor, 2019).

Performance often signifies the set of measures of the organization as stakeholders are interested in it. Around three decades ago, performance was purely measured in terms of measures of accountancy. Nevertheless, its popularity increased among stakeholders over time, which birthed the need for other measures to gauge organizational performance. Some researchers provided models including customers' perspectives to measure the performance (Rehman, Asghar, & Ahmad, 2015).

Performance within the firm is also measured in terms of the employee's job performance and organizational standards. Performance is the outcome of the employee's ability that is the product of support and effort. Therefore, if any of these factors is missing, it will negatively affect the performance. Moreover, the interest and talent of the person also affect the person's ability. Design work, incentives, and motivation also tend to affect the effort. The training of HRD is also included in the organizational support (Okechukwu, 2017).

Inventory conversion period (ICP)

ICP is the average time an organization keeps its inventory (Shin & Soenen, 1998). Scholars have calculated ICP as:

“Inventory conversion period = Average inventory *365/Cost of goods sold”. The authors also describe it as the time required to get materials for manufacturing and selling a product. Whereas the inventory conversion time is the basic time period between which an organization should invest when a material is ready for sale (Kangogo & Irungu, 2020).

The amount of days inventory holding or inventory period is the total time lag among selling the finished product, manufacturing the product, and purchasing the material required to finish the good. The inventory holding period is also described in the form of conversion of raw material by the addition of work in progress and a period of conversion of finished goods. The organization's efficiency and effectiveness play a vital role in influencing the inventory conversion period (Sathyamoorthi, Mbekomize, Mapharing, & Selinkie, 2018). As a result, the selling as well as manufacturing process of the products is also affected. The activity regarding conducting a product sale depends upon customers' satisfaction in terms of their needs and wants. If a large amount of inventory is held by the organization, it will increase its cost. Therefore, organizations must introduce systems like the Just in time system. Organizations must reduce the inventories at the optimum level so the opportunity cost can also be reduced regarding the stock holding and excessive inventory. Whereas, the cost of products getting out of stock may be reduced because of stock in inventory (Ganiyu, Henry, & Adekunle, 2019).

Firm performance and Market value of a firm

The organization's accounting system has several measurements to examine organizational performance. These gauges include the return on equity, return on assets and net income. The performance of the firm is the assessment of the success of the organization which the stakeholders and investors will view for the funding. The price of stocks will also rise if the organization's performance is high. As a result, there will be a positive response of the investors as well. As the stock market represents the firm's value, the increase in the price of the stock reflects a rise in the firm's value. So, the organization's value is an important factor in examining the firm's value by increasing stock price (Hamdan, 2018). An increase in the organization's revenue can be gathered through the enhancement in the market share and by accessing new markets. Scholars proposed that organizational reputation in the form of positive organizational performance plays a critical role in increasing market share (Deswanto & Siregar, 2018).

Assertive assessment and Firm performance

A performance task is an organizational activity that the organization performs. It is essential that employees to have good behavior so they can improve their performance. Therefore, personal

growth is one of the person's growth which is assessed by the performance at the workplace. As a result, students are helped to be assertive and participate actively in the organizational activities. In order to excel in performance, assertive behavior must be enhanced among the employees (Moneva & Bolos, 2020).

The term assertiveness is an important factor of extraversion. "Assertiveness" is closely related to the communication of ideas in an effective way in the form of assertive individuals that tend to talk forcefully without having any hesitation. Scholars have described assertiveness as the capacity of the person to communicate personal encounters by sharing directly and with clear ideas. Scholars suggested that members of the organization and team must effectively share their ideas to persuade others. These characteristics are essential to gain any position so the organization's performance can be improved. Through the direct information, it is evident that team performance can be improved through the provision of feedback performance and solving the problems (Van Weele, van Rijnsoever, & Nauta, 2017).

Cash conversion period and Firm performance

One crucial factor for a manufacturing firm is the cash conversion cycle. The financial managers get help from the cash conversion cycle to specification the stock holding period. Additionally, the cash conversion cycle is one of the crucial tools to examine how the organization's working capital is managed. For the organization's survival, finance managers must develop a balance between current liabilities and current assets for the working management. On the other hand, financial managers can also help the organization manage the cash conversion cycle to minimize the risk of bankruptcy and future shortage. Resultantly, return on assets (ROA) and return on equity (ROE) will be affected and subsequently performance of the organization will be impacted (Doğan & Kevser, 2020).

Researchers have explored the relationship between organizational profitability and the cash conversion cycle. The cash cycle is an essential factor used to examine the risk-return while managing liquidity. The organization's results showed that cash conversion is vital to return on assets. Moreover, it has an important linkage with the performance of the organization as well. Researchers also explored how the cash cycle

affects organizational profitability (Farooq, Maqbool, Waris, & Mahmood, 2016).

