



## Liquidity Management Practices and Firm Stability in Small-Scale Industrial Enterprises

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### Abstract

This study examined the liquidity management practices adopted by small-scale industrial enterprises and analyzed their effect on firm stability. A quantitative research approach was employed using a descriptive and explanatory cross-sectional survey design. Primary data were collected from 80 respondents, including owners, managers, accountants, and supervisors of small-scale industrial enterprises operating in manufacturing, agro-processing, textile, and related sectors. A structured questionnaire was used to gather information on demographic characteristics, liquidity management practices, and firm stability indicators. Liquidity management practices were measured through cash management, receivables management, inventory management, and payables management, while firm stability was assessed using indicators of operational continuity, financial resilience, and sustainability. Descriptive statistical results revealed that enterprises moderately applied liquidity management practices, with cash management being the most emphasized dimension and receivables management showing comparatively weaker control. Firm stability indicators also reflected a moderate level of resilience, particularly in sustainability improvement and financial planning. Inferential analysis showed that liquidity management practices had a positive and statistically significant relationship with firm stability. Regression analysis further indicated that liquidity management practices significantly predicted firm stability, although the explanatory power was modest, suggesting the influence of additional factors beyond liquidity practices. The findings underscore the importance of effective liquidity planning in enhancing enterprise stability and resilience. The study offers valuable insights for enterprise managers, policymakers, and financial institutions in strengthening liquidity management frameworks and designing supportive financial policies for small-scale industrial enterprises.

**Keywords:** Liquidity management, Firm stability, Small-scale industrial enterprises, Working capital management, Financial resilience

### 1. Introduction

Liquidity management is well known to be crucial in the financial decision making of companies, as it defines a company's capacity to be able to meet its own short term financial obligations without compromising its operational efficiency. Liquidity management is the art of getting control of cash flows, working capital, receivables, payables and inventory to make sure enterprises stay financially sound in the short run. For small-scale industrial enterprises, it is especially important to maintain sufficient liquidity, since small-size enterprises and industrial enterprises tend to function under restrained financial conditions, and are therefore more vulnerable to cash shortages and market instability. Small-scale industrial enterprises make a huge contribution to economic development in terms of employment creation, industrial innovation, poverty alleviation and local production development. In many developing economies, these enterprises are the backbone of the manufacturing activities and the main contributor to the strengthening of the national industrial capacity. However, despite the importance of

small-scale firms, small enterprises in the majority experience persistent challenges such as poor access to finance, low level of financial planning and high level of operational uncertainties. Adegbedzi et al. (2024) emphasize that poor short-term financial management practices have a negative impact on SME's performance especially in resource constrained environments. Similarly, Eton, et al (2023) assert that financial management practices are closely related to profitability and sustainability amongst small-scale businesses. Liquidity management practices, such as cash budgeting, inventory control, receivables monitoring and payables scheduling, are therefore essential tools for ensuring smooth running of businesses, as well as long-term resilience. Alvarez (2023) says that having good cash management practices in force have high liquidity levels and lessen the financial distress in the organizations. Likewise, Fernando (2025) draws attention to the fact that small-scale start-ups that have adopted structured cash management systems show an improvement in their operational performance. These results show that liquidity management is not only a financial need but a

strategic need for industrial enterprise stability and survival. Small-scale industrial enterprises are confronted with a set of particular financial constraints such as inadequate access to external credit, under-developed financial structures etc. Elly and Kaijage (2017) identify demand-side barriers such as lack of collateral, insufficient credit history and poor financial documentation as major barriers hindering SMEs to access external finance. Furthermore, Melesse (2020) go into details that decision of debt structure in small manufacturing enterprise are affected by government policies and financial constraint, which further underscores the importance of internal liquidity planning.

Although liquidity management has been extensively researched in corporate finance, much of the available literature focuses on large corporations and banking institutions or publicly listed firms. The financial realities of small-scale industrial enterprises are still not well explored, especially in developing economies where liquidity is a more serious constraint. Kung'u (2017) confirms that liquidity management practices affect profitability in the manufacturing sector, but most studies focus on outcomes of profitability and not broader measures of firm stability, resilience and continuity. Existing empirical studies have investigated working capital management and financial performance for industries. For example, Kituku (2019) concluded that good working capital practices can improve financial performance of food and beverage manufacturing companies. Similarly, Folajinmi and Peter (2020) proved that financial management practices had a significant effect on the performance of small and medium-scale poultry enterprises. However, there have been fewer studies that have directly addressed the question of the impact of liquidity management practices on firm stability, especially in the case of small-scale industrial enterprises which are more operationally vulnerable.

Moreover, much of the earlier work is based heavily on secondary financial statement analysis, which perhaps does not reveal actual liquidity practices of enterprise managers. Fwamba (2018) contends that the financial performance is greatly affected by internal management practice, but often, such practices are insufficiently measured with the help of only accounting information. Musah et al. (2018) further point out financial management practices in firm growth and profitability and this justifies for more in-depth investigation of liquidity decision-making processes at enterprise level. In addition, new industrial challenges such as supply chain disruptions and digital transformation have placed new pressure on manufacturing enterprises. Chen et al. (2025) suggest that the supply chain digital innovation policies enhance the performance of the sustainable development in manufacturing companies and it means modern enterprise stability is a need for financial discipline and adaptive liquidity strategies. However, empirical evidence of the relationship between liquidity

management practices and stability outcomes in small-scale industries is scarce.

Small-scale industrial enterprises are highly susceptible to shocks on liquidity as they have short reserves of cash and unstable access to external credit. This vulnerability makes liquidity management a vital determinant of survival, stability and sustainability. Aderinto (2025) highlights that financial risk management has a great impact on the corporate performance of small scale companies and plan to manage liquidity as one of the risk management tools. Understanding liquidity management practices can help firms better survive, increase operability and improve long-term sustainability. Maharjan (2024) confirms that good cash management aids in enhancing the profitability and sustainability between manufacturing SMEs. In addition, Adegbedzi et al. (2024) opines that short term financial practices are crucial to the performances of SMEs in developing economies. These insights suggest that liquidity management is the key to enterprise resilience. Furthermore, good liquidity management helps in supporting profitability and growth from small industries. Musah et al. (2018) show that financial practices promote expansion of the firm, and Eton et al. (2023) underscore their role in ensuring profitability. Given the escalating financial uncertainty for SMEs, the practice of liquidity and how it affects the stability of a firm is very timely and relevant. This study therefore provides practical contributions as it offers enterprise level evidence by means of primary survey data. It is aimed at helping managers to better their liquidity strategies and to help policymakers to design specific financial programs for SMEs.

### Objectives of the Study

1. To examine the liquidity management practices adopted by small-scale industrial enterprises.
2. To analyze the effect of liquidity management practices on firm stability.

## 2. Materials and Methods

### 2.1 Research Design

The approach used in the study was quantitative with descriptive and explanatory survey designs. This design was deemed suitable because the researcher was able to gather numerical data and investigate the association between liquidity management practices and the firm stability of small-scale industrial enterprises. The cross-sectional nature of the design allowed the data to be collected from the respondents at one point in time. The survey method was selected because it was a structured means of gaining primary information directly from enterprise managers and finance officers on liquidity practices and stability conditions in their enterprises.

### 2.2 Population and Sample Size

The target population of the study was small-scale industrial enterprises operating in the selected area.

These enterprises consisted of manufacturing companies, agro-processing, textile and related industrial enterprises. A sample size of 80 respondents was selected from this population for the study. The sample consisted of owners, managers, accountants and supervisors who had a good knowledge in financial and liquidity decisions in enterprises. The sample size was deemed appropriate for statistical analyses such as correlation, chi-square testing, and regression. Respondents were chosen by using a convenient sampling technique because of accessibility and time constraints.

### 2.3 Data Collection Instrument

Primary data for the study were collected through a questionnaire developed based on the study objective and structured. The questionnaire was divided into three major sections which included demographic profile, liquidity management practices, and firm stability indicators. Liquidity management practices were measured using items on cash management, receivables management, inventory control and payables scheduling. Firm stability was measured by operational continuity and financial resiliency indicators. Responses were recorded by means of a five-point Likert scale from strongly disagree to strongly agree. The instrument helped the researcher to collect consistent and quantifiable data from all the respondents.

### 2.4 Measurement of Study Variables

The study used the liquidity management practices as the independent variable and the firm stability as dependent variable. Liquidity management practices were operationalized in 4 dimensions: cash budgeting, receivables monitoring, inventory management and payables control. Each dimension had several items in the questionnaire and mean scores were calculated to create an overall liquidity practices index. Firm stability was gauged by such indicators as the capacity to meet short-term obligations, smooth functioning of operations, consistency of profitability, and resilience to financial shocks. The higher the mean value, the better liquidity practices were, and the more stable the firm was.