Yazdanfar & Öhman, (2014) investigated how the organizational cash conversion cycle impact its profitability. In their study, panel data was applied by the scholars as they collected data from 13,797 SMEs operating in four Swedish industries. Scholars reported that the organization's profitability could be enhanced through increased cash flow (Yazdanfar & Öhman, 2014).

Zakari and Saidu (2016) analysed the relationship between organizational profitability and the cash conversion cycle. Zakari and Saidu (2016) analysed Nigerian Stock Exchange listed IT firms' data from the year 2010 to 2014. They reported a significant relationship between organizational profitability and the cash conversion cycle (Zakari & Saidu, 2016).

Inventory conversion period and Firm performance

Researchers investigated the impact of inventory management on financial performance among Nigerian organizations. These scholars used ex-post factor research design along with multiple regression and Pearson correlation regression techniques to analyze data for 5 years from 2010 to 2014 (Ahmed, Modibbo, Modu, & Muhammad, 2016). These scholars found that the inventory conversion period significantly impacts organizational performance.

On the other hand, in previous studies, scholars also investigated the impact of inventory management on the organizational performance of manufacturing organizations (Kangogo & Irungu, 2020). Kangogo & Irungu (2020) used a quantitative research design, descriptive study, and data from 13 companies. Ondimu, Rotich, & Kipkirui (2018) reported a positive relationship among these variables (Ondimu, Rotich, & Kipkirui, 2018).

A hypothesis provides a refined supposition based on methodical evidence, which is further proven or disproven through the scientific method and data analysis. The hypotheses are a way to present a focus on the findings, data, and conclusion of a study. Based on the literature review this study hypothesize the following:

H1: Firm performance and the Market value of a firm are significantly related.

H2: Assertive assessment and Firm performance are significantly related to each other.

H3: Cash conversion period and Firm performance are significantly related.

H4: Inventory conversion period and Firm performance are significantly related.

H5: Assertive assessment and market value are significantly related to each other.

H6: cash conversion period and Firm performance are significantly related.

H7: Inventory conversion period and Firm performance are significantly related.

Mediating Hypotheses

H8: Firm performance is a significant mediator between Assertive assessment and the Market value of a firm.

H9: Firm performance is a significant mediator between Cash conversion and the Market value of a firm.

H10: Firm performance is a significant mediator between the Inventory conversion period and the Market value of a firm.

Methodology

A cross-sectional design was adopted for this study. Moreover, this study adopted a quantitative approach. Therefore, questionnaires were developed having two portions demographics and questions regarding variables of the study. 7 Likert scale was used, ranging from 1= strongly disagree and 7= strongly agree to develop the questionnaire. The data was collected by using simple random sampling from employees of the SME sector in KSA. The data was collected using a self-administered survey. Initially, 476 questionnaires were distributed among the respondent. A total of 317 were usable, having a response rate of 66.56%. The received questionnaires were punched in SPSS for initial analysis like multicollinearity screening, detection of outliers, missing value analysis, and descriptive analysis. For further analysis, PLS 3.3.2 was used by the researcher.

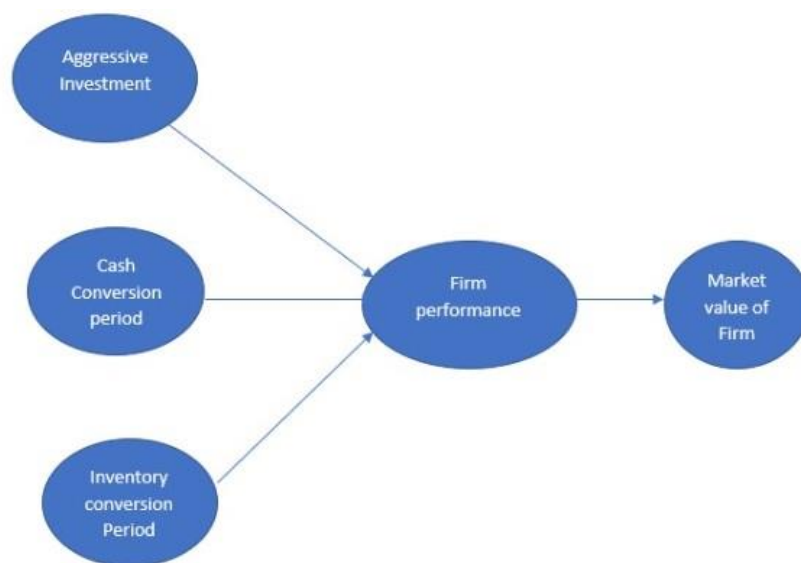


Figure 1. Research Framework

Results

The data gathered from the respondents was entered in SPSS for preliminary analysis. Initial tests like multicollinearity, detection of outliers, normality tests, and descriptive statistics were conducted. Later, the present study conducted the demographic analysis as well using SPSS.