### 2.5 Data Collection Procedure

Data collection was done by direct administration of questionnaires to selected respondents in the small-scale industrial enterprises. The researcher visited the enterprises and distributed the questionnaires among managers, owners, and finance officers of the enterprises. Respondents were given enough time to complete the instrument and confidentiality was assured to encourage honest responses. Completed questionnaires were picked up immediately or within an agreed upon time. Out of the distributed questionnaires, all the 80 were successfully returned and used for analysis. This resulted in a high response rate which increased the reliability and representativeness of the study findings.

### 2.6 Data Analysis Techniques

The data that was collected was coded and entered into Excel and statistical software for analysis. Descriptive statistics including frequencies, percentages, means and standard deviations were used to summarize demographic characteristics and liquidity practice levels. Inferential statistics was used to test for relationships between variables. Chi-square test was performed to test the association between liquidity practice categories with stability levels. Pearson correlation analysis was adopted to identify the strength as well as the direction of the relationship between liquidity practices and firm stability. Regression analysis was also carried out to determine the predictive role of liquidity management practices on the stability of the firms.

## 3. Results

### 3.1 Demographic Profile of Respondents (n = 80)

The demographic profile indicates that there were slightly more females than males (53.8% vs. 46.2%). The respondents were fairly distributed in age groups and the highest representation was in the 55+ category (23.8%), and the smallest representation was in the 45-54 group with 12.5%. Educationally, the majority (26.2%) were masters qualified and this was followed by secondary education (25%). Positions were varied with "Other" roles being most prevalent (26.2%) (Table 1). Textile/clothing firms were the largest group of industries (23.8%). Most enterprises were new (35%), had 21-50 employees (32.5%) and were dependent on the government for support in financing (23.8%).

Table 1: Demographic Profile of Respondents (n = 80)

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	37	46.2
	Female	43	53.8
Age Group	Below 25	17	21.2
	25-34	17	21.2
	35-44	17	21.2
	45-54	10	12.5
	55+	19	23.8
Education	Secondary	20	25.0
	Diploma	11	13.8
	Bachelor	13	16.2
	Master	21	26.2

	Other	15	18.8
Position	Owner/Manager	16	20.0
	Accountant	13	16.2
	Supervisor	16	20.0
	Employee	14	17.5
	Other	21	26.2
Industry Type	Manufacturing	16	20.0
	Agro-processing	16	20.0
	Textile/Clothing	19	23.8
	Metal/Engineering	15	18.8
	Other	14	17.5
Years of Operation	Less than 2 years	28	35.0
	2-5 years	17	21.2
	6-10 years	19	23.8
	More than 10 years	16	20.0
Number of Employees	Less than 10	16	20.0
	10-20	19	23.8
	21-50	26	32.5
	Above 50	19	23.8
Financing Source	Personal savings	17	21.2
	Bank loans	11	13.8
	Microfinance	16	20.0
	Government support	19	23.8
	Other	17	21.2

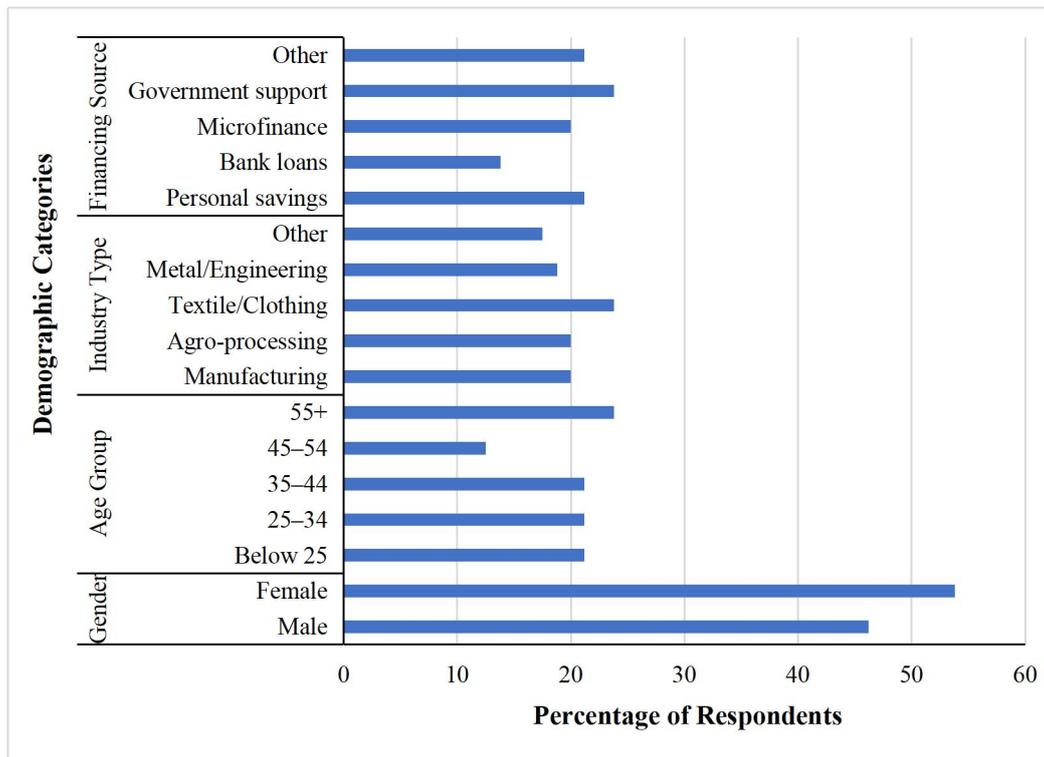


Figure 1: Demographic Distribution of Respondents

Figure 1 presents the general demographic characteristics of the respondents in some of the most important categories. It highlights the differences in gender compositions, age groups distribution, enterprise-related factors such as type of industry, years of operation, number of employees, and sources of financing. The figure gives a good summary of the background of the respondents, which is important in *Available online at: <https://jtar.org>*

order to understand the context in which the liquidity management practices and firm stability were examined in the study.

### 3.2 Overview of Liquidity Practices and Firm Stability Levels

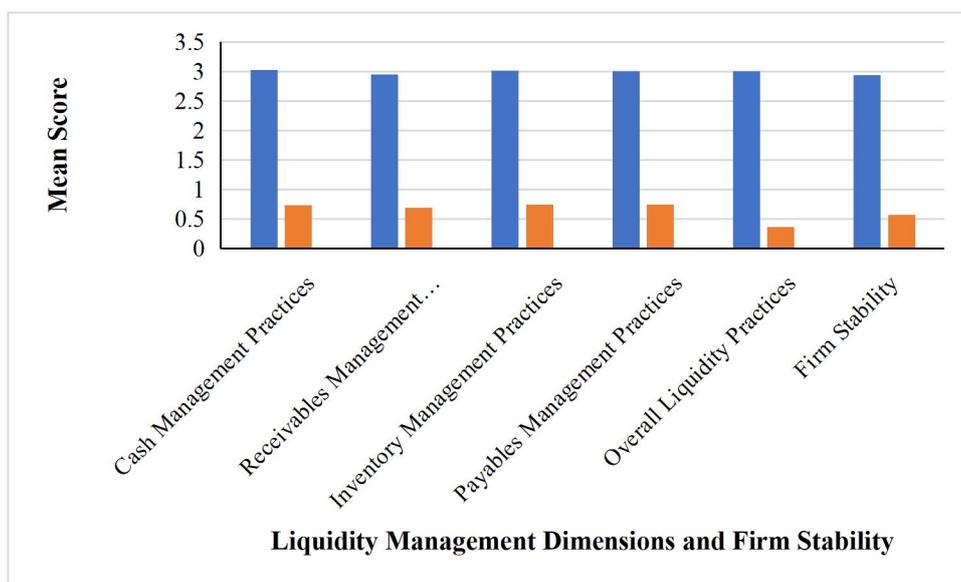
The descriptive statistics reveal that the small-scale industrial enterprises moderately practice the liquidity

management practices. Cash management had the highest mean (M = 3.03) and it would seem therefore it is the most commonly practiced dimension (Table 2). Receivables management indicated the lowest mean (M = 2.95), which means weak control over customer

payments. Overall liquidity practices were average (M = 3.00). Firm stability was also at moderate level (M = 2.94), which was a measure of average resilience of enterprises.