According to the findings, more than 72% of the respondents were female. Most of the respondents were married, which constitutes around 86%. More than 37% of the respondents had more than 40 years of age, whereas 32% were aged between 20-30 years. In the end, most respondents, around 50.2% were Master's degree holders.

Table 1.
Demographics

Demographic variables	Category	Percentage
Gender	Female	72%
	Male	28%
Marital Status	Married	86%
	Single	14%
Age	Below 20	0%
	20-30	32.50%
	31-40	30.23%
	Above 40	37.01%
Highest Education	Diploma	2.2%
	Masters	50.2%
	Bachelors	47.6%

Based on the recommendations of Henseler, Ringle, and Sinkovics (2009), two steps approach was followed in the present study to run the PLS-SEM. The first step is assessing the

measurement model, which leads to examining the structural model. Following is the figure of the measurement model used in the present study.

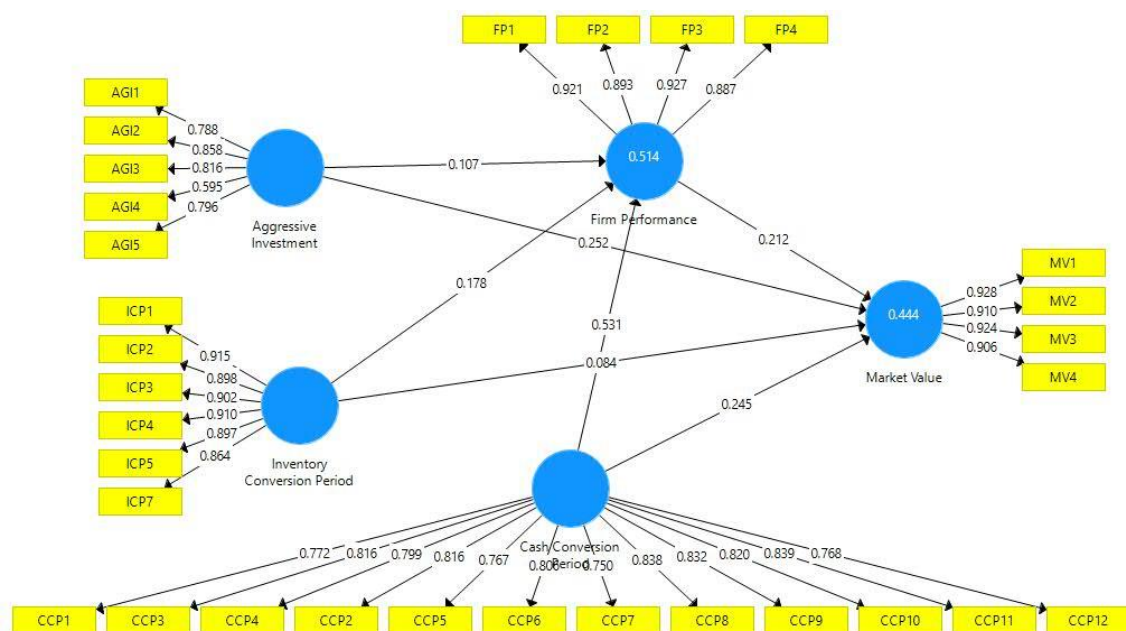


Figure 2. Measurement Model

Note: CC= cash conversion, ICP= Inventory conversion Period, MV= market value, FP= firm performance, AGI= aggressive investment

The primary purpose of evaluating the measurement model is to assess the reliability and validity of the data. The first phase is to

assess the reliability of the inter-item, which is done through the evaluation of factor loadings. In this aspect, Sarstedt, et al. (2016) mentioned the threshold value to be a minimum of 0.50. Table 2 below shows the reliability of the items of all variables used in the present study fulfilled the criteria.