**Table 2: Mean and Standard Deviation of Liquidity Practices and Firm Stability**

Construct	Mean	SD
Cash Management Practices	3.03	0.74
Receivables Management Practices	2.95	0.69
Inventory Management Practices	3.01	0.75
Payables Management Practices	3.00	0.75
Overall Liquidity Practices	3.00	0.37
Firm Stability	2.94	0.57



**Figure 2: Mean and Standard Deviation of Liquidity Management Practices and Firm Stability**

Figure 2 shows the average values and standard deviations of the major dimensions of liquidity management practices, as well as firm stability. Overall, the results show that the enterprises moderately applied the cash, receivables, inventory and payables management practices. The level of stability was also moderate, indicating average financial resilience. The rather small values observed for standard deviations suggest that the respondents' perceptions were reasonably consistent across the different dimensions of liquidity and indicators of stability.

### 3.3 Item-Level Analysis of Firm Stability Statements

Table 3 shows firm stability indicators have recorded moderate mean scores ranging between 2.89 to 3.02. The mean was highest for liquidity management improving sustainability (M = 3.02, SD = 0.84), and then financial planning contributing to growth (M = 3.00, SD = 0.85). The lowest mean was for long-term survival capacity (M = 2.89, SD = 0.90). Overall, the results indicate average resilience, with standard deviations ranging from 0.84 to 0.91, thus quite consistent responses.

**Table 3: Mean and Standard Deviation of Firm Stability Indicators**

Firm Stability Indicator	Mean	SD
Short-term obligation capacity	2.94	0.89
Cash flow stability	2.92	0.86
Operational continuity	2.93	0.88
Profitability consistency	2.90	0.91
Sustainability improvement	3.02	0.84
Financial shock resilience	2.95	0.87
Long-term survival capacity	2.89	0.90
Financial planning contribution	3.00	0.85

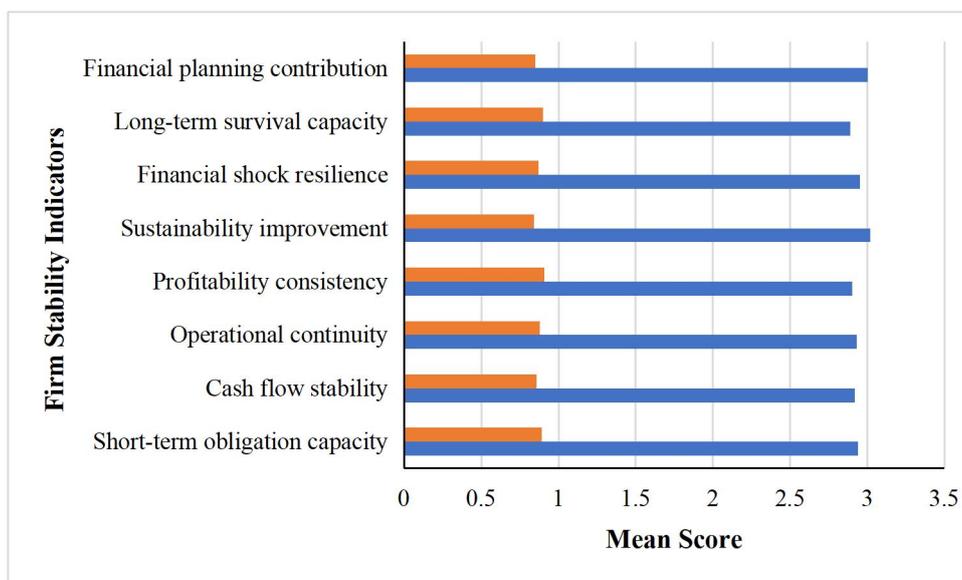


Figure 3: Mean Scores and Standard Deviations of Firm Stability Indicators

Figure 3 shows the average scores and standard deviations of important firm stability indicators of small-scale industrial enterprises. Overall, the indicators registered average mean values, indicating an average state of operational and financial stability. Sustainability improvement and financial planning contribution were found to have relatively higher mean scores, whereas long-term survival capacity used to record comparatively low values. The standard deviations were relatively similar indicating relatively similar perceptions by respondents for the various dimensions of stability.

### 3.3 Analysis of the Link Between Liquidity Management and Firm Stability

The chi-square analysis was conducted with liquidity practice level in relation to the level of stability of the firm. Most of the enterprises belonged to the category of medium liquidity practices (71) and medium stability (43) (Table 4). The result of the chi-square test ( $\chi^2 = 6.437$ , degree of freedom = 4,  $p\text{-value} = 0.169$ ) shows that the relationship between the category on liquidity and the category on stability is not statistically significant at the level of 5%. This indicates that the stability of firms may be dependent on other factors besides liquidity grouping.

Table 4: Crosstabulation of Liquidity Level and Stability Level

Liquidity Level \ Stability Level	High	Low	Moderate	Total
High Liquidity Practices	1	0	5	6
Low Liquidity Practices	0	2	1	3
Moderate Liquidity Practices	19	15	37	71
Total	20	17	43	80

Note:  $\chi^2$  (df = 4) = 6.437,  $p\text{-value} = 0.169$

### 3.4 Relationship Between Liquidity Practices and Firm Stability

The correlation analysis shows a positive correlation between the liquidity management practices and the stability of the firm (Table 5). The Pearson correlation coefficient ( $r = 0.245$ ) results in a weak but significant association which suggests that enterprises with better

liquidity practices have the tendency of experiencing high stability. The relationship is statistically significant at 5% level of significance ( $p = 0.029$ ), which shows that liquidity management contributes positively for the financial and operational stability of small-scale industrial enterprises.

Table 5: Relationship between Liquidity Management Practices and Firm Stability

Variables	Correlation (r)	p-value
Liquidity Practices vs Firm Stability	0.245	0.029

### 3.5 Predictive Effect of Liquidity Management on Firm Stability

The regression analysis shows that liquidity management practices is highly predicted firm stability towards small-scale industrial enterprise. The coefficient for liquidity practices is positive and statistically significant ( $B =$

0.378,  $p = 0.029$ ) which suggests that firm stability is increased with better liquidity practices (Table 6). The model explains, approximately, 6% of the stability of the firm ( $R^2 = 0.060$ ). Although the effect is small, the results support the liquidity management as a contributing factor of stability in enterprises.

Table 6: Predictors of Firm Stability

Predictor	B	SE	t-value	p-value
Constant	1.809	0.513	3.524	0.001
Liquidity Practices	0.378	0.170	2.228	0.029
R <sup>2</sup> = 0.060				

#### 4. Discussion

This study determined the influence of liquidity management practices on the stability of firms in small scale industrial enterprises. The findings provide important information about the nature of short-term financial resources management by enterprises and the consequences of such practices for continuity of operations and resilience. Overall, the results show that the application of liquidity management practices was at a moderate level and had a significant, though modest, contribution to the stability of firms.

The descriptive results showed that there have been moderately practice of liquidity management in the enterprise in terms of the cash, receivability, inventory and payability management. Cash management was found to have the highest mean score, indicating that firms had higher levels of importance with regards to monitoring cash flows and ensuring that they have adequate cash available. Receivables management indicated comparatively low mean values which reflect poor control over the credit of customers and delayed payment. These results reflect the liquidity constraints that are typically faced by small-scale enterprises especially in working capital planning. Firm stability indicators also had moderate mean scores, which implies that the financial resilience and operational continuity of enterprises had average scores. Sustainability improvement and financial planning scored relatively higher mean scores, which would suggest that liquidity management contributes to business continuity. However, long-term survival capacity recorded the lowest mean, which shows enterprises have uncertainty about the future stability. The results of the chi-square analysis showed that there was no statistically significant association between liquidity practice categories and stability categories. This implies that firm stability may be contingent on further operational or environmental factors other than liquidity grouping. The correlation analysis proved a positive and statistically significant correlation between the liquidity practices and firm stability. Regression results further revealed that liquidity management was found to be a significant predictor of stability of the firm, although variance explained was quite small which indicated that there were other determinants of stability outcomes.

The results of this study are consistent with the previous studies that stress on the importance of liquidity management in improving the performance and stability of enterprises. For instance, Onyango (2018) found that good cash management practices had a significant effect on financial performance of small scale businesses. Similarly, Njue et al (2020) found that financial

management of liquidity had a positive impact on financial outcomes of microfinance institutions, which supports the hypothesis that efficiency in liquidity management supports institutional resilience. The positive relation between liquidity practices and firm stability is also consistent with Musiita et al (2023) who found that liquidity management is critical in enhancing the financial performance among SACCOs. These findings suggest that enterprises that have better controls of liquidity are more likely to have better continuity of operations and financial sustainability.