Table 2.
Factor Loading

	AGI	CCP	FP	ICP	OP
AGI1	0.788				
AGI2	0.858				
AGI3	0.816				
AGI4	0.595				
AGI5	0.796				
CCP1		0.772			
CCP10		0.820			
CCP11		0.839			
CCP12		0.768			
CCP2		0.816			
CCP3		0.816			
CCP4		0.799			
CCP5		0.767			
CCP6		0.806			
CCP7		0.750			
CCP8		0.838			
CCP9		0.832			
FP1			0.921		
FP2			0.893		
FP3			0.927		
FP4			0.887		
ICP1				0.915	
ICP2				0.898	
ICP3				0.902	
ICP4				0.910	
ICP5				0.897	
ICP7				0.864	
MV1					0.928
MV2					0.910
MV3					0.924
MV4					0.906

Note: CC= cash conversion, ICP= Inventory conversion Period, MV= market value, FP= firm performance, AGI= aggressive investment

The next step, after a successful evaluation of the reliability of the items, examination of convergent validity is conducted in the present study. For this purpose, the present study evaluated AVE by ensuring that all AVE values are above the threshold level of 0.50 (Chin,

1998). This research also assessed the Cronbach Alpha and composite reliability values, for which the minimum acceptable value must be more than 0.70 (Gefen, Straub, & Boudreau, 2000). Results mentioned in table 3 reflect that the minimum threshold level is fulfilled in the present study.

Table 3.
Data Reliability

	Cronbach's Alpha	rho_A	Composite Reliability (CR)	Average Variance Extracted (AVE)
AGI	0.836	0.868	0.882	0.602
CCP	0.950	0.951	0.956	0.644
FP	0.928	0.929	0.949	0.823
ICP	0.952	0.952	0.961	0.806
OP	0.937	0.938	0.955	0.841

Note: CC= cash conversion, ICP= Inventory conversion Period, MV= market value, FP= firm performance, AGI= aggressive investment

Discriminant validity of the data is confirmed when the loading of the items is higher on its construct than of other constructs. Therefore, in the present study, discriminant validity is assessed through the differential of the square of values of AVE of every construct through all

other constructs, which has to be more than a correlation among two factors (Fornell & Larcker, 1981). Table 4 shows correlation values among each construct with itself is more than all remaining constructs showing discriminant validity of all constructs is fulfilled.

Table 4.
Discriminant Validity (Fornell & Larcker)

	AGI	CCP	FP	ICP	OP
AGI	0.776				
CCP	0.611	0.802			
FP	0.539	0.687	0.907		
ICP	0.605	0.513	0.515	0.898	
OP	0.566	0.587	0.559	0.471	0.917

Note: CC= cash conversion, ICP= Inventory conversion Period, MV= market value, FP= firm performance, AGI= aggressive investment

In this study the discriminant validity is assessed using Heterotrait-Monotrait ratio. Multitrait-Multimethod is the method which is the base of HTMT (Henseler, Ringle, & Sarstedt, 2015). In this context, Kline (2011) pointed out the minimum threshold value for the discriminant

validity if the value is less than 0.85 (following the strict criteria) and 0.90 (following the lenient criteria). Table 5 below shows that the strict criteria of HTMT were fulfilled in the present study.

Table 5.
Discriminant validity (HTMT)

	AGI	CCP	FP	ICP	OP
AGI					
CCP	0.648				
FP	0.580	0.729			
ICP	0.646	0.538	0.546		
OP	0.608	0.621	0.598	0.496	

Note: CC= cash conversion, ICP= Inventory conversion Period, MV= market value, FP= firm performance, AGI= aggressive investment

After assessing the measurement model, the present study evaluated the structural model to confirm the relationship among proposed relationships. In this step, the guidelines of Henseler et al. (2009) were followed to examine the significance of the coefficient. Five thousand

subsamples were used in the present study to perform bootstrapping for the structural model Sarstedt, Hair, Ringle, Thiele, and Gudergan (2016). The stats in table 6 below show the findings of the direct hypothesis.

Table 6.
Results: Direct Hypothesis

	Betas	Standard deviation	t-test	p-value	Decision
AGI -> FP	0.107	0.063	1.696	0.045	Support
AGI -> MV	0.252	0.073	3.460	0.000	Support
CCP -> FP	0.531	0.064	8.250	0.000	Support
CCP -> MV	0.245	0.072	3.410	0.000	Support
FP -> MV	0.212	0.067	3.177	0.001	Support
ICP -> FP	0.178	0.057	3.118	0.001	Support
ICP -> MV	0.084	0.059	1.415	0.079	Not Support

Note: CC= cash conversion, ICP= Inventory conversion Period, MV= market value, FP= firm performance, AGI= aggressive investment

The results in table 6 show that most of the proposed hypothesis is supported statistically. According to these results, AGI has a significant positive effect on FP. AGI has a significant positive relationship with MV ($\beta = 0.252$). The same results are with the relationship between CCP and FP showing a positive (significant) relationship. Moreover, SSP and MV have

positive (significant) effects and a positive relationship ($\beta = 0.245$). Also, FP and MV have a significant positive association with $\beta = 0.212$. In the end, the relationship between ICP and FP has positive integration ($\beta = 0.178$). On the other hand, the statistical results do not support the hypothesis that ICP and MV have a positive relationship.