However, the low explanatory power of liquidity practices in stability prediction implies that there may be other factors that affect enterprise outcomes. Nketsiah (2018) also said that firm characteristics may also play an important role in moderating the effects of financial management practices on SMEs performance, for example, age. Likewise, Panova (2020) underscored that capital structure determinants have significant stability among manufacturing SMEs more than liquidity measures alone. In addition, Sokolova et al. (2021) argued that systematic financial express analysis and planning are critical to small industrial enterprises to leverage stability and sustainability. Olango et al. (2023) further proved that financial innovations like agency banking may enhance the performance of the small-scale manufacturing businesses in addition to liquidity management strategies.

Broader liquidity risk management perspectives have also been addressed within a financial service context. Xuanling and Meng (2023) in addressing the liquidity risk management framework, it is important for financial stability of monetary and financial institutions, thereby supporting the relevance of liquidity control in diverse sectors. Furthermore, liquidity has been found to affect the firm value and outcomes in the market. Yosita et al. (2022) concluded that liquidity, as well as size and leverage of firms, are significant determinants of company value in manufacturing firms, suggesting that liquidity practices play a role in achieving stability as well as competitiveness.

External support mechanisms also have an important role to play in enterprise resilience. Zhao et al. (2024) stated that governmental subsidies promote incentives for digital transformation of manufacturing enterprises, which can indirectly enhance the degree of liquidity efficiency. Similarly, the resilience of the supply chain has been explained by Yuan and Du (2025) which has improved allocation of resources and data-driven mechanisms in support of stability in manufacturing systems.

The findings have important ramifications for enterprise managers, policymakers and financial institutions. First, small-scale industry managers should enhance their control of receivables and credit management in order to overcome the problem of liquidity constraints. Improved liquidity planning can improve sustainability and continuity of operations. Second, policymakers should design financial support programs to help enhance SME access to working capital. Government support and subsidies can promote stability and resilience, particularly in vulnerable industrial sectors (Zhao et al., 2024). Third, financial institutions and microfinance agencies should offer liquidity risk training and advisory services along with both to help small enterprises to adopt structured cash and working capital strategies.

Despite its contributions, there are a number of limitations to the study. First, the sample size was limited because it was 80 people, which may limit the generalizability of the results to all small-scale industrial enterprises. Second, the study was based on self-reported questionnaire information, which is prone to bias from the respondent. Third, the regression model only explained a small proportion of the variation in stability suggesting that other determinants such as capital structure, market uncertainty, and technological factors were not fully captured.

Future researches should increase the sample size and enterprises from wider geographical regions in order to improve the representativeness. Additional variables such as firm size, leverage, technological adoption, and outside economic conditions also could be included in order to better explain stability outcomes. Longitudinal research design may produce more vigorous evidence of causation by looking at liquidity practices and stability changes on a time basis. Future work might also enhance how innovation, government interventions and supply chain dynamics might affect liquidity efficiency and enterprise resilience.

## 5. Conclusion

This research examined the liquidity management practices and their impact on the stability of the firms among the small scale industrial enterprises. The results showed that enterprises had moderate performance in liquidity management practices in terms of cash, receivables, inventory, and payables dimension. Cash management became the most practiced function, which reflects that the firms paid more attention to monitoring cash flow and keeping the short-term financial preparedness. However, the management of receivables recorded relatively lower scores, implying difficulties in controlling customer payments and their credit recovery. Firm stability indicators also showed a moderate level of operational and financial resiliency. Enterprises demonstrated reasonable capacity to meet short-term obligations and keep operating, but longer term survival capacity was relatively weaker. The chi-square results showed that the categories of liquidity practice were not

significantly associated with the categories of stability, implying that stability may be contingent on other factors within the context which are structural in nature as opposed to belonging to the grouping of liquidity. The study concludes that liquidity management is an essential component of enterprise stability but it must be backed up by broader financial planning, access to external financing and effective operational strategies. Managers should increase the control over receivables and implement systematic policies on working capital and policymakers and financial institutions should offer supporting programs to improve liquidity capacity. Overall, the study provides useful evidence on the role of liquidity management in promoting the stability and sustainability of small-scale industrial enterprises.

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