Table 7.
Results: Mediating Hypotheses

	Betas	Standard deviation	t-test	p-value	Decision
CCP -> FP -> MV	0.112	0.039	2.882	0.002	Support
ICP -> FP -> MV	0.038	0.015	2.481	0.007	Support
AGI -> FP -> MV	0.023	0.017	1.333	0.092	Not Supported

Note: CC= cash conversion, ICP= Inventory conversion Period, MV= market value, FP= firm performance, AGI= aggressive investment

Furthermore, the above table depicts the mediating results of the study. The findings support the mediating role of FP between CCP and MV. Moreover, the mediating role of FP and

MV is also confirmed. But this role is not statistically supported in the relationship between AGI and MV.

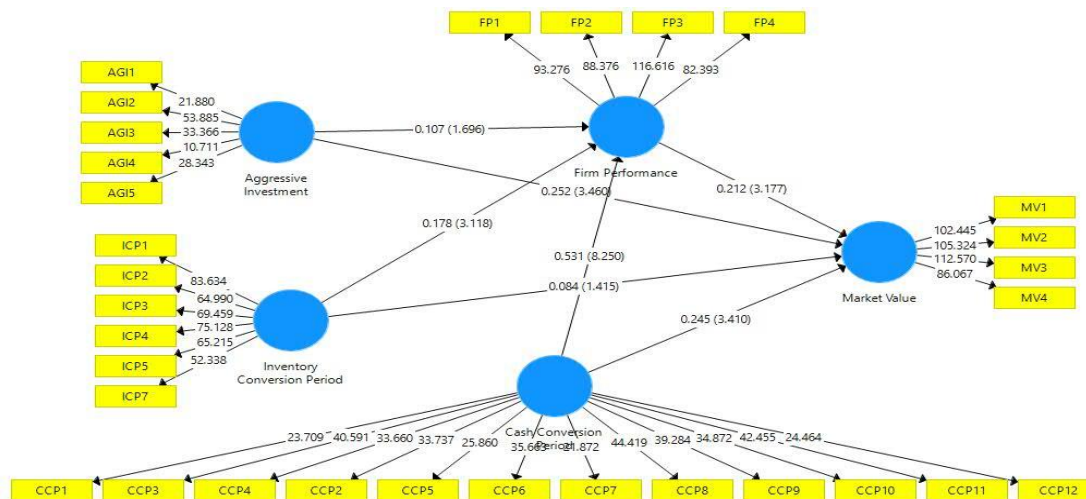


Figure 3. Structural Model

Note: CC= cash conversion, ICP= Inventory conversion Period, MV= market value, FP= firm performance, AGI= aggressive investment.

statistical analysis R^2 for FP was 0.514 and for MV was 0.444. According to Purwanto and Sudargini (2021), the value of R square is acceptable if it is more than 0.10. This criterion is fulfilled in the present study.

In this study, R^2 , calculated using PLs algorithm, was used to assess the predictive power. During

Table 8.
R square

	Original Sample (O)
FP	0.514
MV	0.444

Note: MV= market value, FP= firm performance

Discussion

The assessment of the firm's market value is a lynchpin of success for any firm, and the SME sector is no exception. Therefore, this study was conducted to assess the relationship between aggressive investment, inventory conversion period, cash conversion period, firm performance, and market value. This study found that aggressive investment has a positive relationship with market value and the organization's performance. These results are in line with (Pearsall & Ellis, 2006). Moreover, the study's findings revealed that CCP positively affects MV and FP. These results align with the findings of (Doğan & Kevser, 2020).

Furthermore, ICP and FP are positively associated as well. These results are in line with the findings of (Kangogo & Irungu, 2020). However, these results show that ICP and MV are not significantly linked. Additionally, the mediating role of FP is confirmed among AGI, CSI, and MV.

Conclusions

It has been observed that though the SME sector in Saudi Arabia is taking a leading role in the kingdom's economic development, there is a lack of research in this area. This research attempts to bridge this gap and provide research closely focused on the SME sector of the kingdom. Moreover, as the mediating role of FP is rarely tested in the existing literature, this study could also be considered an attempt to fill this gap. Last but not least, it is expected that this paper will provide some economic reasoning for future policies and will help the policymakers of the SME sector in KSA.

This study also has a few limitations; for example, the moderator role of the Trust of the customer should be considered in future research. Moreover, this model should also be tested using data from the banking sector.

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